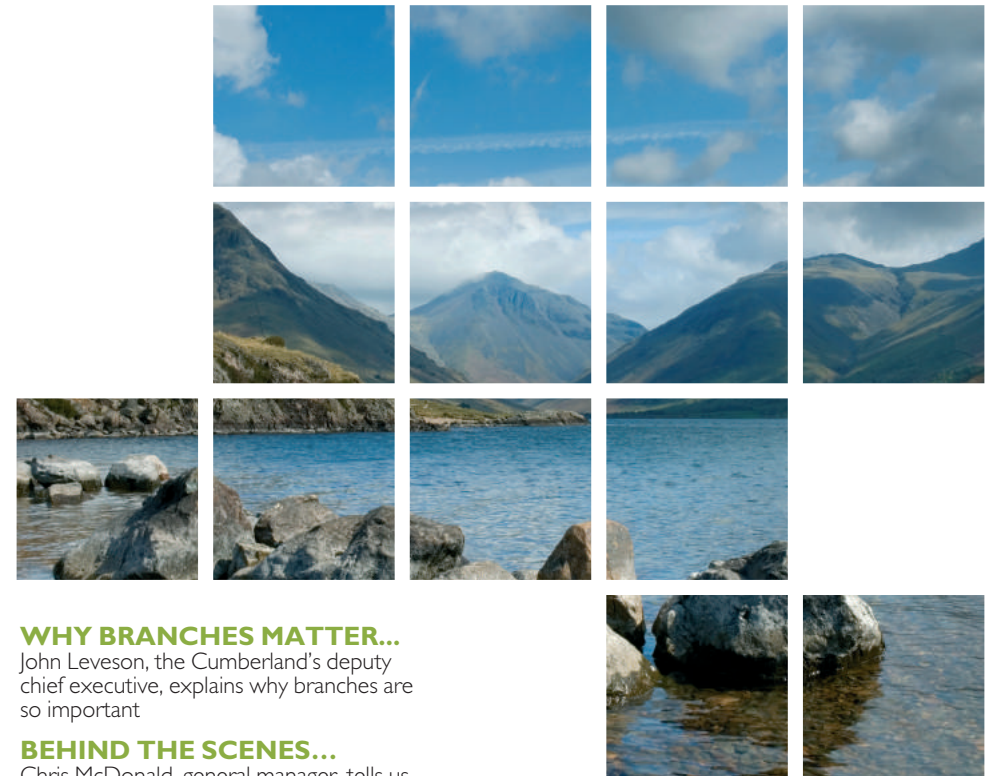


annual. review

INCLUDING SUMMARY
FINANCIAL STATEMENT
AND NOTICE OF ANNUAL
GENERAL MEETING

year ended 31 March 2013



WHY BRANCHES MATTER...

John Leveson, the Cumberland's deputy chief executive, explains why branches are so important

BEHIND THE SCENES...

Chris McDonald, general manager, tells us about his role in head office

IN THE COMMUNITY...

Projects we have supported during the year

Cumberland Building Society, Cumberland House, Castle Street,
Carlisle, CA3 8RX · Phone: 0845 601 8396 · 01228 403141
customerservice@cumberland.co.uk

To help us monitor and improve customer service telephone calls may be recorded.

www.cumberland.co.uk


Cumberland
Building Society

Cumberland Building Society

Contents

Chairman's welcome	3
An introduction from Michael Pratt	
Why branches matter	4 - 5
John Leveson, the Cumberland's deputy chief executive, explains why branches are so important	
Behind the scenes	6 - 7
Chris McDonald, general manager, tells us about his role in head office	
Cumberland in the Community	8 - 9
Projects we have supported during the year	
Summary Financial Statement	10 - 11
Financial Results	12 - 13
Independent Auditor's Statement	14
Report on Directors' Remuneration	15 - 16
Notice of Annual General Meeting	17
Notes on Voting	17 - 18
Explanatory Notes on the Ordinary and Special Resolutions	18
Election and Re-election of Directors	19

Chairman's welcome

Welcome to the 2013 members' Annual Review



Financially, the Cumberland has had another successful year, with a slightly increased profit of £6.16 million after tax. We have also had a strong year for lending, with our mortgage balances growing by 6.9%, while our savings and current account balances grew by 2.1%. You can read more about our results on pages 10 to 13 of this booklet. We have maintained our long established approach of seeking to make a healthy but not excessive level of profit which maintains our capital strength and security, while providing competitive rates to both borrowers and savers, supported by excellent customer service.

Highlights of the year included:

- The opening of our new branch and estate agency office in Lancaster
- The introduction of an ATM at our Cleator Moor branch
- Increased services for our internet and mobile banking customers
- The introduction of a Lettings and Management Service by Cumberland Estate Agents, and
- The purchase of a new head office at Kingstown on the outskirts of Carlisle.

As we all know, economic conditions continue to be difficult with much uncertainty as to when they might improve. However, the Cumberland continues to make very good progress on several fronts, and this we believe, is fundamentally because the short, medium and long term interests of our members are paramount in every decision we make. Although the financial services market generally is dominated to a large extent by huge organisations, I firmly believe that it is much to the benefit of this particular region, that the Cumberland is a strong and successful alternative, providing first class service and value for local people.

Our mutual status and independence are vital in enabling us to put the interests of our members first in everything we do, rather than having to factor in the demands of external shareholders. On pages 17 to 19 you can read about our Annual General Meeting which will be held on 25 June. Please cast your votes, especially as each member doing so will raise 50p for this year's beneficiary of our 'pledge for votes', Action for Blind People.

Finally, I would like to say that the skill and enthusiasm of our staff is greatly appreciated, as is the continuing strong support which we receive from you, our members.

Michael Pratt
Chairman, May 2013



In February 2013, the Cumberland opened its 34th branch in Lancaster city centre. We asked John Leveson, the Cumberland's deputy chief executive, to explain why branches are a vital part of the Society's success.

why branches matter

Q Why is your branch network so important to you?

Providing a really high quality service is extremely important to us. An essential element of that service is building personal relationships with our customers. We know that when dealing with important financial decisions, many customers want to be able to speak to us face-to-face and our branches ensure they are able to do so.

Q Why did you choose Lancaster as the location of your newest branch?

With branches in Kendal and Preston there was an obvious gap in our branch coverage.

We also have a lot of customers in North Lancashire so we had been looking for premises in Lancaster city centre for some time. We were fortunate enough to secure an ideal location, and our new branch opened on 18th February this year.

Q The internet is changing the way people manage their finances. How does the increasing popularity of online banking impact on the Cumberland and its branches?

There is no doubt the popularity of online banking has grown significantly over the last few years. Since we introduced our internet banking service in November 2007, over

20,000 people have signed up to use it. We expect to see a continued growth in online banking and it is an area that we are at the forefront of. In late 2011, we were the first building society to launch mobile banking, before some of the large banks, and in March 2013 we introduced SMS text alerts for our internet banking customers, which automatically notifies you by text message when your account balance falls below an amount of your choosing. Next year we will be one of the first financial institutions in the UK to introduce a new service which will allow our internet banking customers to send money via a mobile phone just by using the recipient's mobile phone number.

However, our internet and mobile banking services are designed to complement the services we offer in our branches, not replace them. Whether or not you choose to undertake your day-to-day banking online, you can still speak to someone face to face in a branch. We are committed to maintaining a strong branch presence in our

region's towns and cities and this is why we opened a new branch in Lancaster earlier this year.

Q It is unusual to see a building society offering a current account. Why does the Cumberland offer a current account?

We have been offering current accounts since 1989 as part of our strategy to provide our members with a wide range of everyday financial services. It makes sense to me that a financial institution that offers savings and mortgages should also offer its customers the convenience of a current account service. However, our aim is not just to provide a current account, but to offer one with better service than you can get anywhere else. Our Cumberland Plus current account lets you use your VISA debit card abroad without charge (although an ATM provider or retailer may apply a charge). Our internet and mobile banking services, along with text alerts, enable you to manage your money 24/7. Our dedicated head office team, based in Carlisle,

will help you switch your current account from your existing bank and answer any account queries you may have by telephone seven days a week. In addition to this, you can still call into any one of our 34 branches, which are all open six days a week, and speak to a member of staff.



The Society's new Lancaster branch



behind the scenes

...with Chris McDonald

Your friendly local branch team are not the only ones working hard for you at the Cumberland. Behind the scenes at the Society's head office in Carlisle is a team of people whose job it is to ensure everything to do with your current account, mortgage or savings accounts runs smoothly.

Chris McDonald is one of the Society's executive management team and looks after this area of the business. We asked him about his role...

Q You are responsible for the part of the Cumberland that we've called 'behind the scenes'. Can you tell us a bit more about what you do?

My role is to make sure that your current account, mortgage or savings account operates the way you expect it to. I look after a number of teams of people that manage the various administrative requirements of your account, from ensuring you

receive your Visa debit card and PIN number when you open your current account, to sending you your property's title deeds when you pay off your mortgage. I am also responsible for the Cumberland's customer service helpline staff and the 'switching' team whose job it is to help current account customers transfer their account to the Cumberland.

Q What's the most important part of your role?

Ensuring that my staff provide the highest possible level of customer service - and do so as efficiently as possible.

Q How do you make sure your members receive a great level of service?

This is driven by the culture. There are lots of other organisations out there competing for our customers' business and all staff understand that the success of the Society depends on continuing to deliver an exceptional customer service. We aim to provide a better level of service than every other bank or building society in the UK. But it isn't just about the attitude of our staff. We need to make it easy for our customers to obtain the information they need to manage their finances as efficiently as possible. This sits behind our recent investment in new technology such as mobile banking and balance text alerts. Finally, we have to be able to measure the level of service we are providing to our members. For example, our customer service team receive more than 2,500 telephone calls per week. I receive regular information to show how quickly we have answered those calls, the most frequent queries and how well we have dealt with them. This doesn't mean that we will always get it right, but it does mean that we will know very soon if we are not performing at the level our customers expect and can take immediate action to put things right.

Q In November 2012, the Cumberland announced it was moving its head office to the outskirts of Carlisle. Why are you moving?

Our head office in the centre of Carlisle was built in the early 1980s for a building society that offered only a basic range of savings and mortgage products. Over the last 30 years the Cumberland has grown significantly and today we offer a much wider range of products and services. This growth means we now have almost

200 staff working in the building and it no longer meets our needs.

The new building in the north of Carlisle offers the space we require and provides a modern, efficient and attractive workplace for our staff.



Q What impact will the relocation have on your members?

The relocation is due to take place this summer but it won't affect our members. We will move over a period of several weeks to ensure there is no disruption to the services we provide. Once we have moved, the new environment will allow us to continue providing an exceptional level of service and offers us the opportunity to continue developing the business for the benefit of our members, for many years to come.



The Society's new head office in Kingstown, Carlisle

Cumberland in the Community

In the last year, the Cumberland donated more than £100,000 to local projects. These are some of the recent projects supported by the Society and its staff.



Jennings River Ride

In 2012, the Society supported Cumbria Community Foundation's annual cycling sportive. Starting and ending in Keswick, the event saw around 1,000 cyclists taking part in one of three cycle rides, raising money for the Foundation's charitable work in the county. Staff from the Cumberland took part and raised over £500. The Society has recently confirmed that it will be supporting the event again in 2013.

The Olive Branch



The Olive Branch, a Lancaster-based charity that helps and supports local families and individuals affected by homelessness, poverty and deprivation, received a donation from the Society. The charity provides a support centre in the city where people can obtain debt and budgeting advice, literacy support and emergency food parcels. The Cumberland's donation was used to buy stocks for the charity's food bank.

Cumberland Community Fund

The Society's Community Fund aims to provide financial assistance to projects that involve educational objectives or physical activities and that will benefit communities in our operating area.

Depending on the request, we provide amounts from £100 to £10,000, and we support around 150 individual applications each year.

For further details of the Community Fund, or to submit an application for support, visit www.cumberland.co.uk or email communityfund@cumberland.co.uk

The Charitable Foundation

We also support local charities and voluntary organisations through an annual donation to the Cumberland Building Society Charitable Foundation.

During the year, the Foundation made donations with a combined value of just over £26,000. This included a donation to the Lake District Calvert Trust, to purchase much needed waterproof clothing, to equip disabled visitors for their outdoor adventures, whatever the weather!



Food Train Friends



The Society made a donation to Food Train Friends, a befriending service in South West Scotland. The charity helps to address the issues of loneliness and social isolation experienced by older people in need in the area by providing trips out and home visits.

BENDRIGG TRUST



Bendrigg Trust is based in Kendal and provides outdoor activity courses for people of all ages who are disabled or disadvantaged. In 2013, the Society made a donation to help the Trust offer multi-day canoe journeys for people with special needs. The aim of the project is to enable people to practise a skill to the highest level that they can.

Can we help?

If you know, or are a member of, a local charity or voluntary organisation that would like to be considered for a donation, they can apply via our website (www.cumberland.co.uk) or by sending an email to:

enquiries@cumbriafoundation.org

or

charitablefoundation@cumberland.co.uk


Cumberland Building Society
charitable foundation

Registered Charity No. 1072435

Summary Financial Statement

FOR THE YEAR ENDED 31 MARCH 2013

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors, free of charge, on demand at every office of Cumberland Building Society, and on our website, www.cumberland.co.uk, from 10 June 2013.

Summary Directors' Report

The Society has again produced a strong set of financial results, with a Group profit after tax of £6.16 million, slightly higher than last year. Further details are provided below, and on pages 12 and 13. This strong performance gives the Society a good platform from which to develop its business.

A new branch and estate agency office was opened in Lancaster city centre in February 2013, which over time will assist in increasing the Society's membership base in North Lancashire considerably.

A new head office building was purchased at Kingstown on the outskirts of Carlisle, which will provide the Society with space to grow its operations as required together with much improved working conditions. The Society also completed major projects to upgrade two important systems; the authorisation system for its internet banking, Visa debit and ATM services, and its correspondence management system.

The Society's aim is to be the natural choice for financial services for the people of our operating area. Although economic conditions remain difficult and we believe that they will remain so for a considerable time, the Cumberland has continued to perform well both financially and in terms of the services it provides, which together demonstrate why being a member is so worthwhile.

Financial Results

- Profit after tax was £6.16 million, 0.40% of mean total assets.
- Mortgage balances increased by 6.9% to £1,248.91 million.
- Share balances increased by 2.1% to £1,353.99 million.
- Gross capital as a percentage of shares and borrowings rose to 8.18% from 7.76%.
- Funding other than from individual members, reduced to 4.96% of total funding and almost 70% of this was from local businesses, rather than the financial money markets.

Mortgages

- Residential mortgage balances grew by 7.3% in the year, with new advances rising by 26% to £226 million as the Society competed strongly with attractive products.
- Repayments of capital on residential mortgages were 4% lower however, as a result of the Society's policy of seeking to retain existing borrowers at the end of their product period by offering them the same products as are available to new borrowers.
- The Cumberland responded quickly to the introduction of the Funding for Lending Scheme (which the Government has introduced to provide relatively low cost funds to firms to encourage lending to stimulate the economy) and having completed the application process, was one of only 5 societies to have drawn funds from it at 31 December 2012.

- The quality of the Society's residential mortgage book remains very high, with only four properties in possession at 31 March 2013, and the number of mortgage accounts in arrears remains very low in relation to industry figures.
- Non-residential, commercial lending balances increased by 3.9%.

Savings and Banking Services

- Savings and current account balances grew by 2.1% in the year, with an inflow of funds of almost £10 million.
- Having introduced mobile banking for internet enabled phones in November 2011 the Society added two new services. We introduced SMS text alerts for internet and mobile banking customers, enabling them to receive texts when the balance on their account falls below a level set by themselves, and 'SecureCard', a system enabling members to register their debit cards with us when they travel abroad to guard against fraud.
- New ATMs were installed at Cleator Moor and Lancaster.

Estate Agency

Cumberland Estate Agents Limited introduced a new lettings and management service in 7 of its branches.

Charitable Donations

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

Board of Directors

Simon Berry retired as a director after 10 years of service in December 2012, during which he made a valuable contribution to the success of the Society. Gill Gardner joined the Board in September 2012 and brings with her significant legal and commercial experience.

Corporate Governance

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

Outlook for 2013-14

- Strong mortgage growth along the lines achieved in 2012-13 is targeted for 2013-14, with the aim of utilising the opportunity provided by the Funding for Lending Scheme, and in doing so helping many prospective homeowners, whether they be first time buyers or home movers, and achieving a good share of remortgage business too. Conditions for commercial lending remain challenging because of the ongoing economic difficulties, but where possible we will seek to develop new business, particularly in the hotel, guest house and holiday letting markets.
- We are actively participating in two industry initiatives; firstly, the scheme to accelerate the process for the switching of current accounts between providers, and secondly, the 'mobile payments scheme', by which members will be able to send money securely from their mobile phone, to the account of someone they wish to pay, using that person's mobile phone number.
- The Cumberland remains committed to its independent, mutual status, which enables us to take a long term view and put the interests of our members first, without having to consider external shareholders. We will continue to strive to maintain our strong financial position and develop new products and services for the benefit of our members, with their short, medium and long term interests at the forefront of our minds.

On behalf of the Board
Michael Pratt, Chairman 16 May 2013

Financial Results

FOR THE YEAR ENDED 31 MARCH 2013

	Group 2013	Group 2012
	£000	£000
Results for the year		
Net interest receivable	20,869	19,471
Other income and charges	5,530	5,931
Administrative expenses	(16,566)	(15,970)
Provisions for bad and doubtful debts	(749)	(976)
Operating profit before FSCS levy	9,084	8,456
Provision for FSCS levy	(765)	(525)
Profit for the year before taxation	8,319	7,931
Taxation	(2,157)	(2,075)
Profit for the year	6,162	5,856
Statement of total recognised gains and losses		
Profit for the financial year	6,162	5,856
Actuarial loss recognised in pension scheme	(466)	(5,150)
Movement in deferred tax relating to pension scheme	107	1,236
Total recognised gains and losses for the year	5,803	1,942
Financial position at end of year		
ASSETS		
Liquid assets	284,576	363,113
Mortgages	1,248,906	1,168,109
Other loans	2,170	1,687
Fixed and other assets	17,688	15,713
Total assets	1,553,340	1,548,622
LIABILITIES		
Shares	1,353,994	1,325,782
Borrowings	70,729	101,377
Other liabilities	12,099	10,748
Reserves	116,518	110,715
Total liabilities	1,553,340	1,548,622

	Notes	2013	2012
		%	%
Summary of key financial ratios			
Gross capital as a percentage of shares and borrowings	1	8.18	7.76
Liquid assets as a percentage of shares and borrowings	2	19.97	25.44
Profit for the year as a percentage of mean total assets	3	0.40	0.38
Management expenses as a percentage of mean total assets	4	1.07	1.04

Approved by the Board of Directors on 16 May 2013

M J Pratt Chairman
T Hebdon Chairman of the Audit and Risk Committee
K Parr Chief Executive

NOTES

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

Independent auditor's statement to the members and depositors of Cumberland Building Society

We have examined the summary financial statement of Cumberland Building Society for the year ended 31 March 2013 set out on pages 10 to 13.

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

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement within the Annual Review, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

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

Opinion on Summary Financial Statement

In our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of Cumberland Building Society for the year ended 31 March 2013 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Andrew Walker,
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James' Square, Manchester M2 6DS
16 May 2013

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 this is reviewed and agreed annually by the Board. The Chairman's remuneration is set by the Board, however, the Chairman takes no part in the Board's consideration of this matter. The remuneration of the executive directors is determined by the Remuneration Committee, which consists of its chairman Richard Atkinson and the other non-executive directors.

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, the Committee periodically commissions an external review of executive and non-executive remuneration.

The Committee believes that bonus schemes relating to financial and business performance are an appropriate part of a balanced remuneration package, and for the year ended 31 March 2013, agreed a modest bonus scheme based on overall business performance achieved, including customer service, mortgage growth, the increase in current accounts and Group profitability.

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 on twelve months' notice and by the individual on six months' notice.

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

The Society's remuneration policy meets with the requirements of the Remuneration Code implemented by the FSA.

On behalf of the Remuneration Committee
Richard Atkinson
Chairman
16 May 2013

Notice of Annual General Meeting 25 JUNE 2013

The Annual General Meeting of Cumberland Building Society will be held at 6.30pm on Tuesday, 25 June 2013 at Tullie House, Castle Street, Carlisle for the following purposes:

Ordinary Resolutions

- To approve the Annual Report and Accounts for the year ended 31 March 2013.
- To approve the Report on Directors' Remuneration.
- To approve the re-appointment of KPMG Audit Plc as auditors.

Special Resolution

- To consider, and if thought fit, pass the following as a Special Resolution: That the Rules of the Society be amended in the manner specified in the document produced to the Meeting and initialled by the Chairman for the purposes of identification.

Election/Re-election of Directors

- To elect/re-elect Directors as follows:

- | | | |
|-----------------------------|---------------------------------|------------------------------|
| a) to elect Gillian Gardner | b) to re-elect Richard Atkinson | c) to re-elect Trevor Hebdon |
| d) to re-elect John Leveson | e) to re-elect Michael Pratt | |

BY ORDER OF THE BOARD

John C N Kidd, Secretary, 16 May 2013

Principal Office: Cumberland House, Castle Street, Carlisle CA3 8RX

Notes on Voting

- These Notes form part of the Notice of Meeting.
- You can vote using a paper voting form by post or in a branch, online at www.cumberland.co.uk (you will need your customer number and access code as printed on your paper voting form) and in person at the AGM.

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

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

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

The emoluments of the Society's directors are listed below:	2013	2012
Non-Executive Directors	£000	£000
Michael Pratt (Chairman)	42	40
Richard Atkinson (Vice-Chairman, and in 2011-12 Chairman of the Audit and Risk Committee)	26	28
Simon Berry (retired 18 December 2012)	17	22
David Clarke	23	22
Gill Gardner (appointed 17 September 2012)	12	-
Trevor Hebdon (in 2012-13 Chairman of the Audit and Risk Committee)	26	22
Alan Johnston	23	22
Robert Watson (appointed 23 January 2013, resigned 26 March 2013)	4	-

Executive Directors	Salary £000	Bonus £000	Taxable Benefits £000	Sub-total £000	Increase in accrued pension £000	Pension contributions £000	Total £000
2013							
Kevin Parr	191	9	6	206	7	-	213
John Leveson	142	7	5	154	4	-	158
John Kidd	131	7	7	145	4	-	149
Peter Temple	117	7	4	128	3	3	134

2012							
Kevin Parr	186	-	6	192	3	-	195
John Leveson	140	7	6	153	2	-	155
John Kidd	129	6	7	142	2	-	144
Peter Temple	114	6	4	124	2	3	129

Kevin Parr voluntarily waived his entitlement to a bonus for the year ended 31 March 2012.

Defined Benefit Pension Scheme

	Directors' contributions	Accumulated total accrued pension at year end	Transfer value of accrued benefits, 31 March 2013	Transfer value of accrued benefits, 31 March 2012	Difference in transfer value less contributions
	£000	£000	£000	£000	£000
Kevin Parr	14	61	1,445	1,122	309
John Leveson	11	36	768	567	190
John Kidd	10	40	855	635	210
Peter Temple	7	48	1,393	1,149	237

The Group operates a salary sacrifice scheme whereby the employee agrees to a reduction in salary in exchange for the Group 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.

- To be valid, your completed voting form must be received at the Principal Office by midnight on 22 June 2013, or at a branch by 5pm on 20 June 2013. If voting online, votes must be cast by midnight on 22 June 2013.
- You should check if you are eligible to vote by reading the voting conditions on the back of the voting form.
- If you are appointing a proxy other than the Chairman of the Meeting, please ensure that your proxy brings an appropriate form of identification to the Meeting.

Explanatory Notes on the Ordinary and Special Resolutions

The Annual Report and Accounts

You are asked to approve the Annual Report and Accounts. This means that you are asked to endorse the Board's decision to approve them at the Board Meeting held on 16 May 2013 and you are, therefore, asked to vote 'FOR' this resolution.

Report on Directors' Remuneration

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

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

Re-appointment of Auditors

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

Rule Changes

The Board is proposing a number of changes to the Society's Rules at this year's AGM.

The Society has not carried out a full review of the Rules since 1999. It is now doing so following the publication by the Building Societies Association (BSA) of a new edition of its Model Rules (on which the Society's Rules are based). This has been produced by the BSA to reflect changes in building society law and practice since the publication of the previous edition of the Model Rules. The proposed alterations to the Society's Rules reflect very closely the wording of the BSA Model Rules. The Financial Services Authority (FSA) was consulted in the development of this edition of the Model Rules and indicated that it would regard its use by societies as helpful.

A summary of the principal proposed changes is set out in the separate leaflet 'Summary of Proposed Alterations to Rules', accompanying this Annual Review booklet. If you would like a full copy of the existing Rules, with the alterations highlighted, this is available on the Society's website (www.cumberland.co.uk) or on request to the Secretary, Cumberland Building Society, Cumberland House, Castle Street, Carlisle CA3 8RX.

The Board believes that these alterations will benefit the Society and its members and recommends that members vote FOR the alterations.

Election and Re-election of Directors

The number of candidates standing for election and re-election at this year's Annual General Meeting equals the number of vacancies. Details of the directors standing are given below, and following formal evaluation, the Board considers that their performance continues to be effective and that they demonstrate the necessary commitment to the role.

GILL GARDNER - NON-EXECUTIVE DIRECTOR STANDING FOR ELECTION



Age: 48 **Joined the Board:** September 2012

Gill Gardner lives near Kirkby Lonsdale and works in Preston as a partner in Brabners Chaffe Street LLP, a leading North West corporate law firm. Gill is currently a Council Member of Lancaster University, acting as a Deputy Pro-Chancellor, and sits on the Audit Committee and the Knowledge Exchange and Commercial Affairs Committee of the University.

RICHARD ATKINSON - VICE-CHAIRMAN STANDING FOR RE-ELECTION



Age: 59 **Joined the Board:** August 1997

Richard Atkinson lives near Bothel and was appointed Vice-Chairman in 2007. He is Chairman of the Remuneration Committee and a member of the Audit & Risk Committee. Richard is a solicitor and the senior partner in Milburns, a practice which operates throughout West Cumbria.

JOHN LEVESON - EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Age: 53 **Joined the Board:** November 1997

John Leveson lives near Penrith, joined the Society as Operations Director in 1997 and was appointed Deputy Chief Executive in 2002. He is a Fellow of the Chartered Institute of Bankers and a Master of Business Administration. He is currently responsible for Business Development, including our branch operations and marketing, Cumberland Business, Cumberland Financial Services Limited and Cumberland Financial Planning Limited.

TREVOR HEBDON - NON-EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Age: 59 **Joined the Board:** December 2009

Trevor Hebdon lives near Wigton and is Chairman of the Audit and Risk Committee. Until his retirement in 2008, Trevor was Chief Executive of the Carlisle based H&H Group plc for 9 years, prior to which he worked for 27 years in the banking industry. Trevor is currently a trustee of Carlisle Cathedral Development Trust, in addition to which he is actively involved in a number of other local charities and organisations.

MICHAEL PRATT - CHAIRMAN STANDING FOR RE-ELECTION



Age: 57 **Joined the Board:** September 1996

Michael Pratt lives near Workington and was appointed Chairman of the Board in 2007. He is a Trustee of the Society's defined benefit pension scheme. Until his retirement in 2011, Michael was the senior partner in the firm of Gibbons Chartered Accountants, which operates throughout West Cumbria. He has a number of business interests and is also a non-executive director of The Veterinary Defence Society Limited.