PENRITH BUILDING SOCIETY

Annual Report and Accounts

31 December 2021

Head Office and Branch
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CONTENTS

CHIEF EXECUTIVE'S BUSINESS REVIEW
FOR THE YEAR ENDED 31 DECEMBER 2021

Penrith Building Society and its 100% owned subsidiary, Cumbria Mortgage Centre Limited report consolidate Group results. The principal activity of the subsidiary is detailed in Note 17 on page 32 of the Accounts. As the activity of the subsidiary is aligned with that of the Society, references and results reported throughout the Annual Report and Accounts to 'the Society' include the consolidated performance and position of the subsidiary, unless specifically noted otherwise.

The Society has achieved a great deal in 2021 through a further year of Covid-19, which has continued to impact every individual in the United Kingdom in varying ways. Whilst this period has almost certainly been the most challenging, for me and our team, it has seen some of the proudest moments and achievements in my career to date.

2021 has been another year in which your Society demonstrated resilience, strong financial results and ensured that we have maintained a supportive and safe environment for both our staff and members. These successes were achieved despite a challenging set of circumstances. Our member loyalty and staff commitment were a huge factor in the success, and I must thank you all for this. The challenges associated with Covid-19 continued throughout 2021, a year which saw us continue with the changes in our operational model. It is testament to the staff that we have been able to continue to operate both effectively and safely throughout these challenging times. It is also testament to our loyal members who have continued to understand and appreciate the measures we took to ensure their safety whilst not compromising the level of service they both expect and deserve.

I am delighted to report that the Society achieved a profit of £0.56 million, which represents a significant increase on £0.24 million, achieved in 2020. This was a result of strong margin management during the year. We ensured fair rates of return for our loyal savers in a benign savings market and continued to build our new mortgage business, whilst managing the back book effectively. This has resulted in the release of some of our loan loss provisioning at year end.

Mortgage performance

I talk each year about how fundamentally important mortgage lending remains to the Society's long-term success and sustainability. Our lending performance in 2021 significantly improved compared against 2020 where the Society adopted a cautious approach when considering Covid-19. The mortgage market remained highly active in 2021 and we saw positive responses to the solutions, products, and services that we offered in relation to home ownership. As a result, the Society's mortgage assets grew by 5.5% to £96.9 million in 2021. This has demonstrated that the Society has remained well placed in the areas of the market that we both want, and are able, to compete in.

Savings growth

The Society remains committed to providing fair rates of return to our loyal saving members and, in comparison to the wider retail savings marketplace, we achieved this again in 2021. As a result of this we saw a net increase in savings flows in 2021 of £4.22 million taking our saving balances to £114.30 million. The Society has had to restrict the admission of new saving members throughout 2021 to ensure that we are able to balance the demand for savings alongside our mortgage products.

Member engagement and Community

I am pleased to report a stable year in our membership base which continues to show a real vote of confidence in the Society. The loyalty that is afforded to us by our members is something we continue to remain appreciative of and I am proud that we have been able to continue to provide fair rates and returns to both our borrowing and saving members throughout 2021, when comparing ourselves to other areas of the market.

As always, we remain completely committed to the community that we serve in Penrith and the Eden Valley and in 2021, we were able to provide donations to charities and families in our community who really needed it. The Society gave a total of £7,000 in December alone to the local schools and charities in Penrith to ensure that people who require financial support have been able to receive it. We are very proud to have increased our support from the £5,000 donated at the same point in 2020. Our social purpose, as a mutually owned organisation, continues to be at the heart of all we do, and these donations illustrate our commitment to supporting the local community.

I hope that we are moving towards a greater degree of normality regarding Covid-19 and if we continue to see improvements that will allow safe environments for our staff and members, we hope to be in a position to re-commence the engagement and volunteering that we have been able to support in the past. We have, however, still been able to support the financial education of the younger generation in Penrith in conjunction with Queen Elizabeth Grammar School and Ullswater Community College, and we will continue to remain committed to this moving forward through our partnership with the Wize Up Financial Education Charity.

Our affinity accounts have also continued to support Pride in Penrith Lottery, Eden Valley Hospice & Jigsaw, Annie Mawson's Sunbeams Music Trust, Penrith RUFC Juniors and Penrith & District Red Squirrel Group.

People

As always, I must give thanks to our incredible team at the Society. I want to acknowledge their exceptional commitment, loyalty and support which has been instrumental in driving the performance of the Society and supporting our members and partners against what has been another year of demanding circumstances. We have continued to focus on the safety and wellbeing of our people, and this has stood the Society in good stead.

In October, the Board said goodbye to our retiring Chair, Rob Cairns. Rob has been a Building Society stalwart throughout his career, and it was fitting that he finished at Penrith Building Society having also served as Deputy Chief Executive and Chief Executive of The Cumberland and The Furness respectively. The Society gives the deepest thanks to Rob for his loyalty and commitment to the Society and wishes him the very best in his well-earned retirement. With Rob leaving the Society, the Board and I have welcomed Will Lindsay as our new Chair. Will remains committed to a strong independent future for your Society and has settled into his role as Chair with a great deal of focus and professionalism. Additionally, the Board remain committed to continuing to provide and foster an environment for all staff and members that is safe, diverse, and inclusive.

CHIEF EXECUTIVE'S BUSINESS REVIEW, continued
FOR THE YEAR ENDED 31 DECEMBER 2021

Future outlook

The economic outlook forecasts that the UK will see continued recovery in relation to GDP, however, there remain significant risks within the economy and the housing market. This growth is also balanced against the significant rises in inflation and ultimately, the continued pressures that will exist regarding the cost of living which we will remain aware of if and when this impacts any of our members.

The Board remain strongly of the belief that the Society has a sustainable future as an independent, vibrant Building Society mutually owned by you, our loyal members. The Society retains an experienced, capable, and talented team that will continue to monitor any adverse indicators relating to all factors in the marketplace, economy and political arenas. We maintain strong financial foundations and remain committed to our strategic objectives and direction and are confident in achieving them.

As I say each and 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)

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021.

Strategic Business Review

As noted in the Chief Executive's Report, the Society has continued to work with the challenges arising from Covid-19 but has found itself in a strong position at the year ended 31 December 2021, helped by a buoyant housing market and some careful balance sheet management. The Society has achieved growth and importantly has significantly uplifted its profitability.

Undoubtably there is still some longer term impact of Covid-19 to be seen, and in an environment where inflation is rising steeply, there will be challenges for our members and the Society to face as we move forward. However, we believe that we have in place a strong operational foundation and the right people to continue on our journey in 2022 and beyond.

We have taken the time in updating our Corporate Plan during 2021 to reflect on our purpose, values and objectives, and we believe the changes we made in these areas during 2020 remain appropriate, which are summarised as follows:

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

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

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

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

- We remain confident that we have and will continue to successfully identify areas of the mortgage market within our risk appetite, that we can continue to be competitive in, wish to compete in and continue to develop and leverage our intermediary relationships.
- We are committed to continuing as an independent, profitable and operationally resilient mutual, whilst continuing to fulfil the social aspect of our purpose within the community in which we are based.
- We 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.
- We continue to invest in improving our people, processes, systems and controls.
- We are committed to creating a safe environment from which to build our inclusive and diverse culture as well as the wellbeing of our staff.
- We 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.

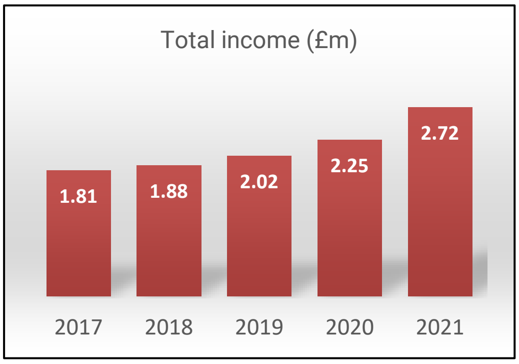
The Society's principal business objectives are the provision of mortgage finance for residential property, savings products for private individuals and local businesses and related services.

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 £0.56m (2020: £0.24 m).



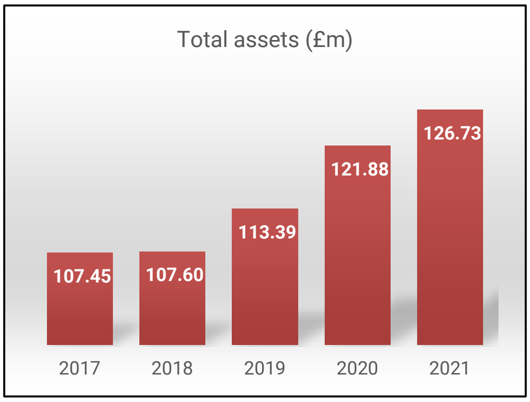
Total income is £2.72m, compared to £2.25m in 2020. The net interest margin remains an area of focus to ensure we are maximising our returns on both sides of the balance sheet, whilst remaining fair to our members within that market place. We constantly monitor our competitor activity to ensure we are pricing with or ahead of the market where appropriate.

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 £2.06m (2020: £1.85m), an increase of 11.56%. Management expenses expressed as a ratio of mean total assets are 1.66% (2020: 1.57%).

The cost income ratio has fallen to 75.92% (2020: 82.03%). This reflects the increased levels of income, coupled with the focus on cost control wherever possible, but not at the expense of our members. The reduced access to the face to face services in the branch has seen costs of printing and postage increase again this year, and we have further developed the infrastructure of the Society to ensure all our staff can work safely at Head Office or at home, as required to meet the business' needs. The Society continues to view its people and technology needs as a priority. The reliance on digital channels as a core part of the future sustainability model for the Society has been accelerated by Covid-19 and further spend in this area is planned in 2022.

Total assets



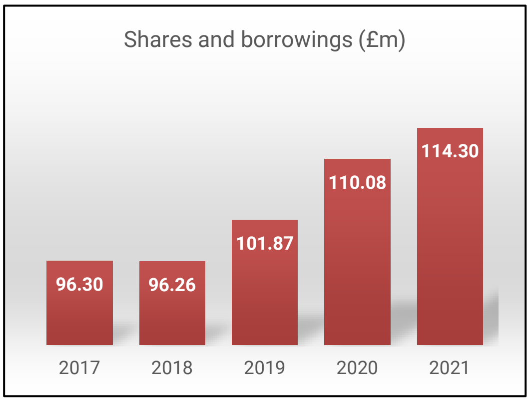
The loyalty of saving members and an increased demand for mortgages drove asset growth in 2021, with total asset growth of 3.98% (2020: 7.49%).

The Society has remained a safe haven for monies held by saving members during Covid-19, but our mortgage growth, whilst good, has also seen activity from borrowers looking for the best deals in the market through a period of continued low interest rates.

The potential move to a negative Bank rate did not materialise in 2021 as had been forecast by the markets, but allowed the Society to consider its planning for rate movements and puts us in a strong position as we move into a period of potential increases in Bank rate through 2022 and beyond.

Liquid assets had been stable during 2021, but in the final quarter saw some increases as savings inflows and mortgage redemption activity increased, albeit we did end the year at 25.15% of total shares and borrowings, a decrease on the 2020 position (2020: 26.37%).

Shares and borrowings



Shares and borrowings increased by 3.84% (2020: 8.06%). This was a decrease in the growth seen in the previous year, when spending had been more restricted at the start of Covid-19 and many saving members topped up balances with the Society. We are starting to see some more activity in the savings market, and have plans to re-open existing, and launch some new, savings products in 2022.

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. We have made no changes to the rates on our savings accounts in 2021.

Loans and advances

The strong mortgage market in 2021 has led to the Society advancing 208 (2020: 126) new loans at a total value of £24.62m (2020: £16.03m). Within these loans, 14 were further advances (2020: 10).

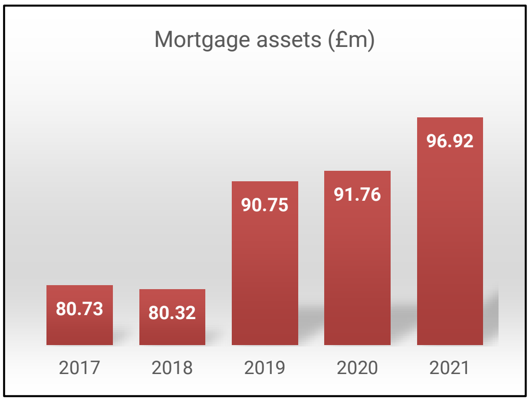
The extension in the stamp duty holiday was a contributing factor to this activity in the early part of the year, but the driving factor has been our work with the intermediary market. These more specialist areas of lending, including self-employed, self-build, expatriates and the holiday let market, are where we have seen some good levels of business being introduced. We have worked around some of the Covid-19 impacts in these areas through our bespoke underwriting approach to allow these borrowers to get on or move up the housing ladder.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2021

Key Performance Indicators, continued

Loans and advances, continued

Mortgage assets have grown by 5.63% as a result (2020: 1.11%), and we move into 2022 with a good pipeline of business. Our subsidiary continues to allow us to provide direct mortgage advice to borrowers, many of whom are based in our heartland. These cases represented 33.04% of our new mortgage business in 2021 (2020: 25.84%).



As reported last year, the Society had seen around 10% of its borrowers taking a payment deferral at some point during 2020. We are pleased to report that virtually all of these borrowers have returned to normal payments in 2021. We continue to work with those remaining borrowers as part of our standard arrears management processes. At the end of 2021, the arrears levels on our mortgage book has fallen to just three cases in arrears over three months, of which one case was more than 12 months in arrears (2020: one case). One case (2020: eight cases) has forbearance measures in place at the year end. The Society has no properties in possession at the end of 2021 (2020: none).

As a result of the strong arrears management, we have been able to reduce our loan loss provisioning down to £0.18m (2020: £0.23m), however we remain cautious as to the potential for over inflation in the housing market and have continued to apply a 10% reduction in the House Price Indices used to estimate our current value of properties in our risk-weighted collective loan loss provisioning model.

The Society takes all reasonable steps to minimise loss through ensuring that the stipulations of our Responsible Lending Policy are followed through individual underwriting and are being appropriately updated to take account of the prevailing economic conditions.

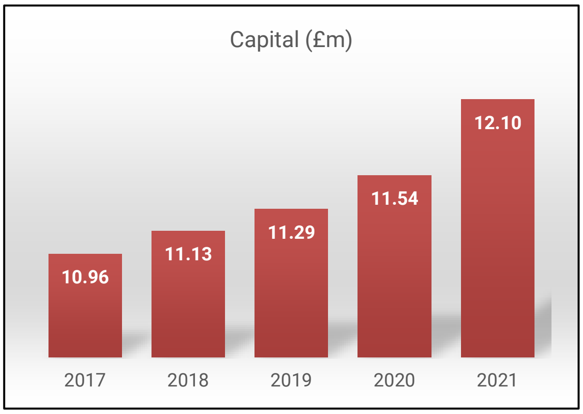
In particular, the Society is vigilant to the financial stresses which may arise for borrowers if interest rates start to increase.

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 2021, the Society's total capital is £12.10m (2020: £11.54m).

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 increased to 10.56% of total shares and borrowings (2020: 10.40%).

Additionally, the gross capital ratio (being general reserves) amounted to 10.59% of total shares and borrowings (2020: 10.48%). Both capital ratios still remain strong for the building society sector overall and the stronger profitability seen this year is assisting the Society in starting to increase these further again. .

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 less a deduction for intangible assets) as a percentage of risk weighted assets and the Leverage Ratio, being Tier 1 Capital as a percentage of total assets plus mortgage impairments plus a proportion of mortgage pipeline commitments. The table has been restated from the prior year to reflect adjustments to the basis of our calculations for Tier 1 Capital and Operational Risk, which reduce the Core Tier 1 and Leverage ratios as previously reported.

	2021 £m	2020 £m
Tier 1 capital (after regulatory deductions)	11.96	11.40
Tier 2 capital	0.17	0.14
Total capital	12.13	11.54
Risk weighted assets:		
Liquid assets	5.30	6.39
Loans and advances	36.06	36.37
Other assets	1.06	1.15
Operational risk	3.82	3.55
Total risk weighted assets	46.24	47.46
Capital ratios:		
Core tier 1	25.86%	24.02%
Leverage	9.21%	9.02%

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

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 2021 are included in Note 3 on page 28.

Principal Risks and Uncertainties

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

In addition to the key risks noted below, 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 Covid-19, 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 aspects of these changes are now being made permanent for the Society and how we embrace this, but ensure the potential risk is mitigated, is a key area of focus for the business.

Operationally, since the start of Covid-19, half of our personnel continue to work a hybrid model of home and office time and we intend to make this a formal arrangement, based on business needs as we move forward. Those that have remained in our head office have also been working in an unusual and segregated environment throughout this time and maintaining a cohesive team has been challenging. Our people are key to the Society and the wellbeing of their mental and physical health through Covid-19 has been a priority for the Board. Every effort has been made to ensure their work environment, wherever that may be, functions as smoothly as possible, is resilient to threats of cyber risk and allows members to be serviced to the highest possible standards at all times.

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

The Society monitors the following risk areas through its Board and sub-committee structure. Dashboards for all risk areas are presented at least quarterly to the relevant risk committee, which include details on the sub-risks and controls for each risk area, and monitoring metrics where appropriate to ensure the risks are being managed within the risk appetites set by the Board:

Area of risk	Description
Credit	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 29 on page 36. For counterparty risk, there is the risk of loss due to a large individual or connected exposure 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.
Operational	This is the risk of loss through inadequate or failed systems, human error or other external factors. 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. All areas of the Society's business have appropriate Board approved systems of control and policies and adherence to these is monitored through risk management software, with formal attestation processes in place for each operational area of the business. 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.
Conduct	This is the risk of the Society not being fair to its members in all dealings with them. The Society monitors new product development, existing product performance, member feedback, complaints and other associated areas in line with the principles of Treating Customers Fairly.
Liquidity	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 the Individual Liquidity Adequacy Assessment Process undertaken annually and recovery plan options.
Funding	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 29 on page 38.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2021

Principal Risks and Uncertainties, continued

Area of risk	Description
Interest Rate	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 2021 is detailed in the market risk section of Note 29 on page 38.
Cyber	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.
Data	This is the risk of loss due to a data breach event. The Society continues to monitor how it controls and processes the data it holds on its members, staff and other stakeholders, to ensure this remains relevant to the processing activity and is required by the Society, in line with the General Data Protection Regulations. The Society has an appointed Data Protection Officer who has oversight responsibilities in this area.
Fraud and Financial Crime	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. The Society has an appointed Money Laundering Reporting Officer who has oversight responsibilities in this area.
Climate Change	This is an emerging risk to the Society due to the changes in the climate. These risks have been identified as being physical and transitional. Physical risks could create a direct impact, such as properties over which the Society holds a mortgage becoming uninhabitable or unsaleable due to increased risk of flooding. Transition risks could include developments such as potential disruption to certain sectors of the economy as society moves from higher to lower levels of carbon production in energy generation. 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 has been developed in 2021, in response to the PRA supervisory statement SS3/19, which sets out the regulatory expectations in response to climate change risks. A full independent review of the mortgage back book was undertaken by a third party. The output from this is assisting in our updating of the Responsible Lending Policy to reflect the risks in this area and in identifying the potential financial impacts to the Society which may arise in the future, as part of our annual assessment of the capital position of the Society, as noted on page 5.

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 £17,794 (2020: £7,004) were made. No contributions were made for political purposes.

Directors

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

Non-Executive Directors	
Will Lindsay	Chair from 1 November 2021
Rob Cairns	Chair to 31 October 2021 (Retired 31 October 2021)
Rod Ashley	
Richard Drinkwater	
Janice Lincoln	
Kevin Parr	Senior Independent Director

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.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2021

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 further 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 11 at 31 December 2021 (2020: 10 days)

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. The Society has not conducted a specific stress scenario for Covid-19 this year end, as it believes that the wider scenarios undertaken include factors which could arise as the pandemic continues, including the potential for inflation, increased unemployment levels in the UK and decreases in the House Pricing Indices. Additionally, the operational resilience of the Society continues to be 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 on 11 March 2022

Tim Bowen	**Will Lindsay**
(Chief Executive)	**(Chair)**

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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

Effectiveness

Board Independence

The Board considers that all of its Non-Executive Directors are independent. Kevin Parr 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 Chair, oversees the recruitment of all Directors.

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

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

It is necessary for Board appointments to be notified to 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 2021, the appraisal of the Chair was carried out by the Chief Executive and Senior Independent Director. The other Non-Executive Directors' appraisals were carried out by the Chief Executive and Chair, except for that of the Senior Independent Director, which was completed by the Chair and Chair of the Audit, Risk & Compliance Committee. These appraisals are based on a number of factors including attendance at meetings and external events, contribution and performance at meetings and challenge to the Executive.

Appraisal of the Chief Executive was carried out by the Chair and Chair of the Audit, Risk & Compliance Committee and the appraisal of the Finance Director was carried out by the Chair and Chief Executive. Both these individuals are appraised on an annual basis.

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

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

CORPORATE GOVERNANCE REPORT, continued
FOR THE YEAR ENDED 31 DECEMBER 2021

Accountability

The Society has created a Risk Management Framework to identify, quantify (if possible) and manage risks. The sub-risks within this framework are linked to underlying day to day controls 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 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 and have access to the advice of the Secretary. In addition, Directors may take independent professional advice at the Society's expense should this be 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 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 Board reviews the cultural behaviour of the Board and staff on a quarterly basis through a formal culture dashboard setting out the Society's response to the alignment of business performance and behaviours. In 2021, the Board undertook an independent staff survey on culture, led by the Financial Services Culture Board. The output from the survey has been reviewed and actions to address points raised form part of the strategic objectives within the Corporate Plan.

The Board has appointed Richard Drinkwater as a workforce champion to allow staff to express their views on the Society outwith the Executive team. All Non-Executive Directors 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, the Society has a Whistleblowing 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.

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 21 April 2021 being the only event organised. In 2022 the Annual General Meeting will be held virtually again, on 20 April 2022 and we hope before the end of 2022 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 continue to respond to member feedback received directly on an individual basis. 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.

Board and Committee Meetings

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

Following the principles of good corporate governance, the Board has established certain committees to advise on various issues. Attendance at these committees is summarised as follows for 2021:

	Board	ARCC	RemCo	NomCo	ERC	ALCO
Number of meetings	**11**	**4**	**3**	**4**	**11**	**11**
Robert Cairns	9 (9)	1*	2 (2)	3 (3)	-	1*
Rod Ashley	11 (11)	4 (4)	3 (3)	-	-	2*
Richard Drinkwater	11 (11)	3 (3)	3 (3)	-	2*	2*
Janice Lincoln	11 (11)	4 (4)	3 (3)	4 (4)	-	1*
Will Lindsay	9 (11)	3*	3 (3)	2 (2)	1*	2*
Kevin Parr	11 (11)	4 (4)	3 (3)	-	-	5*
Tim Bowen	11 (11)	4*	3*	4 (4)	9 (11)	11 (11)
Elspeth James	11 (11)	4*	3*	-	11 (11)	11 (11)

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

CORPORATE GOVERNANCE REPORT, continued
FOR THE YEAR ENDED 31 DECEMBER 2021

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

Committee	Members	Purpose
Audit, Risk & Compliance	Janice Lincoln (Chair) Rod Ashley Kevin Parr	• To ensure that the Society complies with all regulatory and prudential requirements. • To review the Society's internal controls and management systems against the Society's risk management environment. • To take responsibility for the review of the effectiveness of the internal compliance monitoring and internal audit functions and approval of their respective annual review plans. • To monitor the External Auditor's independence, objectivity and effectiveness. Members of the committee should have accountancy and audit experience, through the sector or other roles 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 2021 is on page 12.
Remuneration	Richard Drinkwater (Chair) All other Non-Executive Directors	• To set the Society's Remuneration Policy for Executive Directors and Non-Executive Directors' Fees and to agree annual pay increase percentages and any bonus provisions for the wider staff base. • To set all other benefits and matters relevant to the Executive Directors including contracts of employment with the Society. The Executive Directors attend most of these meetings by invitation. The Directors' Remuneration Report for 2021 is on page 14.
Nominations	Richard Drinkwater (Chair) Will Lindsay Janice Lincoln Tim Bowen	• To make recommendations on appointments to the Board, including the annual review of the Society's Succession Plan, ensuring that the Board has sufficient Directors with appropriate skill sets, who are fit and proper and independent. • To consider diversity and inclusivity, and how this relates to the Society's strategy and to consider the gender balance of those in senior management and their direct reports. The matters under the heading of Board Appointments and Performance Evaluation, on page 9, are also overseen by the Nominations Committee.
Executive Risk	Elspeth James (Chair) Tim Bowen Other Executive Team members Kevin Parr (Risk Champion)	• To provide oversight of the key risks (as set out on pages 6 and 7) across the Society, and to ensure that these are being managed effectively. • To monitor the activities of the sub-risk committees, which consider these key risks and their associated monitoring metrics in more detail. • To report to the Audit, Risk & Compliance Committee on any risk areas where additional focus and reviews may be required. • To provide assurance to the Board on a quarterly basis that all risks within the Society are being appropriately controlled and actioned. The Risk Champion is encouraged to attend these meetings at least quarterly.
Assets & Liabilities	Tim Bowen (Chair) Elspeth James Financial Controller Heads of Mortgages, Member Services, Finance and Risk & Compliance	• To monitor liquidity and funding and other treasury risk. • To undertake balance sheet management activities. • To review product pricing for savings and mortgages against the market. • To consider 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 individually encouraged to attend ALCO at least twice a year.

Approved and signed on behalf of the Board

W. Lindsay

Will Lindsay (Chair)
11 March 2022

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

Key areas reviewed

The ARCC 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 Accounts concentrating on amongst other matters:

- The quality and acceptability of accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including advising the Board on whether the Annual Report and Accounts, when taken as a whole are fair, balanced and understandable and provide information sufficient for members to assess 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 2021 accounts were:

- Loan loss provisions: Review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with FRS 102, 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 Covid-19, 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 2021, 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 2021 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 2021.

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: the Individual Capital Adequacy Assessment Process, the Individual Liquidity Adequacy Assessment Process, Model Risk, the Savings Onboarding Project and Third Party Suppliers). Internal audit findings and thematic issues identified were considered by the ARCC, as well as management's response and the tracking and completion of resultant actions.

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

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

Penrith building society
Listening and Supporting, Since 1877

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT, continued
FOR THE YEAR ENDED 31 DECEMBER 2021

Internal Audit, continued

PwC operate in accordance with an Internal Audit Charter. The ARCC is satisfied PwC satisfies 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 2021 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 2021 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

Mazars LLP are 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.

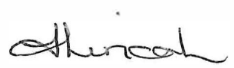
The ARCC considers the reappointment of the external auditor, including rotation of the audit partner, each year and also assesses its independence on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the Society's audit at least every five years. The audit in relation to the 2021 results was the third 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 2021 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)
11 March 2022

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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 Chair and Chair 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 29.

Approved and signed on behalf of the Remuneration Committee

Richard Drinkwater (Director)
11 March 2022

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 2021

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 Annual Accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets 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 re-appointed as external auditor of the Society for the financial year ending 31 December 2022. 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

Will Lindsay (Chair)
11 March 2022

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 2021 which comprise the Income Statement (including Statement of Comprehensive Income), Statement of Financial Position, Cash Flow Statement, Statement of Change in Members' Interest and related notes, 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 of the Society's affairs as at 31 December 2021 and of the Group's and of the Society's income and expenditure for 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 Group and 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 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 Society's ability to continue as a going concern;
- Making enquiries of the Directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Society's future financial performance;
- Evaluating the reasonableness of Society's three year Corporate Plan, ICAAP and ILAAP documentation, which include management's stress testing, and form the base of their going concern assessment;
- Assessing the historical accuracy of forecasts prepared by the Directors;
- Assessing and challenging key assumptions and mitigating actions 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 opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

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 matters, continued

Key Audit Matter	How our scope addressed this matter
Credit Risk – Impairment of Loans and advances to customers *Refer to the Group's disclosures in page 31 (Note 16), associated accounting policies detailed on page 25 and management's accounting estimates and judgments set out on page 27* A loan loss provision is recognised when there is objective evidence of impairment. **Collective impairment** The Society has limited actual loan loss experience on which to base its impairment assessment on the loan portfolio, resulting in management judgement being applied in determining assumptions to be applied in its assessment. The impairment model is most sensitive to movements in the house price index (HPI), the forced sales discount (FSD) applied to collateral values and the probability of default (PD) of the loans. **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.	Our audit procedures included, but were not limited to: • Testing the design and the operating effectiveness of the key controls operating at the Society in relation to the credit processes (loan origination and approval, loan redemptions, arrears monitoring); • Testing the processes by which management identify non-performing loans. We focussed on the identification of impairment triggers, calculation of impairment and consideration of collateral arrangements where relevant; • Checking the accuracy and appropriateness of external data used in the provisioning model (e.g. HPI) and assessing the relevance of this data based on our understanding of the Society's portfolio; • Comparing the Society's key assumptions (PD and FSD) with similar lenders and loan portfolios with similar characteristics, and assessing whether these assumptions were consistent with industry benchmarks, and developing an independent estimate using the Society's model and reasonable assumptions; • Performing sensitivity analysis over the key assumptions of PD, FSD and HPI; and • Assessing the adequacy of the disclosures in the annual accounts. **Our observations** Based on the audit procedures performed, we concur that management has appropriately applied the principles of FRS 102, in relation to the assessment of impairment of loan receivables and the related disclosures in the annual accounts.

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 financial statement 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: £121,000 [2020: £115,000] Society: £121,000 [2020: £115,000]
How we determined it	1% of Reserves
Rationale for benchmark applied	We consider that Reserves is the most appropriate benchmark to use for the Group and Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, Reserves as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where net assets 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. We set performance materiality at £91,000, which represents 75% of overall materiality.
Reporting threshold	We agreed with the Directors that we would report to them misstatements identified during our audit above £3,600 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

Our application of materiality, continued

As part of designing our audit, we assessed the risk of material misstatement in the annual accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the Directors made subjective judgements, such as 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 our risk assessment, our understanding of the Group and the Society, its environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement 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 procedures performed by the Group audit team.

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

Other information

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

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

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 received all the information and explanations and access to documents we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities statement set out on page 15, the Directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Annual Accounts

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

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

Auditor's responsibilities for the audit of the annual accounts, continued

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 Regulation Authority (PRA) and the Financial Conduct Authority (FCA), anti-money laundering and General Data Protection Regulation (GDPR) regulation, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those other laws and regulations that have a direct impact on the preparation of the annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

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

- 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;
- Inquiring of the Directors, management and, where appropriate, those charged with governance, as to whether the Group and Society are in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance; and
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts based on our general commercial and sector experience, and through discussions with the Directors and Chief Risk Officer (as required by auditing standards), inspection of the Group's and Society's regulatory and legal correspondence and review of minutes of Directors' meetings in the year.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the annual accounts, including the risk of management override of controls, and determined that the principal risks related to posting 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

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

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

Other matters which we are required to address

Following the recommendation of the Audit, Risk and Compliance Committee, we were appointed by the Directors on 1 November 2019, to audit the annual accounts for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2019 to 31 December 2021.

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

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

Use of the audit report

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

Tim Hudson

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

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

11 March 2022

INCOME STATEMENT (INCLUDING STATEMENT OF COMPREHENSIVE INCOME)
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group 2021 £	Group 2020 £	Society 2021 £	Society 2020 £
Interest receivable and similar income	4	3,453,108	3,243,260	3,453,108	3,243,260
Interest payable and similar charges	5	(723,470)	(1,043,561)	(723,470)	(1,043,561)
Net interest receivable		**2,729,638**	**2,199,699**	**2,729,638**	**2,199,699**
Fees and commissions receivable		53,249	53,186	30,403	33,466
Fees and commissions payable		(6,816)	(2,812)	(6,816)	(2,812)
Fair value adjustment on investment properties		(68,150)	(21,250)	(68,150)	(21,250)
Other operating income	6	9,464	25,373	9,464	25,373
Total income		**2,717,385**	**2,254,196**	**2,694,539**	**2,234,476**
Administration expenses	8	(1,981,944)	(1,767,750)	(1,976,473)	(1,763,290)
Depreciation and amortisation	19/20	(80,089)	(81,375)	(80,089)	(81,375)
Disposal of fixed assets	19	(1,120)	-	(1,120)	-
Operating profit before impairment losses and provisions		**654,232**	**405,071**	**636,857**	**389,811**
Impairment gains/(losses) on loans and advances	16	44,000	(100,272)	44,000	(100,272)
Profit on ordinary activities before tax		**698,232**	**304,799**	**680,857**	**289,539**
Tax on profit on ordinary activities	11	(135,325)	(62,742)	(132,024)	(59,843)
Profit for the financial year		**562,907**	**242,057**	**548,833**	**229,696**

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

The notes on pages 24 to 38 form part of these accounts.

Penrith building society
Listening and Supporting, Since 1877

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	Notes	Group 2021 £	Group 2020 £	Society 2021 £	Society 2020 £
Assets					
Liquid assets:					
Cash in hand	12	46,039	51,117	46,039	51,117
Treasury bills	13	11,181,924	9,775,420	11,181,924	9,775,420
Loans and advances to credit institutions	14	14,514,372	12,677,338	14,470,605	12,654,191
Debt securities	13	3,002,714	6,519,527	3,002,714	6,519,527
		28,745,049	29,023,402	28,701,282	29,000,255
Loans and advances to customers					
Loans fully secured on residential properties		96,378,699	91,057,797	96,378,699	91,057,797
Loans fully secured on land		544,598	697,753	544,598	697,753
	15	96,923,297	91,755,550	96,923,297	91,755,550
Investment in subsidiary	17	-	-	102	102
Other investments	18	144,933	144,933	144,933	144,933
Tangible fixed assets	19	98,194	104,759	98,194	104,759
Intangible fixed assets	20	103,571	117,413	103,571	117,413
Investment properties	21	335,600	403,750	335,600	403,750
Prepayments and accrued income	22	380,314	331,925	380,314	330,042
Total assets		**126,730,958**	**121,881,732**	**126,687,293**	**121,856,804**
Liabilities					
Shares	23	111,704,861	107,733,076	111,704,861	107,733,076
Amounts owed to other customers	24	2,594,037	2,342,466	2,594,037	2,342,466
		114,298,898	110,075,542	114,298,898	110,075,542
Other liabilities	25	158,234	69,968	154,933	67,069
Accruals and deferred income		162,646	166,848	154,115	162,578
Deferred tax liability	26	11,429	32,530	11,429	32,530
Total liabilities		**114,631,207**	**110,344,888**	**114,619,375**	**110,337,719**
Reserves					
Total reserves attributed to members of the Society		12,099,751	11,536,844	12,067,918	11,519,085
Total reserves and liabilities		**126,730,958**	**121,881,732**	**126,687,293**	**121,856,804**

Approved by the Board of Directors on 11 March 2022 and signed on its behalf by:

Will Lindsay (Chair) **Janice Lincoln (Director)** **Tim Bowen (Chief Executive)**

The notes on page 24 to 38 form part of these accounts.

Penrith building society
Listening and Supporting, Since 1877

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Group 2021 £	Group 2020 £	Society 2021 £	Society 2020 £
Cash flows from operating activities				
Profit on ordinary activities before tax	698,232	304,799	680,857	289,539
Adjustment to fair value of investment properties	68,150	21,250	68,150	21,250
Depreciation and amortisation	80,089	81,375	80,089	81,375
(Decrease)/ increase in impairment of loans and advances	(44,000)	96,122	(44,000)	96,122
Decrease in provisions for liabilities	-	2,521	-	2,521
	802,471	**506,067**	**785,096**	**490,807**
Changes in operating assets and liabilities				
Increase in prepayments, accrued income and other assets	(33,241)	(14,024)	(35,125)	(14,644)
(Decrease)/ increase in accruals, deferred income and other liabilities	(2,411)	27,377	(6,672)	24,195
Increase in loans and advances to customers	(5,123,746)	(1,105,555)	(5,123,746)	(1,105,555)
Increase in shares	3,971,785	8,358,610	3,971,785	8,358,610
Increase/ (decrease) in amounts owed to credit institutions and other customers	251,571	(156,627)	251,571	(156,627)
Decrease/ (increase) in loans and advances to credit institutions	193	(4,502,156)	193	(4,502,156)
Taxation paid	(69,952)	(39,748)	(67,052)	(35,583)
Net cash (outflow)/ inflow from operating activities	**(1,005,801)**	**2,567,877**	**(1,009,046)**	**2,568,240**
Cash flows from investing activities				
Purchase of debt securities	(27,181,874)	(26,268,453)	(27,181,874)	(26,268,453)
Disposal of debt securities	29,277,036	24,456,346	29,277,036	24,456,346
Purchase of tangible and intangible fixed assets	(60,802)	(65,119)	(60,802)	(65,119)
Disposal of tangible and intangible fixed assets	1,120	-	1,120	-
Net cash used in investing activities	**2,035,480**	**(1,877,226)**	**2,035,480**	**(1,877,226)**
Net increase in cash and cash equivalents	**1,832,150**	**1,196,718**	**1,811,530**	**1,181,821**
Cash and cash equivalents at the start of the year	**7,225,495**	**6,028,777**	**7,202,348**	**6,020,527**
Cash and cash equivalents at the end of the year (see Note 12)	**9,057,645**	**7,225,495**	**9,013,878**	**7,202,348**

STATEMENT OF CHANGE IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2021

General reserves

	Group 2021 £	Group 2020 £	Society 2021 £	Society 2020 £
Balance as at 1 January	11,536,844	11,294,787	11,519,085	11,289,389
Total comprehensive income for the year	562,907	242,057	548,833	229,696
Balance as at 31 December	12,099,751	11,536,844	12,067,918	11,519,085

The notes on page 24 to 38 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 27.

1.2. Basis of accounting

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

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

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

1.3. Basis of consolidation

The Group accounts consolidate the accounts of the Society and its subsidiary undertaking, and exclude any profits or losses on intra group transactions. These accounts are made up to 31 December 2021. 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) Loans and Receivables

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

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 loans and receivables, 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 Covid-19. The Board consider that the Group's forbearance options described above already complied with the guidance and the Group has taken all reasonable steps to support its borrowers who were impacted by Covid-19.

Consideration of the ongoing situation of Covid-19 has been factored into the assessment of impairment as at 31 December 2021 and forms a key area of judgement for the year ended 31 December 2021. See note 2.1 on page 27.

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. 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.

1.17. 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.

NOTES TO THE ACCOUNTS, continued

1. Principal accounting policies, continued

1.18. 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.

In determining impairment losses at 31 December 2021 consideration has been given to the Covid-19 situation. The Group has taken into account the possibility of inflated house prices and increased propensity to default. These factors are monitored by the Group and it has adjusted the impairment provisioning model by discounting the House Price Index position at the end of 2021 by a 10% factor to reflect the indications of an inflated market. The indicators in the mortgage book and the wider market are that the propensity for default is not increasing at this time, therefore this, along with all other assumptions in the loan loss provisioning model remain unchanged.

Estimates are applied in the impairment provisioning model to determine prevailing market conditions (e.g. interest rates and house prices), borrower behaviour (e.g. default rates) and forced sales discounts, reflecting the reduction in market value and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions. The impairment provisions are sensitive to changes in the underlying assumptions, with the 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 £61,261 (2020: £47,937). Default rates have an immaterial impact on the impairment provisions.

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.

2.3. Fair value of investment properties

The Group reviews the carrying value of its investment properties on an annual basis, via either a desktop or physical valuation. The carrying value is then adjusted to reflect any uplift or impairment in the market value arising from the valuation.

In reviewing the valuation at 31 December 2021, the Group noted that the remaining leases on the investment properties held by the Society had fallen to below 70 years, and as a result has discounted the market value ascribed to these properties by 20%, to reflect the less attractive leasehold nature of these properties for resale purposes.

The impact on the carrying value at 31 December 2021 is disclosed in more detail in Note 21.

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 32, is that of a tied mortgage broker. All of the consolidated entities were incorporated in the UK.

The consolidated annual accounts of the Group include the audited results of the Society and its subsidiary company.

For the year ended 31 December 2021:

- The Group's turnover (being net interest receivable) was £2.73m (2020: £2.20m). Profit before tax £0.70m (2020: £0.30m) all of which arose from UK based activity.
- The average number of full time equivalent employees for the Group and Society was 23 (2020: 21).
- Group corporation tax of £69,952 (2020: £39,748) was paid in the year and is within the UK tax jurisdiction.
- Public subsidies were received in the year of £0 (2020: 16,020).

4. Interest receivable and similar income

	Group and Society	
	2021	**2020**
	£	**£**
On loans fully secured on residential property	3,401,453	3,123,754
On other loans	30,719	45,841
On debt securities	10,024	36,156
On treasury bills	(432)	27,613
On liquid assets	11,344	9,896
	3,453,108	3,243,260

Interest on debt securities includes £10,024 (2020: £36,156) arising from fixed income investment securities.

5. Interest payable and similar charges

	Group and Society	
	2021	**2020**
	£	**£**
On shares held by individuals	710,269	1,028,445
On other shares	495	662
On deposits and other borrowings	12,706	14,454
	723,470	1,043,561

6. Other operating income

	Group and Society	
	2021	**2020**
	£	**£**
Furlough income	-	16,020
Rental income	9,464	9,353
	9,464	25,373

The Government grant, being furlough income, is accounted for on a receivables basis, as set out in Note 1.6 on page 24.

7. Employees

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

	Full time 2021 No.	**Part time 2021 No.**	**Full time 2020 No.**	**Part time 2020 No.**
Head office	15	4	14	4
Branch	4	3	4	2
Total	19	7	18	6

NOTES TO THE ACCOUNTS, continued

8. Administrative expenses

	Group 2021	Group 2020 Restated	Society 2021	Society 2020 Restated
Staff costs	£	£	£	£
Wages and salaries	984,392	873,487	984,392	873,487
Social security costs	87,366	74,563	87,366	74,563
Other pension costs	41,011	40,004	41,011	40,004
	1,112,769	988,054	1,112,769	988,054
Other admin expenses	869,175	779,696	863,704	775,236
	1,981,944	1,767,750	1,976,473	1,763,290

	Group 2021	Group 2020
Other admin expenses include:		
Audit of these annual accounts* (excluding VAT)	67,500	66,950
Operating lease costs	33,354	33,300

*The audit fee for the subsidiary company of £2,500 (2020: £1,950) is included above. No non-audit services were provided.

The allocation of staff costs between the three headings above is restated in 2020 due to personal contributions for pension and national insurance being incorrectly recognised within the Group and Society's contributions to pension and national insurance. The total reported for staff costs is unchanged.

9. Directors' emoluments

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

	Group and Society 2021	Group and Society 2020
Fees for services as Non-Executive Directors:	£	£
Rod Ashley (appointed 23 April 2020)	16,013	10,881
Rob Cairns (retired 31 October 2021)	16,548	19,583
Richard Drinkwater	16,013	15,776
Janice Lincoln	16,548	16,303
Will Lindsay	16,660	15,776
Kevin Parr (appointed 23 April 2020)	16,013	10,881
Richard Vecqueray (retired 22 April 2020)	-	4,533
Alan Waterfield (retired 22 April 2020)	-	5,259
Total for Non-Executive Directors	97,795	98,992
For services as Executive Directors:		
Tim Bowen		
Salary	111,968	108,234
Bonus**	11,252	5,816
Pension contributions	5,598	6,687
	128,818	120,737
Elspeth James***		
Salary	72,073	69,830
Bonus**	7,243	3,850
Pension contributions	3,604	4,320
	82,920	78,000
Total for Executive Directors	211,738	198,737
Total for Directors' emoluments	309,533	297,729

** The bonuses recorded in 2020 reflect two years of bonus payments, due to the timing of the approval of these payments.

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

10. Directors' loans and related party transactions

The aggregate amount of loans outstanding at 31 December 2021 to one (2020: two) Director and connected persons was £143,929 (2020: £198,979). This loan was made on normal commercial terms. A register of loans to Directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at 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.

The Society holds unlisted shares in Mutual Vision Technologies Limited which provides IT services to the Society, as detailed in Note 18 on page 32. Tim Bowen resigned as a Director of this company on 29 September 2020 and received £0 of personal fees in the year ended 31 December 2021 (2020: £3,229). Amounts paid for IT services were £260,916 (2020: £232,177) of which £48,117 (2020: £62,003) was capitalised, see Note 20 on page 33.

NOTES TO THE ACCOUNTS, continued

11. Taxation

	Group 2021	Group 2020	Society 2021	Society 2020
Current tax	**£**	**£**	**£**	**£**
Current tax on income for the period	156,426	69,951	153,125	67,052
Adjustment in respect of previous periods	-	17	-	17
Total current tax	156,426	69,968	153,125	67,069
Deferred tax (see Note 26)				
Origination and reversal of timing differences	(23,844)	(11,903)	(23,844)	(11,903)
Effect of changes in tax rates	2,743	4,677	2,743	4,677
Total deferred tax	(21,101)	(7,226)	(21,101)	(7,226)
Total tax expense	135,325	62,742	132,024	59,843
Reconciliation of effective tax rate:				
Profit for the year	698,232	304,799	680,857	289,539
Total effective tax at 19.00% (2020: 19.00%)	132,664	57,912	129,363	55,013
Effects of:				
Non-deductible expenses	13,040	4,175	13,040	4,175
Adjustments from previous periods	-	17	-	17
Income not taxable	(219)	-	(219)	-
Change of rate on deferred tax balances	2,743	4,677	2,743	4,677
Revaluations	(12,903)	(4,039)	(12,903)	(4,039)
Total tax expense included in income statement	135,325	62,742	132,024	59,843

The corporation tax rate for the year ended 31 December 2021 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 the 17th March 2020, using the Provisional Collection of Taxes Act 1968, the UK Government cancelled the proposed drop in Corporation Tax rate to 17%. Deferred tax has been measured based on the substantively enacted rate of 25%.

12. Cash and cash equivalents

	Group 2021	Group 2020	Society 2021	Society 2020
	£	**£**	**£**	**£**
Cash in hand	46,039	51,117	46,039	51,117
Loans and advances to credit institutions (Note 14)	9,011,606	7,174,378	8,967,839	7,151,231
	9,057,645	7,225,495	9,013,878	7,202,348

13. Debt securities

	Group and Society 2021	2020
	£	**£**
Treasury bills	11,181,924	9,775,420
Certificates of deposit	3,002,714	6,519,527
	14,184,638	16,294,947
Debt securities have remaining maturities as follows:		
In not more than one year	14,184,638	16,294,947
Transferrable debt securities (excluding accrued interest) comprise:		
Unlisted	3,000,796	6,501,907

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

	Group and Society 2021	2020
At 1 January	16,294,947	14,508,271
Disposals and maturities	(29,277,036)	(24,456,346)
Acquisitions	27,181,874	26,268,453
Movement in accrued interest	(15,147)	(25,431)
At 31 December	14,184,638	16,294,947

NOTES TO THE ACCOUNTS, continued

14. Loans and advances to credit institutions

	Group 2021 £	Group 2020 £	Society 2021 £	Society 2020 £
Accrued interest	2,766	2,960	2,766	2,960
Repayable on demand	9,011,606	7,174,378	8,967,839	7,151,231
Other loans and advances by residual maturity payable:				
In not more than 3 months	2,500,000	2,000,000	2,500,000	2,000,000
In not more than 1 year	3,000,000	3,500,000	3,000,000	3,500,000
	14,514,372	12,677,338	14,470,605	12,654,191

15. Loans and advances to customers

	Group and Society 2021 £	2020 £
Loans fully secured on residential property	96,378,699	91,057,797
Loans fully secured on land	544,598	697,753
	96,923,297	91,755,550

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

	Group and Society 2021 £	2020 £
In not more than three months	883,818	1,070,821
In more than three months but not more than one year	2,920,236	2,547,367
In more than one year but not more than five years	17,411,765	16,244,094
In more than five years	75,888,478	72,118,268
	97,104,297	91,980,550
Impairment (see Note 16)	(181,000)	(225,000)
	96,923,297	91,755,550

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

16. Allowance for impairment

	Group and Society		
	Loans fully secured on land £	Loans fully secured on residential property £	Total £
At 1 January			
Individual provision	-	90,000	90,000
Collective provision	20,000	115,000	135,000
	20,000	205,000	225,000
Income statement			
Individual provision	-	(82,000)	(82,000)
Collective provision	6,000	32,000	38,000
	6,000	(50,000)	(44,000)
At 31 December			
Individual provision	-	8,000	8,000
Collective provision	26,000	147,000	173,000
	26,000	155,000	181,000

The Society has one mortgage case where forbearance has been exercised (2020: eight), including none (2020: three) where an individual provision has been created.

NOTES TO THE ACCOUNTS, continued

17. Investment in subsidiary

	Shares	Loans	Total
Cost	£	£	£
At 1 January 2021 and 31 December 2021	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 in Mutual Vision Technologies Limited which provides IT services to the Society, as follows:

Unlisted investments

	Total
Cost	£
At 1 January 2021 and 31 December 2021	144,933

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

19. Tangible fixed asset

	Group and Society		
	Freehold land and buildings	Office and IT, fixtures and fittings	Total
Cost	£	£	£
At beginning of year	40,000	240,195	280,195
Additions	-	12,685	12,685
Disposals	-	(9,162)	(9,162)
At end of year	40,000	243,718	283,718
Depreciation			
At beginning of year	17,200	158,236	175,436
Charge for the year	400	17,730	18,130
Elimination in respect of disposals	-	(8,042)	(8,042)
At end of year	17,600	167,924	185,524
Net book value			
31 December 2021	22,400	75,794	98,194
31 December 2020	22,800	81,959	104,759

The net book value of the freehold premises occupied by the Society for its own activities is £22,400 (2020: £22,800).

20. Intangible fixed assets

	Group and Society IT software and development costs
Cost	**£**
At beginning of year	282,075
Additions	48,117
At end of year	330,192
Depreciation	
At beginning of year	164,662
Charge for the year	61,959
At end of year	226,621
Net book value	
31 December 2021	103,571
31 December 2020	117,413

21. Investment properties

	Group and Society
Fair value	**£**
At 1 January 2021	403,750
Net loss from fair value adjustments	(68,150)
At 31 December 2021	335,600

The residential investment properties at Mardale Close and Greystoke Park, Penrith, which are freehold, were valued at £419,500 on an open market existing use basis at 31 December 2021. This valuation was completed by an external, independent valuer from SWH Surveyors Limited, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued. (The properties were valued at 31 December 2020, by a different local valuer, Penrith, Farmers & Kidd).

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 26 and disclosed in Note 6 on page 28.

22. Prepayments and accrued income

	Group 2021 £	Group 2020 £	Society 2021 £	Society 2020 £
Prepayments and accrued income	380,314	331,925	380,314	330,042

23. Shares

	Group and Society 2021 £	2020 £
Held by individuals	111,560,422	107,586,842
Other shares	144,439	146,234
	111,704,861	107,733,076

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

	Group and Society 2021 £	2020 £
Accrued interest	213,119	348,957
Repayable on demand	110,391,760	106,198,347
In not more than 3 months	1,099,982	1,185,772
	111,704,861	107,733,076

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24. 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 2021 £	Group and Society 2020 £
Repayable on demand	2,594,037	2,342,466

25. Other liabilities

	Group 2021 £	Group 2020 £	Society 2021 £	Society 2020 £
Other liabilities due within one year comprise:				
Corporation tax	156,443	69,968	153,142	67,069
Other creditors	1,791	-	1,791	-
	158,234	69,968	154,933	67,069

26. Deferred taxation liability

	Group and Society 2021 £	Group and Society 2020 £
At beginning of year	32,530	39,756
Credit to statement of income for year	(21,101)	(7,226)
At end of year	11,429	32,530
The elements of deferred taxation are as follows:		
Differences between accumulated depreciation and amortisation and capital allowances	42,601	35,804
Revaluation of investment properties	12,404	22,376
Other timing differences (including movements in collective provisions)	(43,576)	(25,650)
	11,429	32,530

The net reversal of deferred tax assets and liabilities expected to occur in the next reporting period is a charge of £7,296 (2020: credit of £27,074), being the impact of the revaluation of the investment properties and changes to the future tax rates from 2023.

27. Commitments

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

Detail on future mortgage commitments is in Note 29 on page 36.

At 31 December 2021 the Society has future minimum lease payments under non-cancellable operating leases as follows:

	Group and Society 2021 £	Group and Society 2020 £
Office equipment leases which expire:		
Within 1 year	32,832	33,300
Within 2-5 years inclusive	85,691	118,524
Over 5 years	-	-

28. Contingent liabilities

The Society has reviewed its mortgage back book to identify all properties with external cladding which may require remediation activity moving forward. There are six properties in mortgage to the Society where cladding has been identified. The total outstanding loan balance on these properties is £562,457 at 31 December 2021.

At this time there is not sufficient certainty as to where the responsibility lies for the remediation costs on these properties, as neither the Government nor the house builders have announced their final position. The Society has therefore not specifically provided for these loans at 31 December 2021, but will continue to monitor the situation closely.

NOTES TO THE ACCOUNTS, continued

29. 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 24 and 25, 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 2021		Group	
	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Total
Financial assets	£	£	£
Cash in hand	-	46,039	46,039
Loans and advances to credit institutions	-	14,514,372	14,514,372
Debt securities	-	14,184,638	14,184,638
Loans and advances to customers	96,923,297	-	96,923,297
Total financial assets	96,923,297	28,745,049	125,668,346
Non-financial assets			1,062,612
Total assets			126,730,958
Financial liabilities			
Shares		111,704,861	111,704,861
Amounts owed to other customers		2,594,037	2,594,037
Total financial liabilities		114,298,898	114,298,898
Non-financial liabilities			332,309
General reserves			12,099,751
Total liabilities			126,730,958

31 December 2020		Group	
	Loans and receivables	Cash and financial assets and liabilities at amortised cost	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	29,023,402	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
Total financial liabilities	-	110,075,542	110,075,542
Non-financial liabilities			269,346
General reserves			11,536,844
Total liabilities			121,881,732

NOTES TO THE ACCOUNTS, continued

29. Financial instruments, continued

Credit risk

Credit risk, as noted in the Directors' Report on page 6, 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 2021	Group 2020 £	Society 2021	Society 2020 £
Cash in hand	46,039	51,117	46,039	51,117
Loans and advances to credit institutions	14,514,372	12,677,338	14,470,605	12,654,191
Debt securities	14,184,638	16,294,947	14,184,638	16,294,947
Loans and advances to customers	96,923,297	91,755,550	96,923,297	91,755,550
Total statement of financial position exposure	125,668,346	120,778,952	125,624,579	120,755,805
Off balance sheet exposure – mortgage commitments	9,129,455	9,333,969	9,129,455	9,333,969
	134,797,801	130,112,921	134,754,034	130,089,774

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 2021 £	Group 2020 £	Society 2021 £	Society 2020 £
UK Government securities	11,181,924	9,775,420	11,181,924	9,775,420
Financial institutions				
A+ to A-	12,014,319	13,193,318	11,970,552	13,170,171
Unrated	5,502,767	6,003,547	5,502,767	6,003,547
Total exposure to counterparties	28,699,010	28,972,285	28,655,243	28,949,138

At 31 December 2021 all exposures to financial institutions were within the UK (2020: 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.

Approximately half the Society's borrowers are based in Cumbria, being 50.85% (2020: 53.65%) of the mortgage book totals. Borrowers in Scotland represent 7.29% (2020: 3.39%) of the mortgage book and the remaining 41.86% (2020: 42.96%) is spread across the rest of England and Wales.

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NOTES TO THE ACCOUNTS, continued

29. 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			
	2021		2020	
Arrears analysis	£	%	£	%
Not impaired:				
Neither past due or impaired	95,923,532	98.97	88,781,164	96.76
Past due up to 3 months but not impaired	574,281	0.59	1,551,540	1.69
Past due over 3 months but not impaired	298,262	0.31	453,722	0.49
Impaired:				
Not past due	-	-	-	-
Past due up to 3 months	127,222	0.13	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
	96,923,297	100.00	91,755,550	100.00

	Indexed	Unindexed	Indexed	Unindexed
	£	£	£	£
Value of collateral held:				
Neither past due or impaired	275,361,505	228,403,977	250,238,739	218,879,896
Past due but not impaired	2,731,804	2,255,000	4,497,129	4,119,500
Impaired	217,473	190,000	1,054,218	982,450
	278,310,782	230,848,977	255,790,086	223,981,846

Credit quality analysis of loans and advances to customers, continued

Note 1.9(a), on page 25, 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 25, 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:

	2021	2020
Type of Forbearance:	No.	No.
Interest only concession at year end	-	2
Reduced payment concessions at year end	1	3
Total	1	5

Total loans in forbearance represent £92,471 (2020: £1,170,268).

NOTES TO THE ACCOUNTS, continued

29. Financial instruments, continued

Market risk

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

The Society has adopted the 'administered' approach to interest rates as defined by the Prudential Regulation Authority, whereby over 90% of rates on assets and liabilities are administered and can be adjusted at any point in time. The Society has an extension to this limit, as agreed with the Prudential Regulation Authority, to allow upto 20% of rates on assets and liabilities to be on non-administered rates. As a result, the exposure to movements in interest rates, reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature, is minimal. The Society manages this exposure continually by matching the maturity dates of assets and liabilities through natural hedges, allowing this risk to be minimised.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivities of 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 £91,000 (2020: £112,000).

Liquidity risk

Liquidity risk, as noted in the Directors' Report on page 6, 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 2021	**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	103,159,475	3,806,773	1,641,910	3,096,703	-	111,704,861
Amounts owed to other customers	2,594,037	-	-	-	-	2,594,037
Total financial liabilities	105,753,512	3,806,773	1,641,910	3,096,703	-	114,298,898

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	98,184,194	3,810,939	4,007,564	1,730,379	-	107,733,076
Amounts owed to other customers	2,342,466	-	-	-	-	2,342,466
Total financial liabilities	100,526,660	3,810,939	4,007,564	1,730,379	-	110,075,542

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Statutory percentages

	2021	Statutory Limit
Lending Limit	1.46%	25.00%
Funding Limit	2.27%	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

	2021 %	2020 %
As percentage of shares and borrowings:		
Gross capital	10.59	10.48
Free capital*	10.56	10.40
Liquid assets	25.15	26.37
As a percentage of mean total assets:		
Profit after tax	0.45	0.20
Management expenses	1.66	1.57

* This balance was incorrectly reported at 31 December 2020, and has therefore been amended in the above disclosures.

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 2020 and 31 December 2021.

Penrith building society
Listening and Supporting, Since 1877

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021, continued

2. Information relating to the Directors

Name (Date of Birth)	Date of Appointment	Business Occupation	Other Directorships
Rod Ashley (22/06/1969)	23/04/2020	Chief Executive	AlbaCo Ltd
Richard Drinkwater (01/08/1952)	01/07/2017	Business Entrepreneur	Amber Securities Ltd Stamford Lodge 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	
Kevin Parr (27/05/1960)	23/04/2020	Retired Chief Executive	
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.