PENRITH BUILDING SOCIETY

Annual Report and Accounts

31 December 2017

PENRITH BUILDING SOCIETY | for life

Contents

CHIEF EXECUTIVE'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The sense of pride that I feel in writing this message to you, our members is huge. Moreover, the privilege of having now officially taken over this wonderful Cumbrian institution as the ninth Chief Executive, after the Society celebrated its 140th anniversary in 2017, is just as great.

The principal business activity of the Society is the provision of long-term residential mortgages to borrowers, financed by personal savings from members, in keeping with traditional building society principles and values.

I am pleased to report that the Society has had a good year, reporting a steady growth in assets. However, faced with tough market conditions for mortgages, our gross lending was down on recent years, but a strong retention rate on existing borrowers has seen us grow mortgage assets overall. We continued to attract savings inflows at a time of some very low interest rates in both markets. Added to this, I am also able to report another healthy rise in our membership base - a real vote of confidence from our members. Profitability has seen a decrease as a result of investment in the business from a people and technology perspective.

The political and economic environment presents challenges to all aspects of industry, in every corner of the United Kingdom. This is also true within Penrith and Cumbria. General uncertainty remains around the outcomes and impact to our economy in relation to the United Kingdom's decision to leave the European Union. For a Cumbrian business, the potential of a further referendum in Scotland is another factor to consider and plan for. The Society has an extremely experienced, capable and talented Board and it will continue to monitor any adverse indicators relating to this and many other factors in ensuring the Society remains resilient and strong against potential economic shocks.

2018 will be a year of positive change and further investment to ensure the future sustainability and relevance of the Society. Our strategy to achieve this has been agreed and will provide many opportunities for the Society and the staff in the medium to long term, to grow by increasing our relevance, entering new areas of the mortgage market, investing in our people and ensuring best value for our members, both current and new.

The Board are also acutely aware of the effect that a prolonged low base rate environment has had on our members and will continue, as it has done in the past, to keep our rates as competitive as possible compared to similar products within the wider market.

The mortgage market was extremely competitive in 2017 with multiple new players entering the picture. The Society still continues to have one of the lowest standard variable rates in the market. In 2018, as a result of the fierce competition seen in 2017, the Society will enter different areas of the mortgage market that we both want to enter and can be competitive in. The Society will also look at different channels of distributing mortgage products by looking to expand existing relationships and develop new ones with brokers and broker networks. We will continue to adhere to our responsible lending criteria to ensure that the quality of the mortgage book will remain of the highest standard. The welcome recruitment of the Retail Operations & Distribution Executive, Michelle Stevens, has added a huge amount of expertise to our already very capable team. Michelle will support the delivery of our strategic objectives in the coming years.

Amyn Fazal, our retiring Chief Executive, deserves thanks for his service over the past six years and for handing over a building society that has extremely solid foundations. This provides the platform to move forward over the next three years and beyond. Thanks, must also go to our wonderful members of staff. I want to thank each of you for your hard work and commitment over the last year and am looking forward to achieving great things with you over the coming years.

Penrith is rare by virtue of the fact that it is one of very few towns or cities in the UK that has its own building society. This Society is wonderfully unique in so many different ways and is something that we should all, as staff, members and a Cumbrian community continue to support and be immensely proud of.

Timothy J Bowen (Chief Executive)
26 February 2018

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31 December 2017.

Business Review

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

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

Straightforward – Whether opening a savings account, or arranging a mortgage, we want to be easy to transact with. We will always look for ways to make things more straightforward for our members.

Mutual – Our members are our reason for being and are at the heart of everything we do. We will continue to enhance the benefits of mutuality and will never lose sight of the fact that we exist for our members.

Aspiring – We will be there to help both our members and our staff achieve what they aspire to, for themselves and their family during their lifetime.

Relevant – We will always look for ways to ensure we stay relevant. We will continue to respond to members' needs through innovative, appropriate product design and through technological initiatives whilst remaining true to our roots.

Trustworthy – We will be open, honest and fair in our dealings with our members, so they can have the utmost trust and confidence in us as an organisation. We will not compromise our standards and will ensure all our dealings consider our members and ensure longevity for the Society.

In striving for our vision, our long-term strategy is to grow at a controlled pace to a sustainable and relevant level with an increased risk appetite, identifying areas of the mortgage market particularly that we can both be competitive in and wish to compete in. We wish to continue as an independent mutual building society and fulfil the social aspect of our purpose.

On-going success will see the Society ensuring that we increase the efficiencies within our business model by investing, where appropriate, giving clear direction and support to our people and ensuring that we have a higher level of management information and a distribution model that is fit for purpose. This will allow the Society to be able to generate stronger, more sustainable returns, withstand financial stress and support the resources needed to operate credibly and competitively in the financial services environment.

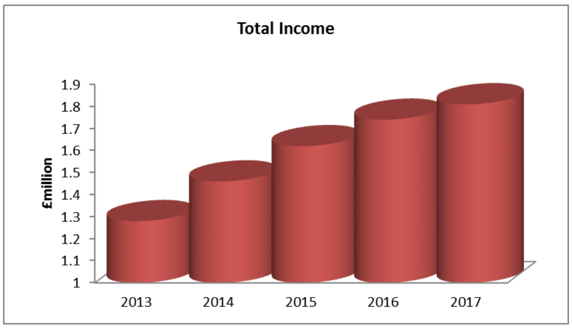
Key Performance Indicators

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

Income and Expenditure

Against tough market conditions, the Society made a profit for the year after taxation of £135,956 (2016: £166,546).

Total income was £1.81 million compared to £1.74 million in 2016. The net interest margin continued to be squeezed by the low interest rate environment and adjustments made to rates on savings products in 2016, allowed us to manage a weaker mortgage position than originally anticipated. In addition, the Society has continued to keep fees for mortgage products at a low level and in many cases, will pay fees on behalf of borrowers and significant introducer fees are paid to brokers, through which the Society sources an increased level of mortgage business.



The level of individual loan loss provisions has increased, albeit collective loan loss provision levels have remained relatively unchanged, which has seen the overall loan loss provision charge rise to £73,174 (2016: £25,031). The performance of the mortgage back book continues to be good in the low interest rate environment, with arrears being managed through arrangements being put in place with the affected borrowers. We continue to set aside funds to cover our share of the Financial Services Compensation Scheme levy, as a result of the failure of other financial services institutions in recent years. The levels required have fallen this year, leading to a release of £2,706 (2016: £21,898 charge), as explained in note 25 on page 33.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2017

Key Performance Indicators, continued

Income and Expenditure, continued

Management expenses including depreciation were £1.57 million (2016: £1.49 million), an increase of 5.37%. The cost income ratio has increased to 87.19% by the end of 2017 (2016: 85.71%). Management expenses expressed as a ratio of mean total assets are 1.48% (2016: 1.45%).

The rise in the cost base is attributed to further investment in people and technology. The Society has run with three Executive Directors for most of 2017, before the retirement of the past Chief Executive on 31 December 2017. In addition, a Retail Operations & Distribution Executive joined the senior team in early November 2017, to focus on operational improvements across the core areas of mortgages and savings and to build on existing sales and distribution activity through branch, intermediaries and other channels as appropriate.

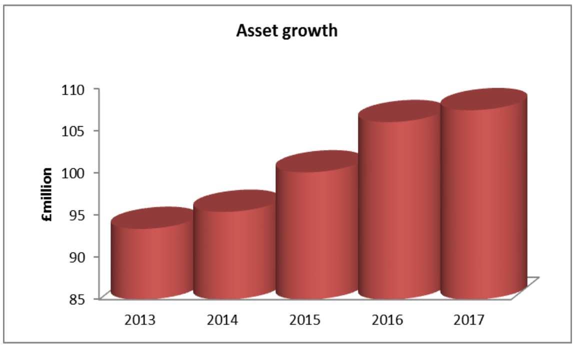
An online broker portal has been rolled out in the second half of 2017, with further development of mortgage software in the pipeline, and further changes to the MyPBS area of the Society are imminent in 2018, which starts to build the online capability in the savings products.

The investment in the senior team and technology is key to the future sustainability of the Society.

Total Assets

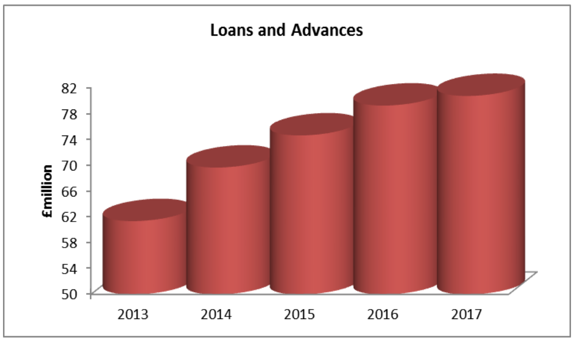
The Society has seen growth in its total assets in the past five years to a level of £107.45 million in 2017 (2016: £106.06 million).

The focus continues to be on attracting good quality residential mortgage assets to replace liquid assets (being cash and treasury investments) to improve the margin. Liquid assets were £25.59 million in 2017 (2016: £25.67 million), representing 23.82% (2016: 24.20%) of total assets and 26.58% (2016: 27.01%) of total shares and amounts owed to other customers.



Loans and advances

The mortgage market has seen significant competition from existing and new entrants, which has meant our gross lending total has fallen to £17.34 million (2016: £21.89 million). This comprised 155 advances, including 21 further advances.



However, our strategy to retain our existing borrowers has proved effective, which has allowed us to further grow our overall mortgage assets, which now stand at £80.73 million (2016: £79.27 million).

This has meant that over the last five years our overall mortgage book has grown by 32%, which through a period of change in the way regulated mortgages are sold across the financial services industry, has been a significant achievement for the Society.

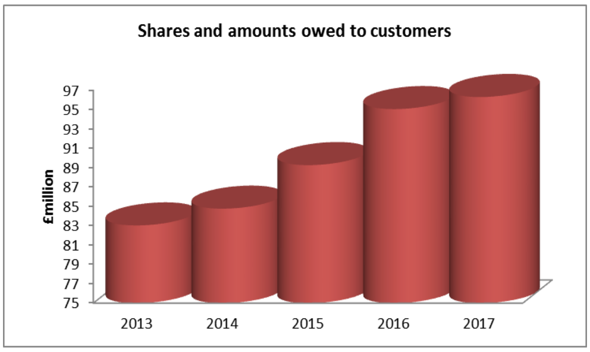
At 31 December 2017 there was one mortgage case (2016: none) where the repayment of principal and interest was twelve or more months in arrears and three cases (2016: six) where forbearance measures were in place. This confirms a continuing trend in low numbers of arrears cases over the last five years in the current low interest rate environment. The Society had three properties in possession at the end of 2017 (2016: three). Individual provisions are held for each of these properties.

The Society takes all reasonable steps to minimise loss and to ensure that the provisions of the responsible lending policy are monitored through individual underwriting so that due account may be taken of prevailing economic conditions. In particular, the Society is vigilant to the financial stresses which may arise for borrowers if interest rates start to increase. We offer constructive assistance and forbearance to borrowers in financial difficulty and maintain a personal approach, which our borrowers prefer, allowing us to develop a better understanding of their needs and individual circumstances.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2017

Key Performance Indicators, continued

Shares and amounts owed to other customers



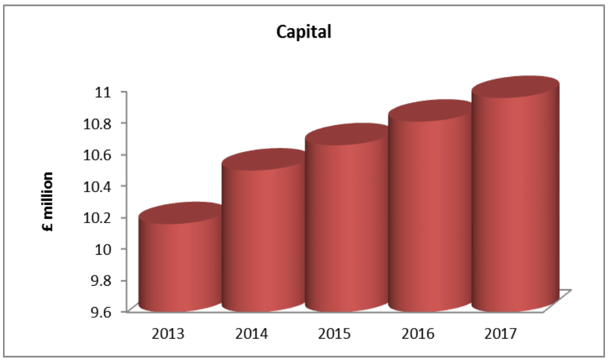
The Society is acutely aware of the impact that the low interest rate environment has had, particularly on our saving members. We monitor our savings rates compared to the market and have remained on par with, or above, the average for the building society sector throughout 2017.

During 2017 we maintained rates on our savings accounts where possible and we were able to pass the most recent base rate rise, in November 2017, onto our savings members across our ISA and Eden 90 products.

Shares and amounts owed to other customers have grown by 1.31% to a total of £96.30 million at the year end (2016: £95.05 million). As with mortgages, this has been a strategic decision to grow the core areas of the business over recent years and since 2013 this growth has reached 16%.

Capital

At 31 December 2017, the Society's capital was £10.96 million (2016: £10.83 million). A satisfactory level of capital must be maintained to ensure the Society is protected against any adverse changes in economic conditions in general or in circumstances particular to the Society.



	2017	2016
	£	£
Tier 1 capital	10,963,930	10,827,974
Total capital	10,963,930	10,827,974
Risk weighted assets:		
Liquid assets	5,214,460	6,221,196
Loans and advances to customers	30,214,778	30,070,651
Other assets	1,627,305	2,177,323
Operational risk	1,609,817	1,454,980
Total risk weighted assets	38,666,360	39,924,150
Capital ratios:		
Core tier 1	28.36%	27.12%
Leverage	10.12%	10.08%

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

The free capital ratio (the aggregate of general reserve and collective impairment for losses on loans and advances less tangible and intangible assets) was 11.21% of total shares and amounts owed to other customers (2016: 11.20%). Gross capital amounted to 11.39% of total shares and amounts owed to other customers (2016: 11.39%). Both the free capital and gross capital ratios continue to be amongst the highest in the sector.

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

These aspects are expanded on further in the Society's Basel III disclosures for Pillar 3, available on the Society's website,

www.penrithbuildingsociety.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 2017 are included in note 3 on page 26.

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2017

Principal Risks and Uncertainties

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

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

Credit Risk
This is the risk of a borrower or counterparty not meeting obligations when they fall due. All applications for mortgages are assessed individually under the Board approved Responsible Lending Policy and existing mortgages are monitored regularly for potential default. With regard to 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.

Interest Rate Risk
This is the risk of exposure to movements in interest rates. The Society has a small tranche of fixed rate mortgage and savings products and this risk arises from the exposure to fixed rate investments including Certificates of Deposit, Gilts and Treasury Bills. This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society at 31 December 2017 is detailed in note 27 on page 37.

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

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

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

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

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

Financial Risk
The Society is a retailer of financial instruments in the form of mortgage and savings products and also uses wholesale financial instruments to invest in liquid assets and, if necessary, 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 note 27 on page 36.

Land and Buildings

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

DIRECTORS' REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2017

Directors

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

Non-Executive Directors	
Robert J Cairns	Chairman
Richard L Drinkwater	(Appointed 1 July 2017)
Janice Lincoln	
William RC Lindsay	Senior Independent Director
Natalie Ruane	(Retired 26 April 2017)
Richard J Vecqueray	(Appointed 27 April 2017)
Alan G Waterfield	Vice Chairman
Executive Directors	
Timothy J Bowen	Chief Executive (Previously Retail Operations Director, appointed 27 April 2017)
Amyn S Fazal	Chief Executive (Retired 31 December 2017)
Elspeth L James	Finance Director

The Director retiring by rotation in accordance with the Rules and offering herself for re-election is Janice Lincoln, having served on the Board for a 3-year period.

Timothy J Bowen, Richard L Drinkwater and Richard J Vecqueray, having been appointed to the Board in 2017, are eligible for election in accordance with Rule 25(5) and offer themselves for election.

During the 12 months ended 31 December 2017, Amyn S Fazal had been a non-executive director of Mutual Vision Technologies Limited, which provides IT services to the Society. There were no other associated bodies in which the Society or its Directors had an interest.

Staff

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

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

Donations

During the year charitable donations totalling £8,552 (2016: £7,255) were made. No contributions were made for political purposes.

Going Concern

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

The Society's Board is heartened by and would like to express its sincere gratitude for the continuing strong support and loyalty shown by you, the members.

Post Balance Sheet Events

There are no post balance sheet events to report.

Approved and signed on behalf of the Board

Robert J Cairns (Chairman)
26 February 2018

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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 (2016 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.

Board Composition

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

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

Effectiveness

Board Independence

The Board considers that all of its Non-Executive Directors are independent. Will Lindsay 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 senior management.

The Society's Rules require all Directors to submit themselves for election by members within sixteen months of their appointment to the Board and for re-election every three years thereafter.

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

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

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

The Board has regard to the Walker Report on Diversity.

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 Financial Conduct Authority or Prudential Regulation Authority or both.

CORPORATE GOVERNANCE REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017, the appraisal of the Chairman was carried out by the Chief Executive and the Vice Chairman. The other Non-Executive Directors' appraisals were carried out by the Chief Executive and Chairman. These appraisals are based on a number of factors including attendance at meetings and external events, contribution and performance at meetings and challenge to the Executive.

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

The effectiveness of the Board as a whole and its committees is reviewed annually by the Board.

Fitness and Propriety

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

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

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

Accountability

The Executive Directors and senior management have created a Risk Management Framework to identify, quantify (if possible) and manage risks faced by the Society. The Board is responsible for the oversight and challenge of this process and reviews the risk strategy and policies on a continual basis as both internal and external factors impact on the day to day activities of the Society.

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

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. The terms of reference for these committees may be obtained from the Secretary. The committees in question are outlined below and a table detailing meeting attendances is provided at the end of the section.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee (ARCC) is comprised of Janice Lincoln, Will Lindsay and Alan Waterfield. Janice Lincoln is Chair of the Committee and is a retired building society Finance Director. Both Janice Lincoln and Alan Waterfield are qualified accountants and bring recent, relevant financial experience. In addition, representatives of the outsourced and Internal Compliance Functions, Internal and External Auditors and the Executive Directors attend most of these meetings by invitation.

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

CORPORATE GOVERNANCE REPORT continued
FOR THE YEAR ENDED 31 DECEMBER 2017

Board and Committee Meetings, continued

Conduct Risk Committee

The Conduct Risk Committee (CRC) is comprised of Elspeth James, Tim Bowen and Will Lindsay. Elspeth James is Chair of the Committee. Four members of the Society's staff also attend the meetings. The Committee has oversight of the Society's policies and procedures in all areas having an impact on the Society's members and makes recommendations thereon to the Board and management.

Remuneration Committee

The Remuneration Committee is comprised of the Society's Non-Executive Directors. The Chairman of the Committee is Alan Waterfield. The Committee is responsible for setting the Society's remuneration policy for Executive Directors and Non-Executive Directors Fees. The Committee also sets all other benefits and matters relevant to Executive Directors including contracts of employment with the Society. The Directors' Remuneration Report for 2017 is on page 11.

Nominations Committee

The Nominations Committee is comprised of Robert Cairns, Alan Waterfield and Tim Bowen. Alan Waterfield is Chair of the Committee. The Committee is responsible for making recommendations on appointments to the Board, ensuring that the Board has sufficient directors with appropriate skill sets, who are fit and proper and independent. The Committee has an annual responsibility to review the Society's Succession Plan and to ensure this remains appropriate to the on-going needs of the Society for both Executive and Non-Executive Directors.

The following table details attendance of the Directors at the Board and Committee meetings held during 2017:

	Board	CRC	ARCC	Remuneration	Nominations
Number of meetings in 2016	**9**	**3**	**5**	**2**	**6**
Robert J Cairns (Chairman)	9(9)	-	2*	2(2)	6(6)
Richard L Drinkwater	4(4)		1*	1(1)	-
Janice Lincoln	8(9)	-	5(5)	2(2)	-
Will Lindsay	8(9)	3(3)	5(5)	2(2)	-
Richard J Vecqueray	7(7)	-	1*	1(1)	-
Alan G Waterfield	9(9)	-	5(5)	2(2)	6(6)
Timothy J Bowen	7(7)	1(1)	3*	2*	-
Amyn S Fazal	8(9)	3(3)	4*	2*	6(6)
Elspeth L James**	6(9)	1(1)	3*	1*	-

(Brackets denote the number of meetings an individual was eligible to attend and * denotes where an individual attended a meeting by invitation only)
**The director had been absent for a significant period of 2017 on maternity leave.

Assets and Liabilities Committee

The Society has a separate Assets and Liabilities Committee (ALCO). This is a management committee chaired by Tim Bowen which reports monthly to the Board. The Committee monitors liquidity and treasury risk and reviews product development for both savings and mortgages against the market. It also reviews forward looking economic data and how the Society's cash flow forecasts and budget projections respond and adapt to market conditions.

Relationship with Members

The Society's on-going relationship with its members is an important area of focus. In 2017 opportunities to engage directly with members, included the Annual General Meeting, the Penrith Show and the Christmas gathering. These will continue in 2018, with the first being the Annual General Meeting of the Society on 18 April 2018.

Approved and signed on behalf of the Board

Robert J Cairns (Chairman)
26 February 2018

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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.

Executive Directors

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

Executive Directors' remuneration comprises basic salary and pension benefits. Their salaries are considered by the Remuneration Committee which meets at least twice a year. Salary levels are set having regard to job content and responsibilities, the performance of the individual and salaries in similar organisations.

The Society does not have a defined benefit final salary pension scheme. The Society makes contributions to the private pension arrangements of the Executive Directors.

The new Chief Executive's and Finance Director's contracts of employment require a 12 month and 6 month notice period respectively.

Non-Executive Directors

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

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

Details of Remuneration are set out in note 8 on page 27.

Approved and signed on behalf of the Remuneration Committee

Alan G Waterfield (Director)
26 February 2018

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 2017

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

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

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

1. Our opinion is unmodified

We have audited the Annual Report and Accounts of Penrith Building Society for the year ended 31 December 2017 which comprise Income Statement (including Statement of Comprehensive Income), Statement of Financial Position, Cash Flow Statement, Statement of Change in Members' Interests, and the related notes, including the accounting policies in note 1.

In our opinion the annual report and accounts:

- Give a true and fair view of the state of affairs of the Society as at 31 December 2017 and of the income and expenditure of the Society for the year then ended;
- Have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland; 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 are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit, Risk and Compliance Committee. We were appointed as auditor by the Directors on 26 November 2010. The period of total uninterrupted engagement is for the eight financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Annual report and accounts as a whole		£26,000 (2016:£56,000) 0.97% (2016: 2.04%) of Interest receivable and similar income
Risks of material misstatement		**vs 2016**
Recurring risks	Loan impairment	◀▶
	Effective interest rate income recognition	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

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

2. Key audit matters: our assessment of risks of material misstatement, continued

	The risk	Our response
Loan impairment (£350,240; 2016: £295,941) *Refer to page 21 (accounting policy), page 29 (Note 14) and page 30 (Note 15)*	**Subjective estimate:** Specific impairments covers loans specifically identified as impaired, and a collective impairment is recognised against all other loans for those impairments incurred but not yet specifically identified. The Directors judge individual impairments by reference to loans that are subject to forbearance activities, in possession or three months or more in arrears. The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, key assumptions which requires judgement are the loan's probability of default and forced sale discount against collateral (including selling costs). The impairment model is most sensitive to movements in the forced sale discount assumption.	Our procedures included: — **Benchmarking assumptions:** We compared the key assumptions used in the model of forced sale discounts (including selling costs) with externally available data, including KPMG's building society database. — **Our sector experience:** We challenged the key impairment assumptions used in the model, being probability of default and forced sale discount (including selling costs), using our knowledge of recent impairment experience in this industry. — **Historical comparison:** We assessed the key assumptions used in the collective and specific models, being probability of default and forced sale discount (including selling costs), against the Society's historical experience. — **Sensitivity analysis:** We assessed the collective model and specific individual impairments for their sensitivities to changes in the key assumptions being probability of defaults and forced sale discounts against collateral (including selling costs) by performing stress testing to help us assess the reasonableness of the assumptions. — **Assessing transparency:** Assessing the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the provision. **Our results** — We found the resulting estimate of the loan portfolio impairment provision to be acceptable (2016: acceptable).

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

2. Key audit matters: our assessment of risks of material misstatement, continued

	The risk	Our response
Effective interest rate income recognition (£2,667,354; 2016: £2,746,022) *Refer to page 21 (accounting policy), page 29 (Note 14) and page 30 (Note 15)*	**Subjective estimate:** Using a model, interest and fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected cash flows over the expected lives of the loans. The Directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid.	Our procedures included: — **Our sector experience:** We assessed the key assumptions behind the expected customer lives and profiles of significant loan products against our own knowledge of industry experience and trends. — **Historical comparison:** We assessed the reasonableness of the model's expected repayment profiles assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance. **Our results** — We found the resulting estimate of the EIR interest income of £2,667,354 to be acceptable (2016: acceptable).

3. Our application of materiality and an overview of the scope of our audit

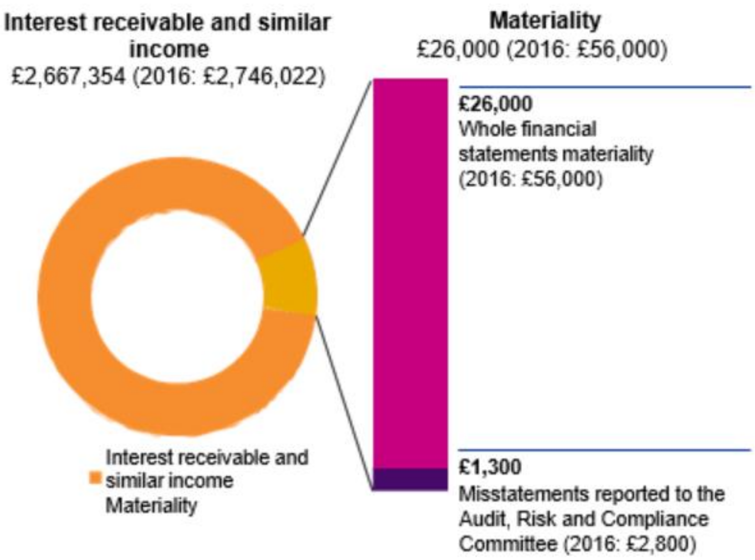
Materiality for the Society annual report and accounts as a whole was set at £26,000 (2016:£56,000), determined with reference to a benchmark of interest receivable and similar income (of which it represents 0.97% (2016: 2.04%)).

We consider Interest receivable and similar income to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax.

The Society is now classified as an EU public interest entity ('PIE') following the adoption of the EU Audit Reform legislation which is effective for entities whose accounting period begins on or after 17 June 2016. In the current year, the reduction in the percentage of the benchmark from 2.04% in 2016 to 0.97% in 2017 is to due to the new EU legislation.

We agreed to report to the Audit, Risk and Compliance Committee any corrected or uncorrected identified misstatements exceeding £1,300 (2016: £2,800), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Society was undertaken to the materiality level specified above and was all performed at the Society's head office in Penrith.



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

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report and Accounts together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

— the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;

— the information given in the Directors' Report for the financial year is consistent with the accounting records and the annual report and accounts; and

— the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the Society; or

— the annual report and 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 12, the Directors are responsible for: the preparation of annual report and accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

7. Respective responsibilities, continued

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the annual accounts. We identified relevant areas of laws and regulations from our sector experience, through discussion with the Directors (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the annual accounts including financial reporting (including related building society legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, and conduct risk, recognising the financial and regulated nature of the Society's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non- detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

David Allen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Street
Sovereign Square
Leeds
LS1 4DA
26 February 2018

KPMG

INCOME STATEMENT (INCLUDING STATEMENT OF COMPREHENSIVE INCOME)
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Interest receivable and similar income	4	2,667,354	2,746,022
Interest payable and similar charges	5	(882,126)	(1,052,743)
Net interest receivable		1,785,228	1,693,279
Fees and commissions receivable		3,442	3,478
Other operating income		17,375	46,902
Total income		1,806,045	1,743,659
Administration expenses	7	(1,499,415)	(1,424,105)
Depreciation and amortisation	18/19	(75,279)	(70,313)
Operating profit before provisions		231,351	249,241
Impairment losses on loans and advances	15	(73,174)	(25,031)
Provisions for FSCS scheme levy	25	2,706	(21,898)
Profit on ordinary activities before tax		160,883	202,312
Tax on profit on ordinary activities	10	(24,927)	(35,766)
Profit for the financial year		135,956	166,546

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

The notes on pages 21 to 37 form part of these accounts.

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Notes	2017 £	2016 £
Assets			
Liquid assets:			
Cash in hand	11	55,718	54,204
Treasury bills	13	9,989,114	8,798,258
Loans and advances to credit institutions	12	9,527,454	11,291,404
Debt securities	13	6,019,688	5,524,803
		25,591,974	25,668,669
Loans and advances to customers			
Loans fully secured on residential properties		79,773,352	78,092,590
Loans fully secured on land		957,860	1,173,600
	14	80,731,212	79,266,190
Investments	16	173,015	173,015
Tangible fixed assets	18	134,001	152,119
Intangible fixed assets	19	104,266	100,602
Investment property	20	445,000	445,000
Other debtors	17	271,571	257,980
Total Assets		107,451,039	106,063,575
Liabilities			
Shares	21	94,550,617	93,330,473
Amounts owed to other customers	22	1,749,119	1,720,110
		96,299,736	95,050,583
Other liabilities	24	30,893	33,396
Accruals and deferred income		102,305	73,267
Deferred tax liability	23	46,354	50,883
Provisions for liabilities	25	7,821	27,472
Total Liabilities		96,487,109	95,235,601
Reserves			
Total reserves attributed to members of the Society		10,963,930	10,827,974
Total reserves and liabilities		107,451,039	106,063,575

Approved by the Board of Directors on 26 February 2018 and signed on its behalf by:

Robert J Cairns (Chairman) **Janice Lincoln (Director)** **Timothy J Bowen (Director & Chief Executive)**

The notes on page 21 to 37 form part of these accounts.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	£	£
Cash flows from operating activities		
Profit on ordinary activities before tax	160,883	202,312
Depreciation and amortisation	75,279	114,134
Increase/ (decrease) in impairment of loans and advances	54,299	(7,259)
Decrease in provisions for liabilities	(19,651)	(4,090)
	270,810	**305,097**
Changes in operating assets and liabilities		
Increase in prepayments, accrued income and other assets	(10,005)	(22,725)
Increase in accruals, deferred income and other liabilities	30,406	5,095
Increase in loans and advances to customers	(1,519,321)	(4,639,000)
Increase in shares	1,220,144	5,538,402
Increase in amounts owed to credit institutions and other customers	29,009	245,755
Increase in loans and advances to credit institutions	(3,816)	(1,499,019)
Taxation paid	(33,327)	-
Net cash outflow from operating activities	**(16,100)**	**(66,395)**
Cash flows from investing activities		
Purchase of debt securities	(25,981,629)	(28,274,809)
Disposal of debt securities	24,292,302	29,218,889
Purchase of tangible and intangible fixed assets	(60,825)	(69,984)
Net cash (used in)/ generated by investing activities	**(1,750,152)**	**874,096**
Net (decrease)/ increase in cash and cash equivalents	**(1,766,252)**	**807,701**
Cash and cash equivalents at the start of the year	**6,340,739**	**5,533,038**
Cash and cash equivalents at the end of the year (see note 11)	**4,574,487**	**6,340,739**

STATEMENT OF CHANGE IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2017

General reserves

	2017	2016
	£	£
Balance as at 1 January	10,827,974	10,661,428
Total comprehensive income for the year	135,956	166,546
Balance as at 31 December	10,963,930	10,827,974

The notes on page 21 to 37 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 September 2015.

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.

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

The annual accounts have been prepared under the historical cost convention.

The annual accounts have been prepared on a going concern basis. This is discussed in the Directors' Report on page 6, under the heading 'Going Concern'.

1.2 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 1.5 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.

1.3 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.

1.4 Cash and cash equivalents

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

1.5 Financial assets

The Society 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 Society becomes a party to the contractual provision of the instrument.

a) Loan commitments

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

The Society 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 indemnity guarantee premiums, which are recognised over the expected scheme life of mortgage assets, as noted in 1.2 above.

NOTES TO THE ACCOUNTS continued

1. Principal accounting policies, continued

1.5 Financial assets, continued

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.

b) Debt instruments

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

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

The Society 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.

1.6 Financial liabilities measured at amortised cost

The Society classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

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

1.7 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 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 Society 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 Society uses external market data to build a risk weighted modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

NOTES TO THE ACCOUNTS continued

1. Principal accounting policies, continued

1.7 Impairment of financial assets, continued

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, amounts recoverable under mortgage indemnity policies 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 Society 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.

1.8 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 equipment, 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.

1.9 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. Any gains or losses arising from changes in the fair value are recognised in the income statement in the period that they arise and no depreciation is provided in respect of investment properties applying the fair value model.

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

NOTES TO THE ACCOUNTS continued

1. Principal accounting policies, continued

1.10 Intangible assets - computer software

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Society 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 that 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.

1.11 Investments in other assets

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.

1.12 Employee benefits

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

1.13 Leases

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

1.14 Provisions and contingent liabilities

The Society has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Society has an obligation in accordance with International Financial Reporting Interpretation Committee, Interpretation 21: Levies. The amount provided is based on information received from the FSCS, forecast future interest rates and the Society's historic share of industry protected deposits. Contingent liabilities are potential obligations from past events which shall be confirmed by future events. Contingent liabilities are not recognised in the statement of financial position.

NOTES TO THE ACCOUNTS continued

1. Principal accounting policies, continued

1.15 Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially 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 Society 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:

a) Impairment losses on loans and advances to customers

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

Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), borrower behaviour (e.g. default rates) and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions. The impairment provisions are sensitive to changes in the underlying assumptions, with the forced sale discount being the most critical. If the forced sale discount were to rise by 10% then the closing impairment provisions would increase by £87,196 (2016: £42,317).

b) Expected mortgage life

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

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

NOTES TO THE ACCOUNTS continued

3. Country by country reporting

The Society is UK registered, with the head office and branch in one location in Penrith, Cumbria.

The chief operating decision maker has been identified as the Board. The Board reviews the Society's internal reporting in order to assess performance and allocate resources.

The table below sets out the country by country disclosures required by the Capital Requirements Directive IV:

Year ended 31 December 2017

Name	Type of entity	Nature of activity	Location	Turnover (£)	Number of Employees	Profit before tax (£)	Tax paid in the year (£)
Penrith Building Society	Credit Institution	Financial Services	United Kingdom	1,806,045	23	160,883	33,327

Year ended 31 December 2016

Name	Type of entity	Nature of activity	Location	Turnover (£)	Number of Employees	Profit before tax (£)	Tax paid in the year (£)
Penrith Building Society	Credit Institution	Financial Services	United Kingdom	1,743,659	23	202,312	Nil

4. Interest receivable and similar income

	2017 £	2016 £
On loans fully secured on residential property	2,538,127	2,571,913
On other loans	45,981	47,744
On debt securities	39,518	55,869
On treasury bills	13,728	31,839
On liquid assets	30,000	38,657
	2,667,354	2,746,022

Interest on debt securities includes £39,518 (2016: £55,869) arising from fixed income investment securities.

Included within interest income is £nil (2016: £2,203) in respect of interest income accrued on impaired loans two or more months in arrears.

5. Interest payable and similar charges

	2017 £	2016 £
On shares held by individuals	868,078	1,034,825
On other shares	1,571	1,819
On deposits and other borrowings	12,477	16,099
	882,126	1,052,743

6. Employees

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

	2017 No	2016 No
Full time	17	15
Part time	6	8
Total	23	23

NOTES TO THE ACCOUNTS continued

7. Administrative expenses

	2017	2016
Staff costs	£	£
Wages and salaries	485,730	524,509
Social security costs	82,300	95,793
Other pension costs	153,949	52,529
	721,979	672,831
Other administrative expenses	777,436	751,274
	1,499,415	1,424,105

Other administrative expenses includes:

	2017	2016
Audit of these annual accounts (excluding VAT)	45,000	37,500

8. Directors' emoluments

		2017	2016
Fees for services as Non-executive Directors		**£**	**£**
Robert J Cairns		18,270	18,270
Richard L Drinkwater (Appointed 1 July 2017)		6,439	-
Janice Lincoln		15,438	14,718
Will Lindsay		14,938	14,718
Natalie Ruane (Retired 26 April 2017)*		-	1,226
Geoff Silburn (Retired 20 April 2016)		-	4,906
Richard J Vecqueray (Appointed 27 April 2017)		9,658	-
Alan G Waterfield		14,938	14,718
Total for Non-executive Directors		79,681	68,556
For services as Executive Directors			
Timothy J Bowen	Salary	53,333	-
(Appointed 27 April 2017)	Pension Contributions	5,333	-
		58,666	-
Amyn S Fazal**	Salary**	111,432	109,776
(Retired 31 December 2017)	Pension Contributions	11,143	10,978
		122,575	120,754
Elspeth L James*	Salary	56,773	77,220
	Pension Contributions	5,979	7,722
		62,752	84,942
Total for Executive Directors		243,993	205,696
Total for Directors emoluments		323,674	274,252

* The fees for Natalie Ruane are paid to a third party, Burnetts Solicitors, where she is a partner in the business.

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

***Elspeth James was absent for a significant period of 2017 on maternity leave.

NOTES TO THE ACCOUNTS continued

9. Directors' loans and related party transactions

The aggregate amount of loans outstanding at 31 December 2017 to three (2016: two) Directors and connected persons was £562,971 (2016: £268,814). These loans were made on normal commercial terms.

A register of loans to Directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at the head office of the Society. This is available for inspection during normal office hours over the period of 15 days prior to the Society's Annual General Meeting and at the Annual General Meeting.

Tim Bowen and Elspeth James became the two directors of Horse and Farrier Management Company Limited, a management company associated with the properties in possession to the Society during the year. At 31 December 2017 the company had share capital and net assets of £2 and has been dormant since its incorporation on 5 August 2009.

The Society received a dividend and fees of £8,579 (2016: £8,460) from Mutual Vision Technologies Limited, which provide the software on which the Society's operating platform is based. Amyn Fazal was a director of this company but receives no fees or other income for this role.

10. Taxation

	2017	2016
Current tax	£	£
Current tax on income for the period	29,456	33,327
Total current tax	29,456	33,327
Deferred tax (see note 23)		
Origination and reversal of timing differences	(4,529)	11,437
Impact of change of rate on deferred tax balances	-	(8,998)
Total deferred tax	(4,529)	2,439
Total tax expense	24,927	35,766
Reconciliation of effective tax rate:		
Profit for the year	160,883	202,312
Total effective tax at 19.25% (2016: 20%)	30,964	40,462
Effects of:		
Non-deductible expenses	268	1,097
Change of rate on deferred tax balances	-	(8,998)
Movement in deferred tax	(6,305)	3,205
Total tax expense included in income statement	24,927	35,766

The main rate of UK corporation tax is 19%. This will be reduced to 17% from 1st April 2020. These rate reductions were substantively enacted at 7 September 2016 and their effects are therefore recognised in the annual accounts.

11. Cash and cash equivalents

	2017	2016
	£	£
Cash in hand	55,718	54,204
Loans and advances to credit institutions (see note 12)	4,518,769	6,286,535
	4,574,487	6,340,739

NOTES TO THE ACCOUNTS continued

12. Loans and advances to credit institutions

	2017	2016
	£	£
Accrued interest	8,685	4,869
Repayable on demand	4,518,769	6,286,535
Other loans and advances by residual maturity payable:		
In not more than three months	2,500,000	1,000,000
In not more than one year	2,500,000	4,000,000
	9,527,454	11,291,404

13. Debt securities

	2017	2016
	£	£
Treasury bills	9,989,114	8,798,258
Certificates of deposit	6,019,688	5,524,803
	16,008,802	14,323,061
Debt securities have remaining maturities as follows:		
Accrued interest	22,380	25,966
In not more than one year	15,986,422	14,297,095
	16,008,802	14,323,061
Transferable debt securities (excluding accrued interest) comprise:		
Unlisted	6,002,901	5,500,991
	6,002,901	5,500,991

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

	2017	2016
	£	£
At 1 January	14,297,095	15,284,996
Premium amortisation during the year	-	(43,821)
Disposals and maturities	(24,292,302)	(29,218,889)
Acquisitions	25,981,629	28,274,809
At 31 December	15,986,422	14,297,095

14. Loans and advances to customers

	2017	2016
	£	£
Loans fully secured on residential property	79,773,352	78,092,590
Loans fully secured on land	957,860	1,173,600
	80,731,212	79,266,190

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

	2017	2016
	£	£
In not more than three months	826,625	1,125,497
In more than three months but not more than one year	2,750,161	2,870,312
In more than one year but no more than five years	16,554,498	15,875,639
In more than five years	60,950,168	59,690,683
	81,081,452	79,562,131
Impairment (see note 15)	(350,240)	(295,941)
	80,731,212	79,266,190

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

NOTES TO THE ACCOUNTS continued

15. Allowance for impairment

	Loans fully secured on land	Loans fully secured on residential property	Total
At 1 January	£	£	£
Individual provision	130,459	94,213	224,672
Collective provision	5,000	66,269	71,269
	135,459	160,482	295,941
Utilisation of provision			
Individual provision	-	(18,614)	(18,614)
Collective provision	-	(261)	(261)
	-	(18,875)	(18,875)
Income statement			
Individual provision	105	72,244	72,349
Collective provision	-	825	825
	105	73,069	73,174
At 31 December			
Individual provision	130,564	147,843	278,407
Collective provision	5,000	66,833	71,833
	135,564	214,676	350,240

The Society has three mortgage cases where forbearance has been exercised (2016: six), including one (2016: one) where an individual provision has been created.

16. Other Investments

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

Unlisted investments	Shares	Loans	Total
Cost	£	£	£
At beginning and end of year	6,914	166,101	173,015

The above investment is held with the intention of use on a continuing basis in the Society's activities and hence is classified as a financial fixed asset.

17. Other debtors

	2017	2016
	£	£
Prepayments and accrued income	271,571	257,980

NOTES TO THE ACCOUNTS continued

18. Tangible fixed assets

	Freehold land and buildings	Office and IT equipment, fixtures and fittings	Total
Cost	£	£	£
At beginning of year	40,000	581,662	621,662
Additions	-	6,781	6,781
At end of year	40,000	588,443	628,443
Depreciation			
At beginning of year	15,600	453,943	469,543
Charge for the year	400	24,499	24,899
At end of year	16,000	478,442	494,442
Net book value			
At 31 December 2017	24,000	110,001	134,001
At 31 December 2016	24,400	127,719	152,119

The net book value of the freehold premises occupied by the Society for its own activities is £24,000 (2016: £24,400).

19. Intangible fixed assets

	IT software and development costs
Cost	£
At beginning of year	316,019
Additions	54,044
At end of year	370,063
Depreciation	
At beginning of year	215,417
Charge for the year	50,380
At end of year	265,797
Net book value	
At 31st December 2017	104,266
At 31st December 2016	100,602

20. Investment properties

	Total
	£
Balance at 1 January 2017	445,000
Net gain from fair value adjustments	-
Balance at 31 December 2017	445,000

The investment properties have been fair valued at 31 December 2017. This valuation was completed by an external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued.

Any gain arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for on an accruals basis, as set out in the accounting policies in note 1.

NOTES TO THE ACCOUNTS continued

21. Shares

	2017	2016
	£	£
Held by individuals	94,317,151	93,098,244
Other shares	233,466	232,229
	94,550,617	93,330,473

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

	2017	2016
	£	£
Accrued interest	202,386	300,909
Repayable on demand	92,489,806	91,084,968
In not more than three months	1,858,425	1,944,596
	94,550,617	93,330,473

22. 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:

	2017	2016
	£	£
Repayable on demand	1,749,119	1,720,110

23. Deferred taxation

	2017	2016
	£	£
At beginning of year	50,883	48,444
(Credit)/ charge to statement of income for year	(4,529)	2,439
At end of year	46,354	50,883
The elements of deferred taxation are as follows:		
Differences between accumulated depreciation and amortisation and capital allowances	39,788	34,705
Other timing differences	6,566	16,178
	46,354	50,883

The net reversal of deferred tax assets and liabilities expected to occur in the next reporting period is an increased charge of £2,620 (2016: £3,003), being the ongoing unwinding of the tax charges associated with the transition to FRS 102.

24. Other liabilities

	2017	2016
Other liabilities due within one year comprise:	£	£
Corporation tax	29,852	33,327
Other creditors	1,041	69
	30,893	33,396

NOTES TO THE ACCOUNTS continued

25. Provisions for liabilities

FSCS levy	2017	2016
	£	£
At beginning of year	27,472	31,562
Levy paid in year	(16,945)	(25,988)
Charge for the year	(2,706)	21,898
At end of year	7,821	27,472

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

During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society. The FSCS meets these claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members, including the Society, over this period.

During the year the Society recognised charges of £16,945 (2016: £25,988) payable under the management expenses levy. At the year end the Society has recognised a provision of £7,821 (2016: £27,472), being the anticipated amount that will be paid under the management expense levy during 2018. This amount is paid with reference to the Society's protected deposits as at 31 December 2016.

26. Contingent liabilities and commitments

There were no contracted capital commitments at the financial year end. At 31 December 2017 the Society has future minimum lease payments under non-cancellable operating leases as follows:

	2017	2016
Office equipment leases which expire:	£	£
Within 1 year	20,846	20,846
within 2 – 5 years inclusive	40,875	60,277
over 5 years	-	1,445

27. 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 1.6 and 1.7 describe how classes of financial instrument are measured and how income and expenses are recognised. The table overleaf analyses the Society's assets and liabilities by financial classification:

NOTES TO THE ACCOUNTS continued

27. Financial instruments, continued

31 December 2017	**Measured amortised cost**		
	Loan commitments	**Debt instruments**	**Total**
Financial assets	**£**	**£**	**£**
Cash in hand	-	55,718	55,718
Loans and advances to credit institutions	-	9,527,454	9,527,454
Debt securities	-	16,008,802	16,008,802
Loans and advances to customers	80,731,212	-	80,731,212
Total financial assets	80,731,212	25,591,974	106,323,186
Non-financial assets			1,127,853
Total assets			107,451,039
Financial liabilities			
Shares	-	94,550,617	94,550,617
Amounts owed to other customers	-	1,749,119	1,749,119
Total financial liabilities	-	96,299,736	96,299,736
Non-financial liabilities			11,151,303
Total liabilities			107,451,039

31 December 2016	**Measured amortised cost**		
	Loan commitments	**Debt instruments**	**Total**
Financial assets	**£**	**£**	**£**
Cash in hand	-	54,204	54,204
Loans and advances to credit institutions	-	11,291,404	11,291,404
Debt securities	-	14,323,061	14,323,061
Loans and advances to customers	79,266,190	-	79,266,190
Total financial assets	79,266,190	25,668,669	104,934,859
Non-financial assets			1,128,716
Total assets			106,063,575
Financial liabilities			
Shares	-	93,330,473	93,330,473
Amounts owed to other customers	-	1,720,110	1,720,110
Total financial liabilities	-	95,050,583	95,050,583
Non-financial liabilities			11,012,992
Total liabilities			106, 063,575

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 is provided by the ARCC as part of its quarterly meetings.

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

NOTES TO THE ACCOUNTS continued

27. Financial instruments, continued

Credit risk, continued

	2017	2016
	£	£
Cash in hand	55,718	54,204
Loans and advances to credit institutions	9,527,454	11,291,404
Debt securities	16,008,802	14,323,061
Loans and advances to customers	80,731,212	79,266,190
Total statement of financial position exposure	106,323,186	104,934,859
Off balance sheet exposure – mortgage commitments	2,497,259	5,243,033
	108,820,445	110,177,892

The Society's borrowers are primarily based in Cumbria, with 56.95% (2016: 58.53%) of the mortgage book being in this area. Borrowers in Scotland represent 0.72% (2016: 0.82%) of the mortgage book and the remaining 42.33% (2016: 40.65%) is spread across the rest of England and Wales.

Credit quality analysis of loans and advances to customers

The table below sets out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets:

	2017		2016	
In respect of loans and advances to customers:	**£**	**%**	**£**	**%**
Fully secured on residential property:				
Current	78,522,474	96.84	75,860,791	95.35
Past due up to 3 months	759,491	0.94	1,380,696	1.73
Past due 3 to 6 months	440,266	0.54	737,493	0.93
Past due 6 to 12 months	42,554	0.05	83,337	0.10
Past due over 12 months	32,488	0.04	-	-
Possessions	190,755	0.24	190,755	0.24
Total fully secured on residential property	79,988,028	98.65	78,253,072	98.36
Fully secured on land				
Current	905,940	1.12	1,110,011	1.39
Past due up to 3 months	-	0.00	11,564	0.01
Possessions	187,484	0.23	187,484	0.24
Total fully secured on land	1,093,424	1.35	1,309,059	1.64
Gross loans and advances to customers	81,081,452	100.00	79,562,131	100.00
Provision for impairment losses	(350,240)		(295,941)	
Total loans and advances to customers	80,731,212		79,266,190	

Credit quality analysis of counterparties

The following table provides details on the exposure the Society has to counterparties. Included in the table is an analysis of the financial institutions by their Fitch rating, where appropriate:

	2017	2016
	£	£
UK Government securities	9,989,114	8,798,258
Financial institutions		
AAA to AA-	-	-
A+ to A-	5,016,455	13,811,394
BB+ to BBB-	5,520,869	500,610
Unrated	5,009,818	2,504,203
Total exposure to counterparties	25,536,256	25,614,465

At 31 December 2017 all exposures to financial institutions were within the UK (2016: all exposures were within the UK).

NOTES TO THE ACCOUNTS continued

27. Financial instruments, continued

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 following table analyses the remaining contractual maturity of the Society's financial assets and liabilities. In practice the contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

31 December 2017	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 assets	£	£	£	£	£	£
Cash in hand	55,718	-	-	-	-	55,718
Loans and advances to credit institutions	4,519,594	2,505,324	2,502,536	-	-	9,527,454
Debt securities	-	4,504,722	11,504,080	-	-	16,008,802
Loans and advances to customers	-	826,625	2,750,161	16,554,498	60,599,928	80,731,212
Total financial assets	4,575,312	7,836,671	16,756,777	16,554,498	60,599,928	106,323,186
Financial liabilities						
Shares	88,277,114	-	2,804,637	3,468,866	-	94,550,617
Amounts owed to other customers	1,749,119	-	-	-	-	1,749,119
Total financial liabilities	90,026,233	-	2,804,637	3,468,866	-	96,299,736

31 December 2016	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 assets	£	£	£	£	£	£
Cash in hand	54,204	-	-	-	-	54,204
Loans and advances to credit institutions	5,786,590	3,503,063	2,001,751	-	-	11,291,404
Debt securities	-	2,999,370	11,323,691	-	-	14,323,061
Loans and advances to customers	-	1,125,497	2,870,312	15,875,639	59,394,742	79,266,190
Total financial assets	5,840,794	7,627,930	16,195,754	15,875,639	59,394,742	104,934,859
Financial liabilities						
Shares	88,548,447	-	1,906,085	2,875,941	-	93,330,473
Amounts owed to other customers	1,720,110	-	-	-	-	1,720,110
Total financial liabilities	90,268,557	-	1,906,085	2,875,941	-	95,050,583

27. Financial instruments, continued

Market risk

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

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivities of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a quarterly basis include a 2% parallel fall or rise in the bank base rate. If there was a 2% parallel upwards shift in interest rates the favourable impact on reserves would be £168,000 (2016: £100,000).

ANNUAL BUSINESS STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Statutory percentages

	2017	Statutory Limit
Lending Limit	2.42%	25.00%
Funding Limit	1.82%	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 Society plus provisions for bad and doubtful debts and the aggregate of liquid assets and tangible and intangible fixed assets as shown in the Society's accounts.

Y = the principal of, and interest accrued on, loans owed to the Society 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:
- i) the principal value of, and interest accrued on, shares in the Society; and
- ii) the principal of, and interest accrued on, sums deposited with the Society.

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

2 Other percentages

	2017 %	2016 %
As percentage of shares and amounts owed to other customers:		
Gross capital	11.39	11.39
Free capital	11.21	11.20
Liquid assets	26.58	27.01
Profit for the financial year after taxation as a percentage of mean total assets	0.13	0.17
Management expenses as a percentage of mean total assets	1.48	1.45

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

"Shares and amounts owed to other customers" represent the total of shares 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 2016 and 31 December 2017.

ANNUAL BUSINESS STATEMENT, continued

FOR THE YEAR ENDED 31 DECEMBER 2017

3 Information Relating to the Directors at 31 December 2017

Name (Date of Birth)	**Date of Appointment**	**Business Occupation**	**Other Directorships**
Robert J Cairns Chairman (01/06/1951)	01/05/2013	Retired Chief Executive	Corrie & Co Limited
Richard L Drinkwater (01/08/1952)	01/07/2017	Director	Sports Booker Limited Aqua Parks Group Limited
Janice Lincoln (08/02/1957)	01/10/2014	Retired Finance Director	JDWL Consulting Limited
Will Lindsay (06/10/1953)	01/06/2015	Retired Banker	Lindsay Consultants Limited
Richard J Vecqueray (18/09/1971)	27/04/2017	Veterinary Director	Evidence Group Limited Sunstone Technology Limited Barbican Animal Health Limited
Alan G Waterfield (29/12/1970)	01/07/2010	Director	Alan Waterfield Consulting Limited
Timothy J Bowen Chief Executive (04/11/1979)	27/04/2017	Chief Executive	Horse and Farrier Courtyard Management Limited Community Sustainability Services
Amyn S Fazal (17/03/1958)	01/01/2013	Retired Chief Executive	Mutual Vision Technologies Limited
Elspeth L James (06/05/1974)	01/01/2013	Finance Director	Horse and Farrier Courtyard Management Limited

Documents may be served on the above named Directors c/o KPMG LLP at the following address:
1 Sovereign Street, Sovereign Square, Leeds, LS1 4DA.

Service Contracts

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

The new Chief Executive and Finance Director have contracts which can be terminated by either party giving not less than 12 and 6 months prior written notice respectively. These specific contracts were entered into on 1 January 2018 and 1 September 2012 respectively.