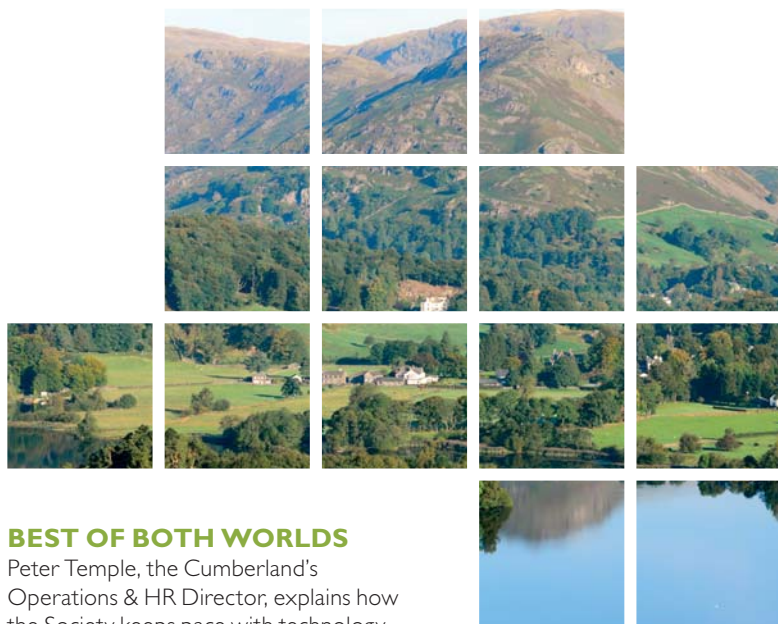


annual. review

year ended 31 March 2014

INCLUDING SUMMARY FINANCIAL STATEMENT
AND NOTICE OF ANNUAL GENERAL MEETING



BEST OF BOTH WORLDS

Peter Temple, the Cumberland's Operations & HR Director, explains how the Society keeps pace with technology

SPOTLIGHT ON LANCASTER

Profiling the Cumberland's newest branch and its team

FINANCIAL PLANNING AND LETTINGS

An update on two of the Cumberland's subsidiaries

Contents

Chairman's welcome	3
An introduction from Michael Pratt	
Best of Both Worlds	4 - 5
Peter Temple, the Cumberland's Operations & HR Director, explains how the Society keeps pace with technology	
Financial Planning & Lettings	6 - 7
An update on two of the Cumberland's subsidiaries	
Spotlight on Lancaster	8 - 9
Profiling the Cumberland's newest branch and its team	
Cumberland in the Community	10 - 11
Projects we have supported during the year	
Summary Financial Statement	12 - 13
Financial Results	14 - 15
Independent Auditor's Statement	16
Report on Directors' Remuneration	17 - 18
Notice of Annual General Meeting	19
Notes on Voting	20
Explanatory Notes on the Ordinary and Special Resolutions	21 - 22
Re-election of Directors	22 - 23

Chairman's welcome

Welcome to the 2014 members' Annual Review



Financially, the Cumberland has had another very successful year, with a strong profit of £7.66 million after tax. This has been complemented by 12.0% growth in our mortgage balances, being almost £150 million, while our share (savings and current account) balances grew by 5.8%, with a net inflow of funds of £75 million, the second largest ever recorded.

You can read more about our results on pages 12 to 15 of this booklet.

Other highlights of the year are discussed later in this booklet and have included:

- The launch of the 'Pay2Mobile' service,
- Our participation in the launch of the national Current Account Switch Service in September 2013, and
- The move of our Head Office from the centre of Carlisle to a new building at Kingstown on the outskirts of the city.

The success of your Society on several fronts is, I believe, fundamentally because the interests of you, our members, are always at the forefront of our minds when we take decisions. The Cumberland competes successfully with the huge organisations that dominate the financial services industry, by providing first class customer service and value and by being able to react swiftly to developments in the market, to continue to provide the services our members want.

Our mutual status and independence are vital because we are driven by your interests, rather than the demands of external shareholders. On pages 19 to 23 you can read about our Annual General Meeting which will be held on 24 June. Please cast your votes, especially as each member doing so will raise 50p for this year's beneficiaries of our 'pledge for votes', the Motor Neurone Disease Association and MND Scotland.

Finally, I would like to say thank you to our staff for their dedication and enthusiasm in delivering both this very positive set of results and the many development projects during the year, and to you, our members, for your continuing strong support, which is greatly appreciated by us all.



Michael Pratt
Chairman, May 2014



the best of both worlds ...with Peter Temple

Over the last decade there has been a rapid change in the way people manage their money. Who would have thought, just a few short years ago, that you would be able to manage your account on your mobile phone, buy a sandwich with the flick of a debit card or split a taxi fare as easily as sending a text message?

We believe that you, our members, value the personal service you get from being part of your local building society, and that you wish to be treated as 'more than a number'. However, we also believe that you want up to date products and services, and expect us to innovate to provide them. Quite understandably, you want the best of both worlds! Peter Temple, the Cumberland's Operations and Human Resources Director, explains how we deliver on the technology side...

Q The last decade has seen significant changes in the way people manage their money. Why is this?

The simple answer is technology. Advances in technology, in particular mobile technology, have not just changed the way people bank, they've changed the way we live our lives. Until fairly recently a current account would offer you a debit card and a cheque book, and you'd probably visit your local branch fairly regularly to pay cheques in, and check your direct debits and standing orders. In the last decade though, a number of technological advances have allowed us to make everyday banking much easier and more convenient for our members.

Since we launched our internet banking service in 2007 we've introduced further product and service innovations, including mobile banking, text alerts to tell you your balance has dropped below a particular amount, and Pay2Mobile, our new mobile payments service. In addition, we've introduced a number of security features over recent years such as SecureCall and SecureCard, which are designed to reduce the risk of fraud and ensure that our customers' accounts are as secure as possible. Later this year, we plan to introduce 'contactless' technology on our debit cards and we are also aiming to launch an online application process for our current accounts.

Q So how does a local building society keep up with the big banks in technology?

Obviously the Cumberland is a much smaller organisation than the UK's big banks. However, this means we can make decisions and move quickly to develop and introduce technology that we believe will be of benefit to our members. We have excellent working relationships with those businesses that supply our IT requirements and we have our own team who are responsible for developing, testing and implementing new products. As a result, we can ensure that our ideas are developed quickly, efficiently and cost-effectively.

A great example is Pay2Mobile, which we launched in January 2014. We were one of the first current account providers in the UK, and the first building society, to offer this type of mobile payment service.

Q How does Pay2Mobile work?

Pay2Mobile is a simple but incredibly useful service that allows you to send money quickly and securely to a friend or relative's current account using just their mobile phone number, without needing to know account details.

If you want to share the cost of a taxi, repay that £10 you borrowed or help out one of your children by sending them some money, you can use Pay2Mobile. You can also use it to pay small businesses and tradesmen such as a window cleaner or newsagent.

To send money, you simply download the free Pay2Mobile app, available on iOS and Android and follow the instructions. To receive money, all you need to do is register your mobile phone number with us.

The Pay2Mobile app also includes an innovative feature called 'Balance Peek' which allows you



Pay2Mobile

The easy way to pay

to check the balances on your Cumberland accounts without having to log on to mobile banking.

Pay2Mobile is also part of 'Paym', the Payments Council's industry-wide mobile payments service. Being part of Paym means that you can use Pay2Mobile to send and receive money to and from customers of most of the high street banks, not just the Cumberland. We were proud to be the only building society, alongside five clearing bank groups, to be involved in Paym when it launched in April 2014.

Q Will all this new technology have an adverse effect on your branches?

With almost 50% of our current accounts now internet or mobile banking enabled, we have seen a reduction in the number of day-to-day banking transactions carried out in our branches, such as transferring money and amending direct debits.

However, it is very apparent that, despite the convenience of online and mobile banking, our members still want to be able to visit a local branch when they need to and speak to a member of staff face to face. As a result, we are as committed as we have ever been to maintaining a strong branch presence throughout our region.

'Balance Peek'

House Bills

AVAILABLE
£2,095.85

BALANCE
£1,095.85

AVAILABLE
£700.18

BALANCE
£700.18



plan
[plan] to think about how you are going to do something; to make a decision with your future in mind



Cumberland
Financial Planning

Planning for your future goals makes sense. That's why the

Cumberland has a specialist team of financial planning consultants who can help. You may have a specific event that you want to save for, such as a wedding or a special holiday, or you may want to support your loved ones in the coming years. Whatever your financial ambitions are, getting specialist advice can really help.

Our financial consultants can discuss your specific circumstances with you and provide you with straightforward advice. We can help to draw up a plan based on your current needs and your long term aims. Alternatively, if you are confident making your own financial decisions, we can provide

the information you need to do this yourself. Either way, you can be sure you will get an expert to help you plan your finances.

Our consultants offer the products of Legal & General, one of the UK's leading financial services companies. We take great care in choosing which firms we work with to ensure our customers get the same great service and value you would expect from the Cumberland and we have no hesitation in recommending Legal & General.

If you want to know more about our financial planning service and how it can help you, please visit your local branch or call our customer service team on 0845 601 8396 or 01228 403141.

Lettings



Cumberland
Estate Agents

Cumberland Estate Agents launched its residential

lettings service from its Carlisle office in the summer of 2012. Since then, the popularity of the service has grown and it is now available in all of its Cumbrian offices, with plans to launch the service in Lancaster later this year. Staff based at the Society's head office manage the administrative needs of both landlords and tenants.

At the helm of Cumberland Estate Agents is Nick Elgey, managing director, who explained the decision to offer the lettings service:

“ We chose to introduce a residential lettings service as there is a high demand for rental property throughout our operating area and by offering a lettings service we can now help people to either rent or buy a home. ”

Marie Callow manages the lettings service for the Cumberland. She is one of only a few agents in the area accredited by the Association of Residential Lettings Agents. She said:

“ At the Cumberland, we have a commitment to providing an exceptional level of service. We believe that anyone looking to rent a home or landlords trying to find tenants for a property, will find that we offer a professional lettings service and in choosing the Cumberland will know that they are dealing with a trusted, local organisation. ”

For more details on the Cumberland's lettings service, please visit www.cumberlandestateagents.co.uk or call into your nearest estate agency office.



Marie Callow,
Residential Lettings
Manager





Spotlight on Lancaster

In February 2013, the Cumberland opened a new building society and estate agency branch in Lancaster, situated on Cheapside in the heart of the city centre.

Opening a new branch is in direct contrast to the many reported bank branch closures and reinforces the Cumberland's commitment to providing customers with a personal service in their own communities. The new Lancaster branch saw the total number of Cumberland Building Society branches rise to 34.

John Leveson, deputy chief executive at the Cumberland, said, "We made a significant investment in Lancaster which demonstrates our commitment to retaining and developing our branch network. We know that when dealing with important financial decisions many customers want to be able to speak to someone, face to face."

1

First Birthday

The branch celebrated its first birthday earlier this year by donating a range of outdoor play equipment to the Children's Ward at Lancaster Hospital. Pictured handing over the presents at the hospital are Joanne Atkinson, branch manager with John Gosling, Ward Manager and Ania Barska, Play Specialist.



Working at Lancaster are (L-R): Anthony Huddleston, investment interviewer; Joanne Atkinson, branch manager; Rachel Airey, sales negotiator; James Cookson, mortgage advisor; Gillian Livesey, estate agency manager and Anne Taylor, branch assistant.

Joanne Atkinson manages the building society branch and lives in North Lancashire. She has worked for the Cumberland for three years, and managed our Barrow branch before Lancaster opened.

What's the most important part of your role?

Helping my team to deliver the highest possible level of service to our members.

What would you say to someone thinking about a new mortgage?

Make sure you get advice. Your mortgage is likely to be your biggest financial commitment so time with a good mortgage advisor will be well spent. It will put you in the best possible position to make the right decision.

In business, what's the best piece of advice you've ever been given?

Be honest and upfront and always treat people in the way you would want to be treated yourself.

Gillian Livesey is from Lancashire and manages the Cumberland's estate agency office. She has worked as an estate agent for 18 years.

What was your first job?

I started in estate agency when I left university. I began as a trainee sales negotiator and worked my way up to become a branch manager. Since then I have worked in a number of locations throughout Lancashire.

What's your favourite thing about being an estate agent?

The variety the role brings. It's great getting out and about seeing different properties and meeting people. No two days are ever the same!

What's the best piece of advice you could give someone selling their house?

De-clutter and de-personalise wherever you can. Remember that you want your property to appeal to as many people as possible so keeping everything tidy and neutral will give you the best chance of attracting a potential buyer.

Cumberland in the Community

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



Sports Driving Unlimited

In December 2013 the Society made a donation to Sports Driving Unlimited, a charity based in South-West Scotland that provides activities for disabled people of all ages. The donation was used to provide local children with a carriage driving experience at Chariots of Fire Driving Centre, Boreland.

Kraftworks



Kraftworks is a Preston-based community group which organises activities to help bring people together who feel isolated, lack confidence or feel disengaged from society. Our donation helped the group purchase new equipment for their craft sessions.

Cumberland Community Fund

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

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

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

The Charitable Foundation

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

A total of almost £23,000 was donated by the Foundation during the year, with Appleby Swim Club, The Rock Currock Youth Project in Carlisle, Lockerbie Wheelchair Curling Club and Northern Fells Rural Community Development Group being amongst those receiving a donation.



Members of Lockerbie Wheelchair Curling Club and their Coaches

The Big Sleep



Cumbria Community Foundation's 'Big Sleep' took place in February 2014 to generate awareness of and raise funds for the Winter Warmth appeal. The appeal provides support for Cumbria's most vulnerable older people to help them keep warm during the winter months. Four staff from the Society took part, spending a cold night under the stars, raising over £800 for the charity.

KINGS FOOD BANK

Kings Food Bank in Kendal was set up to provide food parcels to people who are in temporary financial difficulty. The Society purchased a laptop to help with the charity's day to day administration.



Can we help?

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

enquiries@cumbriafoundation.org
or
charitablefoundation@cumberland.co.uk

 **Cumberland Building Society**
charitable foundation

Registered Charity No. 1072435

Summary Financial Statement

FOR THE YEAR ENDED 31 MARCH 2014

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors, free of charge, on demand at every office of Cumberland Building Society, and on our website, www.cumberland.co.uk, from 9 June 2014.

Summary Directors' Report

The Society has again produced a strong set of financial results, with a Group profit after tax of £7.66 million, which in relation to its size is again one of the best results in the building society industry. This success is testament to the strength of the Society's business model and its ability to deliver excellent customer service and popular mortgage, savings and current account products. Further details are provided below, and on pages 14 and 15.

Beyond the financial results, the main operational highlights of the year were that the Society:

- participated in the launch of the national 'Current Account Switch Service' in September 2013.
- launched 'Pay2Mobile' in January 2014, which enables members to send money securely from their mobile phone, using the mobile number of someone they wish to pay without needing to know their account details. Initially available between Cumberland customers only, late in April 2014 Pay2Mobile became part of the national 'Paym' scheme. The Cumberland is currently the only building society participating in this scheme, alongside five clearing bank groups.
- moved its Head Office from the centre of Carlisle to a modern new building on the edge of the city at Kingstown in October 2013.

The Cumberland's continued good performance, both financially and in terms of the services it provides, demonstrates why being a member is so worthwhile.

Financial Results

- Profit after tax was £7.66 million, 0.47% of mean total assets.
- Mortgage balances increased by 12.0% to £1,398.21 million.
- Share balances increased by 5.8% to £1,433.20 million.

Mortgages

- Residential mortgage balances grew by 13.3% in the year, with new advances rising by 39% to £313 million as the Society competed strongly with attractive products.
- The Cumberland participated in the Funding for Lending Scheme (which the Government introduced in summer 2012 to provide relatively low cost funds to firms to encourage lending to stimulate the economy) and had drawn £100 million from

this by 31 March 2014. This has assisted in enabling the Society to be very competitive in the mortgage market and in addition, products for new customers are available to existing customers on the expiry of their product period, which helps to retain borrowers.

- The Society's relatively new channel for introduced mortgages from certain carefully selected intermediaries, performed very well during the year, with good quality business being obtained.
- The quality of the Society's residential mortgage book remains very high, with only three properties in possession at 31 March 2014, and the number of mortgage accounts in arrears remains very low in relation to industry figures.
- Non-residential, commercial lending balances increased by 2.1%.

Savings and Banking Services

- Share (savings and current account) balances grew by 5.8% in the year, with an inflow of funds of almost £75 million, the second largest ever.
- This was in spite of the year being another difficult one for savers, with the Funding for Lending Scheme having the effect of reducing savings rates across the market. The Society had to respond to this by withdrawing several savings products, although some were reissued at lower rates, but it did not reduce variable interest rates for existing customers. It is believed that the Society's clear track record of giving long term value is attractive to many savers, both new and existing.
- The Society's current account products continued to be very popular in spite of the incentives offered by some other providers, and balances in them increased by 22% in the last year.
- A new ATM was installed at Brampton in March 2014.

Estate Agency

Cumberland Estate Agents continued to deliver good quality mortgage business, with its new Lancaster office making good progress in the market there, and the lettings and management service grew successfully in its seven branches.

Charitable Donations

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

Board of Directors

There were no changes to the Board of Directors during the year.

Corporate Governance

The Society's Board believes that it conforms to best practice in relation to corporate

governance and the Board has regard to and has adopted, where it is believed proportionate, the UK Corporate Governance Code, which was reissued in September 2012.

Outlook for 2014-15

- Further strong mortgage growth along the lines achieved in 2013-14 is targeted for 2014-15, with the aim of continuing to utilise the opportunity provided by the Funding for Lending Scheme, to help many prospective first time buyers and home movers, while attracting remortgage business too. Good quality commercial lending business will continue to be sought, particularly in the Society's favoured areas of hotels, guest houses and holiday let properties.
- On 1 April 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 Cumberland will begin to issue 'contactless' cards to its current account customers in late summer 2014. It will also upgrade its core computer system and launch a new system for online current account applications later in the year.
- The Cumberland remains committed to its independent, mutual status, which enables us to act for the benefit of our members by putting their short, medium and long term interests first, and we will continue to strive to be the natural choice for financial services for the people of our operating area.

On behalf of the Board
Michael Pratt, Chairman 15 May 2014

Financial Results

FOR THE YEAR ENDED 31 MARCH 2014

	Group 2014	Group 2013
	£000	£000
Results for the year		
Net interest receivable	23,998	20,869
Other income and charges	5,888	5,530
Administrative expenses	(18,321)	(16,566)
Provisions for bad and doubtful debts	(137)	(749)
Operating profit before FSCS levy	11,428	9,084
Provision for FSCS levy	(1,162)	(765)
Profit for the year before taxation	10,266	8,319
Taxation	(2,609)	(2,157)
Profit for the year	7,657	6,162
Statement of total recognised gains and losses		
Profit for the financial year	7,657	6,162
Actuarial gain/(loss) recognised in pension scheme	532	(466)
Movement in deferred tax relating to pension scheme	(106)	107
Unrealised gain on revaluation of investment properties	515	–
Total recognised gains and losses for the year	8,598	5,803
Financial position at end of year		
ASSETS		
Liquid assets	273,824	284,576
Mortgages	1,398,213	1,248,906
Other loans	1,688	2,170
Fixed and other assets	19,164	17,688
Total assets	1,692,889	1,553,340
LIABILITIES		
Shares	1,433,199	1,353,994
Borrowings	126,360	70,729
Other liabilities	8,214	12,099
Reserves	125,116	116,518
Total liabilities	1,692,889	1,553,340

	Notes	2014	2013
		%	%
Summary of key financial ratios			
Gross capital as a percentage of shares and borrowings	1	8.02	8.18
Liquid assets as a percentage of shares and borrowings	2	17.56	19.97
Profit for the year as a percentage of mean total assets	3	0.47	0.40
Management expenses as a percentage of mean total assets	4	1.13	1.07

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 Chief Executive

NOTES

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

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

We have examined the summary financial statement of Cumberland Building Society for the year ended 31 March 2014 set out on pages 12 to 15.

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

Respective responsibilities of directors and auditor

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

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

Basis of opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2014, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2014.

Our report on the Society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Opinion on Summary Financial Statement

On the basis of the work performed, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2014 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

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

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 shown overleaf. The increase in accrued pension represents the change in the annual pension to which each director is entitled as a result of the changes in pensionable earnings, accrual rate and increases in pensionable service during the year.

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

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

Notice of Annual General Meeting 24 JUNE 2014

The Annual General Meeting (AGM) of Cumberland Building Society will be held at 6.30pm on Tuesday, 24 June 2014 at Tullie House, Castle Street, Carlisle for the following purposes:

Ordinary Resolutions

1. To approve the Annual Report and Accounts for the year ended 31 March 2014.
2. To approve the Report on Directors' Remuneration.
3. To approve the appointment of Deloitte LLP as Auditors of the Society.

Special Resolution

4. To approve the changes to the Society's Rules.

Re-election of Directors

5. To re-elect Directors as follows:
 - a) to re-elect Richard Atkinson
 - b) to re-elect David Clarke
 - c) to re-elect Alan Johnston
 - d) to re-elect John Kidd
 - e) to re-elect Michael Pratt
 - f) to re-elect Peter Temple

BY ORDER OF THE BOARD

John C N Kidd, Secretary, 15 May 2014

Principal Office: Cumberland House, Cooper Way, Parkhouse, Carlisle CA3 0JF

The emoluments of the Society's directors are listed below: Non-Executive Directors	2014 £000	2013 £000
Michael Pratt (Chairman)	43	42
Richard Atkinson (Vice-Chairman)	26	26
Simon Berry (retired 18 December 2012)	-	17
David Clarke	24	23
Gill Gardner (appointed 17 September 2012)	24	12
Trevor Hebdon (Chairman of the Audit and Risk Committee)	28	26
Alan Johnston	24	23
Robert Watson (appointed 23 January 2013, resigned 26 March 2013)	-	4

Executive Directors	Salary £000	Bonus £000	Taxable Benefits £000	Total £000
2014				
Kevin Parr	198	15	6	219
John Leveson	144	11	6	161
John Kidd	133	10	7	150
Peter Temple	121	9	5	135

2013				
Kevin Parr	191	9	6	206
John Leveson	142	7	5	154
John Kidd	131	7	7	145
Peter Temple	117	7	4	128

Defined Benefit Pension Scheme

	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
Kevin Parr	67	6	7
John Leveson	39	3	4
John Kidd	43	3	4
Peter 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.

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

Notes on Voting

These Notes form part of the Notice of Meeting.

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

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

Your proxy does not need to be a member of the Society.

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

3. To be valid, your completed voting form must be received at the Principal Office by midnight on 21 June 2014, or at a branch by 5pm on 19 June 2014. If voting online, votes must be cast by midnight on 21 June 2014.
4. You should check if you are eligible to vote by reading the voting conditions on the back of the voting form.
5. If you are appointing a proxy other than the Chairman of the Meeting, please ensure that your proxy brings an appropriate form of identification to the Meeting.

Explanatory Notes on the Ordinary and Special Resolutions

The Annual Report and Accounts

You are asked to approve the Annual Report and Accounts. This means that you are asked to endorse the Board's decision to approve them at the Board Meeting held on 15 May 2014 and you are, therefore, asked to vote 'FOR' this resolution.

Report on Directors' Remuneration

You are asked to approve the Report on Directors' Remuneration on pages 17 and 18 of this booklet. This Report informs members of the Society's policy on the remuneration of directors, both executive and non-executive.

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

Appointment of 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. You are asked to endorse the appointment of Deloitte LLP as the Society's Auditors.

Rule Changes

Item 4 in the Notice of Annual General Meeting on page 19 of this booklet is to update the Rules of the Society. This note explains the alterations.

PIBS rules/changes regarding capital instruments

The Society (like other building societies and banks) is required to maintain capital as protection against losses. The Society's capital has to date almost wholly consisted of retained profits (known as 'Core Tier 1 Capital') and it has never issued any capital instruments. Regulatory changes in the UK and Europe mean that financial institutions are required to hold more Core Tier 1 Capital (or 'Common Equity Tier 1 Capital', as it is referred to under the new European regulations). New forms of qualifying capital instrument will however be available to building societies under the new European regulations, including 'Core Capital Deferred Shares' (CCDS), which will count as Common Equity Tier 1 Capital, and other forms of supplementary capital. The Rule alterations are designed to enable the Society to issue capital instruments of this nature, should the Board believe it is in the interests of members, although there are no plans to do so at present. The Society's existing Rules which cover the issue of Permanent Interest Bearing Shares (PIBS) have also been amended as part of these alterations.

Proposed alterations to the Rules include the following:

Rule 1(a) – introduces new definitions including 'Deferred Share' (which includes PIBS, CCDS and, potentially, other forms of capital under the new European regulations) and 'Periodic Distributions' (i.e. any distributions paid to CCDS holders). In particular there is a definition of 'Periodic Distributions Cap' which, in order to protect the Society's reserves, limits the maximum amount of distributions which the Society may pay on any CCDS initially to £15 per share per year (calculated on an assumed first issue price of £100 per share), which is adjusted each year by reference to the UK Consumer Price Index. Subject to the Cap, the Board will have discretion to set the actual return in any financial year based on the Society's overall financial position.

Rule 8(3) – allows the Society to have the power to issue different types of Deferred Share to satisfy the relevant requirements under the European regulations for different types of capital instrument.

Rule 12(6) – contains a power for the Board to decide and publish the Society's policy on Periodic Distributions and (subject to the Periodic Distributions Cap mentioned above) to decide on the amount of Periodic Distributions (if any) to be paid on the CCDS each year.

Rule 27(2) – introduces a provision requiring the terms of issue of CCDS to limit the Periodic Distributions in line with the Periodic Distributions Cap.

Rule 28(2) – alters the existing Rules to clarify the order in which any losses of the Society would be met if CCDS are issued. Generally, the reserves continue to take the first loss, and if they are fully depleted then investors in the Society will take losses according to the ranking of their investment in the Society. CCDS (which will absorb losses at the same time as reserves) will be the lowest ranking capital (ranking below creditors and all other members).

Rule 45(1) – this has been altered to clarify that, on a winding up, a CCDS holder would not receive any payment until all creditors and other members had been repaid. Alterations have also been made to provide that CCDS holders may share in any surplus assets on a winding up; the terms of issue of CCDS will set out how this share is to be calculated.

A full copy of the existing Rules, with the alterations highlighted, and a full list of all the changes, are available on the Society's website: www.cumberland.co.uk. It is intended that, if the alterations to the Rules are agreed at the Annual General Meeting, they will take effect (subject to registration by the Financial Conduct Authority) from 1 October 2014.

Re-election of Directors

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

RICHARD ATKINSON - VICE-CHAIRMAN STANDING FOR RE-ELECTION



Age: 60 Joined the Board: August 1997

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

DAVID CLARKE - NON-EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Age: 66 Joined the Board: February 2005

David lives in Kirkby Lonsdale and joined the Society as a non-executive director in February 2005. Before leaving full time employment in 2003, he was Director - UK Division at Scottish Power plc. He is a business graduate with more than 25 years' board level experience, primarily in marketing and customer service. David is a Non-Executive Director of the Disclosure and Barring Service and the Pensions Advisory Service, where he also chairs the Audit Committee. He is an independent member of the Audit Committee at the Ministry of Justice.

ALAN JOHNSTON - NON-EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Age: 54 Joined the Board: February 2011

Alan lives in Carlisle. He was appointed to the Board in 2011 and is also a member of the Society's Audit and Risk Committee. Alan has over 30 years experience as an accountant with local firm, Armstrong Watson. After joining them as a graduate in 1981, he was appointed a partner in 1989 and elected senior partner in 2004. Alan is also Chair of Governors at Robert Ferguson School in Carlisle.

JOHN KIDD - EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Age: 48 Joined the Board: March 2002

John lives in Lazonby, near Penrith. He joined the Society in 1994 as Financial Controller, became Assistant General Manager (Finance) in 1997 and was appointed to the Board in 2002 as Finance Director. John is also the Society's Secretary and as well as Finance, has responsibility for IT, Treasury, Management Information and Group Legal Services. John was born in Carlisle and attended Trinity School. He is a graduate of Newcastle University and a Chartered Accountant.

MICHAEL PRATT - CHAIRMAN STANDING FOR RE-ELECTION



Age: 58 Joined the Board: September 1996

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

PETER TEMPLE - EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Age: 53 Joined the Board: September 2007

Peter lives in Carlisle, attended school in Brampton and joined the Society straight from University in 1982. He has undertaken a wide range of roles in the Society, leading up to his appointment to the Board in 2007. As Operations and Human Resources Director, Peter has executive responsibility for Customer Service operations and product and service development, together with Personnel and Training.



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Cumberland Building Society
Cumberland House, Cooper Way,
Parkhouse, Carlisle, CA3 0JF
Phone: 0845 601 8396 · 01228 403141
customerservice@cumberland.co.uk

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