PENRITH BUILDING SOCIETY

Annual Report and Accounts

31 December 2020

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Penrith building society
Listening and Supporting, Since 1877

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CHIEF EXECUTIVE'S BUSINESS REVIEW
FOR THE YEAR ENDED 31 DECEMBER 2020

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.

CHIEF EXECUTIVE'S BUSINESS REVIEW, continued
FOR THE YEAR ENDED 31 DECEMBER 2020

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.

Future 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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors have pleasure in presenting their Annual Report, together with the Group and Society Accounts and Annual Business Statement, for the year ended 31 December 2020.

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

Strategic Business Review

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 into the challenges from the pandemic well and is ensuring that it remains safe and sound 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.

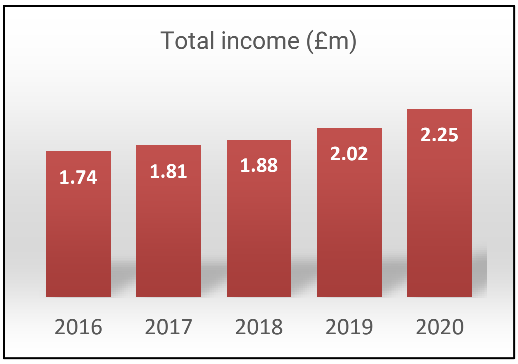
Income and Expenditure

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%).



Key Performance Indicators, continued

Income and expenditure

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

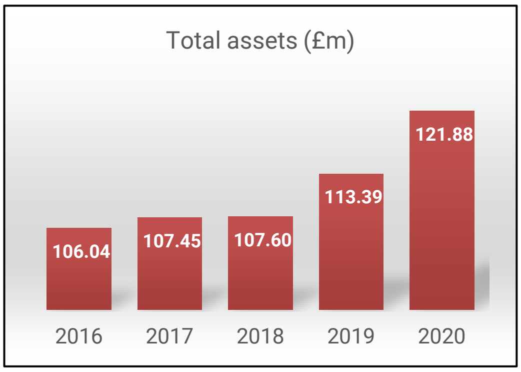
The most significant investment continued to be made in our people and technology to support the future sustainability of the Society and, to improve the experience of members as they interact with the Society.

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.

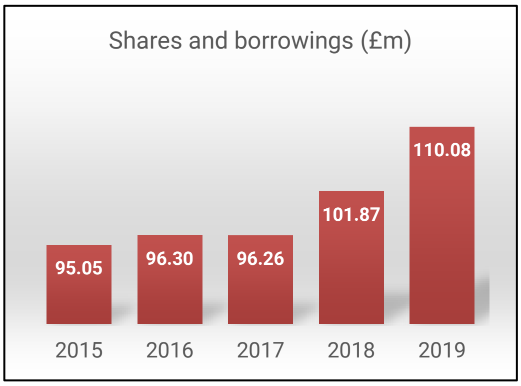


Shares and borrowings

Shares and borrowings rose to £110.08m at the year-end (2019: £101.87m), an 8.06% increase year on year.

With limited avenues for spending, many savings members topped up balances with the Society during the pandemic. Additionally, our new ISA Issue 3, launched late 2019 performed well in Q1 2020 at a competitive market rate.

The Society monitors its saving rates compared to the market on a regular basis and has consistently been higher than the weighted average rate on savings products in the building society sector. The decision was taken in September 2020 to realign the savings product rates to the market and we adjusted rates down on savings products, taking our weighted average rate to 0.75% at the end of 2020 (2019: 1.18%). Even with this rate adjustment we remain above the weighted average for the building society sector overall.

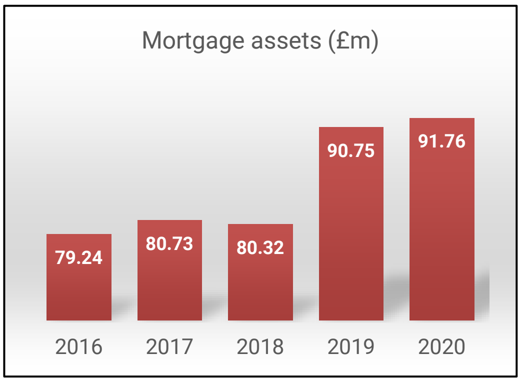


Loans and advances

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 the 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.

Key Performance Indicators, continued

Loans and advances, continued

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 had 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

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%).

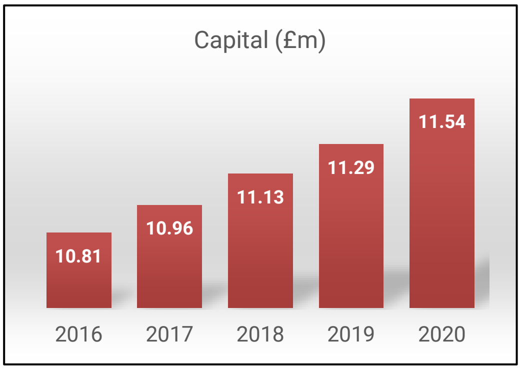
Additionally, the gross capital ratio (being general reserves) amounted to 10.48% of total shares and borrowings (2019: 11.09%).

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 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



	2020 £m	2019 £m
Tier 1 capital	11.42	11.18
Total capital	11.42	11.18
Risk weighted assets:		
Liquid assets	6.39	3.66
Loans and advances	36.37	35.15
Other assets	1.10	1.10
Operational risk	2.04	1.90
Total risk weighted assets	45.90	41.81
Capital ratios:		
Core tier 1	24.88%	26.75%
Leverage	9.25%	9.75%

Country by Country Reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions that are within the scope of the Capital Reporting Directive IV (CRD IV). The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations.

The annual reporting requirements as at 31 December 2020 are included in Note 3 on page 29.

Principal Risks and Uncertainties

The main risks to which the Society is exposed are detailed below.

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.

In addition to the key risks noted on the next page, 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.

Principal Risks and Uncertainties, continued

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 possibly, 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.

In terms of our core risks, we would define these as follows:

Credit Risk

This is the risk of a borrower or counterparty not meeting obligations when they fall due. All applications for mortgages are assessed individually under the Board approved Responsible Lending Policy and existing mortgages are monitored regularly for potential default. With regard to counterparty investments, the Board has set appropriate credit limits covering exposure to individual counterparties, sectors and countries and processes are in place to ensure that such limits are not breached and are monitored on a regular basis. Exposures to this risk are set out in Note 31 on page 38.

Interest Rate Risk

This is the risk of exposure to movements in interest rates. The Society has a small tranche of fixed rate mortgage and savings products and this risk arises from the exposure to fixed rate investments including Certificates of Deposit, Gilts and Treasury Bills. This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society at 31 December 2020 is detailed in the market risk section of Note 31 on page 40.

Liquidity Risk

This is the risk of the Society being unable to meet its financial obligations as they fall due. The Board approved Liquidity Policy requires that sufficient liquid resources be held to ensure that all fluctuations in funding are covered, member confidence is maintained and the Society is able to meet calls on funds when they fall due, in line with recovery plan options.

Funding Risk

The Society is a retailer of financial instruments in the form of mortgage and savings products and also uses wholesale financial instruments to invest in liquid assets and, to raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow the management of risks arising from these business markets. This is further discussed in the Liquidity Risk section of Note 31 on page 40.

Reputational Risk

This is the risk of events arising which damage our reputation or lead to loss of public confidence. The Society has controls in place which are monitored by the Board with an aim to safeguard members' funds at all times and periodically reviews risks and contingency funding strategies through disaster recovery tests.

Operational Risk

This is the risk of loss through inadequate or failed systems, human error or other external factors. All areas of the Society's business have appropriate Board approved systems of control and policies and adherence to these is monitored by senior management and the Audit, Risk and Compliance Committee.

Conduct Risk

This is the risk of the Society not being fair to its members in all dealings with them. The Board monitors the Society's response to this risk through the risk dashboard and any specific feedback received from the management Conduct & Operational Risk Committee, which considers within its role the existing product base, new product development, member feedback and complaints and overall trends in member management information.

Cyber Security Risk

This is the risk of loss due to a cyber related event. The Society continues to invest in its technology infrastructure and controls to limit the exposure to a potential loss due to a cyber-attack. Penetration tests are carried out periodically on the core systems and access to the key areas are restricted by both physical and non-physical measures.

Personnel Risk

As a small business, the Society is reliant on key personnel to manage the business day to day. The Society maintains Blind Handover documents, in line with the Senior Managers and Certification Regime and has a formal succession plan in place for key roles, which is managed through the Nominations Committee.

Principal Risks and Uncertainties, continued

Concentration Risk

This is the risk of loss due to a large individual or connected exposure that could be affected by common factors and the risk to the Society of its geographical concentration in Cumbria. The Board sets maximum limits for exposures to individual borrowers and treasury counterparties. It also monitors lending both within the county and externally and has set targets to increase the national coverage to mitigate the local concentration risk.

Fraud and Financial Crime Risk

This is the risk of a loss due to a fraudulent transaction or money laundering related activities. The Society has formal processes in place to identify all members from their initial contact with the business and at other points in their relationship cycle, which involve face to face contact, or the use of external information. Ongoing transactions are monitored for unusual activity based on our knowledge of the members and other third-party relationships.

Climate Change Risk

This is an emerging risk to the Society due to the changes in the climate. In recent years the Society has seen increased risks due to floods and other factors for properties in the mortgage book and has been assessing the risk of modern methods of construction when considering how a loan can be underwritten. Monitoring of this risk will be developed further in 2021 to ensure our Responsible Lending Policy adequately reflects the risks in this area.

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:

Non-Executive 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)
Richard Vecqueray	(Retired 22 April 2020)
Alan Waterfield	(Retired 22 April 2020)

Executive Directors	
Tim Bowen	Chief Executive
Elspeth 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.

Creditor Payment Policy

Our policy is to agree the terms of payment at the commencement of trading with each supplier, to ensure that they are aware of those terms and to abide by them. Where terms of payment have not been agreed we settle the supplier's invoice on being satisfied that the supplier has fully conformed with the terms and conditions of purchase. Creditor days were 10 at 31 December 2020 (2019: 12 days)

Penrith building society
Listening and Supporting, Since 1877

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2020

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.

Approved and signed on behalf of the Board

Tim Bowen	**Rob Cairns**
(Chief Executive)	**(Chairman)**
10 March 2021	

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Leadership

The Board

The Board provides leadership and direction in achieving the Society's objectives and activities and is responsible for the continued success of the Society for its members. It is responsible for setting strategy, formulating policies and providing guidance on the management of the Society. It regularly reviews financial performance and ensures that there are effective risk management controls and procedures in place. It reviews and updates the Corporate Plan for the Society on an annual basis ensuring the strategic objectives are fit for purpose and are aligned to the Society's purpose and values.

Board Composition

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

The Chairman, a Non-Executive Director, is elected annually by the Board. The main role of the Chairman is to lead the Board and ensure its effective operation in all aspects of its role.

Effectiveness

Board Independence

The Board considers that all of its Non-Executive Directors are independent. Richard Drinkwater is Senior Independent Director and is available to members having any concerns which they consider would be inappropriate to discuss with the Executive Directors or other management.

The Society has agreed that all Directors submit themselves for election by members within sixteen months of their appointment to the Board and for re-election annually thereafter. No Non-Executive Director should serve on the Board for a period of more than nine years and if this situation was to arise it would be disclosed in the Financial Statements.

Board Appointments

Where the need for a new Director is identified, for any reason, the Chief Executive prepares a description of the person required based on the skills, qualifications and experience needed to ensure an adequate balance of skills at Board level.

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

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

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

The Chairman of the Board, where possible, is appointed from among the existing Non-Executive Directors. Where there is no suitable candidate identified, an external search agency would be used.

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

Performance Evaluation

A formal process exists to evaluate, on an annual basis, the performance and effectiveness of individual Directors and of the Board as a whole. In 2020, the appraisal of the Chairman was carried out by the Chief Executive and Senior Independent Director. The other Non-Executive Directors' appraisals were carried out by the Chief Executive and Chairman, except for that of the Senior Independent Director, which was completed by the Chairman and Finance Director. These appraisals are based on a number of factors including attendance at meetings and external events, contribution and performance at meetings and challenge to the Executive.

Appraisal of the Chief Executive was carried out by the Chairman and Vice Chairman and the appraisal of the Finance Director was carried out by the Chairman and Chief Executive. Both these individuals are appraised on an annual basis.

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

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

CORPORATE GOVERNANCE REPORT, continued
FOR THE YEAR ENDED 31 DECEMBER 2020

Accountability

The Executive Directors and management team have created a Risk Management Framework to identify, quantify (if possible) and manage risks faced by the Society. The sub-risks within this are linked to underlying day to day controls within the Society, to ensure risk is being appropriately managed. The Board is responsible for the oversight and challenge of this process and reviews the risk strategy and policies on a continual basis as both internal and external factors impact on the day to day activities of the Society.

The Board has delegated the responsibility for managing internal control to the Executive Directors and Senior Management Team. The Internal Audit function has been outsourced and provides independent assurance to the Board through the Audit, Risk and Compliance Committee that these controls are adequate and effective.

Fitness and Propriety

All Directors must meet the fitness and propriety requirements under the Senior Managers and Certification Regime and must complete a questionnaire annually confirming their continued compliance with this requirement.

All Directors are provided with clear, timely and accurate information to enable them to fulfil their duties and responsibilities. They have access to the advice of the Secretary. In addition, any Director may take independent professional advice at the Society's expense should this be considered necessary.

There are ever increasing burdens on Non-Executive Directors. They must devote considerable time to the Society. As well as attendance at Board Meetings, there must be a commitment to develop skills and knowledge from both internal and external sources to enable them to fulfil their duties and responsibilities. All new Directors are provided with induction training and all Directors are encouraged to attend training courses, seminars and other events to maintain up to date knowledge of the matters affecting the Society and the building society sector as a whole.

Strategic Direction

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

Culture

The Society recognises the importance of staff and other critical third party relationship input into the strategic direction of the Society and ensures that their views are obtained at appropriate points in any decisions taken by the business.

To facilitate this, the Society reviews the cultural behaviour of the Board and staff on a monthly basis through its Conduct and Operational Risk Committee (CORC), a management sub-committee of the Executive Risk Committee. A formal culture dashboard setting out the Society's response to the alignment of business performance and behaviours is to be created in 2021 and outcomes from this will be reported to the Board as a regular agenda item. In 2020, the Board undertook two independent staff surveys on culture, one through the Banking Standards Board and the other, via Internal Compliance. The output from both surveys has been reviewed and actions to address points raised form part of the strategic objectives for 2021 within the Corporate Plan.

Additionally, the Board has appointed Richard Drinkwater as a workforce NED champion to allow staff to express their views on the Society out with the Executive team. All NEDs are encouraged to attend staff training sessions monthly where strategy updates are provided, to allow additional staff engagement and to outline their role on the Board.

Separately to the workforce NED champion, the Society has a whistleblowing NED champion in Janice Lincoln. This allows the staff to raise concerns in confidence and anonymously if they wish. There is a formal agenda item each Board meeting to review any whistleblowing reports arising and to ensure arrangements are in place to undertake an independent investigation and follow up on matters that are raised.

Board and Committee Meetings

Main Board Meetings are held at least twice in every quarter. Additional meetings may be called as required and during Covid-19 there have been additional weekly/ fortnightly Board calls as appropriate.

Following the principles of good corporate governance, the Board has established certain committees to advise on various issues. The terms of reference for these committees may be obtained from the Secretary. The committees in question are outlined below and a table detailing meeting attendance is provided at the end of the section.

Audit, Risk and Compliance Committee (ARCC)

The Audit, Risk and Compliance Committee is comprised of Janice Lincoln, Richard Drinkwater, Rod Ashley and Kevin Parr. Janice Lincoln is Chair of the Committee and is a retired building society Finance Director. Janice Lincoln, Rod Ashley and Kevin Parr are qualified accountants and bring recent, relevant financial experience. In addition, representatives of Internal and External Audit and Internal Compliance and the Executive Directors attend most of these meetings by invitation.

The Audit, Risk and Compliance Committee Report for 2020 is on page 13.

The principal purposes of the Committee include ensuring that the Society complies with all regulatory and prudential requirements and reviewing the Society's internal controls and management systems against the Society's risk management environment. The Committee is also responsible for the review of the effectiveness of the internal compliance monitoring and internal audit functions, approval of their respective annual review plans and the monitoring of the External Auditor's independence, objectivity and effectiveness.

CORPORATE GOVERNANCE REPORT, continued
FOR THE YEAR ENDED 31 DECEMBER 2020

Remuneration Committee (RemCo)

The Remuneration Committee is comprised of the Society's Non-Executive Directors. The Chairman of the Committee is Will Lindsay. The Committee is responsible for setting the Society's remuneration policy for Executive Directors and Non-Executive Directors Fees. The Committee also sets all other benefits and matters relevant to the Executive Directors including contracts of employment with the Society. The Directors' Remuneration Report for 2020 is on page 15.

Nominations Committee (NomCo)

The Nominations Committee is comprised of Will Lindsay, Rob Cairns, Janice Lincoln and Tim Bowen. Will Lindsay is Chair of the Committee. The Committee is responsible for making recommendations on appointments to the Board, ensuring that the Board has sufficient Directors with appropriate skill sets, who are fit and proper and independent.

The Committee has an annual responsibility to review the Society's Succession Plan and to ensure this remains appropriate to the on-going needs of the Society for both Executive and Non-Executive Directors. The comments under the heading of Board Appointments and Performance Evaluation, on page 10, are also overseen by the Nominations Committee.

Executive Risk Committee

The Executive Risk Committee is comprised of Elspeth James and Tim Bowen. Elspeth James is Chair of the Committee. Two other members of the Society's Executive also attend the meetings and a Non-Executive Director, Richard Drinkwater attends on a quarterly basis.

The Committee has oversight of the Society's policies and procedures in all areas having an impact on the Society's members and makes recommendations thereon to the Board and management.

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee is a management committee chaired by Tim Bowen which reports monthly to the Board. The Committee monitors liquidity and treasury risk and reviews product pricing for both savings and mortgages against the market. It also reviews forward looking economic data and how the Society's cash flow forecasts and budget projections respond and adapt to market conditions. Non-Executive Directors are encouraged to attend ALCO at least twice a year, or more, if available.

The table below details attendance of the Directors at the Board and Committee meetings held during 2020.

Relationship with Members

The Society's on-going relationship with its members is an important area of focus. Due to Covid-19 the Society has had very few opportunities to engage directly with members, with a virtual Annual General Meeting on 22 April 2020 being the only event organised. In 2021 the Annual General Meeting will be held virtually again, on 21 April 2021 and we hope before the end of 2021 to meet with members face to face again in a relaxed environment. Questionnaires are provided to members based on different interactions with the Society and we have included a member questionnaire with the year end AGM papers, to encourage feedback on the future technology plans for the Society. We continue to respond to member feedback received directly on an individual basis and we encourage all members to contact the Society if they have any concerns or views, positive or negative, at any time to allow us to support our members where we can.

The following table details attendance of the Directors at the Board and Committee meetings held during 2020:

	Board	ARCC	RemCo	NomCo	ERC	ALCO
Number of meetings	**20**	**4**	**3**	**3**	**11**	**11**
Robert Cairns	19 (20)	-	2 (3)	3 (3)	-	2*
Rod Ashley	18 (18)	3 (3)	2 (2)	-	-	1*
Richard Drinkwater	20 (20)	4 (4)	3 (3)	-	2*	1*
Janice Lincoln	20 (20)	4 (4)	3 (3)	3 (3)	-	1*
Will Lindsay	20 (20)	1(1)	3 (3)	3 (3)	1*	2*
Kevin Parr	18 (18)	3 (3)	2 (2)	-	-	1*
Richard Vecqueray	2 (2)	-	1 (1)	-	-	-
Alan Waterfield	2 (2)	1(1)	1 (1)	-	-	1*
Tim Bowen	20 (20)	4*	3*	3 (3)	11 (11)	11 (11)
Elspeth James	20 (20)	4*	3*	-	11 (11)	11 (11)

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

Approved and signed on behalf of the Board

Rob Cairns (Chairman)
10 March 2021

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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

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

The composition of the ARCC is detailed on page 11. The Chief Executive, Finance Director, Retail Operations & Distribution Executive and the Head of Risk & Compliance attend the meeting by invitation. Representatives of PwC (internal auditor), and Mazars (external auditor), are also invited to each meeting. At least twice a year, after a meeting, the ARCC have a discussion with the external and internal auditor without management being present.

Key areas reviewed during 2020

The ARCC met four times during the year and focused on the following matters:

Financial Reporting

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

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

The primary areas of judgement considered by the Committee in relation to the 2020 accounts were:

- Loan loss provisions: Review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with FRS102, specifically HPI application, forced sale discounts and selling costs and the current and potential impact of Covid-19 on the provisioning requirements for the Society;
- Interest income recognition: Review of the design, implementation and effectiveness of controls around the calculation of interest income and charges, including the timing of applicable fees and commission recognition, and behavioural life under effective interest rate methodologies; and
- Going concern: Review of the response of the Society to the Covid-19 pandemic, through reviews of risk assessments completed to address the key operational and strategic risks facing the Society and second- and third-line reviews of key risk areas during 2020, as agreed by the ARCC. From a financial perspective, assessments were made as to the appropriateness of financial forecasts and capital adequacy of the Society, with reference to the Corporate Plan and stress testing undertaken within this, to consider potential sensitivities within the Society, particularly in light of Covid-19.

The ARCC considered whether the 2020 Annual Report and Accounts were fair, balanced and understandable by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency.

The ARCC fully discharged its responsibilities in relation to financial reporting of the Annual Report and Accounts 2020.

Internal Audit

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

Key reviews were completed through their agreed work programme during the year including areas of internal control significance (being reviews of: Collections and Recoveries; Cyber Incident Response Plan; General Data Protection Regulation; Liquidity Regulatory Returns; Risk Governance & MI; and Savings & Branch Operations). Internal audit findings and thematic issues identified were considered by the ARCC, as well as management's response and the tracking and completion of resultant actions.

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

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT, continued
FOR THE YEAR ENDED 31 DECEMBER 2020

Internal Audit, continued

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

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

Systems of Internal Controls

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

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

The internal audit function provided independent assurance to the Board on the effectiveness of the internal control framework through the ARCC. The ARCC reviewed this aspect through regular reporting from management, the Society's internal auditor and the external auditor. The main internal control matters which were reviewed by the ARCC in 2020 were:

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

The information received and considered by the ARCC provided reasonable assurance that during 2020 there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate internal control framework that met the principles of the Code.

External Audit

In November 2019 Mazars LLP were appointed as external auditor to the Society.

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

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

The ARCC considers the reappointment of the external auditor, including rotation of the audit partner, each year and also assesses its independence on an ongoing basis. The external auditor is required to rotate the auditor partner responsible for the Society's audit at least every five years. The audit in relation to the 2020 results was the second for the current audit partner and firm, after they were appointed in 2019, following a robust selection process.

The ARCC approved the fees for audit services for 2020 after a review of the level and nature of the work to be performed and being satisfied that the fees were appropriate for the scope of the work required.

ARCC Effectiveness

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

Approved and signed on behalf of the ARCC

Janice Lincoln (Director)
10 March 2021

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

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 are considered by the Remuneration Committee which meets at least twice a year, with reference to job content and responsibilities, the performance of the individual and salaries in similar organisations. Additionally, the Remuneration Committee considers the achievement of the strategic objectives within the Corporate Plan and the ongoing delivery of the longer-term strategy 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.

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

Approved and signed on behalf of the Remuneration Committee

Will Lindsay (Director)
10 March 2021

DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT,
THE DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 ("the Act") requires the Directors to prepare Society Annual Accounts for each financial year. Under that law they have elected to prepare the Society Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Society's Annual Accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing these annual accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

In addition to the annual accounts the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

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

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

The Board is recommending that Mazars LLP is reappointed as external auditor of the Society for the financial year ending 31 December 2021. A resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting of the Society.

Approved and signed on behalf of the Board

Rob Cairns (Chairman)
10 March 2021

Penrith building society
Listening and Supporting, Since 1877

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

Opinion

We have audited the annual accounts of Penrith Building Society (the 'Society') and its subsidiary (the 'Group') for the year ended 31 December 2020 which comprise the Income Statement (including Statement of Comprehensive Income), Statement of Financial Position, Cash Flow Statement, Statement of Change in Members' Interest and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the annual accounts:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2020 and of the Group's and Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

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

Conclusions relating to going concern

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Society's ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of the Directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Society's future financial performance;
- Challenging the appropriateness of the Directors' key assumptions in their cash flow forecasts by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the Directors' consideration of severe but plausible scenarios. This included assessing the society's latest ILAAP and ICAAP and stress testing;
- Testing the accuracy and functionality of the model used to prepare the Directors' forecasts;
- Assessing the historical accuracy of forecasts prepared by the Directors;
- Assessing and challenging key assumptions and mitigating actions including those put in place in response to COVID-19;
- Considering the consistency of the Directors' forecasts with other areas of the annual accounts and our audit; and
- Evaluating the appropriateness of the Directors' disclosures in the annual accounts on going concern.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures. The matters set out below were identified as a key audit matter.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

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

Key audit matter (Group and Society)	How our audit addressed this key audit matter
Credit risk – impairment of loans and advances to customers (refer to pages 25 and 26, accounting policy and pages 32 and 33 annual accounts disclosures) Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at both the specific and collective provisions. *Specific impairment* Loans are assessed for individual impairment by the directors where the loan is in arrears by at least three months, or collateral has been repossessed by the society. *Collective impairment* The collective impairment is derived from a model that uses a combination of the society's historical experience and, due to the society's limited loss experience, external data, adjusted for current conditions. In particular, judgement is required on the key assumptions of probability of defaults existing and forced sale discounts against collateral (including selling costs). The impairment model is most sensitive to movements in the forced sales discount, probability of default and house price index assumptions.	We performed the following procedures: • Tested the design and the operating effectiveness of the key controls operating at the Society in relation to credit processes for the monitoring of loans, collections and provisioning. • Tested the control by which management identify non-performing loans. We focused on the identification of impairment triggers, calculation of impairment and consideration of collateral arrangements where relevant. • Critically assessed specific provisions to gain assurance that they are appropriate by reviewing a selection of non-performing loans, loans in arrears and a selection of loans across the performing portfolio. We challenged management's level of provision by performing an assessment of the valuation of collateral or other sources of repayment. • Assessed the collective provision methodology and the model used in its calculation. We tested the accuracy of the data input in the model, challenged the key assumptions and considered whether they are consistent with our understanding of the Society's loan portfolio. We recalculated the collective provision and verified the principal inputs to source information. • Assessed the collective impairment model for its sensitivity to changes in the key assumptions by performing stress testing to help us assess the reasonableness of the assumptions applied by management. **Our observations** Based on the audit procedures performed, we concur that management has appropriately applied the stated accounting policy and the requirements of FRS 102, in relation to the assessment of impairment of loans and advances to customers and the related disclosures in the annual accounts.
Risk of fraud in revenue recognition – interest income recognition Net fees earned or incurred on loans form part of the effective interest rate and are to be included in interest receivable and similar income. The society assesses the impact of recording of the net fees and reversionary interest at the standard variable rate over the expected lives of the loans before redemption or conversion to a new product. Judgement is required in deciding and assessing the expected repayment profile of the loans and hence the mortgage life used in the effective interest rate ('EIR') calculation. This is informed by product mix and past customer behaviour when loans are repaid.	We performed the following procedures: • Assessed the design of the controls that management has adopted in respect of approval of the assumptions used in the recognition of interest and fee income. • Assessed the basis of management's judgments in respect of the cash flows and timing of the cash flows included in the calculations. • Validated the inputs to management's calculations to supporting documents, by testing a selection of the cash flows to supporting documents. • Performed substantive audit procedures to validate the mathematical accuracy of management's calculation. • Assessed the reasonableness of the expected repayment profile assumptions against historical experience of loan lives based on customer behaviour and product mix. **Our observations** Based on the audit procedures performed, we concur that management has appropriately applied the stated accounting policy and the requirements of FRS 102, in relation to income recognition and related disclosures.

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

Our application of materiality

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

Overall materiality (Group and Society)	£115,000 (prior year end: £112,000)
How we determined it	1% of net assets
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the group and society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Regulatory capital is a key benchmark for management and regulators although it not a statutory measure in the annual accounts. Therefore, we base our materiality calculation on net assets, which is an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. Performance materiality of £86,000 was applied in the audit based on 75% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £3,400 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

Our Group audit scope included an audit of the Group's and the Society's annual accounts. Based on our risk assessment, all entities within the Group were subject to full scope audit and was performed by the Group audit team.

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

Other information

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

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the society; or
- the society's individual annual accounts are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which we consider necessary for the purpose of our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the annual accounts

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the group, society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the annual accounts.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Group and Society, the structure of the Group, the industry in which they operate and considered the risk of acts by the Group and Society which were contrary to the applicable laws and regulations;
- Discussing with the Directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience and through discussions with the Directors (as required by auditing standards), from inspection of the Society's regulatory and legal correspondence and review of minutes of Directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the PRA and the FCA. We also considered those other laws and regulations that have a direct impact on the preparation of annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of annual accounts, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions, and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

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

As a result of our procedures, we did not identify any key audit matters relating to irregularities.

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

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

Other matters which we are required to address

Following the recommendation of the Audit, Risk and Compliance Committee, we were appointed by the Directors on 23 April 2020 to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 December 2020.

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

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

This report is made solely to the Group and Society's members as a body in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Group and Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and Society and the Group and Society's members as a body for our audit work, for this report, or for the opinions we have formed.

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

Mazars LLP
One St Peter's Square
Manchester
M2 3DE

10 March 2021

INCOME STATEMENT (INCLUDING STATEMENT OF COMPREHENSIVE INCOME)
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Interest receivable and similar income	4	3,243,260	3,087,264	3,243,260	3,087,264
Interest payable and similar charges	5	(1,043,561)	(1,112,611)	(1,043,561)	(1,112,611)
Net interest receivable		**2,199,699**	**1,974,653**	**2,199,699**	**1,974,653**
Fees and commissions receivable		53,186	34,641	33,466	23,958
Fees and commissions payable		(2,812)	(4,121)	(2,812)	(4,121)
Fair value adjustment on investment properties		(21,250)	-	(21,250)	-
Other operating income	6	25,373	11,820	25,373	11,820
Total income		**2,254,196**	**2,016,993**	**2,234,476**	**2,006,310**
Administration expenses	8	(1,767,750)	(1,712,638)	(1,763,290)	(1,708,619)
Depreciation and amortisation	19/20	(81,375)	(89,356)	(81,375)	(89,356)
Operating profit before provisions		**405,071**	**214,999**	**389,811**	**208,335**
Impairment losses on loans and advances	16	(100,272)	(7,412)	(100,272)	(7,412)
Release of FSCS scheme levy	28	-	2,281	-	2,281
Profit on ordinary activities before tax		**304,799**	**209,868**	**289,539**	**203,204**
Tax on profit on ordinary activities	11	(62,742)	(40,194)	(59,843)	(38,928)
Profit for the financial year		**242,057**	**169,674**	**229,696**	**164,276**

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

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

Penrith building society
Listening and Supporting, Since 1877

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	Notes	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Assets					
Liquid assets:					
Cash in hand	12	51,117	50,114	51,117	50,114
Treasury bills	14	9,775,420	9,978,819	9,775,420	9,978,819
Loans and advances to credit institutions	13	12,677,338	6,979,467	12,654,191	6,971,217
Debt securities	14	6,519,527	4,529,452	6,519,527	4,529,452
		29,023,402	21,537,852	29,000,255	21,529,602
Loans and advances to customers					
Loans fully secured on residential properties		91,057,797	89,701,653	91,057,797	89,701,653
Loans fully secured on land		697,753	1,044,464	697,753	1,044,464
	15	91,755,550	90,746,117	91,755,550	90,746,117
Investment in subsidiary	17	-	-	102	102
Other investments	18	144,933	144,933	144,933	144,933
Tangible fixed assets	19	104,759	126,603	104,759	126,603
Intangible fixed assets	20	117,413	111,825	117,413	111,825
Investment properties	21	403,750	425,000	403,750	425,000
Prepayments and accrued income	22	331,925	292,470	330,042	289,968
Total assets		**121,881,732**	**113,384,800**	**121,856,804**	**113,374,150**
Liabilities					
Shares	23	107,733,076	99,374,466	107,733,076	99,374,466
Amounts owed to credit institutions	24	-	502,301	-	502,301
Amounts owed to other customers	25	2,342,466	1,996,792	2,342,466	1,996,792
		110,075,542	101,873,559	110,075,542	101,873,559
Other liabilities	26	69,968	41,165	67,069	39,899
Accruals and deferred income		166,848	138,054	162,578	134,068
Deferred tax liability	27	32,530	39,756	32,530	39,756
Provisions for liabilities	28	-	(2,521)	-	(2,521)
Total liabilities		**110,344,888**	**102,090,013**	**110,337,719**	**102,084,761**
Reserves					
Total reserves attributed to members of the Society		11,536,844	11,294,787	11,519,085	11,289,389
Total reserves and liabilities		**121,881,732**	**113,384,800**	**121,856,804**	**113,374,150**

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

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

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Cash flows from operating activities				
Profit on ordinary activities before tax	304,799	209,868	289,539	203,204
Depreciation and amortisation	81,375	89,356	81,375	89,356
Adjustment to fair value of investment properties	21,250	-	21,250	-
Increase/ (decrease) in impairment of loans and advances	96,122	(44,107)	96,122	(44,107)
Decrease/ (increase) in provisions for liabilities	2,521	(7,412)	2,521	(7,412)
	506,067	**247,705**	**490,807**	**241,041**
Changes in operating assets and liabilities				
(Increase)/ decrease in prepayments, accrued income and other assets	(14,024)	26,004	(14,644)	28,406
Increase in accruals, deferred income and other liabilities	27,377	20,825	24,195	16,837
Increase in loans and advances to customers	(1,105,555)	(10,378,670)	(1,105,555)	(10,378,670)
Increase in shares	8,358,610	5,488,416	8,358,610	5,488,416
(Decrease)/ increase in amounts owed to credit institutions and other customers	(156,627)	121,148	(156,627)	121,148
(Increase)/ decrease in loans and advances to credit institutions	(4,502,156)	4,010,920	(4,502,156)	4,010,920
Taxation paid	(39,748)	(49,157)	(35,583)	(49,157)
Net cash inflow/ (outflow) from operating activities	**2,567,877**	**(760,514)**	**2,568,240**	**(762,100)**
Cash flows from investing activities				
Purchase of debt securities	(26,268,453)	(24,429,400)	(26,268,453)	(24,429,400)
Disposal of debt securities	24,456,346	25,930,688	24,456,346	25,930,688
Purchase of tangible and intangible fixed assets	(65,119)	(98,607)	(65,119)	(98,607)
Net cash used in investing activities	**(1,877,226)**	**1,402,681**	**(1,877,226)**	**1,402,681**
Net increase in cash and cash equivalents	**1,196,718**	**889,872**	**1,181,821**	**881,622**
Cash and cash equivalents at the start of the year	**6,028,777**	**5,138,905**	**6,020,527**	**5,138,905**
Cash and cash equivalents at the end of the year (see Note 12)	**7,225,495**	**6,028,777**	**7,202,348**	**6,020,527**

STATEMENT OF CHANGE IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2020

General reserves

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Balance as at 1 January	11,294,787	11,125,113	11,289,389	11,125,113
Total comprehensive income for the year	242,057	169,674	229,696	164,276
Balance as at 31 December	11,536,844	11,294,787	11,519,085	11,289,389

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

NOTES TO THE ACCOUNTS

1. Principal accounting policies

1.1. Basis of preparation

The Society has prepared the annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 ('the accounts regulations') and Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) as issued in March 2018.

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

1.2. Basis of accounting

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

The annual accounts have been prepared on a going concern basis. This is discussed in the Directors' Report on page 9, under the heading 'Going Concern'.

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

1.3. Basis of consolidation

The Group accounts consolidate the accounts of the Society and its subsidiary undertaking, and exclude any profits or losses on intra group transactions. These accounts are made up to 31 December 2020. Unless otherwise stated, the acquisition method of accounting has been adopted. In the Society's accounts, investments in subsidiary undertakings are stated at the lower of cost and recoverable amount. Uniform accounting policies are applied throughout the Group.

1.4. Interest income and expense

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

Fees receivable and payable on mortgage assets are generally recognised when all contractual obligations have been fulfilled and are spread over the expected life of the mortgage, as part of the effective interest rate model outlined in 1.7 below.

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

1.5. Commissions

Commission receivable from the sale of third-party products is recognised on fulfilment of contractual obligations, that is when policies go on risk or on completion of a mortgage.

1.6. Government grants

The Group recognises an unconditional Government grant relating to furlough payments in the income statement as other income when the grant becomes receivable.

1.7. Financial assets

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

a) Loan Commitments

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

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

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

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

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

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

b) Debt instruments

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

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

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

NOTES TO THE ACCOUNTS, continued

1. Principal accounting policies, continued

1.8. Financial liabilities measured at amortised costs

In accordance with FRS 102 (sections 11 and 12), the Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

1.9. Impairment of financial assets

a) Assets carried at amortised cost

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

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

Objective evidence of impairment may include:

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

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

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

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

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

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

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

b) Forbearance strategies and renegotiated loans

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

The main options offered by the Group include:

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

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

c) Covid-19

The Financial Conduct Authority issued guidance on how they expect mortgage lenders to treat borrowers fairly during the Covid-19 pandemic. The Board consider that the Group's forbearance options described above already complied with the guidance and the Group has taken (and continues to take) all reasonable steps to support its borrowers' impacted by Covid-19, applying forbearance in accordance with the guidance.

Consideration of Covid-19 has been factored into the assessment of impairment as at 31 December 2020 and forms a key area of judgement for the year ended 31 December 2020. See note 2.1 on page 28.

1.10. Cash and cash equivalents

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

NOTES TO THE ACCOUNTS, continued

1. Principal accounting policies, continued

1.11. Investment properties

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

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

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

1.12. Tangible assets – property, plant and equipment

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

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

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

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

1.13. Intangible assets – computer software

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

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

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

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

1.14. Investments in non-financial assets

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

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

1.15. Employee benefits

The Group operates a defined contribution pension scheme. The assets of which are held separately from those of the Group. For this scheme, the cost is charged to the income statement as contributions become due.

1.16. Other provisions

The Group has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Group has an obligation in accordance with International Financial Reporting Interpretation Committee, Interpretation 21: Levies. The amount provided is based on information received from the FSCS, forecast future interest rates and the Group's historic share of industry protected deposits.

NOTES TO THE ACCOUNTS, continued

1. Principal accounting policies, continued

1.17. Contingent liabilities

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

1.18. Leases

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

1.19. Taxation

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

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

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

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

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

2. Accounting estimates and judgements

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

2.1. Impairment losses on loans and advances to customers

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

Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), borrower behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions. The impairment provisions are sensitive to changes in the underlying assumptions, with the House Price Indexation being the most critical. If the reduction in the HPI was to increase from 10% to 15% then the closing impairment provisions would increase by £47,937 (2019: £36,770). Default rates have an immaterial impact on the impairment provisions

In determining impairment losses at 31 December 2020 consideration has been given to the Covid-19 situation. The Group has put in place a series of forbearance measures to support any of its borrowers affected by Covid-19. During the year ended 31 December 2020, the Group applied forbearance measures to over 100 loans with mortgage balances totalling £18.37m. Most of these were arranged in the period from March to September 2020. At the end of the arrangements only a small number of borrowers needed continued support. At 31 December 2020 the Group had eight cases subject to forbearance measures of which five were related to Covid-19.

The Group has considered the potential future economic position that could arise as the pandemic continues in determining the level of impairment charge. This has taken into account the possibility of lower house prices and increased propensity to default. Whilst these factors remain relatively unknown, the Group has increased the collective provision by discounting the house price index position at the end of 2020 and individually providing for additional cases where impairment indicators have been seen.

2.2. Expected mortgage life

In determining the expected life of mortgage assets, the Group uses historical and forecast redemption data as well as management judgement.

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

NOTES TO THE ACCOUNTS, continued

3. Country by country reporting

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

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

The consolidated financial statements of the Group include the audited results of the Society and its subsidiary company.

For the year ended 31 December 2020:

- The Group's turnover (being net interest receivable) was £2.20 million (2019: £1.97 million). Profit before tax £0.30 million (2019: £0.21 million) all of which arose from UK based activity.
- Number of employees for the Group and Society was 24 (2019: 24).
- Group corporation tax of £39,748 (2019: £49,157) was paid in the year and is within the UK tax jurisdiction.
- Public subsidies were received in the year of £16,020 (2019: none).

4. Interest receivable and similar income

	Group and Society 2020 £	Group and Society 2019 £
On loans fully secured on residential property	3,123,754	2,880,453
On other loans	45,841	50,529
On debt securities	36,156	51,703
On treasury bills	27,613	71,796
On liquid assets	9,896	32,783
	3,243,260	3,087,264

Interest on debt securities includes £36,156 (2019: £51,703) arising from fixed income investment securities.

5. Interest payable and similar charges

	Group and Society 2020 £	Group and Society 2019 £
On shares held by individuals	1,028,445	1,092,876
On other shares	662	1,001
On deposits and other borrowings	14,454	18,734
	1,043,561	1,112,611

6. Other operating income

	Group and Society 2020 £	Group and Society 2019 £
Furlough income	16,020	-
Rental income	9,353	11,820
	25,373	11,820

The Government grant, being furlough income, is accounted for on a receivables basis, as set out in Note 1.6 on page 25.

7. Employees

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

	Full time 2020 No.	Part time 2020 No.	Full time 2019 No.	Part time 2019 No.
Head office	14	4	14	4
Branch	4	2	4	2
Total	18	6	18	6

Penrith building society
Listening and Supporting, Since 1877

NOTES TO THE ACCOUNTS, continued

8. Administrative expenses

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Staff costs				
Wages and salaries	804,661	689,997	804,661	689,997
Social security costs	129,730	117,757	129,730	117,757
Other pension costs	53,663	54,578	53,663	54,578
	988,054	862,332	988,054	862,332
Other admin expenses	779,696	850,306	775,236	846,287
	1,767,750	1,712,638	1,763,290	1,708,619

	Group 2020 £	Group 2019 £
Other admin expenses include:		
Audit of these annual accounts* (excluding VAT)	66,950	65,000
Operating lease costs	33,300	29,815

*The audit fee for the subsidiary company of £1,950 (2019: £2,000) is included above. No non-audit services were provided.

9. Directors' emoluments

	Group and Society 2020 £	Group and Society Restated 2019 £
Fees for services as Non-Executive Directors:		
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
Total for Non-Executive Directors	98,992	92,780
For services as Executive Directors:		
Tim Bowen		
Salary	108,234	101,500
Bonus	5,516	3,060
Pension contributions	6,687	10,150
	120,437	114,710
Elspeth James**		
Salary	69,830	65,975
Bonus	3,550	1,990
Pension contributions	4,320	6,598
	77,700	74,563
Total for Executive Directors	198,137	189,273
Total for Directors Emoluments	297,129	282,053

**Elspeth 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.

10. Directors' loans and related party transactions

The aggregate amount of loans outstanding at 31 December 2020 to two (2019: two) Directors and connected persons was £198,979 (2019: £217,713). These loans were made on normal commercial terms. A register of loans to Directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at the Head Office of the Society. This is available for inspection during normal office hours over the period of 15 days prior to the Society's Annual General Meeting and at the Annual General Meeting.

Tim Bowen and Elspeth James resigned as Directors of Horse and Farrier Management Company Limited on 25 March 2020. The company, which has no connection to the Group, had share capital and net assets of £2 and had been dormant since its incorporation on 5 August 2009.

The Society holds unlisted shares in Mutual Vision Technologies Limited which provides IT services to the Society, as detailed in Note 18 on page 33. On 1 January 2020 the interest-bearing loan in this company was converted to share capital with no additional income or cost to the Society. In 2020 no interest was paid on the loan (2019: £2,415). Tim Bowen resigned as a Director of this company on 29 September 2020 and received £3,229 of personal fees in the year ended 31 December 2020 (2019: £3,135). Amounts paid for IT services were £232,177 (2019: £220,428) of which £62,003 (2019: £57,892) was capitalised, see Note 20 on page 34.

NOTES TO THE ACCOUNTS, continued

11. Taxation

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Current tax				
Current tax on income for the period	69,951	39,748	67,052	38,482
Adjustment in respect of previous periods	17	-	17	-
Total current tax	69,968	39,748	67,069	38,482
Deferred tax (see Note 27)				
Origination and reversal of timing differences	(11,903)	499	(11,903)	499
Effect of changes in tax rates	4,677	(53)	4,677	(53)
Total deferred tax	(7,226)	446	(7,226)	446
Total tax expense	62,742	40,194	59,843	38,928
Reconciliation of effective tax rate:				
Profit for the year	304,799	209,868	289,539	203,204
Total effective tax at 19.00% (2019: 19.00%)	57,912	39,875	55,013	38,609
Effects of:				
Non-deductible expenses	4,175	372	4,175	372
Adjustments from previous periods	17	-	17	-
Change of rate on deferred tax balances	4,677	(53)	4,677	(53)
Revaluations	(4,039)	-	(4,039)	-
Total tax expense included in income statement	62,742	40,194	59,843	38,928

The corporation tax rate for the year ended 30 December 2020 was 19%. The Corporation Tax rate of 19% was enacted with effect from 1 April 2017 and the Finance Act 2016 legislated the UK Corporation Tax rate to decrease to 17% from 1 April 2020. However, on 17 March 2020, using the Provisional Collection of Taxes Act 1968, the UK Government cancelled the proposed drop in Corporation Tax rate to 17%.

12. Cash and cash equivalents

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Cash in hand	51,117	50,114	51,117	50,114
Loans and advances to credit institutions (Note 13)	7,174,378	5,978,663	7,151,231	5,970,413
	7,225,495	6,028,777	7,202,348	6,020,527

13. Loans and advances to credit institutions

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Accrued interest	2,960	804	2,960	804
Repayable on demand	7,174,378	5,978,663	7,151,231	5,970,413
Other loans and advances by residual maturity payable:				
In not more than 3 months	2,000,000	-	2,000,000	-
In not more than 1 year	3,500,000	1,000,000	3,500,000	1,000,000
	12,677,338	6,979,467	12,654,191	6,971,217

NOTES TO THE ACCOUNTS, continued

14. Debt securities

	Group and Society 2020 £	Group and Society 2019 £
Treasury bills	9,775,420	9,978,819
Certificates of deposit	6,519,527	4,529,452
	16,294,947	14,508,271
Debt securities have remaining maturities as follows:		
Accrued interest	17,064	42,494
In not more than one year	16,277,883	14,465,777
	16,294,947	14,508,271
Transferrable debt securities (excluding accrued interest) comprise:		
Unlisted	6,501,907	4,501,341

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

	Group and Society 2020	Group and Society 2019
At 1 January	14,465,776	15,967,064
Disposals and maturities	(24,456,346)	(25,930,687)
Acquisitions	26,268,453	24,429,400
At 31 December	16,277,883	14,465,777

15. Loans and advances to customers

	Group and Society 2020 £	Group and Society 2019 £
Loans fully secured on residential property	91,057,797	89,701,653
Loans fully secured on land	697,753	1,044,464
	91,755,550	90,746,117

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

	Group and Society 2020 £	Group and Society 2019 £
In not more than three months	1,070,821	813,320
In more than three months but not more than one year	2,547,367	3,045,395
In more than one year but not more than five years	16,244,094	15,981,279
In more than five years	72,118,268	71,035,001
	91,980,550	90,874,995
Impairment (see Note 16)	(225,000)	(128,878)
	91,755,550	90,746,117

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

NOTES TO THE ACCOUNTS, continued

16. Allowance for impairment

	Group and Society		
	Loans fully secured on land	Loans fully secured on residential property	Total
At 1 January	£	£	£
Individual provision	-	22,050	22,050
Collective provision	16,828	90,000	106,828
	16,828	112,050	128,878
Utilisation of provision			
Individual provision	-	38,850	38,850
Collective provision	7,100	(50,100)	(43,000)
	7,100	(11,250)	(4,150)
Income statement			
Individual provision	-	29,100	29,100
Collective provision	(3,928)	75,100	71,172
	(3,928)	104,200	100,272
At 31 December			
Individual provision	-	90,000	90,000
Collective provision	20,000	115,000	135,000
	20,000	205,000	225,000

The Society has eight mortgage cases where forbearance has been exercised (2019: five), including three (2019: one) where an individual provision has been created.

17. Investment in subsidiary

	Shares	Loans	Total
Cost	£	£	£
At 1 January 2020	2	100	102
Advanced in year	-	-	-
At 31 December 2020	2	100	102

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

	Principal Activity
Cumbria Mortgage Centre Limited	Tied Mortgage Broker

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

18. Other investments

The Society holds unlisted shares and an interest-bearing loan in Mutual Vision Technologies Limited which provides IT services to the Society, as follows:

Unlisted investments

	Shares	Loans	Total
Cost	£	£	£
At 1 January 2020	6,914	138,019	144,933
Converted to equity ordinary shares	138,019	(138,019)	-
At 31 December 2020	144,933	-	144,933

The above investment is held with the intention of use on a continuing basis in the Society's activities and hence is classified as a financial fixed asset. The shares in Mutual Vision Technologies Limited are held at cost less accumulated impairment losses. The Society's loan investment in Mutual Vision Technologies Limited was converted to 5,575 equity ordinary shares in the company on 1 January 2020. This took the total equity ordinary shares held by the Society in the company to 18,875, with the value of the investment unchanged at £144,933. The 18,875 ordinary equity shares were subsequently converted into A ordinary shares.

NOTES TO THE ACCOUNTS, continued

19. Tangible fixed asset

	Group and Society		
	Freehold land and buildings	Office and IT, fixtures and fittings	Total
Cost	**£**	**£**	**£**
At beginning of year	40,000	640,901	680,901
Additions	-	3,116	3,116
Disposals	-	(403,822)	(403,822)
At end of year	40,000	240,195	280,195
Depreciation			
At beginning of year	16,800	537,498	554,298
Charge for the year	400	24,560	24,960
Elimination in respect of disposals	-	(403,822)	(403,822)
At end of year	17,200	158,236	175,436
Net book value			
31 December 2020	22,800	81,959	104,759
31 December 2019	23,200	103,403	126,603

The net book value of the freehold premises occupied by the Society for its own activities is £22,800 (2019: £23,200).

20. Intangible fixed assets

	Group and Society IT software and development costs
Cost	**£**
At beginning of year	483,620
Additions	62,003
Disposals	(263,548)
At end of year	282,075
Depreciation	
At beginning of year	371,795
Charge for the year	56,415
Elimination in respect of disposals	(263,548)
At end of year	164,662
Net book value	
31 December 2020	117,413
31 December 2019	111,825

21. Investment properties

	Group and Society
Cost	**£**
At 1 January 2020	425,000
Net loss from fair value adjustments	(21,250)
At 31 December 2020	403,750

The residential investment properties at Mardale Close and Greystoke Park, Penrith, which are freehold, were valued at £425,000 on an open market existing use basis at 31 December 2020. This valuation was completed by an external, independent valuer from Penrith, Farmers & Kidd, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued. The same valuer had been used to value the properties at 31 December 2019. In the previous three years, since the Society started to annually revalue these properties, the valuation had been carried out by SWH Surveyors Limited. Any gains or losses arising from a change in fair value are recognised in the income statement.

Rental income from investment property is accounted for on an accruals basis, as set out in Note 1.11 on page 27 and disclosed in Note 6 on page 29.

NOTES TO THE ACCOUNTS, continued

22. Prepayments and accrued income

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Prepayments and accrued income	331,925	292,470	330,042	289,968

23. Shares

	Group and Society 2020 £	2019 £
Held by individuals	107,586,842	99,228,767
Other shares	146,234	145,699
	107,733,076	99,374,466

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

	Group and Society 2020 £	2019 £
Accrued interest	348,957	374,446
Repayable on demand	106,198,347	97,678,294
In not more than 3 months	1,185,772	1,321,726
	107,733,076	99,374,466

24. Amounts owed to credit institutions

	Group and Society 2020 £	2019 £
Accrued interest	-	2,301
Repayable with agreed maturity dates of periods of notice:	-	-
In not more than 3 months	-	500,000
	-	502,301

25. Amounts owed to other customers

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

	Group and Society 2020 £	2019 £
Repayable on demand	2,342,466	1,996,792

26. Other liabilities

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
Other liabilities due within one year comprise:				
Corporation tax	69,968	39,748	67,069	38,482
Other creditors	-	1,417	-	1,417
	69,968	41,165	67,069	39,899

NOTES TO THE ACCOUNTS, continued

27. Deferred taxation

	Group and Society	
	2020	**2019**
	£	**£**
At beginning of year	39,756	39,310
(Credit)/ charge to statement of income for year	(7,226)	446
At end of year	32,530	39,756
The elements of deferred taxation are as follows:		
Differences between accumulated depreciation and amortisation and capital allowances	58,180	34,323
Other timing differences	(25,650)	5,433
	32,530	39,756

The net reversal of deferred tax assets and liabilities expected to occur in the next reporting period is a credit of £27,074 (2019: increased charge £2,489), being the ongoing unwinding of the tax charges associated with the transition to FRS 102 and the impact of the revaluation of the investment properties.

28. Provisions for liabilities

FSCS Levy	Group and Society	
	2020	**2019**
	£	**£**
At beginning of year	(2,521)	1,751
Levy refunded/ (paid) in year	2,521	(1,991)
Release for the year	-	(2,281)
At end of year	-	(2,521)

In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it and to cover the costs of running the scheme, as required.

The provision of £1,751 held on 1 January 2019 was to cover a payment due to the failure of Dial-A-Cab. The final payment made was £1,991. At the end of 2019 the Society was advised that it would receive a rebate due to the higher than expected recoveries, including the settlement of the FSCS's claim in Kaupthing Singer & Friedlander, which was refunded in April 2020.

29. Contingent liabilities and commitments

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

Detail on future mortgage commitments is in Note 31 on page 38.

At 31 December 2020 the Society has future minimum lease payments under non-cancellable operating leases as follows:

	Group and Society	
	2020	**2019**
Office equipment leases which expire:	**£**	**£**
Within 1 year	33,300	29,815
Within 2-5 years inclusive	118,524	77,511
Over 5 years	-	1,473

30. Subsequent events

At the date of signing of these financial statements, the UK remains under a national lockdown, imposed in response to the ongoing Covid-19 situation. As a result, this continues to present economic uncertainty, and in particular, risks to future unemployment levels. Depending on the length of restrictions and any Government policy or regulatory response, the Society may expect to see an increase in the levels of requests for mortgage payment deferrals, forbearance arrangements or arrears. It is not possible to estimate the value of the potential impact on the Society due to the high degree of uncertainty.

The Society notes that the transition period as a result of Brexit, ended on 31 December 2020. The Society remains substantively unaffected by the impacts of the exit from the EU, as the Society's business is conducted within the UK and does not anticipate any future material impact on the operations of the business going forward.

NOTES TO THE ACCOUNTS, continued

31. Financial instruments

The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest in liquid assets and may raise funds from wholesale money markets in support of its retail savings operations.

These instruments also allow it to manage the risks arising from these business markets. The Society has a formal structure for managing risk, including formal risk policies, risk limits, reporting structures, mandates and other control procedures. This structure is reviewed regularly by the Board.

Instruments commonly used for risk management purposes include derivative financial instruments, which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

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

The Society does not enter into any financial instruments for trading or speculative purposes.

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis at amortised cost. Notes 1.7 and 1.8, on pages 27 and 26, describe how classes of financial instrument are measured and how income and expenses are recognised.

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

31 December 2020		**Group**	
	Loan Commitments	**Debt Instruments**	**Total**
Financial assets	**£**	**£**	**£**
Cash in hand	-	51,117	51,117
Loans and advances to credit institutions	-	12,677,338	12,677,338
Debt securities	-	16,294,947	16,294,947
Loans and advances to customers	91,755,550	-	91,755,550
Total financial assets	91,755,550		120,778,952
Non-financial assets			1,102,780
Total assets			121,881,732
Financial liabilities			
Shares	-	107,733,076	107,733,076
Amounts owed to other customers	-	2,342,466	2,342,466
Amounts owed to credit institutions	-	-	-
Total financial liabilities	-	110,075,542	110,075,542
Non-financial liabilities			269,346
General reserves			11,536,844
Total liabilities			121,881,732

31 December 2019		**Group**	
	Loan Commitments	**Debt Instruments**	**Total**
Financial assets	**£**	**£**	**£**
Cash in hand	-	50,114	50,114
Loans and advances to credit institutions	-	6,979,467	6,979,467
Debt securities	-	14,508,271	14,508,271
Loans and advances to customers	90,746,117	-	90,746,117
Total financial assets	90,746,117	21,537,852	112,283,969
Non-financial assets			1,100,831
Total assets			113,384,800
Financial liabilities			
Shares	-	99,374,466	99,374,466
Amounts owed to other customers	-	1,996,792	1,996,792
Amounts owed to credit institutions	-	502,301	502,301
Total financial liabilities	-	101,873,559	101,873,559
Non-financial liabilities			216,454
General reserves			11,294,787
Total liabilities			113,384,800

31. Financial instruments, continued

Credit risk

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

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

	Group 2020	Group 2019 £	Society 2020	Society 2019 £
Cash in hand	51,117	50,114	51,117	50,114
Loans and advances to credit institutions	12,677,338	6,979,467	12,654,191	6,971,217
Debt securities	16,294,947	14,508,271	16,294,947	14,508,271
Loans and advances to customers	91,755,550	90,746,117	91,755,550	90,746,117
Total statement of financial position exposure	120,778,952	112,283,969	120,755,805	112,275,719
Off balance sheet exposure – mortgage commitments	9,333,969	6,306,246	9,333,969	6,306,246
	130,112,921	118,590,215	130,089,774	118,581,965

Credit quality analysis of counterparties

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

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

	Group 2020 £	Group 2019 £	Society 2020 £	Society 2019 £
UK Government securities	9,775,420	9,978,819	9,775,420	9,978,819
Financial institutions				
A+ to A-	13,193,318	10,004,176	13,170,171	9,995,926
Unrated	6,003,547	1,504,743	6,003,547	1,504,743
Total exposure to counterparties	28,972,285	21,487,738	28,949,138	21,479,488

At 31 December 2020 exposures to financial institutions were within the UK (2019: all exposures were within the UK).

Credit quality analysis of loans and advances to customers

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

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

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property, as set out in the table below. These are primarily residential or buy to let loans, only 0.78% of the book is secured on commercial property.

Over half the Society's borrowers are based in Cumbria, being 53.65% (2019: 56.57%) of the mortgage book totals. Borrowers in Scotland represent 3.39% (2019: 2.10%) of the mortgage book and the remaining 42.96% (2019: 41.33%) is spread across the rest of England and Wales.

NOTES TO THE ACCOUNTS, continued

31. Financial instruments, continued

Credit risk, continued

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

	Group and Society			
	2020		2019	
Arrears analysis	£	%	£	%
Not impaired:				
Neither past due or impaired	88,781,164	96.76	88,351,476	97.36
Past due up to 3 months but not impaired	1,551,540	1.69	1,696,299	1.87
Past due over 3 months but not impaired	453,722	0.49	610,351	0.67
Impaired:				
Not past due	-		-	-
Past due up to 3 months	548,074	0.60	-	-
Past due 3 to 6 months	330,988	0.36	-	-
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	90,062	0.10	87,991	0.10
	91,755,550	100.00	90,746,117	100.00

	Indexed	Unindexed	Indexed	Unindexed
	£	£	£	£
Value of collateral held:				
Neither past due or impaired	250,238,739	218,879,896	236,347,252	217,560,786
Past due but not impaired	4,497,129	4,119,500	7,526,988	7,086,450
Impaired	1,054,218	982,450	142,494	137,000
	255,790,086	223,981,846	244,016,734	224,784,236

Credit quality analysis of loans and advances to customers, continued

Note 1.9(a), on page 26, sets out the Society's approach to the impairment of financial assets. The Society uses HPI indexing to update the property values of its residential and buy to let portfolios on a quarterly basis. Collateral values are adjusted by the Nationwide House Price Index to derive the indexed valuation at 31 December. This is a UK house price index and takes into account regional data from the 12 standard planning regions of the UK. The collateral consists of UK property and land.

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% of the value of the total security at the point of origination.

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

Note 1.9(b), on page 26, sets out the Society's approach to forbearance strategies. Product reviews for mortgages are undertaken if a change of product is appropriate, this could be due to a borrower not switching products on the maturity of their fixed or discounted term. All borrowers are contacted by the Society on maturity of their discount or fixed rate product. Capitalisation occurs when arrears are incorporated into the capital balance outstanding for the purpose of restructuring the loan.

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

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

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

	2020	**2019**
Type of Forbearance:	No.	No.
Interest only concession at year end	2	2
Reduced payment concessions at year end	3	3
Total	5	5

These are included as part of the impairment provision of £225,000 (2019: £106,878). Total loans in forbearance represent £1,170,268 (2019: £440,487).

NOTES TO THE ACCOUNTS, continued

32. Financial instruments, continued

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and other price risk.

The Society is only affected by interest rate risk. It is exposed to movements in interest rates, reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually by matching the maturity dates of assets and liabilities.

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

Standard scenarios that are considered on a quarterly basis include a 2% parallel fall or rise in the bank base rate. If there was a 2% parallel upwards shift in interest rates the favourable impact on reserves would be £112,000 (2019: £76,000).

Liquidity risk

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

The Society monitors liquidity requirements on a daily basis in line with specific policies in this area, approved by the Board.

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

The Society's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Society can cover all fluctuations in funding, retain public confidence in the solvency of the Society and to enable the Society to meet its financial obligations

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

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

31 December 2020	**On demand**	**Not more than 3 months**	**More than 3 months, but no more than 1 year**	**More than 1 year but not more than 5 years**	**More than five years**	**Total**
Financial liabilities	**£**	**£**	**£**	**£**	**£**	**£**
Shares	100,724,705	1,270,428	4,007,564	1,730,379	-	107,733,076
Amounts owed to other customers	2,342,466	-	-	-	-	2,342,466
Amounts owed to credit institutions	-	-	-	-	-	-
Total financial liabilities	103,067,171	1,270,428	4,007,564	1,730,379	-	110,075,542

31 December 2019	**On demand**	**Not more than 3 months**	**More than 3 months, but no more than 1 year**	**More than 1 year but not more than 5 years**	**More than five years**	**Total**
Financial liabilities	**£**	**£**	**£**	**£**	**£**	**£**
Shares	91,279,769	25,701	3,974,544	4,094,452	-	99,374,466
Amounts owed to other customers	1,996,792	-	-	-	-	1,996,792
Amounts owed to credit institutions	-	502,301	-	-	-	502,301
Total financial liabilities	93,276,561	528,002	3,974,544	4,094,452	-	101,873,559

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

1. Statutory percentages

	2020	Statutory Limit
Lending Limit	1.72%	25.00%
Funding Limit	2.13%	50.00%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the difference between the total assets of the Group plus provisions for bad and doubtful debts and the aggregate of liquid assets and tangible and intangible fixed assets as shown in the Group's accounts.

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property, plus provisions for bad and doubtful debts and interest in suspense.

The Funding Limit measures the proportion of shares and amounts owed to other customers not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and amounts owed to other customers, being the aggregate of: the principal value of, and interest accrued on, shares in the Group; and the principal of, and interest accrued on, sums deposited with the Group.

Y = the principal value of, and interest accrued on, shares in the Group held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

Other percentages

	2020 %	2019 %
As percentage of shares and borrowings:		
Gross capital	10.48	11.09
Free capital	10.81	11.43
Liquid assets	26.37	21.14
As a percentage of mean total assets:		
Profit after tax	0.20	0.15
Management expenses	1.57	1.63

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

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

"Gross capital" represents the general reserves.

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

"Liquid assets" represent the total cash in hand, treasury bills, loans and advances to credit institutions and debt securities.

"Management expenses" represent the aggregate of administrative expenses and depreciation.

"Mean total assets" is the average of the total assets at 31 December 2019 and 31 December 2020.

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020, continued

2. Information relating to the Directors

Name (Date of Birth)	Date of Appointment	Business Occupation	Other Directorships
Rob Cairns, Chairman (01/06/1951)	01/05/2013	Retired Chief Executive	Corrie & Co Ltd Cumbria Cricket Ltd
Richard Drinkwater (01/08/1952)	01/07/2017	Business Entrepreneur	Amber Securities Ltd Stamford Lodge Ltd Amber Sourcing Ltd
Janice Lincoln (08/02/1957)	01/10/2014	Retired Finance Director	Manchester Building Society
Will Lindsay (06/10/1953)	01/06/2015	Retired Banker	
Rod Ashley (22/06/1969)	23/04/2020	Chief Executive	AlbaCo Ltd
Kevin Parr (27/05/1960)	23/04/2020	Retired Chief Executive	Castles and Coast Housing Association
Tim Bowen, Chief Executive (04/11/1979)	27/04/2017	Chief Executive	
Elspeth James (06/05/1974)	01/01/2013	Finance Director	Cumbria Mortgage Centre Ltd

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

Service Contracts

None of the Non-Executive Directors has a service contract.

The Chief Executive and Finance Director have contracts which can be terminated by either party giving not less than 12 and 9 months prior written notice respectively. These specific contracts were entered into on 1 January 2018 and 1 September 2012 respectively.