ANNUAL REPORT and ACCOUNTS

Year ended 31 March 2014

Cumberland
Building Society

A N N U A L
R E P O R T and
A C C O U N T S

Year ended 31 March 2014

CHAIRMAN'S STATEMENT

For the first time since I became Chairman in 2007, just before the credit crunch took hold, I can start this statement by observing some improvement in the state of the British economy, although of course the extent to which this is spread across the whole country and different sections of society is very much a matter of debate. Irrespective of that however, the Cumberland's progress over the last year has continued with success on several fronts.

A particular feature of the results of many financial institutions for the last year, including the Cumberland, has been the increase in their net interest margins and as a result, their profitability. This has been strongly assisted by the Bank of England's Funding for Lending Scheme (FLS), first launched in June 2012. The FLS was introduced to stimulate lending in the economy, by offering lenders relatively low cost funds, with the intention of reducing mortgage rates. The Cumberland completed the application process promptly and first drew funds from the Scheme in December 2012. It has continued to draw funds throughout 2013-14 and will continue to do so in 2014-15. These funds have been used to increase the Society's lending significantly, and this mortgage growth, combined with reduced funding costs both in terms of funds drawn under the Scheme, and as a result of its effect upon market interest rates for retail funding, has assisted in improving Group profit after tax to £7.66 million, 0.47% of mean assets, again amongst the best in the building society industry.

The year to 31 March 2014 saw growth in residential mortgage balances of 13.3%, with new advances rising by 39% to £313 million. This growth came from a variety of sources. Firstly, lending within our branch operating area was strong, as a result of our competitive pricing and the excellent customer service provided by our mortgage advisers. This was helped by the contribution from Lancaster branch, which was opened in February 2013, and through the hard work of its staff is putting down firm roots in that city. Cumberland Estate Agents Limited continued to make a strong contribution to securing local mortgage business. Secondly, we have been very active across virtually the whole country in the holiday let mortgage market. Thirdly, as I mentioned in this statement last year, we have developed a stream of introduced business from certain carefully selected intermediary firms. We believe that this diversified approach to residential lending has been very successful for the Society, but we remain firm in the view that the bedrock of our residential mortgage business is that obtained directly through our 34 branches.

Commercial lending has also been steady throughout the year, although good quality demand generally continues to be limited. A fair proportion of our specialist commercial lending team's time has been devoted to holiday and other buy to let mortgage cases, while continuing to seek opportunities in the leisure and hospitality sectors, in line with our approach for many years.

The quality of our residential and commercial mortgage books remains very high, with only a modest charge to loss provisions this year. This reflects the rigour of our underwriting processes, which have remained in place throughout the year even as lending has grown, and most certainly have been applied to the relatively new introduced residential business channel. There is also the added comfort of strong general provisions totalling £3.41 million.

Strong mortgage growth of a similar nature to that achieved in the last year is also targeted for 2014-15, again using funds to be drawn from the FLS, with the aim of further strengthening the Society's position and so helping many first time buyers and home movers, as well as attracting remortgage business.

For savers though, it has been another difficult year, with as stated earlier, the FLS having had the effect of reducing their interest rates across the market. In spite of this, the Cumberland actually recorded its second highest inflow of funds ever, at £75 million, with a significant proportion of this being received into current accounts, giving an increase of 22% in their balances. Our savings products have remained competitive, and often throughout the year became increasingly so as other providers reduced rates. At times we have had to react to market conditions by reducing fixed rate products and by withdrawing the availability of some products to new customers, and by offering lower variable rates to new customers for some account types. However, once again I am pleased to report that the Cumberland has not reduced any variable rates being paid to existing customers during the year, and indeed, has not reduced variable rates for existing customers since April 2009, the month after the last Bank of England base rate reduction.

Liquid assets were reduced slightly over the year, in line with the approach taken by many other societies, but with their ready availability remaining at a high level to meet any possible requirements. Excluding FLS funding held on the balance sheet, the level of funding obtained from the financial money markets remained at a very low level, and at 31 March 2014, was less than 2% of the total.

The year for the Cumberland has, though, featured a series of significant projects which have all contributed to the evolution of the Society. Details can be found in the Chief Executive's Review, however, highlights include:

- The Cumberland's participation in the launch of the national 'Current Account Switch Service' in September 2013;
- The launch of 'Pay2Mobile' in January 2014 and the national 'Paym' scheme in April 2014;
- The move of the Society's Head Office from the centre of Carlisle to a modern new building on the edge of the city.

On 1 April 2014, after a thorough due diligence process, the staff and trade of a motor finance company, which will trade as Borderway Finance, transferred into the Cumberland Group. Operating over an area very similar to the Society's, and with fundamentally a very similar approach and culture to those of the Society, we are delighted to welcome its staff to the Cumberland and see this development as a logical extension of the services we can offer to our members.

The evolution of the Society, through its various projects, policies and performance, is driven with the aim of serving the short, medium and long term interests of our members, and in order to achieve our objective of being the natural choice for financial services for the people of our operating area.

Strong financial and business performance, and the implementation of complex projects, are vital components for a successful society, but underpinning these, has to be the provision of excellent customer service, because that is key in differentiating ourselves from other financial institutions. To us, the fundamental ethic of the Cumberland is reflected in always remembering that our members are 'more than a number'; this is not just an advertising slogan, but a practical approach which is emphasised throughout the business. We seek to ensure that all of our staff treat members, whether in serving them directly or in taking decisions which affect them, in the way that they would wish their own mothers to be treated; what we call, 'the mother test'. 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, whether it be in our branches, over the telephone and increasingly, via the internet, and we know that it is essential to never lose our focus on this.

This all has to be achieved while meeting increasing regulatory expectations promptly and thoroughly, principally with respect to those of the Prudential Regulation Authority and the Financial Conduct Authority. Although this absorbs a significant amount of the Board's and senior management's time, the Society fully appreciates that it is vital that this is achieved smoothly and effectively. The most significant recent regulatory development was the implementation of the 'Mortgage Market Review' from 26 April 2014, although our established business approach was already largely in tune with this and therefore its impact upon the Society will be less than for many other institutions.

One point to note however, is the continuing cost of the Financial Services Compensation Scheme to the Society. Since this cost of covering the failures of institutions which had pursued risky business models – and which had been allowed to do so by the regulatory regime at the time – first featured in the Society's accounts in 2009, £4.5 million (before tax relief) has been charged, with further significant amounts yet to come. This has been a very heavy price for our members to pay for others' mistakes, even though the existence of an effective while proportionate deposit compensation scheme is essential for the confidence of the public in the financial services industry.

During the year, and in line with good corporate governance, the Audit and Risk Committee carried out a tender for external audit services, and after a detailed assessment process, recommended to the Board that Deloitte be appointed at the forthcoming AGM. I would like to take this opportunity to thank KPMG for their excellent service over the last 20 years as the Society's auditor, and many extremely capable staff have worked with our team during that time.

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. More details of this are contained in the Annual Review booklet.

It has seemed an exceptionally busy and challenging year, but a very fulfilling and successful one, and I would like to thank all of our staff for their enthusiasm, skill and dedication in achieving so much this year. It is a fact that no organisation can succeed without such staff and we at the Cumberland are very fortunate to have such a team of people. I believe that the Cumberland continues to show that organisations of a relatively modest size, but mutual, independent and proudly regional, can continue to thrive in the financial services sector and provide real competition to the major banks in terms of the range and quality of services offered, the excellence of service provided, and a clear track record of long term value. Being part of the Cumberland is so worthwhile for our members because they are at the heart of everything we do, and continuing to operate on that basic principle will take us into the future with confidence.

Michael J. Pratt
Chairman
15 May 2014

CHIEF EXECUTIVE'S REVIEW

I am pleased to report that 2013-14 has been another excellent year for the Society, with the delivery of strong financial and business results and the successful completion of a number of major projects.

Highlights of our business results include:

- Group profit after tax of £7.66 million, 0.47% of mean total assets
- Mortgage balances increased by 11.9% to £1,400 million
- Share balances increased by 5.8% to £1,433 million.

During the economic difficulties of the last few years, the Society's long term strategy has delivered strong and consistent business results. As economic conditions improve, we believe that our regionally focussed strategy of providing a wide range of services and excellent customer service will be equally successful. Over recent years, a key objective for the Society has been the development of the services it offers to members, particularly in relation to current accounts. The Society is one of very few building societies operating in the current account market and during 2013-14 has made further significant investments in technology in this area.

A NEW HEAD OFFICE

A major project in 2013-14 was the relocation of the Society's Head Office in October 2013 into a modern office on the outskirts of Carlisle. In planning the move, we were very conscious of the 24/7 requirements of internet banking, ATM and Visa card services, and also the availability of our Head Office Customer Services team. The key objective, therefore, was to ensure that there was no impact on the service we provide to customers. Thanks to the detailed planning and commitment of all those involved, we achieved our objective and it has been 'business as usual' from day one. The move has given us the ability to organise our head office operations in a far more effective way than was possible in our previous building and it also provides the scope for future expansion.

RESIDENTIAL MORTGAGES

During the year there were signs of improvement in the housing market and the Society achieved a growth of 13.3% in residential mortgage balances by competing vigorously for mortgage business, utilising the funds available from the Government's Funding for Lending Scheme (FLS) and the strong retail savings inflow from our members. Both new lending and our proactive work to retain existing customers, offering them the same products as are available to new customers, contributed to this growth.

We recognise the challenge facing those wishing to buy a home with only a small deposit available, particularly in those parts of our operating area with relatively high house prices, and have continued to offer competitive products for loans with higher LTVs, up to 95%.

During 2012-13 the Society began to accept introduced business from a small number of selected partners and this area of our business has been further developed during the last year. Each loan continues to be subject to manual underwriting by a specialist team within our Head Office, who assess each case on its merits. There is also significant involvement from senior management via the Residential Lending Credit Committee, which considers individual cases as appropriate. Whilst the volume of business has increased, the high quality of this lending has been maintained.

Although we have seen increased competition in the mortgage market, we continue to take a prudent approach to all our lending, ensuring that it is responsible and affordable. This is reflected in the quality of lending obtained and the low number of arrears cases. At 31 March 2014, 0.29% of our residential mortgages were in arrears of three months or more, compared with 0.33% a year earlier, well below the industry average.

The new regulations arising from the Mortgage Market Review were introduced on 26 April 2014. The key principles are that a lender should consider a customer's individual circumstances, be able to demonstrate that the mortgage payments are affordable, and consider the potential impact of any future increase in interest rates. These principles are consistent with the Society's longstanding approach to lending, with advice provided by our qualified mortgage advisers. The Society was fully compliant with the new requirements before their introduction.

SAVINGS AND CURRENT ACCOUNTS

In a low interest rate environment, a challenge for the Society, and all building societies, is to ensure that the needs of savers as well as borrowers are addressed. Whilst initiatives such as the FLS are good news for borrowers, they have the effect of reducing savings rates across the market. We remain conscious of our responsibility to our loyal saving members, and believe that an inflow of funds of almost £75 million into savings and current account balances reflects the Society's track record of providing long term value, and the importance our customers place on having a safe home for their savings with a Society that has strong profitability and capital.

In my 2013 review I outlined that the Society was participating in two initiatives, which we believed would have a significant, long term impact on the current account market.

Firstly, the 'Current Account Switch Service', designed to make it easier for customers to move their current account from one provider to another, was launched in September 2013. The Society continues to receive far more switches than it loses, ensuring that the rapid growth in its current account numbers over the last few years has been maintained.

Secondly, the Society launched its 'Pay2Mobile' service in January 2014, which enables a member to send money securely to another Cumberland customer's account by using their mobile phone number rather than needing to know their account details. Pay2Mobile is now part of the national scheme, 'Paym', in which the Society was the only building society, alongside five clearing bank groups, to participate in its launch in April 2014. Users of Paym can now send and receive money to and from customers of all the participating organisations. We believe this will be one of the most popular ways of transferring money in the future.

Our current account services will see further significant developments in 2014-15, including the introduction of contactless debit cards for new customers and at card renewal. We will also be launching a new facility to enable customers to apply for current accounts online.

CUSTOMER SERVICE

The Society must offer competitive products, supported by current technology, to ensure that it continues to succeed in today's financial services market. However, it is in the area of customer service where the Society strives to excel and differentiate itself from the competition. Face to face contact remains a very important part of the service we offer and our branch staff play a vital role in providing help and advice to customers. We closely monitor the level of service we provide through a 'mystery shopping' programme undertaken by an independent company, with our branch staff receiving consistently high scores. We also continue to invest in our branch infrastructure. During the year the software within our ATM network was upgraded, and in March 2014 we added an ATM at Brampton, bringing our total to 20.

Increasingly, our members are taking the opportunity to carry out transactions through our secure internet and mobile banking services. However, for those who need or prefer to speak to a member of our in-house Customer Services team on the telephone, they may do so without having to make numerous automated 'choices' beforehand.

For many years, the heart of our customer service strategy has been 'the mother test'. Simply asking the question "is this how I would wish my mother to be treated?" has helped to develop the products and the services we offer and to shape the way we treat our customers.

In April 2014 the Cumberland was the first building society in the UK to achieve Exemplar Service Recognition from the Royal National Institute of Blind People (RNIB) for our excellent customer service for blind and partially sighted people. RNIB praised the Society's training of its staff on its proactive identification of vulnerable customer needs, especially those of blind and partially sighted people.

CUMBERLAND BUSINESS

Cumberland Business has had another successful year, both in traditional commercial mortgage lending as well as the holiday let mortgage sector, where the Society is recognised for its specialist skills. As economic conditions have improved, other lenders have returned to the commercial lending market, however, whilst maintaining the Society's prudent lending criteria, Cumberland Business has achieved an increase in mortgage lending of over 30% year on year.

The Society's current account service to small businesses has again increased in popularity, achieving a 20% growth in the number of accounts.

CUMBERLAND ESTATE AGENTS

Together with our building society branches, the estate agency provides an opportunity to establish direct relationships with our customers and this year it has generated over £26 million of mortgage business for the Society. We continue to invest in our estate agency operation, introducing new systems and technology to ensure that we provide a high level of customer service that is both efficient and effective.

In 2012-13, the estate agency launched its residential lettings service, which has grown successfully during the year. It is planned to offer the service in Lancaster later this year.

COMMUNITY INVOLVEMENT

The Society sees its role in local communities as an important part of being a regional building society. For many years we have supported selected charities, clubs and voluntary organisations throughout our operating area, donating more than £100,000 each year. This includes a donation each year as part of our 'Pledge for Votes' Scheme, which links a charitable donation to the number of votes received at our Annual General Meeting. Last year over £10,000 was raised for Action for Blind People. This year's selected charities are the Motor Neurone Disease Association and MND Scotland.

STAFF

This year has been a particularly demanding and challenging one for our staff. In addition to the significant projects that have been implemented during the year, some of which are mentioned in this review, there are many others which have not been included, but which have nevertheless been important in developing and improving services for members, and also improving our efficiency. The success of these projects and the consistent delivery of a strong financial and business performance, while providing excellent customer service, require a high level of expertise and commitment. On behalf of my Board and Executive colleagues, I would like to thank our staff for all their hard work during the year.

THE YEAR AHEAD

Whilst 2013-14 has seen signs of a recovery in the UK economy, centred around the housing market and consumer spending, there are still significant economic challenges, particularly the budget deficit, the balance of payments position and cost of living pressures.

Our strategy will be to:

- lend prudently without compromising on credit quality, but vigorously taking advantage of the FLS opportunity and improving economic conditions;
- ensure our savings rates are competitive, and maintain our track record for long term value;
- improve our efficiency wherever possible;
- provide excellent customer service which focuses on our members' individual needs;
- provide members with services and products which rival those of the industry's leading players in terms of security and technological developments.

As mentioned in the Chairman's Statement, on 1 April 2014, the staff and trade of a local motor finance company, which is now known as Borderway Finance, transferred into the Cumberland Group. As part of the Cumberland, this new subsidiary will be able to take advantage of the Society's access to funding and we look forward to working with the Borderway Finance management team in developing this business and offering this additional service to our members.

The Society's aims are to be the natural choice for mortgages, current accounts and savings and a leading provider of other retail financial services in our area; to remain independent and mutual for the benefit of our members and the communities in which we operate, and to protect members' assets. We will continue to strive to build on our successes over many years and fulfil these objectives in 2014-15, based on the foundation of having our members' interests at the forefront of our minds in everything we do.

KParr

Kevin Parr
Chief Executive
15 May 2014

DIRECTORS' REPORT

The Directors have pleasure in presenting their 164th Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 March 2014.

BUSINESS OBJECTIVES

Cumberland Building Society aims to be the natural choice for mortgages, current accounts 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.

	2014	*2013*	*2012*
Group Profit After Tax (£ million)	7.66	6.16	5.86
Group Profit After Tax as a % of Mean Total Assets	0.47	0.40	0.38
Gross Capital as a % of Shares and Borrowings	8.02	8.18	7.76
Interest Margin for Members (%)	1.83	1.71	1.71
Society Administrative Expenses and Depreciation as a % of Mean Total Assets	1.01	0.97	0.94
Loans and Advances to Customers - Balance Change %	11.90	6.95	1.51
Lending during the year (£ million)	331.92	247.13	194.62
Inflow of Funds from Customers (£ million)	74.75	9.84	(35.16)
Other Funding as a % of Shares and Borrowings	8.10	4.96	7.10

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 Group has achieved a higher level of profit in 2013-14 compared with that of the previous year, principally as a result of the reduction in funding costs which resulted from the Bank of England's Funding for Lending Scheme (FLS), both in terms of funds drawn under the Scheme, and as a result of its effect upon market interest rates for retail funding.

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 general reserve, 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. In the latest year the gross capital ratio has reduced slightly because the Group's shares and borrowings increased at a faster rate than its reserves, largely in order to fund the strong growth in mortgage balances discussed below.

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. This measure has increased compared with the previous year, largely because of the impact of the FLS as described earlier and in particular, reductions in fixed rate savings products and variable rate products offered to new customers. However, 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, including current accounts with associated services such as internet and mobile banking, and obtaining the substantial majority of its residential mortgage and all of its savings business directly from customers rather than through intermediaries, means that its ratio will inevitably be higher than were that not the case. The ratio rose slightly in the year because Society administrative expenses and depreciation rose by 9.2% while mean total assets rose by 4.7%. The main reason for the former was that the Society increased its operating costs as a result of a number of initiatives to develop the business.

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, and the Society's appetite for credit risk. During the latest year the Society offered attractive products to new borrowers and the same products to those borrowers reaching the end of their product period. In addition, it developed lending with certain carefully selected introducers, and together these factors resulted in increased balance growth.

LENDING DURING THE YEAR

This figure reflects the same factors as mentioned above.

INFLOW OF FUNDS FROM CUSTOMERS

This reflects the net movement of funds in and out of the

Michael Pratt
Chairman

Richard Atkinson
Vice–Chairman

Kevin Parr
Chief Executive

John Leveson
Deputy Chief Executive

John Kidd
Finance Director and Secretary

Society's savings and current account products. In the latest year there was a strong inflow of funds. The Society monitors the competitive position of both its variable and fixed rate savings products regularly.

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. The increase in the latest year reflects in part, funds drawn under the FLS. It should also be noted that over 50% of 'other funding' is from retail customers, principally small and medium sized businesses located within the Society's operating area.

FUTURE DEVELOPMENTS

The Society will continue to grow mortgage balances during the year by utilising funds supplied by the FLS to provide attractive products for first time buyers, home movers and those wishing to remortgage from other firms. It will seek to develop the business of Borderway Finance Limited, whose motor car finance business was acquired in April 2014. The Society will begin to issue 'contactless' debit cards to its customers in summer 2014, and will upgrade its core computer system and launch a new system for online current account applications later in the year.

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 Assets and Liabilities Committee (ALCO), assists 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 Prudential Regulation Authority. The minutes of the monthly ALCO 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 2014 and 2013 can be found in note 25 to the accounts.

Quarterly, the Board assesses the Society's position in relation to basis risk and considers the exposure to a negative scenario in relation to it.

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.

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 the assistance of the Group Risk Manager and with quarterly reporting to the Risk Management Committee. This consists of the executive directors, the General Manager, General Manager (IT) and the Group Risk Manager, meets on a quarterly basis and reports to the Audit and Risk Committee, which in turn reports to the Board.

CONDUCT RISK

Conduct risk is the risk arising from the Group's conduct in its relationship with members and concerns the risk of failing to treat members fairly with resulting detriment to those members. The Conduct Risk Committee meets on a quarterly basis to review the Society's performance in this area, considering specific issues that have arisen and management information. It consists of the

Peter Temple
Operations & H.R. Director

Gill Gardner
Non-executive Director

David Clarke
Non-executive Director

Alan Johnston
Non-executive Director

Trevor Hebdon
Non-executive Director

executive directors, the General Manager, the Assistant General Manager (Branches), and is also attended by one non-executive director and eight other members of the Group's senior management team, and reports of its meetings are provided to the Board.

FINANCIAL RISK MANAGEMENT OBJECTIVE 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 2014 free capital was £115.03 million, being 7.38% of shares and borrowings (2013: 7.52%). Free capital is the reserves plus the general provision for doubtful debts, less fixed assets as shown in the balance sheet.

MORTGAGE ARREARS AND FORBEARANCE

At 31 March 2014, there were 5 accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £0.41 million, and the amount of arrears was £0.05 million, which represents less than 0.01% of mortgage balances.

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty. Such measures include agreeing a temporary transfer to interest only payments, or a capitalisation of arrears, in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they are able. During the year, the Society undertook forbearance measures for 70 residential mortgage accounts which had total balances of £5.35 million at 31 March 2014 (2013: 103 accounts, balances of £7.10 million). 21 of these cases had arrears of £0.02 million at 31 March 2014 (2013: 28, £0.02 million). Where the Society considers that there is a possibility of a loss, a specific provision is made in accordance with the Society's policies.

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 2014 the total amount owed to suppliers was equivalent to 4 days credit (2013: 3 days).

CHARITABLE AND POLITICAL DONATIONS

During the year, charitable donations of £100,907 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

On 1 April 2014 the Group acquired the business of a motor car finance company, which will trade as Borderway Finance Limited.

With this exception, 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, Alan Johnston, John Kidd, Michael Pratt and Peter Temple retire at the Annual General Meeting and, being eligible, seek re-election. 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 2014 two directors had mortgage loans granted in the ordinary course of business, amounting to £103,000 (2013: two directors, £105,000). 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.

STAFF

Great importance is placed on the recruitment, training and retention of high calibre employees. 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 maintained 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.

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

Following a tender exercise undertaken by the Audit and Risk Committee, the Board is recommending to members that Deloitte LLP be appointed as auditors at the Annual General Meeting on 24 June 2014.

On behalf of the Board of Directors
Michael J. Pratt *Chairman* 15 May 2014

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 2014, 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 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, accrual rate and increases in pensionable service during the year.

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

On behalf of the Remuneration Committee
Richard Atkinson, Chairman
15 May 2014

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 1986 ("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 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 is committed to good practice in corporate governance and this report explains how the Society has regard to the principles in the revised UK Corporate Governance Code (the 'Code') which was issued by the Financial Reporting Council in September 2012.

Whilst the Society is not required to comply with the Code, as it is not a listed company, the recommendations have been adopted where they are appropriate and proportionate to the Society.

THE BOARD

Code Principle A.1: Every company should be headed by an effective board, which is collectively responsible for the long term success of the company.

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 policy review meetings are held when required, normally once a year.

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.

The non-executive directors meet without the executive directors present on a regular basis.

The Board conducts an annual self-assessment exercise to review its effectiveness and highlight any areas which should be improved.

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 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.

The Board receives recommendations from the committees within their terms of reference and the minutes of the committee meetings are reported to the Board.

AUDIT AND RISK COMMITTEE

This monitors internal controls, financial reporting, risk management and regulatory compliance matters, reviews the work of Internal Audit, Compliance and Risk Management 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 enable any concerns to be raised by employees in confidence.

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

During the year the Committee undertook a tender review of external audit services and from this, recommended to the Board that Deloitte LLP should be appointed as the Group's external auditors. The Board accepted this recommendation and accordingly is recommending to members that Deloitte LLP is appointed at the AGM to be held on 24 June 2014.

REMUNERATION COMMITTEE

This consists of its chairman Richard Atkinson, and all of the other non-executive directors. The Committee's main role is to approve the level of remuneration for the Society's 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 the minutes of the monthly meetings of the Assets and Liabilities Committee.

Set out on page 11 are details of the directors during 2013-14 and their attendance record at Board meetings and relevant Board Committee meetings in the year. The figure in brackets indicates the number of meetings that the director was eligible to attend during the year.

DIVISION OF RESPONSIBILITIES

Code Principle A.2: There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

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.

THE CHAIRMAN

Code Principle A.3: The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

The Chairman sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors and maintaining constructive relations between executive and non-executive directors. The Chairman also ensures that directors receive accurate, timely and clear information.

NON-EXECUTIVE DIRECTORS

Code Principle A.4: As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

The non-executive directors of the Society are drawn from a wide range of backgrounds to provide the appropriate skills, knowledge and experience to ensure a robust level of challenge and debate. The role requires an understanding of the risks in a financial services business, commercial leadership within a framework of prudent and effective risk management controls and the ability to monitor performance and resources while providing support to executive management in developing the Society.

Directors' attendance at Board and Board Committee meetings during the year ended 31 March 2014

Director	Board	Audit and Risk	Remuneration	Nomination
Richard Atkinson	12 (13)	5 (5)	9 (9)	6 (6)
David Clarke	12 (13)		9 (9)	6 (6)
Gill Gardner	12 (13)		8 (9)	6 (6)
Trevor Hebdon	13 (13)	5 (5)	9 (9)	6 (6)
Alan Johnston	13 (13)	5 (5)	9 (9)	6 (6)
John Kidd	13 (13)			6 (6)
John Leveson	11 (13)			4 (6)
Kevin Parr	13 (13)			6 (6)
Michael Pratt	13 (13)		9 (9)	6 (6)
Peter Temple	13 (13)			6 (6)

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

not a member of the committee

THE COMPOSITION OF THE BOARD

Code Principle B.1: The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

The Board consists of four executive and six non-executive directors. Three of the non-executive directors have served for less than the maximum of 9 years recommended by the UK Corporate Governance Code and can be defined as independent under it. Michael Pratt completed 17 years of service on the Board on 29 September 2013, Richard Atkinson completed 16 years on 1 August 2013 and David Clarke completed 9 years on 14 February 2014.

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, Mr. Atkinson and Mr. Clarke stand for re-election by the Society's members at the Annual General Meeting (AGM) each year.

David Clarke is the Society's Senior Independent Director, but having completed nine years of service as a director and therefore being no longer defined as 'independent' under the Code, he will relinquish this role following the AGM on 24 June 2014 and be succeeded by Alan Johnston. The Senior Independent Director 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.

APPOINTMENTS TO THE BOARD

Code Principle B.2: There should be a formal, rigorous and transparent procedure for appointment of new directors to the board.

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. Candidates are identified in a number of ways, which includes external search consultants, with appointments to the Board made on merit and against objective criteria and in line with the requirements of the succession plan. All directors must meet and maintain the fitness and propriety standards of the Prudential Regulation Authority and Financial Conduct Authority and must be approved by them in order to hold the controlled function of director. They are also subject to election by members at the AGM following their appointment.

COMMITMENT

Code Principle B.3: All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

The Nomination Committee evaluates the ability of directors to commit the time required for their role prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether directors have demonstrated this ability during the year.

DEVELOPMENT

Code Principle B.4: All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

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. Training and development needs are identified as part of the annual appraisal of directors.

INFORMATION AND SUPPORT

Code Principle B.5: The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The Chairman ensures that the Board receives sufficient accurate, timely and clear information to enable it to fulfil its responsibilities. The directors have access to the advice and services of the Secretary and, if necessary, are able to take independent professional advice at the Society's expense.

PERFORMANCE EVALUATION

Code Principle B.6: The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

The Society has a process to evaluate, at least annually, the performance and effectiveness of individual directors, the Chairman, the Board and Board committees. The performance of the Chief Executive and non-executive directors is evaluated annually by the Chairman. The Chairman is evaluated by the Senior Independent Director, after consulting and obtaining the views of 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 Code's requirements. The Board and the Board committees also annually evaluate their overall performance. Annually, the membership and Terms of Reference of the various committees are reviewed and agreed by the Board.

RE-ELECTION

Code Principle B.7: All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board.

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.

The Board has considered the Code provisions relating to re-election of directors and does not feel that it would be appropriate to submit the entire Board for annual re-election by the members. Any non-executive directors serving for over 9 years are, however, subject to annual re-election by the members.

FINANCIAL AND BUSINESS REPORTING

Code Principle C.1: The board should present a fair, balanced and understandable assessment of the company's position and prospects.

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. Business performance is reviewed in the Chairman's Statement, Chief Executive's Review and the Business Review section of the Directors' Report and a statement that the Group's business is a going concern is included in the Directors' Report.

The Audit and Risk Committee has advised the Board that in its opinion, the Annual Report and Accounts are fair, balanced and understandable. The primary areas of judgement considered by the Committee in relation to these accounts related to loan loss provisions, the valuation of the defined benefit pension scheme, the FSCS levy position and property revaluations.

RISK MANAGEMENT AND INTERNAL CONTROL

Code Principle C.2: The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

The Board has delegated responsibility for managing the Society's risk management framework and system of internal control to senior management. The Group Internal Audit function, the Group Compliance Manager and Group Risk Manager provide independent assurance to the Board on the effectiveness of the system of internal control through their reporting to and attendance at 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 COMMITTEE AND AUDITORS

Code Principle C.3: The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

The role and membership of the Audit and Risk Committee is 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 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 which is to ensure the continued independence and objectivity of the external auditor. The external auditor, KPMG Audit Plc, undertook three non-audit related assignments during the year.

REMUNERATION

Code Principle D.1: Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Code Principle D.2: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

The remuneration policies for executive and non-executive directors are set out in the Report on Directors' Remuneration on page 9. These policies explain the Society's application of the Code principles.

DIALOGUE WITH SHAREHOLDERS

Code Principle E.1: There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

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. Members are invited to attend the AGM, where they can ask questions and voice their opinions.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM)

Code Principle E.2: The board should use the AGM to communicate with investors and to encourage their participation.

Each year the Society sends details of the AGM to all members eligible to vote. Members are encouraged to vote by post, in branches or online (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 the Motor Neurone Disease Association and MND Scotland.

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*
15 May 2014

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S 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 2014 set out on pages 14 to 30 and on the first part of page 31 (before the start of the Annual Business Statement). 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 AUDITOR

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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 2014 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.

Richard Gabbertas (Senior Statutory Auditor)

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

1 The Embankment
Neville Street
Leeds LS1 4DW

15 May 2014

GROUP AND SOCIETY INCOME AND EXPENDITURE ACCOUNTS

For the year ended 31 March 2014

	Notes	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Interest receivable and similar income	2	**48,611**	46,692	**48,615**	46,694
Interest payable and similar charges	3	**(24,613)**	(25,823)	**(24,614)**	(25,823)
Net interest receivable		**23,998**	20,869	**24,001**	20,871
Pension finance income	26	**483**	298	**483**	298
Fees and commissions receivable		**4,678**	3,893	**3,078**	2,602
Fees and commissions payable		**(2,626)**	(2,169)	**(2,756)**	(2,298)
Other operating income		**3,353**	3,508	**3,349**	3,464
		29,886	26,399	**28,155**	24,937
Administrative expenses	4	**(16,928)**	(15,528)	**(15,138)**	(14,079)
Depreciation and amortisation		**(1,393)**	(1,038)	**(1,292)**	(972)
Operating profit before provisions		**11,565**	9,833	**11,725**	9,886
Provisions for bad and doubtful debts	11	**(137)**	(749)	**(137)**	(749)
Operating profit before FSCS levy		**11,428**	9,084	**11,588**	9,137
Provisions for contingent liabilities and commitments – FSCS levy	22	**(1,162)**	(765)	**(1,162)**	(765)
Profit on ordinary activities before tax		**10,266**	8,319	**10,426**	8,372
Tax on profit on ordinary activities	7	**(2,609)**	(2,157)	**(2,637)**	(2,169)
Profit for the financial year	23	**7,657**	6,162	**7,789**	6,203

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2014

	Notes	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Profit for the financial year		**7,657**	6,162	**7,789**	6,203
Actuarial gain/(loss) recognised in pension scheme	26	**532**	(466)	**532**	(466)
Movement in deferred tax relating to pension scheme	26	**(106)**	107	**(106)**	107
Unrealised gain on revaluation of investment properties	14	**515**	–	**515**	–
Total recognised gains and losses for the year		**8,598**	5,803	**8,730**	5,844

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

GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2014

Assets	Notes	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Liquid assets					
Cash in hand and balances with the Bank of England		**202,013**	196,517	**202,011**	196,515
Loans and advances to credit institutions	8	**71,811**	81,972	**71,811**	81,972
Debt securities	9	**–**	6,087	**–**	6,087
		273,824	284,576	**273,822**	284,574
Loans and advances to customers					
Loans fully secured on residential property	10	**1,247,908**	1,101,672	**1,247,908**	1,101,672
Other loans	10	**151,993**	149,404	**151,993**	149,404
	10	**1,399,901**	1,251,076	**1,399,901**	1,251,076
Investments					
Investments in subsidiary undertakings	12	**–**	–	**2,381**	2,381
Tangible fixed assets	13	**13,492**	12,769	**12,049**	11,325
Investment properties	14	**2,725**	1,650	**1,075**	–
Other assets	15	**1,269**	1,435	**2,217**	2,300
Prepayments and accrued income	17	**1,678**	1,834	**1,673**	1,829
Total Assets		**1,692,889**	1,553,340	**1,693,118**	1,553,485

Liabilities					
Shares	18	**1,433,199**	1,353,994	**1,433,199**	1,353,994
Amounts owed to credit institutions	19	**33,440**	4,002	**33,440**	4,002
Amounts owed to other customers	20	**92,920**	66,727	**93,260**	67,063
Other liabilities	21	**2,320**	5,015	**2,282**	5,026
Accruals and deferred income		**2,256**	1,774	**2,185**	1,706
Provisions for liabilities	22	**1,640**	1,470	**1,640**	1,470
Net pension liability	26	**1,998**	3,840	**1,998**	3,840
Reserves					
General reserves	23	**124,300**	116,217	**124,599**	116,384
Investment properties reserve	23	**816**	301	**515**	–
Total Liabilities		**1,692,889**	1,553,340	**1,693,118**	1,553,485
Memorandum items					
Commitments	24	**7,343**	11,497	**7,343**	11,497

These accounts were approved by the Board of Directors on 15 May 2014
M. J. Pratt, Chairman
T. Hebdon, 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 2014

	2014 £000	2013 £000
Net cash (outflow)/inflow from operating activities	**(2,662)**	12,525
Taxation	**(2,208)**	(1,750)
Capital expenditure and financial investment		
Purchase of tangible fixed assets and expenditure on investment property	**(2,722)**	(4,943)
Sale of tangible fixed assets	**43**	64
Purchase of investment securities	**–**	(145,000)
Sale and maturity of investment securities	**6,000**	249,012
(Decrease)/increase in cash and cash equivalents	**(1,549)**	109,908

Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2014 £000	2013 £000
Operating profit	**10,266**	8,319
Decrease in prepayments and accrued income	**359**	2,215
Increase/(decrease) in accruals and deferred income	**482**	(456)
Provisions for bad and doubtful debts	**137**	749
Depreciation and amortisation	**1,400**	1,067
Profit on sale of tangible fixed assets	**(4)**	(29)
Pension contributions	**(2,214)**	(1,069)
Pension charges	**257**	594
Other non-cash movements	**(47)**	(48)
Net cash inflow from trading activities	**10,636**	11,342
Increase in loans and advances to customers	**(148,915)**	(81,981)
Increase in shares	**79,205**	28,212
Increase/(decrease) in amounts owed to credit institutions and other customers	**55,631**	(30,648)
Decrease in loans and advances to credit institutions and other liquid assets	**3,000**	84,000
Decrease/(increase) in other assets	**54**	(20)
(Decrease)/increase in other liabilities and provisions for contingent liabilities and commitments	**(2,273)**	1,620
Net cash (outflow)/inflow from operating activities	**(2,662)**	12,525

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

	At 1 April 2013 £000	Movement in year £000	At 31 March 2014 £000
Cash in hand and balances with the Bank of England	196,517	5,496	202,013
Loans and advances to credit institutions – repayable on demand (note 8)	26,186	(7,045)	19,141
	222,703	(1,549)	221,154

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 2014.

(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 land and buildings are depreciated at 1% per annum on cost with effect from 1 April 2012 (having been depreciated at 2% per annum since 1 April 1999). 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 rates between 5% and 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) **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.

(g) **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 projected unit method with a suitable control period which reflects the expected ageing of the scheme, 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.

(h) **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, including those residential loans in respect of which forbearance measures have been taken to assist borrowers who are, or could be experiencing financial difficulty. 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.

(i) **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.

(j) **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.

(k) **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 2014 £000**	Group 2013 £000	**Society 2014 £000**	Society 2013 £000
On loans fully secured on residential property	**45,654**	42,433	**45,654**	42,433
On other loans	**5,813**	5,747	**5,817**	5,749
On debt securities				
Interest and other income	**42**	756	**42**	756
On other liquid assets				
Interest and other income	**1,506**	2,305	**1,506**	2,305
Net expense on financial instruments	**(4,404)**	(4,549)	**(4,404)**	(4,549)
	48,611	46,692	**48,615**	46,694

The total income from fixed income securities (within debt securities above) was £nil (2013 - £204,000).
Interest on secured advances, as shown above, has been decreased by £152,000 (2013 - £101,000) being the net effect of interest suspended on non-performing loans in accordance with the Society's accounting policy, and the recovery of interest written off in prior years. Movements in the suspended interest account were as follows:

	Group and Society 2014 £000	2013 £000
At 1 April	**107**	14
Interest suspended during the year	**152**	113
Interest written off in prior years recovered during the year	**–**	(12)
Interest written off during the year	**(12)**	(8)
At 31 March	**247**	107

3. Interest Payable and Similar Charges	**Group 2014 £000**	Group 2013 £000	**Society 2014 £000**	Society 2013 £000
On shares held by individuals	**23,603**	24,646	**23,603**	24,646
On deposits and other borrowings	**1,333**	1,510	**1,334**	1,510
Net income on financial instruments	**(323)**	(333)	**(323)**	(333)
	24,613	25,823	**24,614**	25,823

4. Administrative Expenses				
Staff costs (note 5)	**10,209**	9,819	**9,117**	8,935
Remuneration of auditor (excluding VAT)				
– Audit of annual accounts	**67**	65	**60**	59
– Other services	**24**	–	**24**	–
Other expenses	**6,628**	5,644	**5,937**	5,085
	16,928	15,528	**15,138**	14,079

5. Staff Numbers and Costs

The average number of persons employed during the year (including executive directors) was as follows:	**Full time 2014**	Full time 2013	**Part time 2014**	Part time 2013
Society's principal office	**150**	144	**52**	48
Society's branches	**116**	108	**104**	96
Estate agency offices	**27**	22	**19**	21
	293	274	**175**	165

The aggregate costs of these persons were as follows:	**Group 2014 £000**	Group 2013 £000	**Society 2014 £000**	Society 2013 £000
Wages and salaries	**8,778**	8,267	**7,828**	7,503
Social security costs	**691**	660	**617**	598
Other pension costs (note 26)	**740**	892	**672**	834
	10,209	9,819	**9,117**	8,935

The Group operates a salary sacrifice scheme whereby the employee agrees to a reduction in salary in return for the Group 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 Group as a result of the salary sacrifice scheme. This also applies to the executive directors' remuneration disclosures in note 6.

6. Directors' Emoluments and Transactions

	2014 £000	2013 £000
Total directors' remuneration	**853**	827
Non-executive directors' remuneration		
M. J. Pratt (Chairman)	**43**	42
R. Atkinson (Vice-Chairman)	**26**	26
S. F. M. Berry (retired 18 December 2012)	**–**	17
D. M. Clarke	**24**	23
G. F. Gardner (appointed 17 September 2012)	**24**	12
T. Hebdon (Chairman of the Audit and Risk Committee)	**28**	26
A. J. Johnston	**24**	23
R. Watson (appointed 23 January 2013, resigned 26 March 2013)	**–**	4
	169	173

Executive directors' remuneration	**Salary £000**	**Bonus £000**	**Taxable benefits £000**	**Total £000**
2014				
K. Parr	**198**	**15**	**6**	**219**
J. M. Leveson	**144**	**11**	**6**	**161**
J. C. N. Kidd	**133**	**10**	**7**	**150**
P. R. Temple	**121**	**9**	**5**	**135**
	596	**45**	**24**	**665**
2013				
K. Parr	191	9	6	206
J. M. Leveson	142	7	5	154
J. C. N. Kidd	131	7	7	145
P. R. Temple	117	7	4	128
	581	30	22	633

Defined Benefit Pension Scheme Pension benefits earned by directors:	**Accumulated total accrued pension at 31 March 2014 £000**	**Increase in accrued pension in year to 31 March 2014 £000**	Increase in accrued pension in year to 31 March 2013 £000
K. Parr	**67**	**6**	7
J. M. Leveson	**39**	**3**	4
J. C. N. Kidd	**43**	**3**	4
P. R. Temple	**52**	**4**	3

The Society paid £3,000 (2013 - £3,000) of contributions into a defined contribution scheme for Mr. Temple relating to a portion of his salary.

Pensions paid to former directors were £5,000 (2013 - £5,000).

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.

7. Taxation	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
(a) Analysis of charge in year:				
Current tax				
Corporation tax at 23% (2013 - 24%)	**1,956**	1,910	**1,993**	1,929
Over provision of corporation tax in prior years	**–**	(16)	**–**	(16)
Total current tax	**1,956**	1,894	**1,993**	1,913
Deferred tax at 20% (2013 - 23%)				
Origination and reversal of timing differences	**653**	263	**644**	256
Tax on profit on ordinary activities	**2,609**	2,157	**2,637**	2,169

Deferred tax is calculated at 20%, the enacted corporation tax rate from 1 April 2015.

(b) Factors affecting current tax charge in year:	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Profit on ordinary activities before tax	**10,266**	8,319	**10,426**	8,372
Tax on profit on ordinary activities at UK standard rate of 23% (2013 - 24%)	**2,361**	1,997	**2,398**	2,009
Effects of:				
Depreciation in excess of capital allowances	**32**	41	**23**	40
Other timing differences	**–**	(19)	**–**	(18)
Expenses not deductible for tax purposes	**15**	6	**22**	12
Adjustments to tax charge for payments basis (pensions)	**(450)**	(114)	**(450)**	(114)
Small companies rate	**(2)**	(1)	**–**	–
Over provision of corporation tax in prior years	**–**	(16)	**–**	(16)
Current tax charge for year	**1,956**	1,894	**1,993**	1,913

8. Loans and Advances to Credit Institutions	Group and Society 2014 £000	Group and Society 2013 £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	**19,141**	26,186
In not more than three months	**2,500**	30,000
In more than three months but not more than one year	**50,000**	25,500
	71,641	81,686
Accrued interest	**170**	286
	71,811	81,972

9. Debt Securities	Group and Society 2014 £000	Group and Society 2013 £000
(a) Debt securities comprise:		
Issued by other financial institutions, unlisted	**–**	6,087
(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	**–**	6,000
Accrued interest	**–**	87
	–	6,087

In addition, at 31 March 2014 the Society had drawn £100 million of Treasury Bills under the Bank of England's Funding for Lending Scheme, of which £70 million were held off balance sheet.

10. Loans and Advances to Customers	Group and Society 2014 £000	Group and Society 2013 £000
(a) Loans and advances to customers comprise:		
Loans fully secured on residential property	**1,247,908**	1,101,672
Other loans		
Loans fully secured on land	**150,305**	147,234
Other loans	**1,688**	2,170
	1,399,901	1,251,076
(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	**5,264**	7,422
In not more than three months	**14,025**	12,839
In more than three months but not more than one year	**52,649**	49,929
In more than one year but not more than five years	**284,516**	276,139
In more than five years	**1,050,054**	911,264
	1,406,508	1,257,593
Less: Provisions (note 11)	**(6,607)**	(6,517)
	1,399,901	1,251,076

The actual experience of repayments may differ from the above since many loans and advances are repaid early. At 31 March 2014 £211.5 million (2013 - £239.5 million) of loans had been pledged as collateral to the Bank of England under the Funding for Lending Scheme.

11. Provisions for Bad and Doubtful Debts	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Group and Society Total £000
Provisions against loans and advances to customers have been made as follows:				
At 1 April 2013				
General provision	1,577	1,748	40	3,365
Specific provision	204	2,910	38	3,152
	1,781	4,658	78	6,517
Amounts written off during year				
Specific provision	(56)	–	(13)	(69)
	(56)	–	(13)	(69)
Income and expenditure account				
Provisions for bad and doubtful debts				
General provision	42	–	–	42
Specific provision	52	55	10	117
	94	55	10	159
At 31 March 2014				
General provision	1,619	1,748	40	3,407
Specific provision	200	2,965	35	3,200
	1,819	4,713	75	6,607

The total charge of £137,000 in the income and expenditure account consists of the charge of £159,000 shown above, and a net credit of £22,000 in respect of additional costs and recoveries against loans which had been written off in prior years.
Within accruals and deferred income the Society has a provision of £182,000 (2013 - £380,000) 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 31 March 2013 and 2014	1,390	991	2,381

Subsidiary undertakings carrying on a business
At 31 March 2014 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 Financial Planning Ltd	England	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 2013	19,841	6,697	26,538
Additions	800	1,922	2,722
Disposals	–	(583)	(583)
Properties transferred to 'investment properties' (note 14)	(973)	–	(973)
At 31 March 2014	19,668	8,036	27,704
Depreciation			
At 1 April 2013	9,812	3,957	13,769
Charge for year	336	1,064	1,400
Disposals	–	(544)	(544)
Properties transferred to 'investment properties' (note 14)	(413)	–	(413)
At 31 March 2014	9,735	4,477	14,212
Net book value			
At 31 March 2014	9,933	3,559	13,492
At 31 March 2013	10,029	2,740	12,769

Tangible Fixed Assets (Society)			
Cost			
At 1 April 2013	17,778	6,342	24,120
Additions	791	1,817	2,608
Disposals	–	(482)	(482)
Properties transferred to 'investment properties' (note 14)	(973)	–	(973)
At 31 March 2014	17,596	7,677	25,273
Depreciation			
At 1 April 2013	9,022	3,773	12,795
Charge for year	279	1,019	1,298
Disposals	–	(456)	(456)
Properties transferred to 'investment properties' (note 14)	(413)	–	(413)
At 31 March 2014	8,888	4,336	13,224
Net book value			
At 31 March 2014	8,708	3,341	12,049
At 31 March 2013	8,756	2,569	11,325

The net book value of land and buildings occupied by the Group for its own activities at 31 March 2014 was £9,122,000 (Society £7,770,000) (2013 - Group £9,244,000, Society £7,857,000).

14. Investment Properties	**Group 2014 £000**	Group 2013 £000	**Society 2014 £000**	Society 2013 £000
At 1 April	**1,650**	1,650	**–**	–
Properties transferred from 'tangible fixed assets' (note 13)	**1,075**	–	**1,075**	–
At 31 March	**2,725**	1,650	**1,075**	–

Four properties which were previously held by the Society within tangible fixed assets, have now been reclassified as investment properties. Valuations of these properties were carried out on an open market value basis by an independent valuer, T.M. Hargraves BSc FRICS, Director of Hyde Harrington Ltd, as at 31 March 2014.
Revaluations of existing investment properties owned by two subsidiary companies were carried out on an open market basis on 18 March 2014, by an employee of the Group who is a member of the Royal Institution of Chartered Surveyors.

15. Other Assets	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Deferred taxation asset (note 16)	**883**	995	**876**	979
Other	**386**	440	**1,341**	1,321
	1,269	1,435	**2,217**	2,300

16. Deferred Taxation

The elements of deferred taxation at 20% (2013 - 23%) are as follows:

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Difference between accumulated depreciation and amortisation and capital allowances	**202**	221	**195**	205
General mortgage loss provisions	**681**	774	**681**	774
Deferred taxation asset (note 15)	**883**	995	**876**	979

The deferred taxation movement for the year is as follows:

	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
At 1 April	**995**	1,099	**979**	1,076
Charge for the year (note 7)	**(653)**	(263)	**(644)**	(256)
Offset against pension deficit	**541**	159	**541**	159
At 31 March	**883**	995	**876**	979

17. Prepayments and Accrued Income	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Accrued income relating to off balance sheet instruments	**1,432**	1,481	**1,432**	1,481
Other	**246**	353	**241**	348
	1,678	1,834	**1,673**	1,829

18. Shares	Group and Society 2014 £000	Group and Society 2013 £000
(a) Shares comprise:		
Held by individuals	**1,433,192**	1,353,987
Other	**7**	7
	1,433,199	1,353,994
(b) Repayable from the date of the balance sheet in the ordinary course of business as follows:		
On demand	**802,638**	710,416
In not more than three months	**189,059**	204,075
In more than three months but not more than one year	**312,881**	294,143
In more than one year but not more than five years	**120,555**	136,397
	1,425,133	1,345,031
Accrued interest	**8,066**	8,963
	1,433,199	1,353,994

19. Amounts owed to Credit Institutions

Repayable from the date of the balance sheet in the ordinary course of business as follows:	Group and Society 2014 £000	Group and Society 2013 £000
In not more than three months	**1,500**	2,000
In more than three months but not more than one year	**2,000**	2,000
In more than one year but not more than five years	**29,912**	–
	33,412	4,000
Accrued interest	**28**	2
	33,440	4,002

20. Amounts owed to Other Customers	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Repayable from the date of the balance sheet in the ordinary course of business as follows:				
On demand	**28,688**	19,538	**29,028**	19,874
In not more than three months	**21,875**	27,896	**21,875**	27,896
In more than three months but not more than one year	**37,255**	14,158	**37,255**	14,158
In more than one year but not more than five years	**4,659**	4,612	**4,659**	4,612
	92,477	66,204	**92,817**	66,540
Accrued interest	**443**	523	**443**	523
	92,920	66,727	**93,260**	67,063

21. Other Liabilities	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
Falling due within one year:				
Corporation tax	**605**	857	**593**	850
Income tax	**614**	556	**614**	556
Other creditors	**1,101**	3,602	**1,075**	3,620
	2,320	5,015	**2,282**	5,026

22. Provisions for Liabilities	Group and Society 2014 £000	Group and Society 2013 £000
Financial Services Compensation Scheme Levy:		
At 1 April	**1,470**	1,195
Paid	**(992)**	(490)
Charged to income and expenditure account	**1,162**	765
At 31 March	**1,640**	1,470

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 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 during 2008 and 2009. Levies were made in relation to Bradford and Bingley plc, the U.K. retail deposit-taking arms of Icelandic banks (Heritable, Kaupthing Edge and Icesave), London Scottish Bank plc and Dunfermline Building Society.

Interest is charged on each outstanding loan at the higher of 12 months LIBOR plus 100 basis points and the relevant gilt rate published by the Debt Management Office, on which the management expenses levies for scheme years 2013-14 and 2014-15 have been based.

In the current year, the Society paid £992,000 in respect of the levy for 2012-13.

The charge of £1,162,000 in the latest year reflects, based on the Society's share of UK protected deposits:
a) the management expenses levies for 2013-14 and 2014-15, and
b) the second of three tranches in relation to the current estimated shortfall on the capital loans outstanding.

23. Reserves	Group 2014 £000	Group 2013 £000	Society 2014 £000	Society 2013 £000
General Reserves				
At 1 April	**116,217**	110,414	**116,384**	110,540
Profit for the financial year	**7,657**	6,162	**7,789**	6,203
Actuarial gain/(loss) net of deferred tax in the STRGL	**426**	(359)	**426**	(359)
At 31 March	**124,300**	116,217	**124,599**	116,384
Investment Properties				
At 1 April and 31 March	**816**	301	**515**	–
Reserves excluding net pension liability	**127,114**	120,358	**127,112**	120,224
Net pension liability	**(1,998)**	(3,840)	**(1,998)**	(3,840)
Reserves including net pension liability	**125,116**	116,518	**125,114**	116,384

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 2014 £000	2013 £000
Contracted but not provided for	**265**	279
(d) Memorandum items		
Irrevocable mortgage commitments	**7,343**	11,497

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 Prudential Regulation 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 2014 £000	Credit risk weighted amount 2014 £000	Replacement cost 2014 £000	Nominal principal amount 2013 £000	Credit risk weighted amount 2013 £000	Replacement cost 2013 £000
Interest rate contracts						
– under one year	**230,900**	**–**	**–**	168,950	107	214
– between one and five years	**575,700**	**1,823**	**–**	402,500	1,017	–

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 2014:	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	223,582	26,000	24,000	–	242	273,824
Loans fully secured on residential property and other loans	795,588	33,794	51,635	525,491	(6,607)	1,399,901
Tangible fixed assets	–	–	–	–	13,492	13,492
Other assets	–	–	–	–	5,672	5,672
Total assets	1,019,170	59,794	75,635	525,491	12,799	1,692,889
Liabilities						
Shares	1,147,339	72,295	91,404	114,095	8,066	1,433,199
Amounts owed to credit institutions and other customers	101,389	2,000	22,500	–	471	126,360
Other liabilities	–	–	–	–	8,214	8,214
Reserves	–	–	–	–	125,116	125,116
Total liabilities	1,248,728	74,295	113,904	114,095	141,867	1,692,889
Net assets / (liabilities)	(229,558)	(14,501)	(38,269)	411,396	(129,068)	–
Off balance sheet items	429,850	24,800	1,350	(456,000)	–	–
Interest rate sensitivity gap	200,292	10,299	(36,919)	(44,604)	(129,068)	–
Cumulative gap	200,292	210,591	173,672	129,068	–	–

Group At 31 March 2013:	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	253,630	26,000	4,500	–	446	284,576
Loans fully secured on residential property and other loans	858,362	11,621	18,320	369,290	(6,517)	1,251,076
Tangible fixed assets	–	–	–	–	12,769	12,769
Other assets	–	–	–	–	4,919	4,919
Total assets	1,111,992	37,621	22,820	369,290	11,617	1,553,340
Liabilities						
Shares	1,067,475	65,066	88,253	124,237	8,963	1,353,994
Amounts owed to credit institutions and other customers	67,204	3,000	–	–	525	70,729
Other liabilities	–	–	–	–	12,099	12,099
Reserves	–	–	–	–	116,518	116,518
Total liabilities	1,134,679	68,066	88,253	124,237	138,105	1,553,340
Net assets / (liabilities)	(22,687)	(30,445)	(65,433)	245,053	(126,488)	–
Off balance sheet items	211,600	28,200	49,000	(288,800)	–	–
Interest rate sensitivity gap	188,913	(2,245)	(16,433)	(43,747)	(126,488)	–
Cumulative gap	188,913	186,668	170,235	126,488	–	–

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 2014 £000**	**Fair value 2014 £000**	Book value 2013 £000	Fair value 2013 £000
On balance sheet instruments				
Liquid assets	**–**	**–**	6,087	6,119
Off balance sheet instruments				
Interest rate contracts	**1,431**	**6,550**	1,482	(2,804)

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	2,394	(6,680)	(4,286)
Recognised in the year	(1,528)	636	(892)
Carried forward to future periods	866	(6,044)	(5,178)
Gains and losses arising in the year but not recognised in the year	6,423	3,874	10,297
Unrecognised at the end of the year	7,289	(2,170)	5,119
Of which:			
Expected to be realised in the year ending 31 March 2015	1,265	(390)	875
Expected to be realised after 31 March 2015	6,024	(1,780)	4,244
	7,289	(2,170)	5,119

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 £203,000 (2013 - £209,000). This excludes the additional contributions made by the Group as a result of the operation 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 2014 using the projected unit method with a suitable control period which reflects the expected ageing of the scheme. Scheme assets are stated at their market value at 31 March 2014.

The most recent full actuarial valuation was as at 27 August 2012 and showed a deficit of £9,180,000.

Principal assumptions used to calculate the scheme's liabilities under FRS 17	**2014 %**	2013 %
Rate of increase in salaries	**3.25**	3.35
Rate of increase in pensions in payment	**2.40 - 3.50**	2.40 - 3.50
Discount rate	**4.40**	4.40
Inflation assumptions - RPI	**3.50**	3.50
- CPI	**2.75**	2.85

Post-retirement mortality is based on 95% of the S1PxA year of birth tables, projected assuming medium cohort improvements with a minimum improvement of 1.25% per annum. No allowance is made for pre-retirement mortality.

The number of years' life expectancy, retiring at 62, is as follows:	**2014**	2013
Retiring today:		
Males	**87.4**	87.5
Females	**89.8**	90.0
Retiring in 20 years:		
Males	**89.3**	89.5
Females	**91.8**	92.0

The Group contributed at the rate of 20.3% (2013 - 15.8%) of pensionable salaries for the year. It also made an additional contribution of £1,500,000 in June 2013. Group contributions for the next financial year, based on contribution rates and membership at 31 March 2014, and excluding the additional contributions made as a result of the operation of the salary sacrifice scheme as stated in note 5, are estimated at £500,000.

Amounts recognised in the balance sheet

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of scheme liabilities	**(49,741)**	(48,888)	(44,060)	(38,607)	(36,701)
Fair value of scheme assets	**47,243**	43,901	39,064	38,558	36,480
Net pension liability	**(2,498)**	(4,987)	(4,996)	(49)	(221)
Net pension liability after deferred tax	**(1,998)**	(3,840)	(3,797)	(36)	(159)

Reconciliation of the present value of scheme liabilities

	2014 £000	2013 £000
At 1 April	**48,888**	44,060
Interest cost	**2,144**	2,062
Current service cost	**491**	506
Past service cost	**–**	177
Contributions from scheme members	**163**	175
Charges paid	**(11)**	(80)
Benefits paid	**(961)**	(1,142)
Experience change in secured pensioner value	**30**	78
Actuarial gain/(loss)	**(1,003)**	3,052
At 31 March	**49,741**	48,888

Reconciliation of the fair value of scheme assets	2014 £000	2013 £000
At 1 April	**43,901**	39,064
Expected return on assets	**2,627**	2,360
Contributions from employers and scheme members	**2,225**	1,274
Charges paid	**(11)**	(80)
Benefits paid	**(961)**	(1,142)
Expenses paid	**(97)**	(239)
Experience change in secured pensioner value	**30**	78
Actuarial (loss)/gain	**(471)**	2,586
At 31 March	**47,243**	43,901

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

	Expected long term rate of return 2014 %	Value 2014 £000	Expected long term rate of return 2013 %	Value 2013 £000
Equities and other growth-type assets	**7.00**	**30,275**	7.00	26,916
Corporate Bonds	**4.30**	**14,297**	4.10	13,594
Cash	**4.00**	**391**	4.00	1,052
Annuities	**4.40**	**2,280**	4.10	2,339
Total market value of assets		**47,243**		43,901

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	2014 £000	2013 £000
Current service cost	**491**	506
Past service cost	**–**	177
Total operating charge	**491**	683

The operating charge of £491,000 (2013 - £683,000), plus the Group's contributions to the defined contribution schemes of £203,000 (2013 - £209,000), and life assurance premiums of £46,000, comprise the Group's 'other pension costs' total of £740,000 (2013 - £892,000) shown in note 5.

b) Pension finance income		
Expected return on pension scheme assets	**2,627**	2,360
Interest on pension scheme liabilities	**(2,144)**	(2,062)
Net income	**483**	298

c) Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension scheme assets	**(441)**	2,664
Experience gains/(losses) arising on scheme liabilities	**180**	(273)
Changes in assumptions underlying the present value of the scheme's liabilities	**793**	(2,857)
Actuarial gain/(loss)	**532**	(466)
Movement in deferred taxation relating to pension scheme	**(106)**	107
Actuarial gain/(loss) recognised in the STRGL	**426**	(359)

d) Movement in the deficit in the scheme during the year		
Deficit in scheme at beginning of year	**(4,987)**	(4,996)
Movement in year:		
Current and past service costs	**(491)**	(683)
Contributions	**1,965**	860
Other finance income	**483**	298
Actuarial gain/(loss)	**532**	(466)
Deficit in scheme at end of year	**(2,498)**	(4,987)

History of experience gains and losses	2014	2013	2012	2011	2010
Actual return less expected return on pension scheme assets (£000)	**(441)**	2,664	1,565	103	7,641
Percentage of scheme assets	**0.9**	6.1	4.0	0.3	20.9
Experience gains/(losses) arising on the scheme liabilities (£000)	**180**	(273)	304	380	(242)
Percentage of scheme liabilities	**0.4**	0.6	0.7	1.0	0.7
Actuarial gain/(loss) recognised in the STRGL (£000)	**532**	(466)	(5,150)	(75)	139
Percentage of scheme liabilities	**1.1**	1.0	11.7	0.2	0.4

ANNUAL BUSINESS STATEMENT

For the year ended 31 March 2014

1. Statutory Percentages	31 March 2014 %	Statutory Limit %
Lending Limit	**11.50**	25
Funding Limit	**8.10**	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 2014 %	Group 31 March 2013 %
As percentage of shares and borrowings:		
Gross capital	**8.02**	8.18
Free capital	**7.38**	7.52
Liquid assets	**17.56**	19.97
Profit for the financial year as a percentage of mean total assets	**0.47**	0.40
Management expenses as a percentage of mean total assets	**1.13**	1.07

	Society 31 March 2014 %	Society 31 March 2013 %
Management expenses as a percentage of mean total assets	**1.01**	0.97

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 and debt securities.
'Management expenses'	represent the aggregate of administrative expenses, depreciation and amortisation.

3. Information relating to the Directors and Chief Executive as at 31 March 2014

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 Milburns Solicitors Ltd
D. M. Clarke, BSc, FCIM, FCIMC	Company Director	22.5.48	14.2.05	Fellside Management Services Ltd The Pensions Advisory Service Ltd
T. Hebdon, ACIB	Business Consultant	21.3.54	11.12.09	Carlisle Cathedral Development Trust
G. F. Gardner, MA (Cantab)	Solicitor	28.9.64	17.9.12	Council Member of Lancaster University Member of Brabners LLP
A. J. Johnston, BA, FCA	Chartered Accountant	13.2.60	15.2.11	Armstrong Watson Financial Planning Ltd Future Money Ltd Armstrong Watson Accountants Armstrong Watson General Partner Ltd
J. C. N. Kidd, BA, ACA	Building Society Finance Director and Secretary	10.6.65	28.3.02	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 Cumberland Financial Planning 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 Cumberland Financial Planning 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

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 on twelve months' notice or by the individual on six months' notice. 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, and all were varied by a side letter determining the notice periods above on 26 March 2013.
Correspondence to Directors jointly or individually should be addressed 'Private and Confidential' and c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds LS1 4DW.

Cumberland
Building Society

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