

# ANNUAL REVIEW

*Year ended 31 March 2010*

INCLUDING SUMMARY  
FINANCIAL STATEMENT  
AND NOTICE OF ANNUAL  
GENERAL MEETING

mortgages

current accounts

savings

insurance

business banking

commercial mortgages

financial planning

estate agents

internet banking



Cumberland House, Castle Street, Carlisle CA3 8RX · Tel 0845 601 8396  
[www.cumberland.co.uk](http://www.cumberland.co.uk)



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## Chairman's welcome



Welcome to the 2010 members' Annual Review.

It has been another difficult year both for the British economy generally and the financial services industry in particular. Although the economic recession has technically ended, the course of the economy from this point is very uncertain given the Government's budget deficit and how this will be addressed. However, the Cumberland has weathered these storms very well and I am glad that we can report another set of excellent financial and business results. Our long term strategy has been shown to be particularly robust over the last three years and emphasises:

- The maintenance of a strong balance sheet and capital position, with a record of healthy profitability, while providing attractive interest rates for both borrowing and saving members.
- Putting our members first in everything we do, developing long term relationships with them, and conducting the vast majority of our mortgage, savings and current account businesses within our operating area and primarily through face to face contact in our strong branch network.
- Great care in both residential and commercial lending, avoiding the 'sub-prime' and 'self-certification' sections of the mortgage market, and not purchasing any mortgages which have been originated by other lenders.
- Steady and sustainable business growth in savings and mortgages, and ensuring our mortgage lending is funded by our customers' deposits, not the financial markets.

The coming year will be difficult for all financial institutions, including ourselves, as the very low interest rate environment currently being experienced inevitably reduces our income from our free capital (i.e. money which the Cumberland can invest and receive income from) and therefore affects our profitability. Nevertheless, we can withstand this as our overall financial strength remains extremely robust.

At the Cumberland we continue to believe firmly that the interests of all our members are best served by the Society remaining an independent, mutual organisation that focuses on putting our members first and supporting our local communities. In the following pages, you will find details of our achievements during the year, highlights of our financial results in the Summary Financial Statement and information on the Society's 160th Annual General Meeting to be held on Tuesday, 29 June 2010.

I would like to thank our staff for their splendid efforts during the year and all our members for their continued support.

A handwritten signature in black ink, appearing to read 'Michael Pratt'.

**Michael Pratt**  
Chairman, 19 May 2010

# putting members first

As a mutual organisation, the Cumberland is owned by its savers, current account holders and borrowers. Our business is based on the simple principle of building long term relationships with customers, primarily through our branch network. This means providing products which offer consistent long term value, treating our members fairly, and delivering a market-leading level of individual customer service.

We are committed to remaining an independent regional building society which offers a wide range of services to people in our local area. We believe the issues which have affected the financial services industry over the last three years have brought the benefits of this approach into sharp focus.

The Society's strong performance, especially in the difficult market conditions, was recognised at the CN Group Cumbria Business Awards in October 2009, when the Cumberland was named 'Large Business of the Year' for the second year in a row. We were also short-listed in the Community Involvement category.

In the same month, the Society was named the UK's 'Regional Building Society of the Year' by Mortgage Finance Gazette in recognition of its consistently competitive mortgage pricing.

During 2009-10, members continued to benefit from a wide range of competitive products and services including:

## Current Accounts

The Cumberland is one of only four building societies to offer a full current account service. Over 5,000 new accounts were opened in 2009-10 and the number of current accounts held with the Society has increased by over 50% in the last three years as people look for a more personal approach to that offered by the national banks.

We aim to offer a personal approach to banking while enabling our customers to benefit from the latest technology. An enhanced version of internet banking was introduced in February 2010, making the service even easier to use. In November 2009 we extended chip and PIN and Visa debit card functionality to over 14,000 previously ATM-only cashcard account customers. This effectively provided them with a current account service excluding an overdraft facility or chequebook, and these customers also received access to internet banking in April 2010.

In addition to our own network of 17 cash machines, Cumberland account holders can withdraw cash free of charge at all LINK machines in the UK. Cumberland debit cards are also accepted in any shop or cash machine abroad which displays the Visa sign and, unlike most other current account providers, we will not charge you for using your debit card abroad.



Michael Pratt, Chairman (left), receiving the 'Large Business of the Year' award for the second successive year from county councillor Tony Markley and Neil Hodgkinson, Editorial Director, CN Group

The British Trust for Conservation Volunteers (BTCV) continues to benefit from the Society's pledge to donate £5 to support local environmental initiatives for each current account where a customer agrees to stop receiving paper statements and use the internet banking 'eStatement' facility. A further £6,450 was donated in 2009-10 and BTCV has received more than £23,000 since the launch of internet banking in November 2007.

Cumberland customers were able to receive incoming 'faster payments' from April 2009, and we were one of the first organisations, other than the clearing banks, to make outgoing 'faster payments' available to internet banking customers in December 2009. This allows customers to make and receive payments from accounts held at participating banks and building societies within hours rather than the normal three day clearing cycle.

## Competitive Rates

The Bank of England's base rate reduced sharply to its record low of 0.50% over the six months to March 2009 and has remained there ever since. As it was reduced, we endeavoured to apply the necessary reductions as fairly as possible to both borrowers and savers, and were particularly conscious of the impact of reduced returns upon the latter group and sought to keep their rates competitive. We have maintained our variable savings rates during the year and continued to offer attractive fixed rate products. An overall inflow of £34 million from our retail customers, both personal and business, in the face of very fierce competition, suggests that our approach has been successful.

At 4.49%, our standard variable mortgage rate is the second lowest of the UK's 'top 20' building societies. Many longstanding borrowers receive a further 0.70% off this rate through our Existing Borrowers' Discount.

## Responsible Lending

We have continued to take a responsible approach to lending and all loans are assessed on an individual basis. Despite the difficult economic conditions, the number of customers in arrears with their mortgage payments has fallen during the year and remains well below the industry average.

The Society's approach to lending is one of the main reasons for its strong performance throughout the credit crunch and subsequent recession. We do not accept residential mortgage business through brokers and more than 90% of our new residential lending in 2009-10 was to customers within our branch operating area.



Chris McDonald, General Manager, receiving Mortgage Finance Gazette's 'Regional Building Society of the Year' award from Joanne Atkin, Editor of the Mortgage Finance Gazette

# putting members first

We are particularly conscious of the difficulties faced by first time buyers at present and during the year introduced an innovative product to help them. Our 'family mortgage' allows customers in our branch operating area to borrow up to 95% of a property's value subject to the Society taking a legal charge over another family member's savings. Rather than contributing directly towards a deposit, parents can therefore continue to earn interest on their savings while assisting their children to obtain a mortgage. We also continue to offer a regular savings product which is specifically designed to help first time buyers save towards their new home and provides an additional cashback when they take out a Cumberland mortgage.

More details of these products are available in our branches or on the first time buyers section of our website, [www.cumberland.co.uk](http://www.cumberland.co.uk).

## Foreign Currency

Unlike most other current account providers, we will not charge you, or pass on any of the charges relating to the conversion of foreign currency, if you use a Cumberland debit card in a shop or cash machine anywhere in the world.

The Society also provides a commission-free currency exchange service for current account and savings customers. Over 50 foreign currencies are available for next day delivery and nine branches now hold Euros and US dollars in stock for immediate transactions.

## Customer Service

Our objective is simple - to deliver a better level of individual customer service than any other bank or building society in the UK.

Feedback from new members suggests that customer service is already one of the main reasons for selecting the Cumberland and, according to our customer satisfaction research, 98% of customers would recommend the Society to a friend.

We believe that we have some of the best customer service staff in the industry and have undertaken further training for all branch staff in 2009-10 to ensure the same high standards are consistently applied. However, we don't always get it right and, when that happens, we will do everything we can to rectify problems as quickly as possible and ensure that we learn from our mistakes.

We also believe that particularly positive examples of customer service should be acknowledged and have a monthly reward scheme for staff who have delivered an exceptional level of customer service. If you would like to nominate any member of staff for an award under this scheme, please let us know.

Equally, if you feel we have not delivered the level of customer service you would expect, or you have any suggestions for how our customer service can be improved, we would like to hear from you. You can raise this through your local branch, contact our customer services team in Carlisle on 0845 601 8396, or simply email [customerservice@cumberland.co.uk](mailto:customerservice@cumberland.co.uk).

## Local Services

Our branches are central to the Society's business strategy and we believe they have a role in the community which goes beyond providing a range of competitive products and services.

The Cumberland has more branches in Cumbria and Dumfriesshire than any other bank or building society and we remain committed to keeping branches in locations where some banks have either reduced their opening hours or closed altogether. Our 'community branches' also continue to offer a range of free services to the local community.

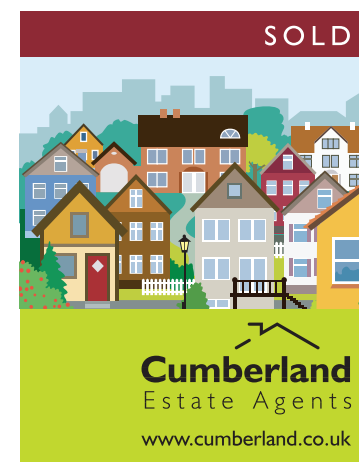
## Cumberland Estate Agents

Despite the slowdown in the housing market, Cumberland Estate Agents achieved a record market share in 2009-10, with the number of property sales up by 42%. This performance is testament to the commitment of our staff and the quality of the service provided to both buyers and sellers.

## Cumbrian Floods

The storms and subsequent flooding which hit Cumbria in November 2009 had a devastating effect on many families, businesses and communities. The Cumberland's branch in Cockermouth was one of many buildings in the town which were closed as a result of the flooding. However, thanks to a magnificent effort by staff and the support of several local businesses we were able to open a temporary branch within six days, ensuring our members in the area were able to access their accounts with minimal disruption.

The Society made a donation of £10,000 to the Cumbria Flood Recovery Appeal to assist community groups and organisations recover from the effects of the flooding, with a further £77,000 collected through Cumberland branches.



Cumberland Estate Agents saw property sales increase by 42% in 2009-10



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As an independent regional building society, we believe we have a responsibility to support our local communities. We encourage our staff to be active members of the community and last year donated over £100,000 to support local community and charitable initiatives. These included:

**Cumberland Agricultural Society:** With help from the Cumberland, approximately 360 primary school children from the Carlisle area visited a local farm to find out about food production and learn how farming impacts on their lives.

**REACT Foundation Science & Engineering Shows:** The Cumberland supported a second year of educational shows performed by the Science Museum's Outreach Team. Approximately 1,750 children from schools throughout West Cumbria watched 'Danger! High Voltage!' and took part in an exciting and interactive live show about electricity.

**Heathwaite Football Club, Windermere:** A community football tournament for children aged between 6 and 9. Approximately 1,000 people watched the 36 teams take part in the competition.

**Furness Multicultural Community Forum:** Schools in Barrow studied specific cultural festivals and produced artwork and musical presentations which were exhibited and performed at the Furness Multicultural Winter Festival. The Society's sponsorship helped schools to undertake workshops prior to the event.

**Barrow AFC:** Barrow AFC's Community Initiative provides opportunities for children and young people to take part in physical activities. The Society's financial support helps the club provide football coaching throughout the Furness area.

**Carlisle United FC:** In 2009, the Society became the main sponsor of Carlisle United's community programme, which distributes free tickets to local schools and community groups for the club's home games. We also offer ticket sales from our branch on Fisher Street, Carlisle.

At an individual branch level, we provided funding for more than 80 community projects in 2009-10 ranging from Dalston Bowling Club to Seaton Children's Carnival.

In addition to its existing support for local hospices, the Cumberland also became one of the first businesses to sign up as a business partner of Hospice at Home Carlisle and North Lakeland.

## Pledge for Votes

The Society's 'Pledge for Votes' scheme is designed to encourage members to vote at our Annual General Meeting by linking a donation to local charities to the number of votes received. Thanks to your support, in 2009 this raised £11,475 for local branches of Barnardo's.

This year we will donate 50p for each vote received at the 2010 AGM to Macmillan Cancer Support.

## The Charitable Foundation

We also support local charities and voluntary organisations through an annual donation to the Cumberland Building Society Charitable Foundation. Last year, the Foundation donated more than £35,000 to 74 local projects. These included Children's Adventure Farm Trust in Kendal, West Cumbria Domestic Violence Support and Annandale & Eskdale Disability Sport which supports the Lockerbie Wheelchair Curling Club.

If you support a charity which you would like to be considered for a donation, please write to: The Secretary, Cumberland Building Society Charitable Foundation, Cumberland House, Castle Street, Carlisle, CA3 8RX, or send an email to [charitablefoundation@cumberland.co.uk](mailto:charitablefoundation@cumberland.co.uk).

## Our Staff

We would like to take this opportunity to thank our staff for their commitment and support over the last year, both for delivering a high level of customer service and for their active support for local communities.

All Cumberland staff are encouraged to take one 'community day' as paid leave each year. Events supported in 2009-10 include helping to create a garden at a local children's hospice and tidying up the grounds of a community centre.

We also supported many of our staff in fundraising initiatives throughout the year, including:

**The Midnight Memory Walk:** 15 Cumberland staff walked the 6 mile route through Carlisle in June 2009 raising over £900 for Eden Valley Hospice.

**Land's End to John O'Groats Cycle Ride:** In August 2009, three cyclists including David Noble, the Group Compliance Manager, completed the gruelling 1,000 mile journey, raising over £14,000 for Eden House Children's Hospice in Carlisle, Derian House Children's Hospice in Chorley and Cancer Research UK.

**Wainwright Walks:** In July 2009, Linda Jackson, Senior Administrative Officer - Cumberland Business, was part of the Summit Good Ramblers group who aimed to get a group member to the top of each of the 214 Wainwrights in one weekend. The event raised over £3,000 for the Lake District Search and Mountain Rescue Association.

If you are involved in a community project which could benefit from the Society's support, please pick up a Community Fund application form in any of our branches or send an email to [communityfund@cumberland.co.uk](mailto:communityfund@cumberland.co.uk).



Children attending a 'River Day', an educational project by Eden Rivers Trust, supported by the Society



Chris McDonald, General Manager, with John Nixon of Carlisle United in front of the Cumberland Community Stand



Children attending one of the REACT Foundation's Science & Engineering Shows



Judi Thomson, Trustee and Anita Bone, Secretary, of the Charitable Foundation presenting The Glenmore Trust with £1,000



Cumberland staff on a 'community day' helping create a garden at Eden House Children's Hospice



David Noble, Group Compliance Manager, on his way to raising £14,000 by cycling from Land's End to John O'Groats

# Summary Financial Statement

FOR THE YEAR ENDED 31 MARCH 2010

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors, free of charge, on demand at every office of Cumberland Building Society, and on our website, [www.cumberland.co.uk](http://www.cumberland.co.uk), from 14 June 2010.

## Summary Directors' Report

The Society enjoyed a very successful 160th year, with a healthy profit after tax of over £6.3 million improving its already strong capital position, in spite of the economic recession experienced during the year. As nationally, mortgage lending was subdued, and there was intense competition for savings, including from the state-supported banks, as they and others sought to move towards the Cumberland's longstanding position of a low level of reliance on the financial markets for funding. Nevertheless, the net inflow of funds of £34 million was a creditable result.

Profit in 2008-09 was significantly affected by a provision of £2.71 million in respect of the Society's liability to the Financial Services Compensation Scheme, the bulk of which was triggered by the failures of Bradford and Bingley and two Icelandic banks. £0.48 million was paid out by the Society in respect of this in September 2009, but reductions in interest rates have contributed to a reduction in the estimated liability at 31 March 2010, so that profit before tax has been increased by £0.87 million in the latest year. There remains though, the possibility of further expense from this source if recoveries from the assets of these banks are not sufficient to meet their losses.

The Society's long term strategy has remained that of a 'traditional' building society and this has meant that the Cumberland has been very well placed to deal with the operating environment of the last three years, and is in a strong position to meet the challenges of the future.

We remain conscious above all, that the first duty of the Board and the Society's management is to safeguard the assets and interests of the Society's members.

We have maintained our well established approach of seeking to treat both our borrowers and savers fairly, and of using the Society's mutual status and financial strength to provide them with attractively priced products and services.

### Financial Results

- Profit after tax was £6.34 million, 0.41 % of mean total assets.
- Share balances increased by 2.9% to £1,320.68 million.
- Mortgage balances reduced by 0.3% to £1,180.08 million.
- Administrative expenses and depreciation fell by 3.2%.
- Gross capital as a percentage of shares and borrowings rose from 6.65% to 7.01 %.

### Savings and Banking Services

- The inflow of funds of £34 million built upon the record inflows of the previous two years, and helped to reduce further the Society's use of funding from the financial markets, which was already relatively low when compared with its peers and the banks.
- The Society upgraded its internet banking system in February 2010 and the popularity of the system continues to grow.
- Previously ATM-only cashcards were upgraded to include Visa debit card functionality and chip and PIN technology.

- The Cumberland began to receive incoming 'faster payments' in April 2009, and began to send them for internet banking customers in December, thereby becoming one of the earliest non-clearing bank institutions to achieve this.
- The Society increased its number of current accounts by 13% in the year, continuing the growth seen in previous years.

### Mortgages

- The Society's standard variable mortgage rate remained very competitive throughout the year at 4.49%. Many longstanding borrowers with our Existing Borrowers' Discount paid 0.70% below this rate.
- Mortgage lending was £152.9 million, reduced by 24.4% from the previous year as demand continued to fall. Nevertheless, the Society remained very much open for business for new mortgage lending throughout the year and continued to offer loans up to 90% loan to value for first time buyers and its existing borrowers within its operating area.
- Mortgage Finance Gazette named the Society '2010 Regional Building Society of the Year' for its consistently competitive pricing.
- The number of mortgage accounts in arrears remains very low in relation to industry averages as a result of the Society's responsible approach to lending over many years. Only four properties were in possession at the year end, the same as a year earlier.
- We continue to deal sympathetically with those borrowers who are affected by the economic recession.

### Estate Agency

Cumberland Estate Agents Limited, after an inevitably difficult year of trading in 2008-09, returned to profit and achieved a record market share in Cumbria, with sales up by 42%. It remains a vital source of high quality mortgage business for the Society and raises the profile of the Cumberland throughout the area.

### Charitable Donations

Details of the Society's charitable donations in the year are provided earlier in this booklet.

### Board of Directors

Trevor Hebdon was appointed as a new non-executive director and brings to the Board extensive banking and management experience. Charles Waddington has decided to stand down and we would like to thank him for his contribution. John Leveson was absent for much of the year on sickness leave but is making an excellent recovery following his liver transplant operation in December 2009, and is expected to return to work in July.

### Corporate Governance

The Society's Board believes that it conforms to best practice in relation to corporate governance and the Board has adopted, where relevant, the Combined Code on Corporate Governance.

### Outlook for 2010-11

- The Cumberland remains committed to its independent, mutual status and we will continue to strive to be the natural choice for financial services for the people of our region.
- The Society will upgrade its core computer system and its wide area network in the coming year, utilising new technological features to improve its efficiency and service to customers, together with additional security features. It will also replace its existing 'fraud detection system' to enhance its capabilities.
- We will maintain the Cumberland's strong financial position, safeguarding the interests of our members. We will remain well placed to deal with any further turbulence in the financial markets and the course of the economy going forward, whether it be positive or negative, together with the inevitable increases in regulatory requirements which have arisen from the events of the last three years.

On behalf of the Board  
**Michael J. Pratt, Chairman** 19 May 2010

# Financial Results

FOR THE YEAR ENDED 31 MARCH 2010

	Group 2010	Group 2009
	£000	£000
<b>Results for the year</b>		
Net interest receivable	18,993	21,698
Other income and charges	5,434	4,910
Administrative expenses	(15,705)	(16,229)
Provisions for bad and doubtful debts	(748)	(404)
Operating profit before FSCS levy	7,974	9,975
Provision for FSCS levy	869	(2,713)
Profit for the year before taxation	8,843	7,262
Taxation	(2,499)	(2,174)
Profit for the year	6,344	5,088
<b>Statement of total recognised gains and losses</b>		
Profit for the financial year	6,344	5,088
Actuarial gain/(loss) recognised in the pension scheme	139	(1,535)
Movement in deferred tax relating to pension scheme	(39)	430
Unrealised loss on revaluation of investment property	(35)	(58)
Total recognised gains and losses for the year	6,409	3,925
<b>Financial position at end of year</b>		
<b>ASSETS</b>		
Liquid assets	377,600	350,364
Mortgages	1,180,079	1,183,202
Other loans	1,464	1,317
Fixed and other assets	14,522	18,620
Total assets	1,573,665	1,553,503
<b>LIABILITIES</b>		
Shares	1,320,679	1,283,752
Borrowings	142,744	163,233
Other liabilities	7,659	10,344
Reserves	102,583	96,174
Total liabilities	1,573,665	1,553,503

Summary of key financial ratios	Notes	2010 %	2009 %
Gross capital as a percentage of shares and borrowings	1	7.01	6.65
Liquid assets as a percentage of shares and borrowings	2	25.80	24.21
Profit for the year as a percentage of mean total assets	3	0.41	0.34
Management expenses as a percentage of mean total assets	4	1.00	1.07

## Approved by the Board of Directors on 19 May 2010

M J Pratt Chairman

R Atkinson Vice-Chairman and Chairman of the Audit and Risk Committee

K Parr Chief Executive

## NOTES

1. **The Gross Capital Ratio** measures the proportion that the Group's reserves bears to the Group's liabilities to holders of shares and borrowings. The Group's reserves consist of profits accumulated over many years. Capital provides a financial cushion against difficulties that might arise in the Group's business and therefore protects investors.
2. **The Liquid Assets Ratio** measures the proportion that the Group's assets held in the form of cash, short term deposits and government securities, bears to the Group's shares and borrowings. Most of the Group's assets are long term mortgages, while many of its liabilities to investors are repayable on demand. Liquid assets are generally readily realisable, enabling the Group to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.
3. **The Profit/Assets Ratio** measures the proportion that the Group's profit after taxation for the year bears to the average of the Group's total assets during the year. The Group needs to make a reasonable level of profit each year in order to maintain its capital ratio at a suitable level to protect investors. However, unlike a company, a building society does not have to pay dividends to equity shareholders. The Group is therefore able to operate safely with lower profits than a bank.
4. **The Management Expenses Ratio** measures the proportion that the Group's administrative expenses bears to the average of the Group's total assets during the year. Management expenses consist mainly of the costs of running the Group's branches and other office costs, including the cost of employing staff. Expenses need to be controlled so that the Group operates as efficiently as possible while providing the service that members require.

# Statement of the Independent Auditors to the members and depositors of Cumberland Building Society

Pursuant to section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement of Cumberland Building Society set out on pages 10 to 13.

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

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement within the Annual Review, in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the Annual Review with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it. We also read the other information contained in the Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

## Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and the Directors' Report.

## Opinion

In our opinion the Summary Financial Statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of Cumberland Building Society for the year ended 31 March 2010 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Andrew Walker, for and on behalf of  
KPMG Audit Plc  
Chartered Accountants  
Statutory Auditor

Manchester  
19 May 2010

# Report on Directors' Remuneration

The purpose of this report is to provide details of the policy for the remuneration of executive and non-executive directors.

Remuneration is reviewed annually and the Board and the Remuneration Committee believe that it is essential that it is set at a level to retain and attract individuals of the calibre necessary to operate an organisation as complex as the Group.

The remuneration of non-executive directors comprises only of fees and, other than that of the Chairman, is determined by the Board. The remuneration of the executive directors and the Chairman is determined by the Remuneration Committee, which consists of its chairman Richard Atkinson and two other non-executive directors, Simon Berry and David Clarke. Both the Board and the Remuneration Committee take account of fees payable and other benefits provided to non-executive directors, executive directors and chairmen of building societies that are similar in size and complexity to the Cumberland.

The executive directors are members of the Society's contributory defined benefit pension scheme and one of them is also a member of a defined contribution scheme in respect of the portion of his salary above a certain amount. They are also provided with a car and membership of a private medical insurance scheme. They are employed under contracts terminable by the Society or by the individual on six months' notice, under normal circumstances.

The executive directors voluntarily waived any entitlement to receive the payment of any bonus for the year ended 31 March 2009 and in light of the continued difficult economic conditions and the impact of these on members, the Committee, in consultation with the executive directors, agreed that no bonuses relating to performance against corporate targets for the year ended 31 March 2010 would be paid. This is in spite of the Society achieving excellent financial results in a difficult operating environment, which it is anticipated will continue through 2010-11.

The Committee has awarded one executive director a bonus for individual performance in the year ended 31 March 2010.

The Committee believes that bonus schemes relating to performance against corporate targets are an appropriate part of a balanced remuneration package, and that the continued achievement of excellent results in difficult operating conditions should be recognised. The Committee has decided therefore to reintroduce a modest executive bonus scheme for the year ending 31 March 2011.

Full details of individual directors' remuneration and of their pension benefits in respect of the defined benefit scheme are shown overleaf. The increase in accrued pension represents the change in the annual pension to which each director is entitled as a result of the changes in pensionable earnings and increases in pensionable service during the year.

Following their review of remuneration policies and practices within the financial services sector, the FSA introduced a new Remuneration Code of Practice with effect from 1 January 2010. Whilst the new code does not apply to building societies of the Cumberland's size, the Remuneration Committee, where appropriate, intends to comply with its requirements.

On behalf of the Remuneration Committee  
Richard Atkinson  
Chairman

19 May 2010



The emoluments of the Society's directors are listed below:	2010 £000	2009 £000
<b>Non-Executive Directors</b>		
Michael Pratt (Chairman)	37	37
Richard Atkinson (Vice-Chairman)	25	25
Simon Berry	15	20
David Clarke	20	20
Trevor Hebdon (appointed 11 December 2009)	7	-
Harriet Sykes (retired 1 July 2008)	-	5
Charles Waddington	20	20
Elaine Wilcox (appointed 1 February 2008, resigned 30 November 2008)	-	14

Mr Berry was on sabbatical leave for three months in 2009-10.

Executive Directors	Salary £000	Bonus £000	Taxable Benefits £000	Sub-total £000	Increase in accrued pension £000	Pension contributions £000	Total £000
<b>2010</b>							
Kevin Parr	176	-	8	184	9	-	193
John Leveson	123	-	8	131	2	-	133
John Kidd	125	-	5	130	2	-	132
Peter Temple	108	8	6	122	1	2	125

Mr Leveson was absent on long term sickness leave during the year and part of his salary during this period was covered by permanent health insurance.

<b>2009</b>							
Kevin Parr	174	-	8	182	8	-	190
John Leveson	135	-	8	143	4	-	147
John Kidd	121	-	5	126	3	-	129
Peter Temple	107	-	6	113	2	2	117

#### Defined Benefit Pension Scheme

	Directors' contributions £000	Accumulated total accrued pension at year end £000	Transfer value of accrued benefits, 31 March 2010 £000	Transfer value of accrued benefits, 31 March 2009 £000	Difference in transfer value less contributions £000
Kevin Parr	13	47	704	531	160
John Leveson	10	27	370	304	56
John Kidd	9	31	390	339	42
Peter Temple	7	41	750	726	17

## Notice of Annual General Meeting 29 JUNE 2010

The Annual General Meeting of Cumberland Building Society will be held at 6.30pm on Tuesday, 29 June 2010 at Tullie House, Castle Street, Carlisle for the following purposes:

#### Ordinary Resolutions

1. To approve the Annual Report and Accounts for the year ended 31 March 2010.
2. To approve the Report on Directors' Remuneration.
3. To approve the re-appointment of KPMG Audit Plc as auditors.

#### Special Resolution

4. To consider a special resolution to approve a change to the Society's Rules.

#### Election/Re-election of Directors

5. To elect/re-elect Directors as follows:
  - a) to elect Trevor Hebdon
  - b) to re-elect Richard Atkinson
  - c) to re-elect John Leveson
  - d) to re-elect Michael Pratt

#### BY ORDER OF THE BOARD

John C N Kidd, Secretary, 19 May 2010  
Principal Office: Cumberland House, Castle Street, Carlisle CA3 8RX

## Notes on Voting

1. These Notes form part of the Notice of Meeting.
2. There are three ways you can vote; using a paper voting form by post or in a branch, online at [www.cumberland.co.uk](http://www.cumberland.co.uk) (you will need your customer number and access code as printed on your paper voting form) and in person at the AGM.

By completing either Part 1 or Part 2 of the voting form, either on paper or online, you are appointing someone to act for you (a proxy). The person you choose can attend the Meeting and vote on your behalf. The Chairman of the Meeting will automatically act as your proxy unless you choose someone else by filling in the box on the back of the paper voting form; this option is not available if voting online. If you wish to instruct your proxy to vote for or against the resolutions, please place an 'X' or click in the appropriate box on the paper or online voting forms respectively. If you leave the voting boxes blank, your proxy may vote as he or she decides. If you do not want your proxy to vote on a resolution, place an 'X' in or click on the withheld box on the paper or online voting forms.

Your proxy does not need to be a member of the Society. He or she cannot vote for you on a show of hands but can vote on a written ballot (a poll). Your proxy may not speak at the Meeting but can demand (or join in demanding) a poll.

If voting in person at the AGM, for identification purposes, you should bring with you the voting form and some other evidence of membership (e.g. your passbook, Cumberland debit card or a recent account statement). You will be given voting papers at the Meeting.

3. To be valid, your completed voting form must be received at the Principal Office by midnight on 26 June 2010, or at a branch by 5pm on 24 June 2010. If voting online, votes must be cast by midnight on 26 June 2010.
4. You should check if you are eligible to vote by reading the voting conditions on the back of the voting form.
5. If you are appointing a proxy other than the Chairman of the Meeting, please ensure that your proxy brings an appropriate form of identification to the Meeting.

## Explanatory Notes on the Ordinary and Special Resolutions

### The Annual Report and Accounts

You are asked 'to approve the Annual Report and Accounts'. This means that you are asked to endorse the Board's decision to approve them at the Board Meeting held on 19 May 2010 and you are, therefore, asked to vote 'FOR' this resolution.

### Report on Directors' Remuneration

You are asked to approve the Report on Directors' Remuneration on pages 15 and 16 of this booklet. This Report informs members of the Society's policy on the remuneration of directors, both executive and non-executive.

Quoted companies are legally required to put a resolution to their shareholders to vote on such a report. Building societies are not required to do so, but your Board welcomes the opportunity for members to express their view on the matter. As for quoted companies, this vote is advisory.

### Re-appointment of Auditors

You are asked to endorse the re-appointment of KPMG Audit Plc as auditors of the Society. KPMG Audit Plc continue to perform well as the Society's auditors and your Board recommends that you vote 'FOR' their re-appointment.

### Change to the Society's rules

Resolution 4 in the Notice of Meeting refers to a special resolution to approve a change to the Rules of the Society. From time to time these Rules need to be updated and it is a legal requirement that any amendments are approved by members.

The change relates to the Society's potential participation in the unclaimed assets scheme established by the Dormant Bank and Building Society Accounts Act 2008 under which amounts held in dormant accounts, with no customer activity for 15 years, are paid over to charitable or social causes. Participation in the scheme will require the following change to the Society's Rules to protect the membership rights of members whose accounts might be included in the scheme. Under the Act, affected members are fully protected and have a right to reclaim the balance on the account.

The following paragraph is to be added as a new rule 1(c) and existing rules 1(c) and 1(d) are to be re-lettered as 1(d) and 1(e) respectively:

"1(c) In these Rules, unless the context requires otherwise: (i) references to a Person's holding of Shares include references to any Shares which, under section 4(2) of the Dormant Bank and Building Society Accounts Act 2008, that Person is for the time being treated as having in respect of the balance of a dormant share account which the Society has transferred to an authorised reclaim fund in accordance with section 1 of that Act, or which the Society has transferred to such a fund and one or more charities

in accordance with section 2 of that Act; (ii) "hold" or "held", in relation to a Share, shall be construed accordingly; and (iii) references to an amount standing to the credit of a Shareholding Member in respect of any Shares include references to an amount credited in respect of Shares which the Shareholding Member is treated as having as described in sub-paragraph (i) above."

A copy of the current Rules can be obtained by calling Customer Services on 0845 601 8396.

## Election/Re-election of Directors

The number of candidates standing for election/re-election at this year's Annual General Meeting equals the number of vacancies. Your Board firmly believes that the four candidates have the relevant experience and skills and urges you to vote 'FOR' each candidate. Details of the directors standing for election/re-election are given below.



**Trevor Hebdon**

Aged 56, Trevor joined the Society's Board as a non-executive director in December 2009. He was chief executive of the H&H Group until his retirement in 2008 and has a background in the banking industry. Trevor is currently chairman of Carlisle City Council's Local Strategic Partnership, as well as being a trustee of Hospice at Home Carlisle and North Lakeland and Carlisle Cathedral Development Trust.

**Richard Atkinson**



Aged 56, Richard grew up in West Cumbria and has worked there throughout his career. He is a solicitor and the senior partner in Milburns, a practice that operates throughout West Cumbria. Richard joined the Cumberland's Board as a non-executive director in 1997 and in June 2007 was appointed Vice-Chairman of the Society and Chairman of the Society's Audit and Risk Committee. Richard is also Chairman of the Remuneration Committee.



**John Leveson**

Aged 50, John joined the Society as Operations Director in 1997 and was appointed Deputy Chief Executive in 2002. He is a Fellow of the Chartered Institute of Bankers and a Master of Business Administration. Prior to joining the Cumberland, John had 19 years experience with other building societies in a wide variety of jobs. John has most recently been responsible for Sales, Marketing, Cumberland Estate Agents Limited and Cumberland Financial Services Limited, but has been absent on long term sickness leave since July 2009. However, following his liver transplant in December 2009 he has been making an excellent recovery and it is anticipated that he will be returning to work in July 2010.

**Michael Pratt**



Aged 54, Michael first joined the Society's Board in September 1996 and became Chairman in June 2007. He is also a Trustee of the defined benefit pension scheme. Michael is a Chartered Accountant and the senior partner in the eleven partner firm of Gibbons & Company which operates throughout West Cumbria. He has a number of other business interests and is also a non-executive director of The Veterinary Defence Society Limited.