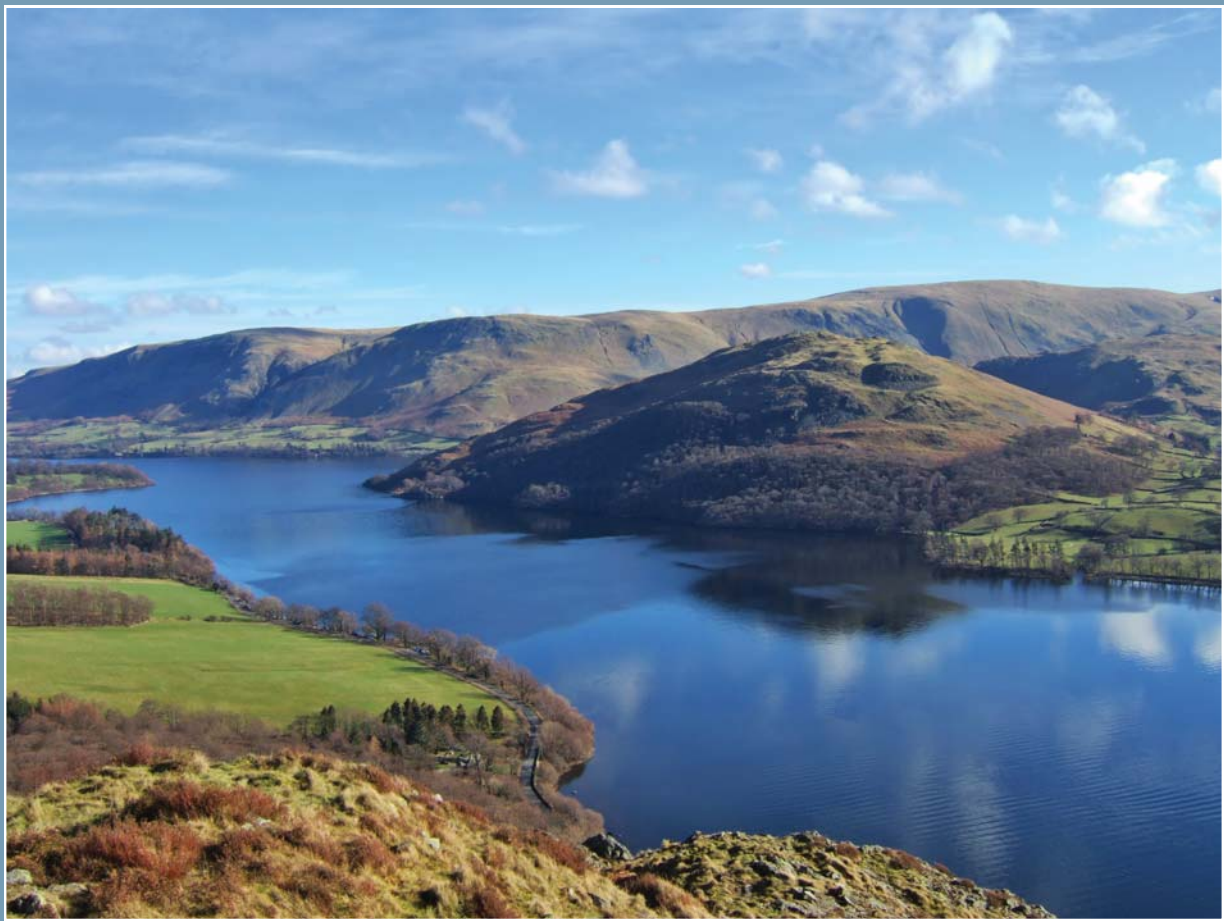
ANNUAL REPORT and ACCOUNTS

Year ended 31 March 2011



Cumberland
Building Society

ANNUAL REPORT and ACCOUNTS

Year ended 31 March 2011

CHAIRMAN'S STATEMENT

Last year, I started my Statement by saying that it had been another difficult year for the British economy and once again, this has been the case. Indeed, the economy has been in difficulties ever since the start of the 'credit crunch' in summer 2007 and, unfortunately, this seems unlikely to change for the foreseeable future. The impact of the austerity measures being taken by the Government in addressing the nation's budget deficit, will affect many people within our local area in the coming year. Unemployment has remained at around 2.5 million over the last year and is particularly high amongst the young, and the picture is a concerning one looking forward. It remains to be seen to what extent the employment losses expected shortly in the public sector will affect the fortunes of firms in the private sector, and how quickly the private sector can create new jobs to offset those lost. For everyone, there appears to be pressure from increased living costs, which are expected to lead at some point in the coming year to higher interest rates. We know that this is a worrying situation for many people across our region.

Inevitably, the health of the wider economy affects the performance of financial institutions. The worst of the losses amongst the major banks which flowed from the credit crunch and the large falls in commercial property prices since then, now appear to have been mainly accounted for as their results have improved, albeit at the price of the state needing to take substantial stakes in several of them. It remains though, a very difficult operating environment. The Bank of England's base rate has stayed at its historic low of 0.5% since March 2009, and although this reduces interest costs for businesses borrowing money, it also affects the profitability of financial institutions by reducing income from 'free capital' reserves.

Nevertheless, the Cumberland has had another successful year, with a profit after tax of £5.85 million, 0.38% of its mean total assets, one of the best in the building society sector for the third year running. This was a reduction from the £6.34 million recorded last year, but much of this was the outcome of a credit of £0.87 million last year in respect of the ongoing liability to the Financial Services Compensation Scheme (which reflected lower interest rates), being replaced by a charge of £0.21 million, as a provision for a further time period has had to be made. This requirement to assist in the reimbursement of customers of the failed financial institutions is an ongoing liability for us, and the ultimate outcome still remains uncertain. Although net interest receivable fell slightly in the face of stiff competition for both mortgages and savings, operating costs were also reduced from those in the previous year. It is comforting to note that as well as having one of the strongest recent profit records, the Society's free and gross capital ratios have also strengthened and it has one of the strongest capital positions in the industry.

Given the economic situation and the resulting impact upon public confidence, it is not surprising that the housing and mortgage market has been very subdued. Our mortgage balances showed a modest reduction of 2.5%, although around half of this was due to a fall in residential loans held outside our branch operating area, as the Society focused on lending locally. We have found though, in spite of offering very competitive mortgage products, lending up to 90% of a property's value and assisting first time buyers as much as possible, that perhaps not surprisingly given the economic worries, demand for new mortgages has been limited. In addition, even though we also offer very competitive rates to our existing borrowers whose mortgage products have reached the end of their term, many of them have understandably sought to take advantage of low interest rates by making repayments on their loans, rather than building up their savings. Linked to this, a relatively modest inflow of funds from savers of £5.4 million was recorded this year, but given low interest rates and improvements in stock markets, it is worth noting that many other institutions have experienced outflows, so overall we have been content with this outcome. It is a real success that we have effectively retained the large inflows of the previous three years, during which members placed £178 million of new money with the Cumberland.

Over the course of this year, the slight reduction in mortgage balances and the growth of share balances and deposit balances held by local businesses, have meant that at 31 March 2011 the level of funding that the Cumberland had obtained from the financial money markets was at less than 2% of the total.

We have, however, been fortunate since the credit crunch started nearly four years ago, that our long term strategy has been shown to be a robust one. We make tactical adjustments in order to respond to the circumstances of the time, but focusing on our home area, maintaining our extensive network of branches, dealing with residential mortgage and savings customers directly and not through third party intermediaries, and retaining strict control over our lending criteria, have served us very well and, we believe, will continue to do so. Our approach has meant that over the last ten years the Cumberland has grown significantly, but without the large swings experienced by many other institutions. We recognise that the lending market will not return in the foreseeable future to the boom conditions of the five years up to 2007 and, indeed, it is better for the economy as a whole if it does not. Nevertheless, self-generated and sustainable mortgage growth is our aim, and this is a key objective for the coming year.

The core of the Society's long term strategy and what will always remain as our touchstone, is putting our members first in everything we do, both in terms of customer service by branch, telephone or the internet, and in how we set interest rates to give long term value rather than short lived offers, for both borrowers and savers. Our aim is to be the natural choice for financial services for the people of our operating area. To achieve this, we obviously need to provide a wide range of attractively priced products and services, but they must be backed up by excellent customer service. We therefore place huge emphasis on ensuring that our branches are welcoming environments, that our staff are invariably pleasant and friendly, treating members as individuals and striving to understand their needs. We know from the feedback we receive that whilst we can always improve, we are successful overall in creating a very positive impression in our dealings with members. We regard this as a crucial element in setting the Cumberland apart from the crowd of huge scale financial institutions; we are a local Society run by local people for local people, but aiming to be absolutely first class in terms of service and value.

We have remained successful at limiting our residential loan losses to relatively low levels, well below the industry norms. Only 0.37% of residential balances were more than 90 days in arrears at 31 March 2011, only 5 residential properties were in possession, and although during the year the Society had to provide for specific losses of £236,000, this is very modest given the economic conditions. We are though, concerned about the possibility of large public sector job losses and the knock-on effect of these in the coming year and are therefore maintaining a strong general provision of almost £1.7 million.

Generally, our commercial loan book has continued to perform well. The majority of balances are held by borrowers who are resident in the properties, such as guest houses or hotels, and we believe that they will continue to perform better than other sectors. We are fortunate in predominantly operating in one of the most enduringly popular tourist destinations in the country. However, the Society's specific provision charge has increased to £962,000 this year. Taking risks and incurring losses are an integral part of lending, and they will inevitably occur, especially in the current economic circumstances. Unfortunately, as was the case in previous economic downturns, the Cumberland cannot be immune to this, however careful its approach and however strong the expertise of our specialist team. The Society's commercial lending operation has contributed hugely to the Society's strong performance over the last few years and we keep in close contact with many commercial borrowers, so that we can work with them as soon as any problems arise. I am glad to say that very few such problems have been identified so far but, of course, we are very mindful that a further economic downturn could alter this position. We have released £250,000 of our general provision for commercial loans but at £2 million, this continues to provide a strong cushion against any future problems.

Two years ago, Cumberland Estate Agents Limited made a significant loss. However, following some reductions to its cost base, it returned to profit in 2009-10, and in spite of the market deteriorating significantly in the second half of 2010 -11, again recorded a very creditable profit. Over these two years, it has strengthened its market share in the region considerably. This ongoing improvement is a real credit to its management and staff, who have been determined to shape its operations so as to adapt to a market with much fewer house sales than was the case a few years ago.

Our current account operations continue to go from strength to strength. This has particularly been the case since the implementation of internet banking in 2007; we now have over 10,000 users of the system and 30% of our current accounts are internet-enabled. Current, 'money management' and cashcard account balances grew by 10% in 2010 -11 and although conventional wisdom suggests that it is very difficult to persuade people to move their current account, over the last four years we have made very significant progress in this respect.

Although we are proud to be a traditional building society with all the positive virtues that this implies in terms of providing financial security and excellent service to our members, we must be, and be seen to be, modern and up to date. As the smallest of the four building societies that offer a comprehensive banking service, which compares well with any other, we believe that we can demonstrate this extremely effectively.

The fallout from the credit crunch in 2007 understandably led to a step change in the nature of regulation, and as I wrote last year, regulatory developments have continued to absorb a large amount of the Board and senior management's time. During the year the Financial Services Authority implemented both its new Building Societies Sourcebook, which covers lending and treasury matters, and the initial components of its new liquidity regime. We have been able to comply with these without any undue difficulty, as fundamentally, our business approach was at the conservative end of the spectrum. Again however, I would reiterate the point I made last year, that the necessary regulation should be proportionate in its volume and nature, because the rate of growth and increasing complexity in this area remains a real concern.

Our involvement in our communities remains of great importance and once again, the Society gave over £100,000 for charitable purposes across a wide range of local causes and projects.

With respect to the Board, Alan Johnston was appointed as a non-executive director in February 2011 and brings to the board significant financial and general commercial experience. We were also delighted by the wonderful recovery and return to work in July 2010 of our deputy chief executive John Leveson, following his liver transplant seven months earlier.

In conclusion, this year's results have continued the Society's steady progress thanks to the success of our long term strategy, and we are well placed to meet the challenges of the future, just as well as we have met those that have arisen since the credit crunch. We know that the coming year will be a difficult one, as the deficit reduction measures take effect and inevitably impact upon many people in our area, but are confident that our business model and strategy will continue to show their worth. Our profitability has been robust, in spite of the continuing low interest rate environment. We will, however, continue to manage our margins and costs carefully, be pragmatic and take a long term view.

Serving our members is what the Cumberland is all about. Our staff have again excelled, and on behalf of the Board I would like to thank them for their enthusiasm, professionalism and dedication to giving our members the best possible service.

Our status as a mutual independent organisation underpins all that we are able to do and we believe that our presence as a highly competitive force in the financial services industry in our operating area makes a real difference to many people in it, and that will continue to drive us forward with confidence.

Michael J. Pratt
Chairman
18 May 2011

CHIEF EXECUTIVE'S REVIEW

I am pleased to report that the Society has continued to deliver a strong financial performance, against the backdrop of difficult economic conditions as discussed in the Chairman's Statement. The key points of our results this year are:

- Group profit after tax of £5.85 million, 0.38% of mean total assets
- Administrative expenses and depreciation reduced by 3.1%, having fallen by 3.2% last year
- Share balances increased by 1.6% to £1,341.39 million
- Loan balances reduced by 2.5% to £1,152.42 million
- Gross capital as a percentage of shares and borrowings increased from 7.01% to 7.71%
- Funding other than from individual members fell to less than 5% of the total

SAVINGS AND CURRENT ACCOUNTS

The Bank of England's base rate has remained at a record low throughout 2010 -11 and, conscious of the impact of this on our savers, particularly as inflation has increased, we have endeavoured to maintain our interest rates at competitive levels.

The majority of the Society's savings accounts have variable interest rates and on accounts available at the start of the year these have remained unchanged. We have also managed our fixed rate products closely against the market to ensure that they have been competitive. Our existing customers are always offered a rate which is at least equal to, or better than, that available to new customers.

Our aim is to develop a long term relationship with our customers by meeting all of their savings and banking needs. The Cumberland's savings balances have continued to grow in an extremely competitive retail savings market, and we believe that our regional focus, our approach to existing customers and our extensive product range have been key to this success.

During the year we introduced our first FTSE-100 index linked 'structured deposit'. This gives customers, over 5 years, a higher return if the index increases or a lower return if it does not, while returning the capital invested. Although the return is uncertain, so the product will not be suitable for everyone, there is the potential to earn more than is currently available from our conventional savings products. This product has proved popular with our customers and we plan to offer further issues in the coming year.

The Cumberland is one of a small number of building societies to offer a current account service. We provide facilities comparable to those offered by much larger financial services organisations, including a full internet banking service and a Visa debit card which enables a customer to withdraw cash from an ATM and carry out point of sale transactions worldwide. We remain one of very few current account providers who do not charge for debit card use abroad.

For over 20 years, the Society has seen banking services as central to its business strategy and in the last four years in particular our business in this area has grown considerably as we have added new features and continued to improve the level of our customer service. We have found that more and more customers have come to value the personal approach to banking that we can provide and which the large banks find difficult to replicate. We also make it easy for customers to move their current account to the Society and our free switching service continues to receive excellent feedback from our members. Our research this year showed that 99% of customers who used this service would recommend us to a friend.

Fraud continues to be an issue for the financial services sector, particularly for organisations which offer money transmission services. During the year we implemented a new fraud detection system, which has further enhanced our ability to identify quickly potential fraudulent transactions on customers' current accounts. This benefits both our members and the Society as, together with the vigilance of our staff, it has enabled us to avoid losses by dealing with incidents very quickly as they arise. In addition, we are currently implementing a new system called 'SecureCall', which enables our internet banking customers to verify in a simple manner via an automated telephone call, payments to new payees. This system has been very successful in Australia and we are delighted to bring it to the UK.

RESIDENTIAL MORTGAGES

In 2010 -11 the demand for new loans remained subdued and many existing customers have looked to reduce their level of borrowing. As a result, we have seen a modest contraction in our residential mortgage book. We have, however, continued to promote our extensive range of mortgage products and competitive rates. At 4.49%, our standard variable mortgage rate continues to be the second lowest of the UK's 'top 15' building societies. In many cases our products are restricted to local borrowers, but if they had been available nationally, they would have featured regularly in 'best buy' tables.

We recognise the difficulties facing first time buyers and have continued throughout the year to offer mortgages of up to 90% of a property's value. In addition, we have a 'Family' mortgage which enables a member to use their savings as security on a mortgage for their child or another family member, while continuing to receive interest. This allows first time buyers to borrow up to 95% of a property's value at a rate which would normally be restricted to those with a much larger deposit. We have also introduced a new shared equity product, which is designed specifically to help first time buyers purchase their first home.

Cumberland mortgages are only available through our branches or by contacting us by telephone or post. This means that we have a direct relationship with our mortgage customers and this helps us to give appropriate advice and make lending decisions that are right for both them and the Society. All our mortgage applications are considered on an individual basis without reference to an automated 'credit scoring' system. We believe that this individual assessment and the direct relationship we build with the applicants, are key reasons why the number of our customers who are behind with their mortgage payments remains very low and significantly lower than the industry average.

CUMBERLAND BUSINESS

As outlined in the Chairman's Statement, the commercial lending sector has continued to experience difficulties during the downturn. Whilst the Society has increased its specific provision for commercial lending, we are confident that the Society's commercial mortgage book remains strong, primarily focused as it is upon the local tourist sector and featuring a high proportion of owner occupied properties. Our specialist team of lending managers continue to use their knowledge and experience to help our borrowers manage their business through the downturn.

We are one of very few lenders to offer specially designed holiday let mortgages and we have seen an increase in demand for these. Our lending managers have many years of experience in lending to holiday home owners and offer extensive knowledge and understanding of the holiday let market.

We have continued to develop our business banking service by increasing our resources in this area and the number of business current accounts has increased by 16% over the last year. In addition, we have recently launched a new current account for local schools.

CUSTOMER SERVICE

Our objective is to deliver a better level of service than any other bank or building society in the UK. To help us to achieve this, during the year we undertook a full review of the Society's mortgage application processes and, as a result, significant changes have been made to improve both the customer experience and the efficiency of the Society's operations.

To monitor our performance, we run a regular programme of 'mystery shopping', which benchmarks the level of customer service we provide against a range of other financial service providers. During 2011-12 we intend to increase the level of mystery shopping undertaken and reward staff when they meet or exceed our high expectations.

We also undertake customer satisfaction research, which provides direct feedback and helps us identify areas for improvement. Although we strive to deliver excellent customer service, there are occasions when we do not perform as well as we should and when this happens, we do everything we can to rectify the problem and ensure that we learn from our mistakes.

Whilst the growing use of the internet has made it easier for members to access their accounts, our network of 33 branches remains the key element of our business model.

By treating our customers fairly and offering a high level of personal customer service we believe that we can succeed in attracting new customers and retaining them for the long term. We feel that this is where a financial institution of relatively modest size can make a real difference.

CUMBERLAND ESTATE AGENTS

Although 2010 -11 was another difficult year for the housing market, our estate agency recorded a healthy profit and through its eight branches helped to sell more than 800 homes during the year. Based on Land Registry data, Cumberland Estate Agents achieved a record share of property sales in Cumbria for the year to 31 December 2010. It provides a valuable source of high quality mortgage business for the Society, raises the Cumberland's profile within our area, and continues to be an important part of the Group's long term business strategy.

COMMUNITY INVOLVEMENT

Our commitment to our communities extends beyond retaining local branches and providing a range of competitive products and services. Despite the economic conditions, we have maintained our level of financial support, donating more than £100,000 to community, educational and charitable initiatives in 2010 -11. Details of the Society's support for community projects are outlined in the Annual Review booklet, which is distributed to members ahead of the Annual General Meeting (AGM).

Our Pledge for Votes scheme, which encourages members to vote at the Society's AGM by linking a charitable donation to the number of votes received, raised almost £11,000 last year for Macmillan Cancer Support. This year the donation will be split equally between the Lake District Search and Mountain Rescue Association and the Salvation Army, to support their charitable work in our operating area.

STAFF

The relationships that we build with our members reflect the quality of customer service delivered by our staff. As part of staff development we continue to expand our range of training courses, which focus on the delivery of good customer service and how this can differentiate us from other organisations.

Our staff are key to the achievement of our business results and on behalf of the Board and my Executive colleagues, I would like to take this opportunity to thank them for their hard work and commitment.

THE YEAR AHEAD

The outlook for the UK economy remains highly uncertain and it is likely that 2011-12 will be another difficult year.

The Cumberland is, however, well placed to respond to the challenges ahead, with resilient profitability, strong capital of over £108 million, and wholesale funding at very low levels.

Over the last few years the Society has delivered a consistent performance in difficult circumstances and this, we believe, reflects both the strength of our relationship with our members and our well-established strategy. Prior to the credit crunch we grew at a steady and sustainable rate and as conditions improve this will be our aim going forward.

With the continued hard work and skill of our staff, and above all their dedication to provide excellent customer service, together with the support of our savers and borrowers, I am sure that the Cumberland will continue to thrive for the benefit of our members and the local communities we serve.

Kevin Parr
Chief Executive
18 May 2011

DIRECTORS' REPORT

The directors have pleasure in presenting their 161st Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 March 2011.

BUSINESS OBJECTIVES

Cumberland Building Society aims to be the natural choice for mortgages and savings and a leading provider of other retail financial services in its operating area, while continuing to be an independent mutual building society.

To achieve this aim, the Cumberland offers a wide range of financial services, principally through its branch offices, and delivers long term benefits to members through the provision of competitive products combined with excellent customer service.

The Society aims to achieve sufficient profit to maintain its capital strength to safeguard the interests of members.

BUSINESS REVIEW

A review of the Cumberland's business and activities for the year is contained in the Chief Executive's Review on pages 4 and 5. In addition, we comment below upon the financial key performance indicators used by the Executive and the Board in the year to assist the Group's control and direction.

KEY PERFORMANCE INDICATORS

Very many aspects of financial (and other) performance are monitored on a regular basis, but the table below focuses on those that are considered key to business success.

	2011	*2010*	*2009*
Group Profit After Tax (£ million)	5.85	6.34	5.09
Group Profit After Tax as a % of Mean Total Assets	0.38	0.41	0.34
Gross Capital as a % of Shares and Borrowings	7.71	7.01	6.65
Interest Margin for Members (%)	1.71	1.61	1.52
Society Administrative Expenses and Depreciation as a % of Mean Total Assets	0.89	0.90	0.96
Loans and Advances to Customers - Balance Change %	(2.46)	(0.25)	5.07
Lending during the year (£ million)	143.92	152.86	202.20
Inflow of Funds from Customers (£ million)	5.42	34.01	91.99
Other Funding as a % of Shares and Borrowings	4.97	9.75	11.28

EXPLANATION OF INDICATORS

GROUP PROFIT AFTER TAX

Whilst as a mutual organisation, the maximisation of profit is not a key aim, the Group needs to make sufficient profit to ensure its ongoing financial strength. The principal reason for the reduction in profit this year has been the impact of the liability to the Financial Services Compensation Scheme. Whereas there was a credit in the previous year's accounts of £0.87 million in relation to this, in the latest year there was a charge of £0.21 million, which arose because of the requirement to extend the time period covered by the provision, although this was offset by lower interest rates again reducing the liability.

GROUP PROFIT AFTER TAX AS A % OF MEAN TOTAL ASSETS

This relates the Group's profit after tax to its mean total assets, which are calculated as the simple average of total assets at the beginning and end of the financial year.

GROSS CAPITAL AS A % OF SHARES AND BORROWINGS

Gross capital comprises the Group's reserves, and this ratio measures the proportion of this in relation 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 any difficulties that might arise in the Group's business and therefore protects investors.

INTEREST MARGIN FOR MEMBERS

This ratio takes the interest received from residential mortgage borrowers as a percentage of mean residential mortgage balances, minus the interest paid to members with share accounts as a percentage of mean share balances (after adjusting for net income or expense on financial instruments). It therefore primarily reflects the pricing of the Society's residential mortgage and savings products, but can also reflect in respect of fixed rate products the net income and expense on financial instruments. In the last three years, given the provisions for the Financial Services Compensation Scheme levy and the continuing exposure to this issue, together with the large reduction in market interest rates which has significantly reduced the Society's net income on its free capital, the Board has been mindful of the impact of these factors upon the Society's profitability. Nevertheless, it continues to seek to balance these issues with the interests of members with respect to providing competitive savings and mortgage rates. The Society's standard variable rate for residential mortgages and its variable share account rates for existing customers in place at the start of the year remained unchanged during the year.

SOCIETY ADMINISTRATIVE EXPENSES AND DEPRECIATION AS A % OF MEAN TOTAL ASSETS

Administrative expenses and depreciation consist mainly of the costs of running the Society's business, including staff costs. This ratio measures the proportion that these costs bear to mean total assets. It is an indication of the Society's efficiency and the aim is, over time, to see it reduce. In relation to its peers however, the Society's business model of offering a wide range of services and obtaining its residential mortgage and savings business directly from customers rather than through intermediaries, means that its ratio will inevitably be higher than were that not the case.

Michael Pratt
Chairman

Richard Atkinson
Vice–Chairman

Kevin Parr
Chief Executive

John Leveson
Deputy Chief Executive

John Kidd
Finance Director and Secretary

LOANS AND ADVANCES TO CUSTOMERS - BALANCE CHANGE %

This shows the change in the Society's mortgage book (both residential and commercial) and reflects both the popularity of its products and services offered to new and existing borrowing members (the demand for which has been much reduced over the last two years, as is evident from national statistics), and the Society's appetite for credit risk in these areas. In particular, given the ongoing low interest rate environment, members have increasingly preferred to repay their loan balances so far as they are able, rather than build up savings.

LENDING DURING THE YEAR

This figure reflects the same factors as mentioned above. The reduction in lending over the last two years reflects the reduction in mortgage lending evident from national statistics.

INFLOW OF FUNDS FROM CUSTOMERS

This reflects the popularity of the Society's savings and current account products. The inflow in 2008-09 was exceptional and principally reflected the turbulence in the financial services sector, which led many customers to seek a safe location for their funds. In 2010 -11 the Society maintained a net inflow of funds, in spite of strong price competition, the improvements in equity markets and, as stated in relation to mortgage balances, the increasing preference of members to repay debt rather than build up savings in the continuing low interest rate environment.

OTHER FUNDING AS A % OF SHARES AND BORROWINGS

This reflects the extent to which the Group is funded by deposits owed to credit institutions and other customers, rather than its members. The Group's aim is to be funded predominantly by its members, i.e. individual savers and current account customers, in line with the principal purpose of a building society, and this percentage is at a low level in relation to its peers. In the year to 31 March 2011, the reduction in this percentage is principally a reflection of the reduction in mortgage balances and the increase in savings and current account balances.

FUTURE DEVELOPMENTS

The Society will upgrade its core computer system, the authorisation system for its internet banking, Visa debit and ATM services and its correspondence management system in the coming year, utilising new technological features to improve its efficiency and service to customers, together with additional security features.

PRINCIPAL RISKS AND UNCERTAINTIES

Building societies operate in a highly competitive market, and with significant uncertainties arising from the general economic environment. Therefore the management of risk and strategic direction are key activities, vital for the success of the business. The Board of Directors, aided by a number of committees, ensures risk management and strategic direction are considered thoroughly and appropriate actions implemented.

The principal risks facing the Group and the procedures put in place to manage them are described below.

LIQUIDITY RISK

Liquidity risk is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. The Society's Assets and Liabilities Committee (ALCO), assists the Society's management and the Board to manage this risk. Responsibility for the daily management of the risk lies with the Treasurer, who reports directly to the Finance Director. Monthly, the balance sheet is stress tested to confirm that the Group can withstand normal and extreme cash outflows. The Treasury Policy Statement and the Individual Liquidity Adequacy Assessment, both regularly reviewed by ALCO and agreed by the Board, ensure that the daily activities of the treasury team are conducted within a prudent framework and in line with the requirements of the FSA. A report from ALCO and the minutes of its monthly meeting are presented to the Board each month.

MARKET RISK

The primary market risk faced by the Group is interest rate risk. This is the risk of fluctuations in interest rates and changes in the value of derivative contracts impacting upon the value of the Group's assets and liabilities. The ALCO assists management and the Board to manage that risk. The balance sheet is stress tested on a monthly basis to inform the ALCO of the effects on income or costs of interest rates rising or falling. The Treasurer manages the daily position within a framework in accordance with the Treasury Policy Statement. A detailed analysis of the Group's interest rate sensitivity at 31 March 2011 and 2010 can be found in note 25 to the accounts.

CREDIT RISK

The Group is exposed to credit risk in respect of either mortgage customers or treasury counterparties being unable to meet their obligations as they become due. The Lending Policy Statement, approved by the Board, sets out the approaches to residential and commercial mortgage lending.

In respect of residential mortgages, lending mandates are strictly controlled and all applications are reviewed by a specialist residential mortgage underwriting team. Applications outside individuals' mandates are considered by the Credit Committee, which consists of the executive directors and the General Manager.

In respect of commercial mortgages, the Society's specialist commercial lending managers produce detailed appraisals of each application. All applications are considered by at least two members of the Credit Committee.


Peter Temple
Operations Director


Simon Berry
Non-executive Director


David Clarke
Non-executive Director


Alan Johnston
Non-executive Director


Trevor Hebdon
Non-executive Director

The Treasury Policy Statement contains limits on credit exposures to individual counterparties.

OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Group Operational Risk Policy sets out the Group's approach to the management of operational risk.

Whilst line management is responsible for identifying and managing operational risks, this is carried out using an agreed framework and methodology, with quarterly reporting to the Risk Management Committee. This consists of the executive directors, meets on a quarterly basis and reports to the Audit and Risk Committee, which in turn reports to the Board.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's objective is to minimise the impact of financial risk upon its performance. An explanation of the financial risks and the controls in place to manage them is given in note 25 to the annual accounts.

The disclosures required under Pillar 3 of the Capital Requirements Directive (Basel 2) will be published on the Society's website.

FREE CAPITAL

At 31 March 2011 free capital was £103.86 million, being 7.36% of shares and borrowings (2010: 6.62%). Free capital is the reserves plus the general provision for doubtful debts, less fixed assets as shown in the balance sheet.

MORTGAGE ARREARS

At 31 March 2011, there were 7 accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £0.80 million, and the amount of arrears was £0.08 million, which represents less than 0.01% of mortgage balances.

CREDITOR PAYMENT POLICY

The Group policy concerning the payment of trade creditors is to agree terms of payment, to ensure that suppliers fulfil their contractual obligations and to settle invoices for the provision of goods and services within the agreed payment terms.

At 31 March 2011 the total amount owed to suppliers was equivalent to 3 days credit (2010: 2 days).

CHARITABLE AND POLITICAL DONATIONS

During the year, charitable donations of £101,833 were made to a number of organisations within our operating area, of which £25,000 was given to the Cumberland Building Society Charitable Foundation.

No contributions were made for political purposes.

EVENTS SINCE THE YEAR END

The directors consider that there have been no events since the year end that have had a material effect on the position of the Society or any of its subsidiary undertakings.

DIRECTORS

Information on the directors is given in the Annual Business Statement on page 32. Richard Atkinson, David Clarke, John Kidd, Michael Pratt and Peter Temple retire at the Annual General Meeting and, being eligible, seek re-election. Alan Johnston, who was appointed to the Board during the year, also retires and, being eligible, seeks election.

CORPORATE GOVERNANCE

The Directors' Report on Corporate Governance can be found on pages 10 to 12.

STAFF

Great importance is placed on the recruitment, training and retention of high calibre employees. It is recognised that staff will play a vital role in the continuing success of the Cumberland. Training and staff development policies are continuously reviewed and, where appropriate, updated to meet the organisation's needs.

The Cumberland is committed to effective communication with staff, who are kept informed of matters relating to business performance and objectives. Staff involvement in matters affecting them is achieved by regular meetings.

The Cumberland has an equal opportunities policy and considers applications for employment from disabled persons. In the event of existing staff becoming disabled every effort is made to assist them in continuing to work for the organisation.

All staff are given opportunities for training, career development and promotion, taking into account their aptitudes, abilities and the particular demands of the job.

The directors' warm appreciation is extended to staff for their dedication, hard work and enthusiasm during the financial year.

GOING CONCERN

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the annual accounts continue to be prepared on the going concern basis.

AUDITORS

KPMG Audit Plc are eligible for re-appointment and have offered themselves for re-election.

On behalf of the Board of Directors
Michael J. Pratt *Chairman*
18 May 2011

REPORT ON DIRECTORS' REMUNERATION

The purpose of this report is to provide information about the Group's policy for the remuneration of non-executive and executive directors and to give details of the process for determining the level of remuneration.

The remuneration of non-executive directors comprises only of fees and, other than that of the chairman, this is reviewed and agreed annually by the Board. The remuneration of the executive directors and the Society's 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.

In determining non-executive and executive director remuneration, both the Board and the Remuneration Committee take account of fees and salaries 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. To ensure that fees and salaries are set at a level to retain and attract individuals of the calibre necessary to operate an organisation such as the Society and which reflect the skills and time commitment required, during the year an external review of executive and non-executive remuneration was undertaken.

The review concluded that, when taking into account the size and complexity of the Society's operations, both executive and non-executive remuneration was below market levels; this was particularly the case in respect of the roles of chairman, vice-chairman and chairman of the Audit and Risk Committee. The conclusions were noted and will be kept under review. In the meantime, the Board agreed that a small supplemental fee be paid to reflect the additional responsibilities of the chairman of the Audit and Risk Committee.

The executive directors voluntarily waived any entitlement to bonuses for the year ended 31 March 2009. For the year ended 31 March 2010, the Committee, having consulted with the executive directors, agreed that no bonuses relating to performance against corporate targets would be paid. This was in spite of the Society achieving excellent financial results in a difficult operating environment. However, the Committee believes that bonus schemes relating to financial and business performance are an appropriate part of a balanced remuneration package. As I reported last year, the Committee decided to reintroduce a modest executive bonus scheme for the year ended 31 March 2011 and payments representing 5% of basic salary have been awarded. A scheme has also been implemented for the year ending 31 March 2012.

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.

Full details of individual directors' remuneration and of their pension benefits in respect of the defined benefit scheme are contained in note 6 to the accounts. 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.

The Financial Services Authority (FSA) announced the final rules for its Remuneration Code in December 2010, and these will apply to the Cumberland with effect from 1 July 2011. The Committee considers that the Society already complies with aspects of the earlier Code where appropriate and following a detailed review, will comply with the new FSA Remuneration Code by this date.

On behalf of the Remuneration Committee
Richard Atkinson, Chairman 18 May 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE ANNUAL BUSINESS STATEMENT, THE DIRECTORS' REPORT AND THE ANNUAL ACCOUNTS

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 ("the Act") requires the directors to prepare Group and Society annual accounts for each financial year. Under that law they have elected to prepare the Group and Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and Society annual accounts are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial year.

In preparing each of the Group and Society 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 accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

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 Group.

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and 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 Services Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group 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 Group's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

CORPORATE GOVERNANCE

DIRECTORS' REPORT ON CORPORATE GOVERNANCE

Cumberland Building Society supports the principles of good corporate governance and reviews annually its compliance with the Combined Code on Corporate Governance.

The Combined Code identifies a number of principles in relation to which a listed company should state its position. Although the Society is not a listed company and therefore is not subject to the Code, information on the Society's approach is set out below. The Board considers that the Society complies with all of the Code provisions unless the contrary is stated.

THE BOARD

The principal functions of the Board are the development and monitoring of strategy, the review of business and financial performance, and to ensure that effective systems and controls are in place for risk management. The Board meets every month and in addition, a policy review meeting is held at least annually.

There is a formal schedule of matters reserved for the Board and the Board has full and timely access to all relevant information to enable it to discharge its duties effectively.

In addition, the Board has established three committees to consider specific areas in more detail than would be possible within Board Meetings. Each of the Board sub-committees has Board approved Terms of Reference, which are published on the Society's website, www.cumberland.co.uk, or are available from the Society's Secretary on request. Details of the principal Board committees are set out below.

AUDIT AND RISK COMMITTEE

This monitors internal controls, financial reporting, risk management and regulatory compliance matters, reviews the work of Internal Audit and Compliance functions, assesses their effectiveness, considers the appointment of the external auditor, and reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process. It also has responsibility for ensuring that effective whistle-blowing arrangements are in place, which enables any concerns to be raised by employees in confidence.

The Committee consists of its chairman Richard Atkinson, and three other non-executive directors, Simon Berry, Trevor Hebdon and Alan Johnston, who has recent, relevant financial experience. The four executive directors, the Head of Internal Audit, the Group Compliance Manager and a representative from the external auditors also attend Committee meetings by invitation to assist in its deliberations.

REMUNERATION COMMITTEE

This consists of its chairman Richard Atkinson, and two other non-executive directors, Simon Berry and David Clarke. The Committee's main role is to approve the level of remuneration for the Society's Chairman, executive and senior management. The Committee is also responsible for determining, on behalf of the Board, the structure of any incentive schemes for staff. Details of the remuneration policy can be found in the Report on Directors' Remuneration on page 9.

NOMINATION COMMITTEE

This consists of all directors and is chaired by the Society's Chairman, Michael Pratt. The Committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including board and executive succession planning, the appointment of new directors and the election and re-election of directors.

In addition, the Board receives a monthly report from the Assets and Liabilities Committee.

Set out in the table on the right are details of the directors during 2010 -11 and their attendance record at Board meetings and relevant Board Committee meetings in the year.

CHAIRMAN AND CHIEF EXECUTIVE

The roles of Chairman and Chief Executive are held by different individuals, with a clear division of responsibilities. The Chairman, who is a part-time non-executive director, is responsible for leading the Board and ensuring it acts effectively. The Chief Executive has responsibility for managing the Society and for the implementation of the strategies and policies agreed by the Board.

BOARD BALANCE AND INDEPENDENCE

The Board consists of four executive and six non-executive directors.

Four of the non-executive directors have served for less than the maximum of 9 years recommended by the Combined Code and can be defined as independent under it. Michael Pratt completed 14 years of service on the Board on 29 September 2010, and Richard Atkinson completed 13 years on 1 August 2010.

In the view of the Board, all the non-executive directors are independent in character and judgement, are free of any relationship or circumstance that could interfere with the exercise of their judgement, and bring wide and varied commercial experience to Board deliberations. In addition, Mr. Pratt and Mr. Atkinson stand for re-election by the Society's members at the Annual General Meeting each year, in line with the requirements of the Combined Code.

The Society has appointed Simon Berry to the position of Senior Independent Director. He is available to members if they have concerns which they either have been unable to resolve, or feel cannot be resolved, by contact through the normal channels of the Chairman or the executive directors.

Directors' attendance at Board and Board Committee meetings during the year ended 31 March 2011

Director	Board	Audit and Risk	Remuneration	Nomination
Richard Atkinson	12 (12)	5 (5)	7 (7)	6 (6)
Simon Berry	12 (12)	5 (5)	7 (7)	6 (6)
David Clarke	12 (12)		7 (7)	6 (6)
Trevor Hebdon	12 (12)	3 (3)		6 (6)
Alan Johnston*	2 (2)	1 (1)		1 (1)
John Kidd	12 (12)			6 (6)
John Leveson	10 (12)			5 (6)
Kevin Parr	12 (12)			6 (6)
Michael Pratt	12 (12)			6 (6)
Peter Temple	12 (12)			6 (6)
Charles Waddington ~	3 (3)	2 (2)		1 (1)

* Appointed 15 February 2011 ~ Retired 29 June 2010

Figure in brackets indicates the number of meetings that the director was eligible to attend during the year.

not a member of the committee

APPOINTMENTS TO THE BOARD AND RE-ELECTION POLICY

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Board maintains a succession plan and develops a role profile for vacancies arising. Non-executive positions are advertised in branches and in the press within the Society's operating area. All directors must meet the tests of fitness and propriety laid down by the FSA and are required to be registered with the FSA as Approved Persons in order to fulfil their controlled functions as directors.

The Board seeks to ensure planned and progressive refreshing of its membership. Directors are subject to election by members at the Annual General Meeting following their appointment and seek re-election every three years thereafter. Any non-executive directors serving for over 9 years are subject to annual re-election by the members.

INFORMATION AND PROFESSIONAL DEVELOPMENT

On appointment, directors are given appropriate induction and training. To ensure their skills remain updated, directors attend industry conferences, seminars and training courses and the Board regularly receives presentations from senior managers. All directors are able to obtain independent, professional advice at the Society's expense if they believe it is necessary in fulfilling their role.

PERFORMANCE EVALUATION

There is a process to evaluate, at least annually, the performance and effectiveness of individual directors, the Chairman, the Board and Board Committees.

The executive directors are appraised by the Chief Executive, and the Chief Executive is appraised by the Chairman. The performance of non-executive directors is reviewed by the Chairman, and the Senior Independent Director reviews the performance of the Chairman in liaison with the other directors.

Those non-executive directors who have served at least 6 years on the Board are subject to a particularly rigorous performance evaluation, in line with the Combined Code's requirements.

The Board and each Committee evaluate their own performance annually.

REMUNERATION

The Report on Directors' Remuneration on page 9 sets out the remuneration policies for executive and non-executive directors.

FINANCIAL REPORTING

The Statement of Directors' Responsibilities on page 9 sets out the Board's responsibilities in relation to the preparation of the Group's Annual Report and Accounts, and a statement that the Group's business is a going concern is included in the Directors' Report.

INTERNAL CONTROL

The Board has delegated responsibility for managing the system of internal control to senior management. The Group Internal Audit function provides independent assurance to the Board on the effectiveness of the system of internal control through the Audit and Risk Committee.

The information received and considered by the Committee provided reasonable assurance that during the financial year there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate system of internal control. Further information on the Society's approach to risk management is included in the 'Principal Risks and Uncertainties' section of the Directors' Report.

AUDIT AND RISK COMMITTEE AND AUDITORS

The role and membership of the Audit and Risk Committee have been set out earlier in this report.

The Committee meets at least five times a year. At least annually, the external auditors meet with the Committee without the executive directors present. Minutes of the Committee's meetings, together with a report highlighting the key issues, are provided to the subsequent Board Meeting.

The Committee implements the Society's policy on the use of the external auditor for non-audit work. The purpose of this policy is to ensure the continued independence and objectivity of the external auditor. The external auditor, KPMG Audit Plc, conducts any non-audit related assignments within the limits set out in the policy and these are considered to be consistent with the professional and ethical standards expected of the external auditor in this regard.

RELATIONS WITH MEMBERS

As a mutual organisation, the Society has members rather than shareholders. The Society seeks the views of its members in a variety of ways, including customer feedback surveys and market research.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM)

Each year the Society sends details of the AGM to all members eligible to vote. Members are encouraged to vote in the postal ballot (by appointing a proxy to vote on their behalf and in accordance with their instructions) or by attendance at the Meeting. For several years the Society has encouraged members to vote by linking the numbers of votes received to donations to local charities. This year, the Society will donate 50 pence for each vote received, to be shared between the Lake District Search and Mountain Rescue Association and the Salvation Army. The voting results are published in branches and on the Society's website.

All members of the Board are present at the AGM each year unless there are exceptional circumstances. The Chairs of the Board and of its committees are available to answer questions.

On behalf of the Board of Directors
Michael J. Pratt *Chairman*
18 May 2011

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CUMBERLAND BUILDING SOCIETY

We have audited the group and society annual accounts of Cumberland Building Society for the year ended 31 March 2011 set out on pages 14 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE ANNUAL ACCOUNTS

A description of the scope of an audit of annual accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON ANNUAL ACCOUNTS

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and of the society as at 31 March 2011 and of the income and expenditure of the group and of the society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

OPINION ON OTHER MATTERS PRESCRIBED BY THE BUILDING SOCIETIES ACT 1986

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 for which the annual accounts are prepared is consistent with the accounting records and the annual 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.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- proper accounting records have not been kept by the Society; or
- the annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

Andrew Walker (Senior Statutory Auditor)

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

St James' Square
Manchester
M2 6DS 18 May 2011

GROUP AND SOCIETY INCOME AND EXPENDITURE ACCOUNTS

For the year ended 31 March 2011

	Notes	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Interest receivable and similar income	2	**44,729**	45,354	**44,732**	45,357
Interest payable and similar charges	3	**(26,040)**	(26,361)	**(26,040)**	(26,370)
Net interest receivable		**18,689**	18,993	**18,692**	18,987
Pension finance income/(charge)	26	**372**	(52)	**372**	(52)
Income from investment in subsidiary undertaking		**–**	–	**281**	–
Fees and commissions receivable		**4,236**	4,093	**2,784**	2,525
Fees and commissions payable		**(1,653)**	(1,680)	**(1,730)**	(1,757)
Other operating income		**3,146**	3,073	**3,101**	3,034
		24,790	24,427	**23,500**	22,737
Administrative expenses	4	**(14,091)**	(14,386)	**(12,754)**	(12,833)
Depreciation and amortisation		**(1,128)**	(1,319)	**(1,030)**	(1,202)
Operating profit before provisions		**9,571**	8,722	**9,716**	8,702
Provisions for bad and doubtful debts	11	**(944)**	(748)	**(944)**	(748)
Operating profit before FSCS levy		**8,627**	7,974	**8,772**	7,954
Provisions for contingent liabilities and commitments - FSCS levy	22	**(205)**	869	**(205)**	869
Profit on ordinary activities before tax		**8,422**	8,843	**8,567**	8,823
Tax on profit on ordinary activities	7	**(2,570)**	(2,499)	**(2,501)**	(2,496)
Profit for the financial year	23	**5,852**	6,344	**6,066**	6,327

The above results are derived from continuing operations of the business.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2011

	Notes	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Profit for the financial year		**5,852**	6,344	**6,066**	6,327
Actuarial (loss)/gain recognised in pension scheme	26	**(75)**	139	**(75)**	139
Movement in deferred tax relating to pension scheme	26	**19**	(39)	**19**	(39)
Unrealised gain/(loss) on revaluation of investment properties	14	**394**	(35)	**–**	–
Total recognised gains and losses for the year		**6,190**	6,409	**6,010**	6,427

The notes on pages 17 to 31 form part of these accounts.

GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2011

Assets	Notes	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Liquid assets					
Cash in hand and balances with the Bank of England		**25,174**	2,615	**25,171**	2,612
Treasury and other eligible bills		**39,964**	–	**39,964**	–
Loans and advances to credit institutions	8	**185,070**	230,851	**185,070**	230,851
Debt securities	9	**109,129**	144,134	**109,129**	144,134
		359,337	377,600	**359,334**	377,597
Loans and advances to customers					
Loans fully secured on residential property	10	**1,003,893**	1,034,460	**1,003,893**	1,034,460
Other loans	10	**148,530**	147,083	**148,530**	147,083
	10	**1,152,423**	1,181,543	**1,152,423**	1,181,543
Investments					
Investments in subsidiary undertakings	12	**–**	–	**2,333**	3,833
Tangible fixed assets	13	**8,641**	9,742	**7,744**	7,997
Investment properties	14	**1,610**	340	**–**	–
Other assets	15	**1,538**	1,668	**1,843**	1,843
Prepayments and accrued income	17	**3,222**	2,772	**3,216**	2,766
Total Assets		**1,526,771**	1,573,665	**1,526,893**	1,575,579

Liabilities	Notes	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Shares	18	**1,341,389**	1,320,679	**1,341,389**	1,320,679
Amounts owed to credit institutions	19	**4,506**	40,371	**4,506**	40,371
Amounts owed to other customers	20	**65,663**	102,373	**66,042**	104,384
Other liabilities	21	**2,924**	2,908	**2,826**	2,946
Accruals and deferred income		**2,379**	3,225	**2,347**	3,037
Provisions for liabilities	22	**1,101**	1,367	**1,101**	1,367
Net pension liability	26	**36**	159	**36**	159
Reserves					
General reserves	23	**108,472**	102,676	**108,646**	102,636
Investment properties reserve	23	**301**	(93)	**–**	–
Total Liabilities		**1,526,771**	1,573,665	**1,526,893**	1,575,579
Memorandum items					
Commitments	24	**5,503**	6,029	**5,503**	6,029

These accounts were approved by the Board of Directors on 18 May 2011

M. J. Pratt, Chairman
R. Atkinson, Vice–Chairman and Chairman of the Audit and Risk Committee
K. Parr, Director and Chief Executive

The notes on pages 17 to 31 form part of these accounts.

For the year ended 31 March 2011

	2011 £000	2010 £000
Net cash outflow from operating activities	**(9,317)**	(35,180)
Taxation	**(2,390)**	(2,583)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(1,170)**	(786)
Sale of tangible fixed assets	**267**	43
Purchase of investment securities	**(371,037)**	(479,726)
Sale and maturity of investment securities	**406,000**	520,971
Increase in cash and cash equivalents	**22,353**	2,739

Reconciliation of operating profit to net cash outflow from operating activities

	2011 £000	2010 £000
Operating profit	**8,422**	8,843
(Increase)/decrease in prepayments and accrued income	**(295)**	4,525
Decrease in accruals and deferred income	**(846)**	(335)
Provisions for bad and doubtful debts	**944**	748
Depreciation and amortisation	**1,288**	1,324
Profit on sale of tangible fixed assets	**(160)**	(5)
Pension contributions	**(410)**	(548)
Pension charges	**163**	547
Other non–cash movements	**(133)**	(152)
Net cash inflow from trading activities	**8,973**	14,947
Decrease in loans and advances to customers	**28,308**	2,380
Increase in shares	**20,710**	36,927
Decrease in amounts owed to credit institutions and other customers	**(72,575)**	(20,489)
Decrease/(increase) in loans and advances to credit institutions and other liquid assets	**45,462**	(66,670)
Increase in treasury and other bills	**(39,964)**	–
(Increase)/decrease in other assets	**(77)**	118
Decrease in other liabilities and provisions for contingent liabilities and commitments	**(154)**	(2,393)
Net cash outflow from operating activities	**(9,317)**	(35,180)

Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	At 1 April 2010 £000	Movement in year £000	At 31 March 2011 £000
Cash in hand and balances with the Bank of England	2,615	22,559	25,174
Loans and advances to credit institutions – repayable on demand (note 8)	13,646	(206)	13,440
	16,261	22,353	38,614

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

There have been no other significant changes in accounting policies during the year.

(a) **Basis of Preparation**

These accounts have been prepared under the historical cost accounting rules, with the exception of investment properties which are held at open market value, and in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations and applicable UK Accounting Standards.

(b) **Basis of Consolidation**

The consolidated financial statements include the financial statements of the Society and its subsidiary undertakings made up to 31 March 2011.

(c) **Corporation Tax**

Corporation tax is charged in the accounts on the profit for the year as adjusted for taxation purposes.

(d) **Deferred Taxation**

Provision for deferred tax is made in respect of all timing differences that have originated but not reversed by the balance sheet date. Timing differences represent differences between gains and losses recognised for tax purposes in periods different from those in which they are recognised in financial statements. No deferred tax is recognised on permanent differences between the Group's taxable gains and losses and its results as stated in the financial statements. Deferred tax assets and liabilities are stated without discounting and are calculated at the tax rates that are substantively enacted at the time the timing differences are expected to reverse.

(e) **Fixed Assets and Depreciation**

The cost of additions and major alterations to freehold land and buildings and equipment is capitalised. Freehold buildings are depreciated at 2% per annum on cost. In addition, included in freehold land and buildings are amounts in respect of refurbishment and plant which are depreciated over their estimated useful lives on a straight line basis at 20%.

The costs less estimated residual values of fixed assets other than freehold land and buildings are written off over their estimated useful lives on a straight line basis using the following annual rates:

Fixtures and Fittings and Office Furniture	20%
Computer Equipment	20% to 50%
Office Equipment	20%
Motor Vehicles	20%

(f) **Leases**

When a lease is entered into which involves taking substantially all the risks and rewards of ownership of an asset, it is treated as a 'finance lease'. The asset is recorded in the balance sheet as a fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is the shorter. Future instalments under such leases, net of finance charges, are included in other liabilities. Rentals are apportioned between the finance element, which is charged to the income and expenditure account at a constant annual rate, and the capital element, which reduces the outstanding obligation for future instalments.

(g) **Liquid Assets**

Debt securities intended for use on a continuing basis in the Society's activities are classified as financial fixed assets and are stated at cost. Any permanent diminution in value of such financial fixed assets would result in a write down of the cost of the securities to their recoverable amounts and would be dealt with through the income and expenditure account. Other liquid assets are stated at the lower of cost and net realisable value.

(h) **Pension Costs**

The Group operates a defined benefit pension scheme and three defined contribution pension schemes for staff. The assets of the schemes are held separately from those of the Group in independently administered funds.

The defined benefit pension scheme's assets are measured at market value at each balance sheet date and the liabilities are measured using the attained age method, discounted using the current rate of return on a high quality corporate bond of equivalent term of the liability.

The resultant surplus or deficit is carried on the balance sheet, net of associated deferred tax.

Increases in the present value of scheme liabilities that are expected to arise from employee service in the period (current service costs), and those which have arisen as a result of past service benefit improvements (past service costs), are charged to the income and expenditure account as administrative expenses. The expected return on the scheme's assets less the increase in the scheme's liabilities, arising from the passage of time, is disclosed as a pension finance income or charge.

Any resulting actuarial gains or losses, that is gains or losses arising from differences in the expected return on scheme assets compared to the actual return and changes in assumptions, or factors which affect those assumptions, used in measuring the scheme liabilities, are recognised immediately in the statement of total recognised gains and losses.

Contributions to the defined contribution pension schemes are charged to the income and expenditure account as incurred.

(i) **Provisions for Loans and Advances**

Provisions are made to reduce the value of loans and advances to the amount which the directors consider is likely ultimately to be received.

Throughout the year and at the year end, individual assessments are made of all loans and advances on properties which are in possession, or in arrears by three months or more. Specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date, the anticipated realisation costs and the amount recoverable under mortgage indemnity policies. The directors recognise that not all accounts in arrears will result in possession and apply a factor based on recent experience to reflect this probability when calculating the provision for accounts in arrears.

A general provision is made against other loans and advances to the extent that receipt of these may be doubtful. This provision is based upon the Society's experience and current economic trends and as such may be adjusted in the future as appropriate.

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, except in respect of advances where the property has been taken into possession and where the collectability of the interest is subject to significant doubt. Such interest is credited to an interest suspense account.

Loans and advances in the balance sheet are shown net of provisions, specific and general. The charge or credit to the income and expenditure account comprises the movement in the provisions together with losses written off in the year.

(j) **Incentives to Borrowers**

i) Cashbacks

Cashbacks are accounted for on completion of the mortgage and are charged as a reduction of interest receivable.

ii) Interest Discounts

Interest discounts are accounted for within interest receivable over the period of the discount.

(k) **Off Balance Sheet Instruments ('Derivatives')**

The Group enters into derivative financial instruments in order to hedge the risk of interest rate fluctuations and all interest rate related contracts are classified at the balance sheet date as hedging contracts. Income and charges on these instruments are included within the interest caption relevant to the underlying instrument on an accruals basis. If the hedge contract is terminated early, the realised gain or loss is amortised over the residual life of the underlying instrument.

(l) **Investment Properties**

When land and buildings are held for rental purposes or capital appreciation, they are classified as investment properties and held in the balance sheet at their open market valuation and not depreciated. Changes in the market value of such properties are taken to the statement of total recognised gains and losses (being a movement on an investment properties reserve), unless a deficit or its reversal on an investment property is expected to be permanent.

2. Interest Receivable and Similar Income

	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
On loans fully secured on residential property	**42,429**	42,112	**42,429**	42,112
On other loans	**5,095**	4,957	**5,098**	4,960
On debt securities				
Interest and other income	**2,499**	2,571	**2,499**	2,571
On other liquid assets				
Interest and other income	**922**	3,084	**922**	3,084
Net expense on financial instruments	**(6,216)**	(7,370)	**(6,216)**	(7,370)
	44,729	45,354	**44,732**	45,357

The total income from fixed income securities (within debt securities above) was £1,188,000 (2010 - £204,000). Interest on secured advances, as shown above, has been reduced by £41,000 (2010 - £13,000) being the net effect of interest suspended on non-performing loans in accordance with the Society's accounting policy. Movements in the suspended interest account were as follows:

	Group and Society 2011 £000	Group and Society 2010 £000
At 1 April	**34**	21
Interest suspended during the year	**41**	13
Interest written off during the year	**(31)**	–
At 31 March	**44**	34

3. Interest Payable and Similar Charges

	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
On shares held by individuals	**25,591**	26,378	**25,591**	26,378
On deposits and other borrowings				
To connected undertakings	**–**	–	**–**	9
Other	**1,697**	3,763	**1,697**	3,763
Net income on financial instruments	**(1,248)**	(3,780)	**(1,248)**	(3,780)
	26,040	26,361	**26,040**	26,370

4. Administrative Expenses

	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Staff costs (note 5)	**8,846**	8,663	**8,053**	7,942
Remuneration of auditors and their associates (excluding VAT)				
– Audit fees	**64**	64	**57**	56
– Non–audit fees:				
– tax services	**–**	1	**–**	1
– other services	**7**	7	**7**	7
Other expenses	**5,174**	5,651	**4,637**	4,827
	14,091	14,386	**12,754**	12,833

5. Staff Numbers and Costs

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

	Full time 2011	Full time 2010	Part time 2011	Part time 2010
Society's principal office	**134**	132	**45**	42
Society's branches	**111**	116	**97**	95
Estate agency offices	**24**	25	**20**	17
	269	273	**162**	154

The aggregate costs of these persons were as follows:	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Wages and salaries	**7,684**	7,544	**6,988**	6,912
Social security costs	**627**	624	**571**	577
Other pension costs (note 26)	**535**	495	**494**	453
	8,846	8,663	**8,053**	7,942

During the year the Society implemented a salary sacrifice scheme whereby the employee agrees to a reduction in salary in return for the Society making the pension contributions that were previously paid by the employee. The amounts shown above under wages and salaries include the headline salary (i.e. before the salary sacrifice deduction) and other pension costs exclude the additional contributions made by the Society as a result of the salary sacrifice scheme.

6. Directors' Emoluments and Transactions

	2011 £000	2010 £000
Total directors' remuneration	**742**	707
Non-executive directors' remuneration		
M. J. Pratt (Chairman)	**39**	37
R. Atkinson (Vice–Chairman)	**28**	25
S. F. M. Berry	**21**	15
D. M. Clarke	**21**	20
T. Hebdon (appointed 11 December 2009)	**21**	7
A.J. Johnston (appointed 15 February 2011)	**3**	–
C.A. Waddington (retired 29 June 2010)	**5**	20
	138	124

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

Executive directors' remuneration	Salary £000	Bonus £000	Taxable benefits £000	Sub–total £000	Increase in accrued pension £000	Pension contributions £000	Total £000
2011							
K. Parr	**183**	**9**	**8**	**200**	**4**	**–**	**204**
J. M. Leveson	**116**	**5**	**8**	**129**	**3**	**–**	**132**
J. C. N. Kidd	**127**	**6**	**5**	**138**	**3**	**–**	**141**
P. R. Temple	**112**	**6**	**5**	**123**	**2**	**2**	**127**
	538	**26**	**26**	**590**	**12**	**2**	**604**
2010							
K. Parr	176	–	8	184	9	–	193
J. M. Leveson	123	–	8	131	2	–	133
J. C. N. Kidd	125	–	5	130	2	–	132
P. R. Temple	108	8	6	122	1	2	125
	532	8	27	567	14	2	583

Mr. Leveson was absent on long term sickness leave during both of these years, and part of his salary during this period was covered by permanent health insurance.

Defined Benefit Pension Scheme	Directors' contribution £000	Accumulated total accrued pension at year end £000	Transfer value of accrued benefits, 31 March 2011 £000	Transfer value of accrued benefits, 31 March 2010 £000	Difference in transfer value less contributions £000
K. Parr	**14**	**51**	**810**	**704**	**92**
J. M. Leveson	**10**	**30**	**422**	**370**	**42**
J. C. N. Kidd	**10**	**34**	**442**	**390**	**42**
P. R. Temple	**7**	**43**	**827**	**750**	**70**

As stated in note 5, during the year the Society implemented a salary sacrifice scheme whereby the employee agrees to a reduction in salary in exchange for the Society making the pension contributions that were previously paid by the employee. The amounts shown above include the headline salary (i.e. before the salary sacrifice deduction) and directors' pension contributions include amounts which would have been paid by them had the scheme not been in place.

Pensions paid to former directors were £4,000 (2010 - £4,000).

None of the directors had an interest in shares in, or debentures of, any subsidiary undertaking of the Society at any time during the financial year.

At 31 March 2011 two directors had mortgage loans granted in the ordinary course of business, amounting to £200,000 (2010 - two directors, £286,000). A register is maintained at the Principal Office of the Society, containing details of loans, transactions and arrangements between the Society and its directors and connected persons; requisite particulars from it are available for inspection.

7. Taxation

	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
(a) Analysis of charge in year:				
Current tax				
Corporation tax at 28%	**2,290**	2,706	**2,262**	2,773
Under provision of corporation tax in prior year	**4**	21	**–**	22
Total current tax	**2,294**	2,727	**2,262**	2,795
Deferred tax at 26% (2010 – 28%)				
Origination and reversal of timing differences	**276**	(228)	**239**	(299)
Tax on profit on ordinary activities	**2,570**	2,499	**2,501**	2,496
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	**8,422**	8,843	**8,567**	8,823
Tax on profit on ordinary activities at UK standard rate of 28%	**2,358**	2,476	**2,399**	2,470
Effects of:				
Depreciation in excess of capital allowances	**88**	47	**73**	143
Other timing differences	**(69)**	150	**(69)**	149
Expenses not deductible for tax purposes	**6**	34	**7**	11
Release of accrual not taxable	**(21)**	–	**–**	–
Non-taxable dividend income	**–**	–	**(79)**	–
Adjustments to tax charge for payments basis (pensions)	**(69)**	–	**(69)**	–
Small companies rate	**(3)**	(1)	**–**	–
Under provision of corporation tax in prior year	**4**	21	**–**	22
Current tax charge for year	**2,294**	2,727	**2,262**	2,795

8. Loans and Advances to Credit Institutions

	Group and Society 2011 £000	Group and Society 2010 £000
Loans and advances to credit institutions are repayable from the date of the balance sheet in the ordinary course of business as follows:		
On demand	**13,440**	13,646
In not more than three months	**139,691**	171,653
In more than three months but not more than one year	**31,500**	40,000
In more than one year but not more than five years	**–**	5,000
	184,631	230,299
Accrued interest	**439**	552
	185,070	230,851

9. Debt Securities

	Group and Society 2011 £000	Group and Society 2010 £000
(a) Debt securities comprise:		
Issued by public bodies	**31,954**	19,739
Issued by other borrowers	**77,175**	124,395
	109,129	144,134

Included in debt securities are £681,000 (2010 - £643,000) of unamortised premiums and discounts.

	Group and Society 2011 £000	Group and Society 2010 £000
(b) Debt securities are repayable from the date of the balance sheet in the ordinary course of business as follows:		
In not more than one year	**99,490**	129,170
In more than one year	**9,191**	14,474
	108,681	143,644
Accrued interest	**448**	490
	109,129	144,134
(c) Analysis of debt securities, excluding accrued interest:		
Transferable securities		
Listed on a recognised investment exchange	**31,681**	19,644
Unlisted	**77,000**	124,000
	108,681	143,644
Market value of listed transferable securities	**31,975**	20,007

The directors of the Society consider that the primary purpose of holding securities is prudential. The securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are classified as financial fixed assets.

Movements during the year of transferable securities held as financial fixed assets are analysed as follows:

Cost (excluding accrued interest)	Group and Society £000
At 1 April 2010	**143,644**
Additions	**371,037**
Disposals and maturities	**(406,000)**
At 31 March 2011	**108,681**

10. Loans and Advances to Customers

	Group and Society 2011 £000	Group and Society 2010 £000
(a) Loans and advances to customers comprise:		
Loans fully secured on residential property	**1,003,893**	1,034,460
Other loans		
Loans fully secured on land	**146,414**	145,619
Other loans	**2,116**	1,464
	1,152,423	1,181,543
(b) The maturity of loans and advances to customers from the date of the balance sheet is as follows:		
On call and at short notice	**13,082**	11,640
In not more than three months	**13,067**	12,196
In more than three months but not more than one year	**43,961**	41,464
In more than one year but not more than five years	**266,343**	257,641
In more than five years	**821,066**	862,903
	1,157,519	1,185,844
Less: Provisions (note 11)	**(5,045)**	(4,233)
Deferred mortgage indemnity guarantee insurance income	**(51)**	(68)
	1,152,423	1,181,543

The actual experience of repayments may differ from the above since many loans and advances are repaid early.

11. Provisions for bad and doubtful debts

	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Total £000
	Group and Society			
Provisions against loans and advances to customers have been made as follows:				
At 1 April 2010				
General provision	1,690	2,248	40	3,978
Specific provision	–	199	56	255
	1,690	2,447	96	4,233
Amounts written off during year				
Specific provision	(25)	(116)	(3)	(144)
	(25)	(116)	(3)	(144)
Income and expenditure account				
Provisions for bad and doubtful debts				
General provision	–	(250)	–	(250)
Specific provision	236	962	8	1,206
	236	712	8	956
At 31 March 2011				
General provision	1,690	1,998	40	3,728
Specific provision	211	1,045	61	1,317
	1,901	3,043	101	5,045

The total charge of £944,000 in the income and expenditure account consists of the charge of £956,000 shown above, and credits of £6,000 each in respect of recoveries against residential loans and other loans which had been written off in prior years.
Within accruals and deferred income the Society has a provision of £550,000 (2010 - £772,000) in respect of customer claims arising from potential shortfalls on the maturity of endowment policies.

12. Investments in Subsidiary Undertakings (Society)

	Shares £000	Loans £000	Total £000
Cost at 1 April 2010	2,890	943	3,833
Repayments	(1,500)	–	(1,500)
Cost at 31 March 2011	1,390	943	2,333

Subsidiary undertakings carrying on a business

At 31 March 2011 the Society held an interest in the following principal subsidiary undertakings all limited by shares under the Companies Act 2006:

	Country of Registration	Principal Activity	Class of Shares	Interest of Society
Direct				
Cumberland Holdings Ltd	England	Holding Company	Ordinary	100%
Indirect				
Cumberland Estate Agents Ltd	England	Estate Agents	Ordinary	100%
Cumberland Financial Services Ltd	England	Independent Financial Adviser	Ordinary	100%
Cumberland Homes Ltd	England	Development Company	Ordinary	100%
Cumberland Property Services Ltd	England	Property Company	Ordinary	100%

13. Tangible Fixed Assets (Group)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2010	17,364	13,906	31,270
Additions	214	956	1,170
Properties transferred to 'investment properties' (note 14)	(947)	–	(947)
Disposals	(126)	(207)	(333)
At 31 March 2011	16,505	14,655	31,160
Depreciation			
At 1 April 2010	9,422	12,106	21,528
Charge for year	408	880	1,288
Properties transferred to 'investment properties' (note 14)	(71)	–	(71)
Disposals	(41)	(185)	(226)
At 31 March 2011	9,718	12,801	22,519
Net book value			
At 31 March 2011	6,787	1,854	8,641
At 31 March 2010	7,942	1,800	9,742

Tangible Fixed Assets (Society)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2010	14,854	13,296	28,150
Additions	119	923	1,042
Disposals	(126)	(187)	(313)
At 31 March 2011	14,847	14,032	28,879
Depreciation			
At 1 April 2010	8,595	11,558	20,153
Charge for year	350	838	1,188
Disposals	(41)	(165)	(206)
At 31 March 2011	8,904	12,231	21,135
Net book value			
At 31 March 2011	5,943	1,801	7,744
At 31 March 2010	6,259	1,738	7,997

The net book value of land and buildings occupied by the Group for its own activities at 31 March 2011 was £5,955,000 (Society £4,995,000) (2010 - Group £6,205,000, Society £5,189,000).

14. Investment Properties

	Group 2011 £000	Group 2010 £000
At 1 April	**340**	375
Properties transferred from 'tangible fixed assets' (note 13)	**876**	–
Revaluation	**394**	(35)
At 31 March	**1,610**	340

Two properties which were previously held within tangible fixed assets, have been reclassified as investment properties.
Valuations of these, and the one property already classified as an investment property, were carried out on a market value basis by an independent valuer, T.M. Hargraves BSc FRICS, Director of Hyde Harrington Ltd, as at 31 March 2011.

15. Other Assets	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Deferred taxation asset (note 16)	**1,182**	1,389	**1,158**	1,328
Other	**356**	279	**685**	515
	1,538	1,668	**1,843**	1,843

16. Deferred Taxation	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
The elements of deferred taxation at 26% (2010 - 28%) are as follows:				
Difference between accumulated depreciation and amortisation and capital allowances	**199**	227	**175**	195
General mortgage loss provisions	**969**	1,114	**969**	1,114
Other timing differences	**14**	48	**14**	19
Deferred taxation asset (note 15)	**1,182**	1,389	**1,158**	1,328
The deferred taxation movement for the year is as follows:				
At 1 April	**1,389**	1,161	**1,328**	1,029
(Charge)/credit for the year (note 7)	**(276)**	228	**(239)**	299
Offset against pension deficit	**69**	–	**69**	–
At 31 March	**1,182**	1,389	**1,158**	1,328

17. Prepayments and Accrued Income	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Accrued income relating to off balance sheet instruments	**2,999**	2,576	**2,999**	2,576
Other	**223**	196	**217**	190
	3,222	2,772	**3,216**	2,766

18. Shares	Group and Society 2011 £000	Group and Society 2010 £000
(a) Shares comprise:		
Held by individuals	**1,341,382**	1,320,672
Other	**7**	7
	1,341,389	1,320,679
(b) Repayable from the date of the balance sheet in the ordinary course of business as follows:		
On demand	**702,328**	713,360
In not more than three months	**177,068**	167,576
In more than three months but not more than one year	**341,150**	355,570
In more than one year but not more than five years	**112,197**	75,336
	1,332,743	1,311,842
Accrued interest	**8,646**	8,837
	1,341,389	1,320,679

19. Amounts owed to Credit Institutions	2011 £000	2010 £000
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
In not more than three months	**2,000**	11,750
In more than three months but not more than one year	**2,500**	18,500
In more than one year but not more than five years	**–**	10,000
	4,500	40,250
Accrued interest	**6**	121
	4,506	40,371

NOTES TO THE ACCOUNTS

20. Amounts owed to Other Customers	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Repayable from the date of the balance sheet in the ordinary course of business as follows:				
On demand	**21,360**	18,314	**21,739**	20,325
In not more than three months	**24,065**	47,570	**24,065**	47,570
In more than three months but not more than one year	**17,446**	33,233	**17,446**	33,233
In more than one year but not more than five years	**2,394**	2,259	**2,394**	2,259
	65,265	101,376	**65,644**	103,387
Accrued interest	**398**	997	**398**	997
	65,663	102,373	**66,042**	104,384

21. Other Liabilities	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
Falling due within one year:				
Corporation tax	**1,328**	1,424	**1,261**	1,375
Income tax	**565**	548	**565**	548
Other creditors	**1,031**	936	**1,000**	1,023
	2,924	2,908	**2,826**	2,946

22. Provisions for Liabilities	Group and Society 2011 £000	Group and Society 2010 £000
Financial Services Compensation Scheme Levy:		
At 1 April	**1,367**	2,713
Paid	**(471)**	(477)
Charged/(credited) to income and expenditure account	**205**	(869)
At 31 March	**1,101**	1,367

The Financial Services Compensation Scheme (FSCS) makes annual levies on all regulated U.K. deposit-takers in relation to its running expenses (the management expenses levy) and any compensation claims made against it (the compensation levy). The levies for each deposit-taker are based on its share of the total of protected deposits.

The management expenses levy now includes the cost of interest on sums borrowed by the FSCS from the Bank of England, and eventually HM Treasury, in order to fund the exceptional compensation payments arising from deposit-taker failures principally during 2008. Levies were made in relation to Bradford and Bingley plc (September 2008), the U.K. retail deposit-taking arms of Icelandic banks (Heritable, Kaupthing Edge and Icesave - October 2008), London Scottish Bank plc (December 2008), and the transfer of core parts of Dunfermline Building Society to Nationwide Building Society in March 2009.

In the current year, the Society paid £471,000 in respect of the levy for 2009-10. In addition to this, the charge of £205,000 in the latest year represents the Society's latest calculation of its liability with reference to its protected deposits, anticipated future interest rates and the FSCS's latest estimates of the management expenses levy for the scheme years.

There remains uncertainty over the amount provided; the final amounts chargeable in respect of management expenses levy claims will depend upon future interest rates and each deposit-taker's final share of the U.K. total of protected deposits.

In addition to the management expenses levy claims referred to above, the Society will be required to contribute to any compensation levies raised in relation to the aforementioned deposit-taker failures. Compensation levies will arise in the event that proceeds from the eventual disposal of assets are insufficient to cover compensation payments made by the FSCS.

23. Reserves	Group 2011 £000	Group 2010 £000	Society 2011 £000	Society 2010 £000
General Reserves				
At 1 April	**102,676**	96,232	**102,636**	96,209
Profit for the financial year	**5,852**	6,344	**6,066**	6,327
Actuarial (loss)/gain net of deferred tax in the STRGL	**(56)**	100	**(56)**	100
At 31 March	**108,472**	102,676	**108,646**	102,636
Investment Properties				
At 1 April	**(93)**	(58)	**–**	–
Unrealised gain/(loss) on revaluation of properties (note 14)	**394**	(35)	**–**	–
At 31 March	**301**	(93)	**–**	–
Reserves excluding net pension liability	**108,809**	102,742	**108,682**	102,795
Net pension liability	**(36)**	(159)	**(36)**	(159)
Reserves including net pension liability	**108,773**	102,583	**108,646**	102,636

24. Guarantees and other Financial Commitments

(a) The Society has undertaken to discharge the liabilities of all its subsidiary undertakings, in so far as they are unable to discharge them out of their own assets.

(b) Financial Services Compensation Scheme
The Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme as outlined in note 22.

(c) Capital commitments at 31 March for which no provision has been made in the accounts were as follows:

	Group and Society 2011 £000	Group and Society 2010 £000
Contracted but not provided for	**201**	30
(d) Memorandum items		
Irrevocable mortgage commitments	**5,503**	6,029

25. Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Group is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage the risks arising from its operations.
The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This is set out in the Treasury Policy Statement, approved by the Board. This structure is reviewed regularly by the Assets and Liabilities Committee (ALCO), which is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes.
Instruments used for risk management purposes include derivative financial instruments ('derivatives'), 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.
Derivatives are only used by the Group in accordance with the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes.

Types of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products.
The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. Such risks may alternatively be managed using on balance sheet instruments as part of an integrated approach to risk management.

Activity	Risk	Type of hedge
Fixed rate savings products	Sensitivity to falls in interest rates	Receive fixed interest rate swaps
Fixed rate mortgage lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps

The table below shows the nominal principal amounts, credit risk weighted amounts and replacement costs of derivatives, analysed by maturity. Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date, reflecting the Group's maximum exposure should the counterparties default. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty.

	Nominal principal amount 2011 £000	Credit risk weighted amount 2011 £000	Replacement cost 2011 £000	Nominal principal amount 2010 £000	Credit risk weighted amount 2010 £000	Replacement cost 2010 £000
Interest rate contracts						
– under one year	**257,530**	**586**	**2,929**	213,000	595	2,973
– between one and five years	**212,950**	**492**	**2,084**	206,830	885	3,390

The accounting policy for derivatives is described in note 1 to the accounts.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cashflow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business.

Market risk

The primary market risk faced by the Group is interest rate risk. The potential impact of changes in interest rates on the Group's financial position is monitored against policy limits approved by the Board on a continuous basis, and managed using a combination of on and off balance sheet instruments.

The table below shows the allocation of assets and liabilities at the balance sheet date to time bands by reference to the earlier of the next interest repricing date and the maturity date. The interest rate sensitivity gap represents the asset/liability mis–match within the balance sheet after taking into account off balance sheet derivatives and quantifies the net value of assets or liabilities which will give rise to earnings variations when interest rates change.

Group At 31 March 2011:	**Not more than three months £000**	**More than three months but not more than six months £000**	**More than six months but not more than one year £000**	**More than one year but not more than five years £000**	**Non interest bearing £000**	**Total £000**
Assets						
Liquid assets	269,241	47,964	31,990	9,192	950	359,337
Loans fully secured on residential property and other loans	906,625	17,752	17,796	215,295	(5,045)	1,152,423
Tangible fixed assets	–	–	–	–	8,641	8,641
Other assets	–	–	–	–	6,370	6,370
Total assets	1,175,866	65,716	49,786	224,487	10,916	1,526,771
Liabilities						
Shares	1,070,229	61,764	96,554	104,196	8,646	1,341,389
Amounts owed to credit institutions and other customers	61,228	5,516	3,021	–	404	70,169
Other liabilities	–	–	–	–	6,440	6,440
Reserves	–	–	–	–	108,773	108,773
Total liabilities	1,131,457	67,280	99,575	104,196	124,263	1,526,771
Net assets / (liabilities)	44,409	(1,564)	(49,789)	120,291	(113,347)	–
Off balance sheet items	17,178	31,150	76,622	(124,950)	–	–
Interest rate sensitivity gap	61,587	29,586	26,833	(4,659)	(113,347)	–
Cumulative gap	61,587	91,173	118,006	113,347	–	–

Group At 31 March 2010:	Not more than three months £000	More than three months but not more than six months £000	More than six months but not more than one year £000	More than one year but not more than five years £000	Non interest bearing £000	Total £000
Assets						
Liquid assets	289,914	41,000	31,170	14,474	1,042	377,600
Loans fully secured on residential property and other loans	944,597	16,690	29,623	194,866	(4,233)	1,181,543
Tangible fixed assets	–	–	–	–	9,742	9,742
Other assets	–	–	–	–	4,780	4,780
Total assets	1,234,511	57,690	60,793	209,340	11,331	1,573,665
Liabilities						
Shares	1,072,781	63,806	107,106	68,149	8,837	1,320,679
Amounts owed to credit institutions and other customers	108,702	13,124	19,500	300	1,118	142,744
Other liabilities	–	–	–	–	7,659	7,659
Reserves	–	–	–	–	102,583	102,583
Total liabilities	1,181,483	76,930	126,606	68,449	120,197	1,573,665
Net assets / (liabilities)	53,028	(19,240)	(65,813)	140,891	(108,866)	–
Off balance sheet items	50,830	18,400	55,600	(124,830)	–	–
Interest rate sensitivity gap	103,858	(840)	(10,213)	16,061	(108,866)	–
Cumulative gap	103,858	103,018	92,805	108,866	–	–

Fair values of financial instruments

Set out below is a comparison of book and fair values of some of the Group's financial instruments by category. Where available, market values have been used to calculate fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates. Interest rate options have been valued using current replacement cost for comparable instruments.

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages, retail savings accounts and other balance sheet items whose book and fair values may differ at the balance sheet date.

Assets	**Book value 2011 £000**	**Fair value 2011 £000**	Book value 2010 £000	Fair value 2010 £000
On balance sheet instruments				
Liquid assets	**103,800**	**104,126**	144,134	144,591
Off balance sheet instruments				
Interest rate contracts	**2,999**	**1,087**	2,576	(2,840)

Liquid assets as stated above excludes non–marketable instruments.

Gains and losses arising from derivatives used to hedge financial risks

Gains and losses arising from derivatives used to hedge financial risks are not recognised within interest receivable until the exposure that is being hedged is itself recognised. Unrecognised gains and losses arising from derivatives and the movements therein are shown in the table below.

	Unrecognised gains £000	Unrecognised losses £000	Net Unrecognised gain/(loss) £000
Unrecognised at the start of the year	6,361	(11,777)	(5,416)
Recognised in the year	(2,972)	1,274	(1,698)
Carried forward to future periods	3,389	(10,503)	(7,114)
Gains and losses arising in the year but not recognised in the year	1,624	3,578	5,202
Unrecognised at the end of the year	5,013	(6,925)	(1,912)
Of which:			
Expected to be realised in the year ending 31 March 2012	2,929	(967)	1,962
Expected to be realised after 31 March 2012	2,084	(5,958)	(3,874)
	5,013	(6,925)	(1,912)

26. Pensions

The Group operates a defined benefit pension scheme and three defined contribution schemes, funded by contributions from the Group and its staff.

Defined contribution schemes

The Group's contributions in the year to the defined contribution schemes totalled £160,000 (2010 - £158,000). This excludes the additional contributions made by the Group following the implementation of the salary sacrifice scheme outlined in note 5.

The assets of the schemes are externally managed. One of the schemes is open to all new employees.

Defined benefit scheme

The defined benefit scheme is externally managed and was closed to new entrants in April 2000.

All of the following details relate solely to the defined benefit scheme.

The valuation used for FRS 17 disclosures has been prepared by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2011 using the attained age method. Scheme assets are stated at their market value at 31 March 2011.

The most recent full actuarial valuation was as at 27 August 2009.

Principal assumptions used to calculate the scheme's liabilities under FRS 17	**2011 %**	2010 %
Rate of increase in salaries	**4.40**	4.20
Rate of increase in pensions in payment	**3.60**	3.40
Discount rate	**5.60**	5.60
Inflation assumption	**3.60**	3.40

Post-retirement mortality is based on the PMA/PFA00 tables with reference to members' years of birth. Allowance has been made for improvement in mortality for males at 100% of the medium cohort rate with a minimum improvement of 1.4% p.a., and for females at 70% of the medium cohort rate with a minimum of 1.1% p.a. Pre-retirement mortality is based on the AM92/AF92 tables using 70% of the mortality indicated by them.

The number of years' life expectancy, retiring at 62, is as follows:	**2011**	2010
Retiring today:		
Males	**87.9**	87.6
Females	**89.2**	89.0
Retiring in 20 years:		
Males	**90.9**	90.6
Females	**91.3**	91.1

The Group contributed at the rate of 15.8% (2010 - 17.2%) of pensionable salaries for the year. Group contributions for the next financial year, based on contribution rates and membership at 31 March 2011, and excluding the additional contributions made following the implementation of the salary sacrifice scheme as stated in note 5, are estimated at £426,000.

Amounts recognised in the balance sheet

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	**(38,607)**	(36,701)	(27,302)	(31,619)	(32,532)
Fair value of scheme assets	**38,558**	36,480	26,941	32,506	33,063
Net pension (liability)/asset	**(49)**	(221)	(361)	887	531
Net pension (liability)/asset after deferred tax	**(36)**	(159)	(260)	639	372

Reconciliation of the present value of scheme liabilities

	2011 £000	2010 £000
At 1 April	**36,701**	27,302
Interest cost	**2,046**	1,797
Current service cost	**375**	337
Contributions from scheme members	**191**	218
Charges paid	**(56)**	(52)
Benefits paid	**(828)**	(659)
Experience change in secured pensioner value	**38**	256
Actuarial loss	**140**	7,502
At 31 March	**38,607**	36,701

Reconciliation of the fair value of scheme assets	2011 £000	2010 £000
At 1 April	**36,480**	26,941
Expected return on assets	**2,418**	1,745
Contributions from employers and scheme members	**644**	738
Charges paid	**(56)**	(52)
Benefits paid	**(828)**	(659)
Expenses paid	**(203)**	(130)
Experience change in secured pensioner value	**38**	256
Actuarial gain	**65**	7,641
At 31 March	**38,558**	36,480

Fair value of the scheme's assets and the expected rates of return at 31 March

	Expected long term rate of return 2011 %	Value 2011 £000	Expected long term rate of return 2010 %	Value 2010 £000
Equities	**7.40**	**21,145**	7.50	21,441
Bonds	**5.70**	**12,122**	5.70	10,801
Cash	**4.00**	**1,918**	4.00	1,938
Annuities	**5.70**	**2,321**	5.70	2,300
Other growth-type assets	**7.40**	**941**	–	–
Property	**7.40**	**111**	–	–
Total market value of assets		**38,558**		36,480

The scheme's assets are not intended to be realised in the short term and their market values may be subject to significant change before the assets are realised.

Amounts recognised in the performance statements under the requirements of FRS 17

a) Administrative expenses	2011 £000	2010 £000
Current service cost	**375**	337
Total operating charge	**375**	337

The operating charge of £375,000 (2010 - £337,000), plus the Group's contributions to the defined contribution schemes of £160,000 (2010 - £158,000), comprise the Group's 'other pension costs' total of £535,000 (2010 - £495,000) shown in note 5.

b) Pension finance income/(charge)		
Expected return on pension scheme assets	**2,418**	1,745
Interest on pension scheme liabilities	**(2,046)**	(1,797)
Net income/(charge)	**372**	(52)

c) Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension scheme assets	**103**	7,641
Experience gains/(losses) arising on scheme liabilities	**380**	(242)
Changes in assumptions underlying the present value of the scheme's liabilities	**(558)**	(7,260)
Actuarial (loss)/gain	**(75)**	139
Movement in deferred taxation relating to pension scheme	**19**	(39)
Actuarial (loss)/gain recognised in the STRGL	**(56)**	100

d) Movement in the deficit in the scheme during the year		
Deficit in scheme at beginning of year	**(221)**	(361)
Movement in year:		
Current service cost	**(375)**	(337)
Contributions	**250**	390
Other finance income/(charge)	**372**	(52)
Actuarial (loss)/gain	**(75)**	139
Deficit in scheme at end of year	**(49)**	(221)

History of experience gains and losses	2011	2010	2009	2008	2007
Actual return less expected return on pension scheme assets (£000)	**103**	7,641	(7,693)	(3,272)	96
Percentage of scheme assets	**0.3**	20.9	28.6	10.1	0.3
Experience gains/(losses) arising on the scheme liabilities (£000)	**380**	(242)	80	(426)	299
Percentage of scheme liabilities	**1.0**	0.7	0.3	1.3	0.9
Actuarial (loss)/gain recognised in the STRGL (£000)	**(75)**	139	(1,535)	(143)	538
Percentage of scheme liabilities	**0.2**	0.4	5.6	0.5	1.7

ANNUAL BUSINESS STATEMENT

For the year ended 31 March 2011

1. Statutory Percentages	31 March 2011 %	Statutory Limit %
Lending Limit	**13.58**	25
Funding Limit	**4.97**	50

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

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets comprise Group total assets plus provision for bad and doubtful debts, less liquid assets and tangible fixed assets.

The Funding Limit measures the proportion of shares and other borrowings not in the form of shares held by individuals.

The statutory limits are laid down under the Building Societies Act 1986 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	Group 31 March 2011 %	Group 31 March 2010 %
As percentage of shares and borrowings:		
Gross capital	**7.71**	7.01
Free capital	**7.36**	6.62
Liquid assets	**25.46**	25.80
Profit for the financial year as a percentage of mean total assets	**0.38**	0.41
Management expenses as a percentage of mean total assets	**0.98**	1.00

	Society 31 March 2011 %	Society 31 March 2010 %
Management expenses as a percentage of mean total assets	**0.89**	0.90

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

'Shares and borrowings'	represent the total value of shares, amounts owed to credit institutions and amounts owed to other customers.
'Gross capital'	represents the general reserves and the investment properties reserve.
'Free capital'	represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less tangible fixed assets.
'Mean total assets'	represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
'Liquid assets'	represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and treasury and other bills.
'Management expenses'	represent the aggregate of administrative expenses, depreciation and amortisation.

3. Information relating to the Directors, Chief Executive and other Officers as at 31 March 2011

Name	Occupation	Date of Birth	Date of Appointment	Other Directorships (excluding dormant companies)
DIRECTORS				
M. J. Pratt, BA, FCA	Company Director	26.1.56	29.9.96	ASW Properties Ltd Carleton Properties (Cumbria) Ltd Brigrove Ltd Brigrove (Two) Ltd Brigrove (Three) Ltd Brigrove (Four) Ltd Brigrove (Five) Ltd Brigrove (Six) Ltd Gibbons Properties Ltd MEP Enterprises Ltd The Old Ginn House Ltd The Veterinary Defence Society Ltd
R. Atkinson, LLB	Solicitor	10.6.53	1.8.97	25/26 Church St. Ltd
S. F. M. Berry	Hotelier and Company Director	23.9.59	10.1.03	English Lakes Hotels Ltd English Lakes Hotels (Property Management) Ltd Low Wood Hotel (1958) Ltd Crosthwaite Hotels (Westmorland) Ltd Cumbria Tourist Board youStay Ltd Lake Christian Centre Ltd LPEA Europe Sam's Club (Lakeland) Ltd
D. M. Clarke, BSc, FCIM, FCIMC	Company Director	22.5.48	14.2.05	Fellside Management Services Ltd Forensic Science Service Ltd Phonepay Plus Ltd The Abbeyfield Society Ltd IMCB Ltd The Pensions Advisory Service Ltd
T. Hebdon, ACIB	Business Consultant	21.3.54	11.12.09	Carlisle Cathedral Development Trust Hospice at Home, Carlisle and North Lakeland
A. J. Johnston, BA, FCA	Chartered Accountant	13.2.60	15.2.11	
J. C. N. Kidd, BA, ACA	Building Society Finance Director and Secretary	10.6.65	28.3.02	Cumberland Financial Services Ltd Cumberland Homes Ltd Cumberland Property Services Ltd
J. M. Leveson, MBA, FCIB	Building Society Deputy Chief Executive	4.9.59	17.11.97	Cumberland Holdings Ltd Cumberland Financial Services Ltd Cumberland Property Services Ltd Cumberland Estate Agents Ltd Cumberland Homes Ltd
K. Parr, BA, FCCA	Building Society Chief Executive	27.5.60	26.7.94	Cumberland Holdings Ltd Cumberland Financial Services Ltd Cumberland Property Services Ltd Cumberland Estate Agents Ltd Cumberland Homes Ltd
P. R. Temple, BSc, MBA	Building Society Operations and Human Resources Director	9.3.61	1.9.07	Cumberland Estate Agents Ltd Cumberland Financial Services Ltd
OFFICERS				
A. Gordon, BSc	Assistant General Manager (Branches)			Cumberland Estate Agents Ltd Cumberland Financial Services Ltd
C. McDonald, BSc	General Manager			Cumberland Estate Agents Ltd
G. Richardson	Assistant General Manager (IT)			

Mr K. Parr, Mr J. M. Leveson, Mr J. C. N. Kidd and Mr P. R. Temple are employed under contracts terminable by the Society or by the individual on six months' notice, under normal circumstances. Mr Parr's contract was signed on 28 January 1997, Mr Leveson's on 12 February 1998, Mr Kidd's on 16 May 2002 and Mr Temple's on 30 January 2008.
Correspondence to Directors jointly or individually should be addressed 'Private and Confidential' and c/o KPMG Audit Plc, St James' Square, Manchester M2 6DS.

Cumberland
Building Society

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