ANNUAL REPORT and ACCOUNTS

Year ended 31 March 2016

Cumberland
Building Society

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CHAIRMAN'S STATEMENT

Although it has been a very successful year for the Cumberland, for so many people within our region it was marred by the floods of December 2015. Significant floods have occurred in several years since the start of the millennium, but this year was unique in that Storm Desmond damaged people's homes and businesses in so many locations, including around Preston and Lancaster, Kendal, Appleby (where our branch was severely damaged), Cockermouth, Keswick, around Penrith (most notably Glenridding), Dumfries, and Carlisle. So many people are still living away from their homes and in many cases, will continue to do so for months to come. Sadly, signs of the damage done remain evident right across the region, notably in damaged bridges and the road network. Everyone in the region strongly wishes to see steps taken as quickly as possible to avoid this ever happening again.

As a building society with such strong roots in its region and a dedicated focus upon it, inevitably many Cumberland members and indeed, staff, were directly affected. Whilst unfortunately having the 'advantage' of prior experience of such events, I was nevertheless extremely proud of the way our team responded to the crisis. Immediately, lists were produced of all customers in flood affected areas who had arranged their insurance through us, or had their mortgage with us. Over 1,250 people were spoken to by telephone and where no contact could be made by that route, a further 400 were texted, to see if there was anything the Society could do to help. Our staff were encouraged to use three days of paid leave to assist any flood relief efforts, £20,000 was donated straightaway to Cumbria Community Foundation's Flood Response Appeal, and we enabled Carlisle United to relocate their club shop into our Fisher Street branch in the centre of Carlisle.

This is an example of what our advertising slogan of 'be more than a number' means in practice but of course, for us it is more about our culture than a slogan as we strive to ensure that it applies throughout our operations on a normal, everyday basis, not just when disaster strikes. We will not always get it right, but we try to do the right thing, and to put matters right when anything goes wrong. The trust which this approach engenders - and which was strengthened by our financial performance during the financial crisis and subsequent recession - underpins our business model of operating as a mutual regional bank, seeking to establish direct and close relationships with our members and providing them with excellence in the services they need, whether in branch, over the phone, or increasingly, online. The digital future is something which the Society is constantly working towards and indeed, is well placed to deliver, but without wanting to lose our personal contact with our members.

I am delighted to report that the Group's financial and business performance has continued to be very strong. A record profit after tax of £12.62 million, 0.62% of mean total assets, was achieved. Mortgage balances grew by over £200 million, 12.8%, share balances by 6%, with an inflow of funds of almost £75 million, and the balance sheet total passed £2 billion.

This strong growth in mortgage balances is linked to the fact that for the second consecutive year, we secured the prize of 'Best Regional Building Society' at the Mortgage Finance Gazette Awards, for offering the most consistently competitive mortgage rates during the year. In addition, our holiday let, buy to let and commercial lending businesses had very successful years. The Society continued to draw strongly from the Government's Funding for Lending Scheme and this has been important in enabling the mortgage growth achieved. The strong growth in share balances confirms our continued competitive position at a time of falling savings rates across the market.

In spite of not offering incentives of the nature offered by some other organisations, our current account services continue to develop and attract more members. Very few organisations of our size in the UK offer these services, and indeed, the Cumberland is one of only four building societies to do so, and the only one offering a business current account, which complements our successful commercial lending operations.

Further details of our performance are contained in the 'Strategic Report' which follows, together with information on the Society's strategy and service developments for members. However, I would also like to highlight here the strides made by two of our subsidiary companies. Firstly, the operations of Cumberland Estate Agents have been restructured to provide an improved service to customers, with in particular, longer opening hours to fit in with people's busy lives. In addition, a very competitive proposition has been developed to respond to the challenge posed by internet estate agents, but without compromising on the personal touch which is important for buyers and sellers. Secondly, Borderway Finance, our specialist vehicle finance provider, in its second year as a member of the Group, has continued to grow its lending and profitability and has also recently launched a new online system to assist both dealers and customers.

With respect to the Board, I am delighted to have welcomed three new non-executive directors in Michael Hulme, John Hooper and Peter Anstiss, who between them bring very strong and varied experience from the senior posts they have held. On the other hand, David Clarke will retire at the forthcoming AGM having served for 11 years on the Board, during which he has made a tremendous contribution; his insight and enthusiasm will be greatly missed. In addition, on 31 March 2016 John Davidson retired in order to concentrate on his other, expanding business interests, and I would like to thank him too for his contribution.

The consistency of our profitability and the growth in our business over the last ten years have not been the result of luck. They have been considerable achievements, thanks to our successful long term strategy, shrewd management of our balance sheet and interest margins, prudent lending and careful risk management, together with the skill and enthusiasm of our staff and above all, the strong support of our members. Going forward, we will continue to provide excellent service and long term value for the people of the region that we serve and intend to remain their natural choice for financial services.

Michael J. Pratt
Chairman
24 May 2016

STRATEGIC REPORT

The Directors have pleasure in presenting their 166th Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 March 2016.

BUSINESS OVERVIEW

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 Cumberland Group, which principally consists of the Society along with subsidiaries which provide services to customers as set out below, aims to achieve sufficient profit to maintain its capital strength to safeguard the interests of members.

STRATEGY

The Group's overall strategy is essentially as expressed in the Business Overview section above.

During 2015-16 the Board carried out its annual review of strategy which refined the Group's Corporate Plan. The Group's long term strategy has been consistent for many years, based on the business model set out below, although naturally there are tactical adjustments to this in response to the operating environment of the time. Nevertheless, the strength of the strategy has been amply demonstrated through the economic difficulties of the last few years, with the Group's profitability having remained amongst the strongest and steadiest in the building society sector throughout that time.

The Cumberland's strategic objectives include, as well as maintaining a strong capital position, achieving a suitable balance between profitability and the growth of the business, and the fair treatment of members with in particular, the maintenance of a fair balance between the interests of investing and borrowing members, both existing and new.

BUSINESS MODEL

The Society's business model is derived from the key elements of its strategy above.

The Board regards as essential, the establishment of direct relationships with members, and the deepening of these relationships through the provision of a wide range of services and excellent customer service. This is supported by:

- a strong branch network; the Society's branch operating area consists of Cumbria (with 26 branches), Dumfries and Galloway (5 branches), North Lancashire (with branches in Preston and Lancaster) and West Northumberland (a branch in Haltwhistle, with an area deemed to extend east to Hexham);
- a customer service centre within its Head Office in Carlisle, and
- the wide range of financial services offered, including a strong commitment to developing internet and mobile telephone services for members as technology advances.

Therefore, as well as the traditional building society products such as residential mortgages and savings, the Group also operates:

- a full current account service, with cheque book, overdraft facilities, chip and PIN-enabled Visa debit cards for point of sale purchase and ATM transactions (with contactless cards being issued), the operation of 20 cash machines connected to the Link network, internet banking for both personal and business customers, and a mobile app for personal customers;
- a commercial lending operation, focussed primarily on owner-occupied guest houses and hotels, holiday let and buy to let properties, with the majority of its lending located within the branch operating area and in particular, the Lake District;
- an estate agency and lettings and management service, through Cumberland Estate Agents Limited;
- motor vehicle finance, through Borderway Finance Limited, and
- financial advice, through Cumberland Financial Services Limited.

The Board considers that the concentration on relationships with local customers has been a source of strength for many years and is committed to continuing to develop this approach.

The large majority of residential lending has been undertaken through the Society's branches or its estate agency and within the branch operating area, and this will continue to be the case as it is fundamental to the Society's mission. However, since 2012, additional residential lending has been undertaken in partnership with a limited number of carefully selected introducers, and as virtually all of this lending has been undertaken outside the branch operating area, it has broadened the geographical distribution of the mortgage book.

The Society is strongly funded by its savings and current account members together with local business customers, with for many years, very little funding having been obtained from the financial markets, although since 2012, drawings have been made from the Government's Funding for Lending Scheme (FLS) to supplement this. With very limited exceptions, the Society does not offer savings and current accounts to those living outside of its branch operating area.

The Group is strongly committed to developing its digital services over the next few years, by building on those which are already offered, such as internet and mobile banking, as it regards this as vital in ensuring that it continues to provide the services that members want.

THE OPERATING ENVIRONMENT

Interest rates have remained at a low level during the year, with the Bank of England base rate at 0.5%. It currently appears that it may be some time before this changes, with the direction of the next change also uncertain, although any turbulence following the EU referendum on 23 June, could change the picture. More generally, the FLS, since its introduction in 2012, by providing considerable funds to financial institutions at relatively low cost, has had its intended effect of influencing falls in mortgage product rates, and has also depressed rates for savers. The Society has sought to strike a balance between competing strongly in its chosen areas of the mortgage market, while protecting its existing savings customers as far as possible, and will continue to do so.

The Society is confident of its ability to adjust its margins appropriately, while being fully mindful of the interests of members, whenever and in whatever direction rates move next.

Given the very low interest rate environment, over the last few years there has been a pronounced tendency in the market generally for borrowers to prefer fixed rate loans, and savers to prefer variable rate products. The Cumberland has also experienced this, but with respect to fixed rate mortgages, has maintained a policy of hedging these very closely with interest rate swaps, in order to ensure that its position is essentially protected should interest rates rise.

Within the Society's branch operating area both house prices and residential mortgage demand have been steady with at most a very modest improvement. Savings rates in the market generally have continued to fall and the Society has maintained a strong competitive position in relation to them; competition for current accounts however, in terms of cash incentives to switch, has been intense.

PRINCIPAL RISKS AND UNCERTAINTIES

Building societies operate in a highly competitive market, and with significant uncertainties arising from the general economic environment. Therefore the management of risk and strategic direction are key activities, vital for the success of the business.

The Board of Directors, aided by a number of committees, ensures risk management and strategic direction are considered thoroughly and appropriate actions implemented.

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

Liquidity Risk

Liquidity risk is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. The Society's Assets and Liabilities Committee (ALCO), assists the Society's management and the Board to manage this risk. Responsibility for the daily management of the risk lies with the Treasurer, who reports directly to the Finance Director and Secretary. 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 the 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 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 2016 and 2015 can be found in note 27 to the accounts.

Quarterly, the Board assesses the Society's position in relation to its net interest margin, including sources of basis risk, and considers the exposure to negative scenarios in this respect.

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 Residential and Commercial Lending Policy Statements, approved by the Board, set 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 Residential Credit Committee, which consists of the executive directors.

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

Either the Head of Risk or the Group Risk Manager attend Residential and Commercial Lending Credit Committee meetings to provide independent oversight.

The Treasury Policy Statement contains limits on credit exposures to individual counterparties and these are monitored on an ongoing basis by the ALCO.

Operational and Conduct Risks

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events and the Group Operational Risk Policy sets out the Group's approach to its management. Conduct risk is the risk arising from the Group's conduct in its relationship with customers, including failing to treat customers fairly with resulting detriment, or potential detriment to those customers. The Society's Conduct Risk Policy Statement sets out its approach to the management of Conduct Risk.

Whilst line management is responsible for identifying and managing these risks, this is carried out using an agreed framework and methodology, with quarterly reporting to the Executive Risk Management Committee, which consists of all of the members of the Executive, and is attended by the Head of Internal Audit and the Group Compliance Manager. The Committee meets on a quarterly basis and reports to the Board Risk Committee, which in turn reports to the Board.

FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's objective is to minimise the impact of financial risk upon its performance. Details of the financial risks and the controls in place to manage them are given in notes 26 to 29 to the annual accounts.

The disclosures required under Pillar 3 of the Capital Requirements Directive IV and the Capital Requirements (Country by Country Reporting) Regulations 2013 will be published on the Society's website.

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. The impact of hedge accounting is discussed in the following report, 'Changes to the Basis of the Financial Statements', and the first two of the items in the table below are shown both including and excluding this. The 2015 data is restated, as in these financial statements, to reflect the implementation of FRS 102 and IAS 39; the 2014 data is shown on the UK GAAP basis used at that time.

	2016	2015	2014
		Restated	
Including hedge accounting:			
Group Profit After Tax (£ million)	12.62	8.91	7.66
Group Profit After Tax as a % of Mean Total Assets	0.62	0.49	0.40
Excluding hedge accounting:			
Group Profit After Tax (£ million)	12.62	9.92	7.66
Group Profit After Tax as a % of Mean Total Assets	0.62	0.55	0.40
Interest Margin for Members (%)	1.70	1.70	1.83
Society Administrative Expenses and Depreciation as a % of Mean Total Assets	0.91	0.98	1.01
Gross Capital as a % of Shares and Borrowings	7.31	7.39	8.02
Loans and Advances to Customers - Balance change % #	12.83	12.90	11.90
Lending During the Year (£ million) #	422.17	375.86	331.92
Inflow of Funds from Customers (£ million)	74.60	80.70	74.75
Other Funding as a % of Shares and Borrowings	17.50	13.54	8.10

 # Excludes lending by Borderway Finance Limited and fair value adjustment for hedge risk.

EXPLANATION OF INDICATORS

Group Profit After Tax

Group profit after tax is the net amount earned after taking into account all expenses and tax charges.

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.

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. The measure shown excludes the impact of hedge accounting.

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.

Gross Capital as a % of Shares and Borrowings

Gross capital comprises the general reserve and the available for sale 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.

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.

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 Society's savings and current account products.

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.

FINANCIAL AND BUSINESS PERFORMANCE

Income and expenditure

Whilst as a mutual organisation, the maximisation of profit is not a key aim, the Group seeks to make sufficient profit to ensure its ongoing financial strength. The Group achieved a strong profit after tax of £12.62 million in 2015-16, representing 0.62% of mean total assets, up from 0.49% (as restated following the implementation of FRS 102 and IAS 39, as discussed in the following report, 'Changes to the Basis of the Financial Statements) in the previous year, or 0.55% if the impact of hedge accounting is excluded, as shown in the key performance indicators table set out earlier in this report. Excluding the impact of hedge accounting, the increase in profit after tax was principally a result of a strengthening of net interest receivable as a result of:

- strong growth in mortgage (particularly holiday let and buy to let lending, which generally produce better yields than owner occupier lending) and retail savings and current account balances, and
- the reduction in funding costs which resulted from the Government'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.

The Society monitors the competitiveness of both its mortgage and savings products on an ongoing basis. In order to maintain its competitive position in the mortgage market, beginning in March 2015 interest rates were reduced for some existing variable rate savers. These were the first such reductions since April 2009, the month after Bank of England base rate was reduced to its current level of 0.5%, while savings rates in the market generally have been reducing for a much longer period, indeed, since the FLS was launched in 2012. The Cumberland's determination to ensure that its savers receive a good deal nevertheless remains firmly in place and the inflow of funds this year was only slightly below that of the previous year. Where variable savings rates have been reduced, we have ensured that they are still extremely competitive. Fixed and variable rate savings products offered to new customers have continued to be competitive.

As a result, the 'net interest margin for members' key performance indicator remained unchanged in the latest year, as the fall in the mean interest rate percentage received in relation to residential mortgages was matched by the fall in the mean interest rate percentage paid on savings and current accounts.

With respect to the ratio of administrative expenses and depreciation as a proportion of mean total assets, this fell slightly in the year because Society administrative expenses and depreciation rose by 3.8% while mean total assets rose by 12.8%.

Capital

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. Nevertheless, the Society has an extremely strong capital position and in particular, has no capital provided by outside parties which require remuneration.

Assets – Loans and Liquid Assets

The Society achieved strong mortgage balance growth of 12.8% during the year with total lending of £422.17 million, 12.3% higher than in the previous year. With respect to owner occupier lending, the substantial majority of which is obtained directly through its branches and estate agency offices, the Society's products were very competitive throughout the year, as evidenced by the Society being named for the second consecutive year, 'Best Regional Building Society' at the Mortgage Finance Gazette Awards. The Society continued to offer existing customers whose mortgage products had reached the end of their term, the same products as those available to new customers.

The Society continued to develop its lending with a small number of introducer firms, thereby supplementing the growth achieved and assisting with the utilisation of the available FLS funding.

The Society also participated strongly in the buy to let and holiday letting business markets, and in lending on commercial properties, principally in the leisure and hospitality sectors, in line with our approach for many years. Our specialist commercial lending team have had a very successful year and whilst much of this lending is derived from within the branch operating area, many strong applications from all around the country were received.

Prudent and responsible lending has long been a key part of the Society's approach, with rigorous underwriting processes ensuring that loans are affordable. All loans are subject to manual underwriting by a specialist team within our Head Office rather than automated credit scoring. In line with the parameters set, many are then considered by the Residential and Commercial Lending Credit Committees, which meet on a frequent basis and involve the four executive directors together with the Head of Risk and other members of senior management. The success of this approach is reflected in that at 31 March 2016, only 0.17% of our residential mortgages were in arrears of three months or more, well below the industry average, and only three of our commercial mortgages.

This has been the second year in which Borderway Finance Limited, our motor finance business, has been part of the Group, and it has enjoyed a successful year, lending £10.8 million (an increase of 31% over the previous year) across 1,123 loans; at 31 March 2016, its lending balances totalled £15.7 million. There were no cases in arrears.

With respect to liquid assets, the Society maintained strong and readily available levels throughout the year, well in excess of its regulatory requirements.

Liabilities – Customer Shares and Deposits and Other Funding

The Society has historically been, and continues to be, very strongly funded by its individual members, virtually all of whom are located within its branch operating area. The Cumberland again recorded a strong inflow of funds, at £74.6 million, with significant receipts across a wide range of accounts, including both personal and business current accounts.

Data from the 'Current Account Switch Scheme' shows that the Cumberland continues to have far more inbound than outbound switches, in spite of not offering large incentives to achieve this, unlike several other providers.

Funding other than from members has increased considerably over the last year, mainly as a result of further drawings from the FLS, which totalled £309 million at 31 March 2016, of which £94 million remained off balance sheet at the year end, and therefore available for use in the future. The Society continues to actively investigate its options for when the scheme ends completely in nearly five years' time, following the latest extension announced by the Bank of England.

Excluding the FLS funding however, it should be noted that well over half of 'other funding' is from retail customers, principally small and medium sized businesses located within the Society's operating area, and therefore, the use of 'wholesale' funding from the money markets is relatively limited. The Cumberland is the only building society which offers a current account service to small businesses and schools. This is managed by the specialist commercial lending team and complements the business lending undertaken as described earlier. As with personal current accounts, this has been very successful in attracting new customers over the last few years.

DEVELOPMENT OF SERVICES AND SYSTEMS

The development of our services and systems to ensure that they are up to date is essential for us to be able to meet the requirements of our members, a growing number of whom wish to manage their finances online. Significant elements of this relate to the Society's current account products, but beyond this the Society seeks wherever it can to implement improvements, whether for customer service, efficiency or both.

The latest year has been another extremely busy one, with the following new developments achieved:

- The launch of the Society's mobile banking app, providing internet banking services through the convenience of an app for Apple and Android customers. In April 2016 there was an update to this app, providing additional functionality, including the ability to activate overseas debit card usage and allow customers to register to receive payments via their mobile phone number;
- The implementation of a mortgage affordability calculator on the Society's website to enable prospective borrowers to consider how much they may wish to borrow, based on their personal circumstances;
- The extension of the use of SMS text messaging to provide customers with greater protection against fraud;
- The launch of our Online Current Account Application service, allowing those customers who wish to open an account online to do so at their own convenience;
- The continued roll out of contactless debit cards;
- The launch of the Society's market-leading Help to Buy ISA product, to help first time buyers save for their first home;
- The introduction of extended opening hours, both in the evenings and on Sundays, within Cumberland Estate Agents to meet customer demand, together with the development of a highly competitive proposition in order to compete effectively with new internet-based agents, while retaining the personal high street branch presence that we believe our customers value, and
- The introduction of electronic signatures within Cumberland Estate Agents to speed up the sale and letting processes.

Behind the scenes, the following projects were undertaken:

- Migration to a system which enables the Society to connect directly with VISA instead of via a third party, which provides significant cost savings, and
- The launch of a quotation and application system to enable customers to apply for car finance through our subsidiary Borderway Finance.

Projects currently underway include:

- The implementation of an online appointment booking service, which will enable customers to book, over the internet, appointments in each of our branches and estate agency offices, and property valuations by our estate agency team;
- A significant upgrade to the Society's Internet Banking system, with an updated 'look and feel' and additional functionality, including an improvement in its responsiveness to different devices;
- An upgrade to the Society's core mortgage, savings and current account system;
- An ongoing programme of reviewing the Society's processes to seek ways of improving customer service and efficiency, and
- The redevelopment of the Group's websites.

COMMUNITY INVOLVEMENT AND CHARITABLE DONATIONS

The Cumberland is an integral part of its local communities and therefore its involvement with them is regarded as very important. Further information on this can be found within the Annual Review booklet. Over £120,000 has been donated to charities, clubs and voluntary organisations within our operating area, including £20,000 to Cumbria Community Foundation's Flood Response Appeal, following the floods which affected so much of our operating area and so many of our customers in December 2015. As in previous years, a donation was made based on 50 pence for each vote recorded at our Annual General Meeting, and with over 22% of the eligible membership voting, over £11,000 was raised for seven local hospices. This year, the Stroke Association will be the beneficiary.

STAFF

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

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

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

The directors very much appreciate the skill, dedication and enthusiasm of the Group's staff and their role in achieving the excellent business and financial results. The Cumberland team have continued to excel in providing friendly, efficient and professional customer service, whether in our high street locations or in our Head Office, and in the development work undertaken to enhance our products and services for members, as outlined earlier in this report.

GOING CONCERN AND VIABILITY STATEMENT

The Group's business activities and financial performance are set out earlier in this report, together with its principal risks and uncertainties, and further information on these is presented in notes 26 to 29 of the annual accounts. Having considered these, and reviewed the Group's plans and forecasts covering profitability, capital, liquidity and funding over its corporate planning period of the next three years (which the Board considers to be an appropriate timeframe), the directors consider that the Group's financial and business performance will be such that it will have adequate resources to continue its operations and meet its liabilities for the foreseeable future. Accordingly, the annual accounts continue to be prepared on the going concern basis.

OUTLOOK

The year ahead is likely to be challenging as growth in the UK economy continues to appear fragile. Although inflation remains low at present, this is linked to the current low oil prices and whilst unemployment is also low, pressures on many household budgets remain. The economic outlook over the next few years and whether the deficit can successfully be brought under control is uncertain, as is the future course of interest rates, although at present they seem set to remain at their current levels for some time to come. The EU referendum on 23 June adds a further element of uncertainty into the current picture and apart from that, the ongoing economic troubles of the Eurozone and indeed, the slowing of the Chinese economy, continue to have consequences in the UK, which has a limited ability to protect itself from them.

The Group continues to consider ranges of alternative scenarios and to be as prepared as possible for them, as it seeks to maintain its financial strength. Having achieved strong mortgage growth over the last three years, it is anticipated that this will reduce in 2016-17, with growth nearer to that of savings and current accounts, as the receipt of FLS funding comes to an end.

As stated at the outset of this report, the Group's long term strategy of putting members first and developing direct relationships with them, has been consistent for many years, albeit enhanced by tactical adjustments as circumstances have deemed necessary. This has resulted in a business which performed very well during the financial crisis and subsequent recession, and since then, has grown strongly. It has a strong level of capital, all of which has been generated from retained earnings over the years, with no need of external paid-for capital instruments. This enables the Group to cope with additional business challenges and increasing regulatory demands and complexity as they arise, from a position of strength. Fundamentally however, the Cumberland is a member-owned, mutual organisation and therefore we will continue to put our members first and foremost in everything we do. This approach, together with its culture of fairness and professionalism, underpins our reputation for providing long term value for local people and enables us to move forward with great confidence.

On behalf of the Board of Directors

Michael J. Pratt
Chairman
24 May 2016

CHANGES TO THE BASIS OF THE FINANCIAL STATEMENTS

This year, the Group has, in common with many other building societies, been required to adopt Financial Reporting Standard (FRS) 102, which has replaced the UK Generally Accepted Accounting Principles (UK GAAP), which have been in place for many years. This has led to several changes within the financial statements, which are explained below, and has also required the restatement of the financial statements for the year ended 31 March 2015. As part of this transition to FRS 102, the Group has also adopted International Accounting Standard (IAS) 39 - Financial Instruments: Recognition and Measurement.

This report sets out the categories in the financial statements which have undergone the most significant changes, and summarises their impact. Further details can also be found in note 33 to the annual accounts. Notes 1 and 2 to the accounts set out the revised accounting policies and critical accounting estimates and judgements.

The overall impact of adopting FRS 102 and IAS 39 has been to reduce profit after tax for the year ended 31 March 2015, from the £10.22 million which was reported in last year's published financial statements, to £8.91 million. The Group's reserves at 31 March 2015 were reduced from £130.52 million, to £130.13 million.

The five main accounting areas affected are as follows:

1. HEDGE ACCOUNTING

The Group, in its normal course of business, uses interest rate swaps to hedge (i.e. to reduce) the risk of losses arising from changes in interest rates, in relation to fixed rate mortgages and savings. UK GAAP allowed such interest rate swaps to be accounted for on an accruals basis. FRS 102 requires that they are accounted for at fair value, i.e. reflecting the impact of changes in interest rates. This would tend to lead to very significant volatility in the financial statements in relation to the fair value of interest rate swaps, when interest rates change. However, IAS 39 allows 'portfolio hedging', which means that the movement in the fair value of interest rate swaps can be matched directly to the movement in the fair value of their related fixed rate mortgages or savings. As a result, only where hedges are 'ineffective', (i.e. where the movements in the fair value of interest rate swaps, are not matched directly to the changes in the fair value of their related fixed rate mortgages or savings, or where swaps are matched but an element of the matching is deemed to be ineffective from a hedge accounting perspective) will the interest rate swaps have an impact on the income and expenditure account. It is not practicable to match fully, with complete effectiveness, the changes in the fair values of interest rate swaps and their related fixed rate mortgages and savings.

Even on this basis however, volatility can still result. As the Group holds its interest rate swaps until their maturity, i.e. coinciding with the maturity of the related fixed rate mortgage or savings product, the difference resulting from the application of 'fair value', ultimately returns to zero at the maturity of the swap. However, at a particular balance sheet date, depending upon the movement in interest rates, either a debit or a credit will be recognised in the income and expenditure account, reflecting the changes in the fair value of both the unmatched swaps, and the ineffective elements of matched swaps.

The impact of the application of hedge accounting for the year ended 31 March 2015, has been to reduce the Group's reported profit after tax for that year by £1.01 million. For the year ended 31 March 2016, this has reduced the Group's reported profit after tax but by the much smaller amount of £6,000.

With respect to the balance sheet, the positive and negative market values of interest rate swaps are shown as assets and liabilities, with more information on these being provided in note 30. In addition, 'fair value adjustments for hedged risk' are included within the balances of loans and advances to customers (note 12) and shares (note 20), which reflect the fair value of the matched fixed rate mortgages and savings.

The application of hedge accounting has not changed the Group's approach to its management of interest rate risk using interest rate swaps. This is because the principal aim of using these instruments remains unchanged, and the Group focuses on this, rather than seeking to manage any accounting volatility which may result as a consequence of these timing differences. Therefore, the two key performance indicators within the Strategic Report relating to profitability are shown both with and without the impact of hedge accounting.

2. PROVISIONS FOR LOAN IMPAIRMENT

FRS 102 requires that collective (formerly general) provisions are set with respect to the observed performance of the residential and commercial loan books whereas under UK GAAP, these were largely based upon the judgement of the Board, taking into account general economic conditions. Therefore, assessments are now made of the probabilities of default of loans which are at different levels of arrears, in forbearance, or for loans which are not yet showing explicit indications of impairment, or other observable factors.

As a result of the implementation of FRS 102, the Group's collective and specific provisions at 31 March 2015 have been reduced by £1.82 million from those recorded in the published Annual Report and Accounts for that date, with a corresponding credit to reserves. In addition, after allowing for corporation and deferred tax, this resulted in a net credit to the restated income and expenditure account for the year ended 31 March 2015 of £375,000.

3. DEFINED BENEFIT PENSION SCHEME

Under UK GAAP, the 'expected return on the Scheme's assets' was based on the expectations of the returns which would be received on the different asset classes (i.e. equities and other growth-type assets, bonds and cash) at the start of the year. However, under FRS 102, this is now calculated using the discount rate at the start of the year. As the expected returns of the assets used in the published financial statements for the year ended 31 March 2015 were considerably above the discount rate, the expected return on the Scheme's assets in the restated accounts for that year was £787,000 lower, before tax. As a result, the originally reported pension finance income of £699,000 has been restated as a pension finance charge of £88,000. This reduced the profit after tax for the year ended 31 March 2015 in the restated income and expenditure account, by £630,000.

In addition, under UK GAAP, the pension scheme deficit was shown as a liability on the balance sheet, net of deferred tax. Under FRS 102, the gross deficit must be shown as a liability, with the deferred tax asset being shown separately (within the deferred tax balance in 'other assets').

4. EFFECTIVE INTEREST RATE

FRS 102 and IAS 39 require that income received and expenses paid that are directly related to the underlying asset or liability, are recognised on an effective yield basis. For the Group, the main area impacted by this is mortgages. Under UK GAAP, many fees relating to mortgages were recognised in full in the financial statements at the time they were received or paid. Under FRS 102 and IAS 39, they are recognised, so far as practicable and material, by spreading them over the mortgage product life. In addition, several items previously classified within other income and charges are now recorded within net interest receivable.

Accordingly, a 'transitional' adjustment was also made to the opening balance sheet, to reflect what the position would have been had FRS 102 been applied at that point. The impact of this was that at 31 March 2015, reserves were reduced in the restated balance sheet by £1.08 million from the figure reported in the published financial statements for that year, reflecting the deferral of income to future periods under the new accounting basis. The net impact upon profit after tax for the year ended 31 March 2015 was a credit of £21,000.

5. REVALUATION OF INVESTMENT PROPERTIES

Under UK GAAP, gains and losses on the revaluation of investment properties were included in the investment properties reserve. However, under FRS 102, any such gains and losses are recognised within the income and expenditure account, and the investment properties reserve is subsumed within the general reserve, i.e. the 'total equity attributable to members' in the balance sheet.

The impact of this change has been to reduce reserves by £146,000 at 31 March 2015 and the unrealised net loss on the revaluations in that year, reduces the profit after tax in the restated income and expenditure account by £68,000.

Finally, in addition to note 33 to the accounts which sets out the impact of the transition to FRS 102 as outlined above, notes 26 to 31 contain many additional disclosures which are now required.

John Kidd
Finance Director and Secretary
24 May 2016

DIRECTORS' REPORT

Information on the Group's strategy and its financial and business performance is provided within the Strategic Report on pages 3 to 8.

DIRECTORS

The directors at the date of this report are shown below; further information on them is provided in the Annual Business Statement on page 44, and their attendance at the Board and Board Committees is set out in the Report on Corporate Governance on pages 12 to 14.

Gill Gardner, Trevor Hebdon and Michael Pratt retire at the Annual General Meeting and being eligible, seek re-election. Peter Anstiss, John Hooper and Michael Hulme, who were appointed to the Board during the year, also retire and being eligible, seek 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 2016 three directors had mortgage loans granted in the ordinary course of business, amounting to £745,000 (2015: two directors, £101,000). 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.

In addition, directors and their connected persons have savings and current accounts with the Society, on the same terms as those available to all persons.

MORTGAGE ARREARS AND FORBEARANCE

At 31 March 2016, there were 3 accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £0.39 million, and the amount of arrears was £0.04 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 28 residential mortgage accounts which had total balances of £2.34 million at 31 March 2016 (2015: 40 accounts, balances of £2.76 million). 14 of these cases had arrears totalling less than £0.01 million at 31 March 2016 (2015: 6, less than £0.01 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 2016 the total amount owed to suppliers was equivalent to 3 days credit (2015: 4 days).

CHARITABLE AND POLITICAL DONATIONS

During the year, charitable donations of £121,951 were made to a number of organisations within our operating area, of which £25,000 was given to the Cumberland Building Society Charitable Foundation, and £20,000 to Cumbria Community Foundation's Flood Recovery Appeal following the floods of early December 2015. No contributions were made for political purposes.

APPLEBY BRANCH

The Society's branch at Appleby was severely damaged in the floods caused by Storm Desmond on 5 December 2015. The directors wish to take this opportunity to express their strong appreciation to the Society's clearing bank, Barclays, for their assistance in accommodating the branch's staff and its operations within their branch in Appleby until early May 2016.

EVENTS SINCE THE YEAR END

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

AUDITORS

Deloitte LLP are eligible for re-appointment and have offered themselves for re-election.

On behalf of the Board of Directors

Michael J. Pratt
Chairman 24 May 2016


Michael Pratt
Chairman


Trevor Hebdon
Vice–Chairman


Kevin Parr
Chief Executive


Peter Temple
Deputy Chief Executive


John Kidd, Finance Director and Secretary


Chris McDonald
Operations & H.R. Director


Gill Gardner
Non-executive Director


David Clarke
Non-executive Director


Alan Johnston
Non-executive Director


Peter Anstiss
Non-executive Director


John Hooper
Non-executive Director


Michael Hulme
Non-executive Director

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 does not attend the sections of the meetings at which his remuneration is set and 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 chair Gill Gardner 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 2016, agreed a bonus based on overall business performance achieved, including customer service, mortgage growth, the increase in current accounts and Group profitability.

Mr. Parr, Mr. Temple and Mr. Kidd are deferred members of the Society's defined benefit pension scheme, which was closed to further accrual on 31 March 2015. From 1 April 2015 all of the executive directors are members of a defined contribution scheme and 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. During the year the Committee, as part of the Society's senior management succession planning, agreed augmentations in respect of the defined benefit pension scheme retirement benefits of Mr. Parr and Mr. Kidd.

Full details of individual directors' remuneration are contained in note 8 to the accounts.

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

On behalf of the Remuneration Committee

Gill Gardner
Chair 24 May 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors are responsible for preparing the Annual Report, Annual Business Statement, Strategic Report, 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 the Act they have elected to prepare these in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council.

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 strategy 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 four 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. In April 2016, the Audit and Risk Committee's role was divided between the Audit Committee and the Risk Committee.

AUDIT COMMITTEE

This monitors internal controls, financial reporting, and regulatory compliance matters, reviews the work of the Internal Audit function, assesses its 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, enabling any concerns to be raised by employees in confidence.

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

RISK COMMITTEE

The Risk Committee is responsible for oversight of the Society's risk management framework to ensure there are adequate and effective arrangements in place for the identification, monitoring, measurement, control and mitigation of risk, for ensuring that effective arrangements are in place for compliance with regulatory requirements, for monitoring the Society's key risk exposures against appetite and for reviewing current and emerging risks that could impact upon the achievement of strategic goals.

The Committee consists of its chairman John Hooper and three other non-executive directors, Trevor Hebdon, Alan Johnston and Gill Gardner. The four executive directors, the Head of Risk and the Head of Internal Audit also attend Committee meetings by invitation.

REMUNERATION COMMITTEE

This consists of its chair Gill Gardner 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 11.

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.

Set out on page 13 are details of the directors during 2015-16 and their attendance record at Board meetings and Audit and Risk, Remuneration and Nomination Committee meetings.

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.

Director	Board	Audit and Risk	Remuneration	Nomination
Michael Pratt	13 (13)		11 (11)	10 (10)
Peter Anstiss	4 (4)		3 (3)	3 (3)
David Clarke	13 (13)		11 (11)	10 (10)
John Davidson	13 (13)	5 (5)	11 (11)	10 (10)
Gill Gardner	10 (13)		10 (11)	9 (10)
Trevor Hebdon	12 (13)	5 (5)	10 (11)	9 (10)
John Hooper	6 (6)		5 (5)	4 (4)
Michael Hulme	8 (8)		6 (6)	5 (5)
Alan Johnston	13 (13)	5 (5)	11 (11)	10 (10)
John Kidd	13 (13)			10 (10)
Chris McDonald	13 (13)			10 (10)
Kevin Parr	13 (13)			10 (10)
Peter Temple	13 (13)			10 (10)

Directors' attendance at Board and Board Committee meetings during the year ended 31 March 2016

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 eight non-executive directors.

Six 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 19 years of service on the Board on 29 September 2015 and David Clarke completed 11 years on 14 February 2016.

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.

Alan Johnston is the Society's Senior Independent Director and 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. Appointments to the Board are made on merit and against objective criteria. The Committee gives consideration to diversity in respect of gender and other measures, however it is not thought to be in the interests of the Society to set targets in this regard.

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 a Senior Management Function. They are also subject to election by members at the Annual General Meeting following their appointment.

During 2015, to support it in the appointment of directors, the Committee has used the services of an external recruitment agency, Warren Partners, which is independent of the Society.

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. Annually, the Board and the Board Committees evaluate their overall performance, and the membership and Terms of Reference of the 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 11 sets out the Board's responsibilities in relation to the preparation of the Group Annual Report and Accounts. Business performance is reviewed in the Chairman's Statement and the Strategic Report and a statement that the Group's business is a going concern is included in the Directors' Report.

The Audit 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 Head of Risk and the Group Compliance Manager provide independent assurance to the Board on the effectiveness of the system of internal control and risk management through their reporting to and attendance at, the Audit Committee and the Risk Committee respectively (until 31 March 2016, the Audit and Risk Committee).

The information received and considered by the Audit and Risk 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 and risk governance. Further information on the Society's approach to risk management is included in the 'Principal Risks and Uncertainties' section of the Strategic 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 Society's auditors.

The role and membership of the Audit 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, Deloitte LLP, 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 11. 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 Annual General Meeting, 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 to the Stroke Association for use within the Society's operating area.

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*
24 May 2016

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBERLAND BUILDING SOCIETY

We have audited the Group and Society financial statements of Cumberland Building Society for the year ended 31 March 2016 which comprise Group and Society Income and Expenditure Accounts, the Group and Society Statements of Comprehensive Income, the Group and Society Balance Sheets, the Group and Society Statements of Changes in Members' Interest, the Group Cash Flow Statement, the Accounting Policies and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 or 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 Statement of Directors' Responsibilities, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements 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 FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs as at 31 March 2016 and of the Group's and the Society's income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

OPINION ON OTHER MATTERS PRESCRIBED BY THE BUILDING SOCIETIES ACT 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; 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 Society financial statements 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.

David Heaton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

24 May 2016

GROUP AND SOCIETY INCOME AND EXPENDITURE ACCOUNTS

For the year ended 31 March 2016

	Notes	Group 2016 £000	Group 2015 (Restated) £000	Society 2016 £000	Society 2015 (Restated) £000
Interest receivable and similar income	3	**56,560**	52,726	**55,517**	52,185
Interest payable and similar charges	4	**(24,644)**	(25,254)	**(24,645)**	(25,255)
Net interest receivable		**31,916**	27,472	**30,872**	26,930
Fair value losses on financial instruments	5	**(6)**	(1,263)	**(4)**	(1,237)
Pension finance charge	25	**(209)**	(88)	**(209)**	(88)
Fees and commissions receivable		**3,671**	4,189	**2,160**	2,428
Fees and commissions payable		**(1,812)**	(1,862)	**(1,759)**	(1,886)
Other operating income		**2,648**	2,735	**2,657**	2,746
Total Income		**36,208**	31,183	**33,717**	28,893
Administrative expenses	6	**(18,904)**	(18,447)	**(16,680)**	(16,127)
Depreciation and profit on sale of tangible fixed assets		**(1,758)**	(1,635)	**(1,625)**	(1,502)
Gain on revaluation and disposal of investment properties		**558**	701	**583**	(82)
Impairment losses on loans and advances to customers	13	**344**	251	**345**	251
Provisions for contingent liabilities and commitments - FSCS Levy	23	**(432)**	(873)	**(432)**	(873)
Profit on ordinary activities before tax		**16,016**	11,180	15,908	10,560
Tax on profit on ordinary activities	9	**(3,400)**	(2,275)	**(3,400)**	(2,198)
Profit for the financial year		**12,616**	8,905	**12,508**	8,362

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Notes	Group 2016 £000	Group 2015 £000	Society 2016 £000	Society 2015 £000
Profit for the financial year		**12,616**	8,905	**12,508**	8,362
Items that may subsequently be reclassified to income and expenditure:					
Available for sale investment securities (loss)/gain		**(2)**	2	**(2)**	2
Gain on equity share investment	32	**3,369**	-	**3,369**	-
Movement in deferred tax relating to equity share investment		**(674)**	-	**(674)**	-
Items that may not subsequently be reclassified to income and expenditure:					
Actuarial loss on retirement benefit obligations	25	**(3,044)**	(5,123)	**(3,044)**	(5,123)
Movement in deferred tax relating to retirement benefit obligations		**548**	1,025	**548**	1,025
Total comprehensive income for the year		**12,813**	4,809	**12,705**	4,266

The notes on pages 20 to 42 form part of these accounts.

GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2016

Assets	Notes	Group 2016 £000	Group 2015 (Restated) £000	Society 2016 £000	Society 2015 (Restated) £000
Cash in hand and balances with the Bank of England	10	**198,674**	224,926	**198,672**	224,924
Loans and advances to credit institutions	26	**96,316**	71,485	**96,316**	71,485
Debt securities	11	**-**	1,007	**-**	1,007
		294,990	297,418	**294,988**	297,416
Derivative financial instruments	30	**261**	726	**256**	726
Loans and advances to customers	12				
Loans fully secured on residential property		**1,636,330**	1,435,842	**1,636,330**	1,435,842
Other loans		**175,711**	161,006	**159,971**	152,678
		1,812,041	1,596,848	**1,796,301**	1,588,520
Investments in subsidiary undertakings	14	**-**	-	**15,823**	9,323
Investment in equity share	32	**3,369**	-	**3,369**	-
Tangible fixed assets	15	**12,085**	12,539	**11,858**	11,121
Investment properties	16	**4,235**	2,952	**2,800**	1,492
Other assets	17	**2,027**	2,552	**2,174**	3,639
Prepayments and accrued income	19	**1,270**	1,192	**954**	992
Total Assets		**2,130,278**	1,914,227	**2,128,523**	1,913,229
Liabilities					
Shares	20	**1,613,296**	1,521,806	**1,613,296**	1,521,806
Derivative financial instruments	30	**11,090**	7,671	**11,057**	7,645
Amounts owed to credit institutions	26	**233,083**	126,302	**233,083**	126,302
Amounts owed to other customers	26	**109,234**	112,058	**110,254**	112,953
Other liabilities	21	**3,616**	3,038	**3,531**	2,891
Accruals and deferred income	22	**6,646**	5,181	**4,582**	3,946
Provisions for liabilities	23	**954**	1,471	**954**	1,471
Pension liability	25	**9,416**	6,570	**9,416**	6,570
Total Liabilities		**1,987,335**	1,784,097	**1,986,173**	1,783,584
Total equity attributable to members		**142,943**	130,130	**142,350**	129,645
Total Equity and Liabilities		**2,130,278**	1,914,227	**2,128,523**	1,913,229
Memorandum items					
Commitments	24	**7,757**	7,416	**7,757**	7,416

The notes on pages 20 to 42 form part of these accounts.

These accounts were approved by the Board of Directors on 24 May 2016
M. J. Pratt, Chairman
T. Hebdon, Vice-Chairman and Chairman of the Audit Committee
K. Parr, Director and Chief Executive

STATEMENTS OF CHANGES IN MEMBERS' INTEREST

Group	Notes	General Reserve £000	Available for Sale Reserve £000	Total Equity attributable to members £000
At 1 April 2014 as restated	33	125,321	-	125,321
Comprehensive income for the year		4,807	2	4,809
At 31 March 2015		130,128	2	130,130
Comprehensive income for the year		10,120	2,693	12,813
At 31 March 2016		140,248	2,695	142,943
Society				
At 1 April 2014 as restated	33	125,379	-	125,379
Comprehensive income for the year		4,264	2	4,266
At 31 March 2015		129,643	2	129,645
Comprehensive income for the year		10,012	2,693	12,705
At 31 March 2016		139,655	2,695	142,350

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2016

	2016 £000	2015 (Restated) £000
Cash flows from operating activities		
Profit before tax	**16,016**	11,180
Depreciation and profit on sale of tangible fixed assets	**1,758**	1,635
Gain on revaluation and disposal of investment properties	**(558)**	(701)
Changes in fair values	**6**	1,263
Impairment losses on loans and advances to customers	**(344)**	(251)
Pension contributions	**(1,258)**	(2,386)
Pension charges	**978**	1,335
Net cash flow from operating activities	**16,598**	12,075
Movements in operating assets and liabilities		
Loans and advances to customers	**(210,778)**	(186,791)
Shares	**91,522**	88,495
Loans and advances to credit institutions and other liquid assets	**(19,243)**	(7,579)
Amounts owed to credit institutions and other customers	**103,957**	112,000
Prepayments and accrued income	**(188)**	796
Other assets	**53**	(31)
Accruals and deferred income	**1,465**	1,298
Other liabilities and provisions for contingent liabilities and commitments	**(491)**	174
Other non-cash movements	**(133)**	(2,272)
Taxation paid	**(2,502)**	(1,882)
Net cash (used in) / generated by movements in operating assets and liabilities	**(36,338)**	4,208
Cash flows from investing activities		
Purchase and maturity of debt securities	**1,000**	(1,000)
Purchase of tangible fixed assets	**(2,097)**	(1,239)
Sale of tangible fixed assets and investment property	**63**	1,025
Net cash used in investing activities	**(1,034)**	(1,214)
Net (decrease)/increase in cash and cash equivalents	**(20,774)**	15,069
Cash and cash equivalents at beginning of year	**236,223**	221,154
Cash and cash equivalents at end of year	**215,449**	236,223
Represented by:		
Cash and balances with the Bank of England	**198,674**	224,926
Loans and advances to credit institutions repayable on demand	**16,775**	11,297
	215,449	236,223

1. Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

Basis of Preparation

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. During the year, the Group has also adopted IAS 39 Financial Instruments: Recognition and Measurement, as permitted by FRS 102.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 33 and the report 'Changes to the Basis of the Financial Statements' on pages 8 and 9.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Society and its subsidiary undertakings made up to 31 March 2016. All intra-group transactions are eliminated on consolidation.

Going Concern

The Group's financial position and business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report.

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.

Corporation Tax

Corporation tax is charged in the accounts on the profit for the year as adjusted for taxation purposes. Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date and any adjustment to tax payable in respect of previous years.

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.

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. 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%

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, as is the associated deferred tax.

Increases in the present value of scheme liabilities from employee service or service benefit improvements, 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 Comprehensive Income.

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

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 fair value are included in the income and expenditure account in the period in which they arise.

Financial Instruments

Purchases and sales of financial assets are accounted for at settlement date. In accordance with IAS 39 the financial instruments of the Group have been classified into the following categories:

i) Loans and advances

Interest in respect of all loans is measured using the effective interest rate method.

ii) At fair value through income and expenditure

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The need for credit valuation adjustments is considered in the determination of the fair value of derivatives. All derivatives are carried as assets when their fair values are positive and as liabilities when their fair values are negative.

Derivatives can be designated as fair value hedges.

iii) Available for sale

Available for sale assets are non-derivative financial assets that are not classified into either of the two categories above. The available for sale assets are held at fair value with changes in the fair value recognised in other comprehensive income. Impairment losses are recognised in the income and expenditure account when they arise.

The premia and discounts arising from the purchase of available for sale assets are amortised over the period to the maturity date of the security on an effective yield basis. Any amounts amortised are charged or credited to the income and expenditure account in the relevant financial years.

iv) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest rate method, except for those financial liabilities measured at fair value through income and expenditure, e.g. derivative liabilities.

v) Derecognition of financial assets and liabilities

Financial assets are only derecognised when the contractual rights to receive cash flows from them have expired or when the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are only derecognised when the obligation is discharged, cancelled or has expired.

vi) Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans and investment products. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income and expenditure account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income and expenditure account over the period to maturity.

If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income and expenditure account.

Impairment of loans and advances to customers

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

Throughout the year and at the year end, individual assessments are made of all loans and advances on properties which are in possession or in arrears by three months or more. Specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale, 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.

In addition, a collective impairment reduction is made against those loans and advances to customers where objective evidence, including forbearance measures taken to assist borrowers who are, or could be experiencing financial difficulty, indicates that it is likely that losses may ultimately be realised and thus a loss event has occurred. These factors take into account the Group's experience of default and delinquency rate, loss emergence periods, regional house price movements and adjustments to allow for forced sale values.

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

Interest income and expense

Interest income and expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method. The effective interest rate method is a method of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Fees integral to the loan yield are included within interest income and expense.

Fees and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided.

2. Critical Accounting Estimates and Judgements

Some asset and liability amounts reported in the accounts are based on management estimates, judgements and assumptions. There is, therefore, a risk of changes to the carrying amounts for these assets and liabilities within the next financial year.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis, to determine whether an impairment loss should be recorded in the income and expenditure account. In undertaking this review, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before such decrease in an individual loan can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status or borrower's position, including forbearance measures such as a transfer to interest only products and term extensions. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Management also assesses the expected loss on loans and advances as a result of the movement in house price indices and the discount on the sale of possession properties. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience.

Fair value of derivatives and collateral loans

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Effective interest rate

IAS 39 requires that financial instruments carried at amortised cost be accounted for on an effective interest rate basis. Revenue on financial instruments classified as loans and receivables, available for sale, or financial liabilities at amortised cost, is recognised on an effective interest rate basis. This calculation takes into account interest received or paid and fees and commissions paid or received that are integral to the yield as well as incremental transaction costs. The effective interest rate recognises the expected future cash flows over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial instrument at initial recognition.

In respect of residential mortgages, incremental fees and costs associated with the origination of a mortgage are deferred and amortised over the mortgage product life.

Pensions

The Group operates a defined benefit pension scheme. Significant judgements (on areas such as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme.

These judgements, which are based upon the Board receiving external advice from the Scheme Actuary, are outlined in note 25 to the Accounts.

	Group 2016	Group 2015 (Restated)	Society 2016	Society 2015 (Restated)
3. Interest Receivable and Similar Income	**£000**	£000	**£000**	£000
On loans fully secured on residential property	**54,307**	50,091	**54,307**	50,091
On other loans	**7,493**	6,953	**6,406**	6,398
On debt securities				
Interest and other income	**5**	5	**5**	5
On other liquid assets				
Interest and other income	**1,509**	1,547	**1,509**	1,547
Net expense on financial instruments	**(6,754)**	(5,870)	**(6,710)**	(5,856)
Total interest receivable	**56,560**	52,726	**55,517**	52,185

All income is derived from operations within the UK.

4. Interest Payable and Similar Charges	**Group 2016 £000**	Group 2015 £000	**Society 2016 £000**	Society 2015 £000
On shares held by individuals	**22,183**	23,390	**22,183**	23,390
On deposits and other borrowings	**2,561**	2,064	**2,562**	2,065
Net income on financial instruments	**(100)**	(200)	**(100)**	(200)
Total interest payable	**24,644**	25,254	**24,645**	25,255

5. Fair Value Gains less Losses				
Change in fair value derivatives in designated fair value hedge accounting relationships	**(3,879)**	(9,959)	**(3,879)**	(9,959)
Change in fair value derivatives not in designated fair value hedge accounting relationships	**(2)**	(26)	**-**	-
Adjustment to hedged items in designated fair value hedge accounting relationships	**3,875**	8,722	**3,875**	8,722
	(6)	(1,263)	**(4)**	(1,237)

The fair value accounting volatility loss above represents the net fair value movement on derivative instruments that are matching risk exposures on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items.

6. Administrative Expenses				
Staff costs (note 7)	**11,656**	11,638	**10,287**	10,108
The analysis of the auditor's remuneration is as follows:				
Fees payable to the Group's auditor for the audit of the annual accounts	**67**	66	**50**	50
Other Services:				
Other assurance services	**110**	18	**110**	18
Other expenses	**7,071**	6,725	**6,233**	5,951
	18,904	18,447	**16,680**	16,127

7. Staff Numbers and Costs

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

	Full time 2016	Full time 2015	Part time 2016	Part time 2015
Society's principal office	**155**	154	**64**	57
Society's branches	**119**	118	**109**	104
Subsidiaries	**37**	40	**18**	22
	311	312	**191**	183

The aggregate costs of these persons were as follows:	**Group 2016 £000**	Group 2015 £000	**Society 2016 £000**	Society 2015 £000
Wages and salaries	**10,025**	9,639	**8,844**	8,321
Social security costs	**862**	752	**745**	639
Other pension costs (note 25)	**769**	1,247	**698**	1,148
	11,656	11,638	**10,287**	10,108

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 8.

8. Directors' Remuneration

	2016 £000	2015 £000
Total directors' remuneration	**1,045**	912
Non-executive directors' remuneration		
Michael Pratt (Chairman)	**46**	44
Trevor Hebdon (Chairman of the Audit and Risk Committee and from 1 January 2015, Vice-Chairman)	**34**	29
Richard Atkinson (Vice-Chairman, retired 31 December 2014)	**-**	21
Peter Anstiss (appointed 25 January 2016)	**6**	-
David Clarke	**25**	24
John Davidson (appointed 8 July 2014, retired 31 March 2016)	**27**	18
Gill Gardner	**27**	24
John Hooper (appointed 20 November 2015)	**11**	-
Michael Hulme (appointed 3 September 2015)	**15**	-
Alan Johnston	**27**	25
	218	185

Executive directors' remuneration 2016	Salary £000	Bonus £000	Pension Contributions £000	Taxable benefits £000	Total £000
Kevin Parr	**208**	**31**	**29**	**7**	**275**
Peter Temple	**143**	**21**	**20**	**6**	**190**
John Kidd	**150**	**11**	**20**	**8**	**189**
Chris McDonald	**117**	**18**	**16**	**8**	**159**
	618	**81**	**85**	**29**	**813**
2015					
Kevin Parr	203	20	-	6	229
Peter Temple	130	14	3	5	152
John Kidd	136	14	-	7	157
John Leveson (resigned 30 September 2014)	103	-	-	3	106
Chris McDonald (appointed 13 October 2014)	54	12	6	3	75
	626	60	9	24	719

The Society closed its defined benefit pension scheme to further service accrual on 31 March 2015, and the pension contributions shown in the tables above are in respect of the defined contribution scheme; the amount in respect of Mr. Temple in 2015 related to a portion of his salary.

Defined Benefit Pension Scheme Pension benefits earned by directors:	**Accumulated total accrued pension at 31 March 2016 £000**	**Increase in accrued pension in year to 31 March 2016 £000**	Increase in accrued pension in year to 31 March 2015 £000
Kevin Parr	**72**	**1**	4
Peter Temple	**61**	**7**	2
John Kidd	**51**	**6**	2

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.

9. Taxation

	Group 2016 £000	Group 2015 (Restated) £000	Society 2016 £000	Society 2015 (Restated) £000
(a) Analysis of charge in year:				
Current tax				
Corporation tax at 20% (2015 - 21%)	**3,057**	2,316	**3,038**	2,231
Over provision of corporation tax in prior years	**(3)**	(59)	**(3)**	(64)
Total current tax	**3,054**	2,257	**3,035**	2,167
Deferred tax at 18% (2015 - 20%)				
Origination and reversal of timing differences	**346**	18	**365**	31
Tax on profit on ordinary activities	**3,400**	2,275	**3,400**	2,198
Total deferred tax relating to items of other comprehensive income	**126**	(1,025)	**126**	(1,025)

(b) Factors affecting tax charge in year:
The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax is as follows:

	Group 2016 £000	Group 2015 (Restated) £000	Society 2016 £000	Society 2015 (Restated) £000
Profit on ordinary activities before tax	**16,016**	11,180	**15,908**	10,560
Tax on profit on ordinary activities at UK standard rate of 20% (2015 - 21%)	**3,203**	2,348	**3,181**	2,218
Effects of:				
Adjustments on disposal of investment property	**-**	(52)	**-**	-
Expenses not deductible for tax purposes	**200**	38	**222**	44
Over provision of corporation tax in prior years	**(3)**	(59)	**(3)**	(64)
Total tax charge for year	**3,400**	2,275	**3,400**	2,198

10. Cash in Hand and Balances with the Bank of England

	Group 2016 £000	Group 2015 £000	Society 2016 £000	Society 2015 £000
Cash in hand	**2,981**	3,342	**2,979**	3,340
Balances with the Bank of England	**195,693**	221,584	**195,693**	221,584
Included in cash and cash equivalents	**198,674**	224,926	**198,672**	224,924

Balances with the Bank of England do not include cash ratio deposits of £1.87 million (2015 - £1.64 million) which are not available for use in the Group's day to day operations. Such deposits are included within Loans and Advances to Credit Institutions in the Balance Sheet.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition:

	Group 2016 £000	Group 2015 £000	Society 2016 £000	Society 2015 £000
Cash in hand and balances with the Bank of England (as above)	**198,674**	224,926	**198,672**	224,924
Loans and advances to credit institutions	**16,775**	11,297	**16,775**	11,297
	215,449	236,223	**215,447**	236,221

11. Debt Securities

	Group and Society 2016 £000	Group and Society 2015 (Restated) £000
(a) Debt securities are repayable from the date of the balance sheet in the ordinary course of business as follows:		
Unlisted - In not more than one year	**-**	1,000
Accrued interest	**-**	5
Fair value adjustment	**-**	2
	-	1,007

Debt securities are held as available for sale assets and carried at their fair value.

(b) The movement in available for sale debt securities is summarised as follows:

	2016 £000	2015 £000
At 1 April	**1,007**	-
Additions	**-**	1,000
Maturities	**(1,000)**	-
(Losses)/gains from changes in fair value	**(2)**	2
(Decrease)/increase in accrued interest	**(5)**	5
At 31 March	**-**	1,007

In addition, at 31 March 2016 the Society had drawn £316 million (2015 - £189 million) of Treasury Bills under the Bank of England's Funding for Lending Scheme, of which £94 million (2015 - £69 million) were held off balance sheet.

12. Loans and Advances to Customers

	Group 2016 £000	Group 2015 (Restated) £000	Society 2016 £000	Society 2015 (Restated) £000
Loans and advances to customers comprise:				
Loans fully secured on residential property	**1,626,470**	1,430,061	**1,626,470**	1,430,061
Other loans				
Loans fully secured on land	**160,373**	153,351	**160,373**	153,351
Other loans	**17,234**	9,887	**1,494**	1,559
Fair value adjustment for hedge risk	**10,123**	6,279	**10,123**	6,279
	1,814,200	1,599,578	**1,798,460**	1,591,250
Less: Impairment of loans and advances to customers (note 13)	**(2,159)**	(2,730)	**(2,159)**	(2,730)
	1,812,041	1,596,848	**1,796,301**	1,588,520

At 31 March 2016 £464.7 million (2015 - £373.0 million) of loans had been pledged as collateral to the Bank of England under the Funding for Lending Scheme.

13. Impairment Losses on Loans and Advances to Customers	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Total £000
				Group and Society 2016
At 1 April 2015 (Restated)				
Collective impairment	350	1,179	40	1,569
Individual impairment	148	978	35	1,161
	498	2,157	75	2,730
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	(154)	71	-	(83)
Individual impairment	(81)	(182)	(6)	(269)
	(235)	(111)	(6)	(352)
Amount written off during the year				
Individual impairment	-	(219)	-	(219)
At 31 March 2016				
Collective impairment	196	1,250	40	1,486
Individual impairment	67	577	29	673
	263	1,827	69	2,159

The total credit of £345,000 in the Society's income and expenditure account consists of the credit of £352,000 shown above, and a net charge of £7,000 in respect of additional costs and recoveries against loans which had been written off in prior years. Borderway Finance Limited had a charge of £1,000.

				Group and Society 2015 (Restated)
At 1 April 2014 (Restated)				
Collective impairment	431	1,432	40	1,903
Individual impairment	351	2,965	35	3,351
	782	4,397	75	5,254
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	(81)	(253)	-	(334)
Individual impairment	(26)	213	5	192
	(107)	(40)	5	(142)
Amount written off during the year				
Individual impairment	(177)	(2,200)	(5)	(2,382)
At 31 March 2015				
Collective impairment	350	1,179	40	1,569
Individual impairment	148	978	35	1,161
	498	2,157	75	2,730

The total credit of £251,000 in the income and expenditure account consists of the credit of £142,000 shown above, a credit of £97,000 in relation to a loan written off during the year, and a net credit of £12,000 in respect of additional costs and recoveries against loans which had been written off in prior years.

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14. Fixed Asset Investments	Shares £000	Loans £000	Total £000
Investments by the Society in subsidiary undertakings			
Cost at 1 April 2015	1,890	7,433	9,323
Advances	-	6,500	6,500
Cost at 31 March 2016	1,890	13,933	15,823

Subsidiary undertakings

The Society has ordinary share investments in the following subsidiary undertakings, all registered in England; in each case the interest of the Society is 100%:

	Principal Activity
Direct	
Cumberland Holdings Ltd	Holding Company
Indirect	
Borderway Finance Ltd	Motor Vehicle Finance
Cumberland Estate Agents Ltd	Estate Agents
Cumberland Financial Planning Ltd	Financial Adviser
Cumberland Financial Services Ltd	Independent Financial Adviser
Cumberland Homes Ltd	Development Company
Cumberland Property Services Ltd	Property Company
Cumberland Building Society Insurance Ltd	Dormant
Cumberland Leasing Ltd	Dormant
Cumberland Conveyancing Services Ltd	Dormant
Cumberland Insurance Services Ltd	Dormant
Solway Mortgage Solutions Ltd	Dormant

15. Tangible Fixed Assets (Group)	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2015	18,834	8,581	27,415
Additions	227	1,870	2,097
Disposals	(1,139)	(1,165)	(2,304)
Properties transferred to 'investment properties' (note 16)	(1,215)	-	(1,215)
At 31 March 2016	16,707	9,286	25,993
Depreciation			
At 1 April 2015	9,389	5,487	14,876
Charge for year	366	1,410	1,776
Disposals	(1,135)	(1,124)	(2,259)
Properties transferred to 'investment properties' (note 16)	(485)	-	(485)
At 31 March 2016	8,135	5,773	13,908
Net book value			
At 31 March 2016	8,572	3,513	12,085
At 31 March 2015	9,445	3,094	12,539

Tangible Fixed Assets (Society)			
Cost			
At 1 April 2015	16,763	8,131	24,894
Additions	1,144	1,779	2,923
Disposals	(603)	(1,086)	(1,689)
Properties transferred to 'investment properties' (note 16)	(888)	-	(888)
At 31 March 2016	16,416	8,824	25,240
Depreciation			
At 1 April 2015	8,502	5,271	13,773
Charge for year	339	1,304	1,643
Disposals	(603)	(1,044)	(1,647)
Properties transferred to 'investment properties' (note 16)	(387)	-	(387)
At 31 March 2016	7,851	5,531	13,382
Net book value			
At 31 March 2016	8,565	3,293	11,858
At 31 March 2015	8,261	2,860	11,121

The net book value of land and buildings occupied by the Group for its own activities at 31 March 2016 was £8,039,000 (Society £8,039,000) (2015 - Group £8,777,000, Society £7,387,000).

16. Investment Properties	**Group 2016 £000**	Group 2015 £000	**Society 2016 £000**	Society 2015 £000
At 1 April	**2,952**	2,725	**1,492**	1,075
Additions	**-**	-	**229**	-
Properties transferred from 'tangible fixed assets' (note 15)	**730**	504	**501**	504
Disposals	**-**	(356)	**-**	-
Recovery in relation to original cost	**(5)**	-	**(5)**	-
Revaluation	**558**	79	**583**	(87)
At 31 March	**4,235**	2,952	**2,800**	1,492

Valuations of all investment 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 2016.

If investment properties had not been revalued they would have been included at the following amounts:

Cost	**4,587**	3,377	**3,375**	2,164
Depreciation	**1,640**	1,155	**1,590**	1,105
	2,947	2,222	**1,785**	1,059

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

Within one year	**149**	125	**149**	122
In the second to fifth years inclusive	**216**	167	**216**	167
After five years	**13**	37	**13**	37
	378	329	**378**	326

The Group is additionally contractually obliged to carry out annual repairs and maintenance in respect of investment properties, which in the current year amounted to £24,000 (2015 - £72,000).

17. Other Assets	**Group 2016 £000**	Group 2015 (Restated) £000	**Society 2016 £000**	Society 2015 (Restated) £000
Deferred taxation asset (note 18)	**1,663**	2,135	**1,684**	2,175
Other	**364**	417	**490**	1,464
	2,027	2,552	**2,174**	3,639

18. Deferred Taxation				
At 1 April	**2,135**	1,128	**2,175**	1,181
Charge to the income and expenditure account (note 9)	**(346)**	(18)	**(365)**	(31)
(Charge)/credit to other comprehensive income	**(126)**	1,025	**(126)**	1,025
At 31 March	**1,663**	2,135	**1,684**	2,175
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Difference between accumulated depreciation and amortisation and capital allowances	**232**	213	**209**	198
Collective mortgage loss provisions	**267**	314	**267**	314
Revaluation of investment properties	**(100)**	-	**(105)**	-
Pension scheme	**1,695**	1,314	**1,695**	1,314
Investment in equity share	**(674)**	-	**(674)**	-
Differences arising from transition to FRS 102	**243**	294	**292**	349
	1,663	2,135	**1,684**	2,175

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Group.

19. Prepayments and Accrued Income

	Group 2016 £000	Group 2015 (Restated) £000	Society 2016 £000	Society 2015 (Restated) £000
Accrued income relating to derivative financial instruments	**-**	159	**-**	159
Other	**1,270**	1,033	**954**	833
	1,270	1,192	**954**	992

20. Shares

	Group and Society 2016 £000	Group and Society 2015 (Restated) £000
Held by individuals	**1,613,209**	1,521,687
Other	**7**	7
Fair value adjustment for hedged risk	**80**	112
	1,613,296	1,521,806

21. Other Liabilities

	Group 2016 £000	Group 2015 £000	Society 2016 £000	Society 2015 £000
Other liabilities falling due within one year:				
Corporation tax	**1,532**	980	**1,455**	857
Income tax	**703**	684	**703**	684
Other creditors	**1,381**	1,374	**1,373**	1,350
	3,616	3,038	**3,531**	2,891

22. Accruals and Deferred Income

	Group 2016 £000	Group 2015 (Restated) £000	Society 2016 £000	Society 2015 (Restated) £000
Accruals	**1,278**	1,715	**1,118**	1,585
Deferred Income relating to derivative financial instruments	**358**	-	**358**	-
Other Deferred Income	**5,010**	3,466	**3,106**	2,361
	6,646	5,181	**4,582**	3,946

Accruals and deferred income includes £2.93 million (2015 - £1.85 million) relating to deferred income arising as a result of the effective interest rate method in line with FRS 102.

23. Provisions for Liabilities

	Group and Society 2016 £000	Group and Society 2015 £000
Financial Services Compensation Scheme Levy:		
At 1 April	**1,471**	1,640
Paid	**(949)**	(1,042)
Charged to income and expenditure account	**432**	873
At 31 March	**954**	1,471

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 2014-15 and 2015-16 have been based.

In the current year, the Society paid £949,000 in respect of the levy for 2014-15, which covered both the management expenses levy and the third and final tranche of payments relating to the estimated shortfall on the capital loans outstanding.

The charge of £432,000 in the latest year reflects the Society's share of the management expenses levy for 2016-17.

NOTES TO THE ACCOUNTS

24. 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 23.

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

	Group 2016 £000	Group 2015 £000	Society 2016 £000	Society 2015 £000
Contracted but not provided for	**88**	340	**71**	325
(d) Memorandum items				
Irrevocable mortgage commitments	**7,757**	7,416	**7,757**	7,416

25. Pensions

The Group operates a defined benefit pension scheme and three defined contribution schemes.

Defined contribution schemes

The Group operates three defined contribution schemes funded by contributions from the Group and its staff. One scheme is open to all new employees. The total expense charged to income and expenditure in the year ended 31 March 2016 was £613,000 (2015 - £334,000).

Defined benefit scheme

The Group operates a defined benefit scheme which was closed to new entrants in April 2000, and to further accrual at 31 March 2015.

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

The valuation used for FRS 102 disclosures has been prepared by a qualified independent actuary to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 31 March 2016 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 2016.

The most recent full actuarial valuation was as at 27 August 2012 and showed a deficit of £9.18 million.

Key assumptions used:	**Valuation at** 2016 %	2015 %
Rate of increase in pensions in payment	**2.30 - 3.20**	2.30 - 3.10
Discount rate	**3.50**	3.30
Inflation assumptions - RPI	**3.30**	3.20
- CPI	**2.30**	2.20

Mortality assumptions:
Post-retirement mortality is based on 95% of the 2014 S2PxA 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:	2016	2015
Retiring today:		
Males	**87.6**	87.3
Females	**89.8**	89.8
Retiring in 20 years:		
Males	**89.5**	89.2
Females	**91.8**	91.8

The Group contributed at the rate of 20.3% of pensionable salaries in 2014-15 but did not contribute in 2015-16 following the closure of the scheme to further accrual at 31 March 2015, other than that, in line with the scheme's recovery plan, it made a contribution of £503,000 in June 2015.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:	2016 £000	2015 £000
Present value of defined benefit obligations	**(61,050)**	(61,232)
Fair value of scheme assets	**51,634**	54,662
Liability recognised in the balance sheet	**(9,416)**	(6,570)
Movements in the present value of defined benefit obligations were as follows:		
At 1 April	**61,232**	49,741
Interest cost	**1,999**	2,167
Service cost	**96**	805
Contributions from scheme members	**-**	161
Benefits paid	**(1,345)**	(1,598)
Actuarial (gain)/loss	**(932)**	9,956
At 31 March	**61,050**	61,232
Movements in the fair value of scheme assets were as follows:		
At 1 April	**54,662**	47,243
Actuarial (loss)/gain	**(3,976)**	4,833
Expected return on assets	**1,790**	2,079
Contributions from employers and scheme members	**645**	2,214
Benefits paid	**(1,345)**	(1,598)
Expenses paid	**(142)**	(109)
At 31 March	**51,634**	54,662
The analysis of the scheme assets at the balance sheet date was as follows:		
Growth assets	**35,040**	34,644
Liability driven investments	**13,827**	-
Corporate Bonds	**-**	17,277
Cash	**265**	336
Other assets	**2,502**	2,405
	51,634	54,662

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 102

a) Administrative expenses

Service cost	**96**	805

The service cost in the current year has arisen as a result of an augmentation of the retirement benefits of two executive directors, Mr. Parr and Mr. Kidd, as part of the Board's succession planning.

The operating charge of £96,000 (2015 - £805,000), plus the Group's contributions to the defined contribution schemes of £613,000 (2015 - £334,000) and life assurance premiums of £60,000 (2015 - £108,000), comprise the Group's other pension costs total of £769,000 (2015 - £1,247,000) shown in note 7.

b) Pension finance charge

Expected return on pension scheme assets	**1,790**	2,079
Interest on pension scheme liabilities	**(1,999)**	(2,167)
Net charge	**(209)**	(88)

c) Statement of Comprehensive Income

Actual return less expected return on pension scheme assets	**(3,976)**	4,833
Actuarial gain/(loss) on defined benefit obligation	**932**	(9,956)
Actuarial loss	**(3,044)**	(5,123)
Movement in deferred taxation relating to pension scheme	**548**	1,025
Actuarial loss recognised in the Statement of Comprehensive Income	**(2,496)**	(4,098)

d) Movement in the deficit in the scheme during the year	2016 £000	2015 £000
Deficit in scheme at beginning of year	**(6,570)**	(2,498)
Movement in year:		
Service cost	**(96)**	(805)
Contributions net of expenses paid	**503**	1,944
Pension finance charge	**(209)**	(88)
Actuarial loss	**(3,044)**	(5,123)
Deficit in scheme at end of year	**(9,416)**	(6,570)

History of experience gains and losses	2016	2015 Restated	2014	2013	2012
Actual return less expected return on pension scheme assets (£000)	**(3,976)**	4,833	(441)	2,664	1,565
Percentage of scheme assets	**7.7**	8.8	0.9	6.1	4.0
Actuarial loss/(gain) on defined benefit obligation (£000)	**932**	(9,956)	973	(3,130)	(3,585)
Percentage of scheme liabilities	**1.5**	16.3	2.0	6.4	8.1

Note: the 2016 and restated 2015 figures in the table above are on the FRS 102 basis; those in the previous years are on the UK GAAP basis.

26. Liquidity Risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow 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, wholesale funding facilities and management control of the growth of the business.

It is Group policy to ensure that sufficient liquid assets are at all times available to meet the Group's statutory, regulatory and operational obligations.

The development and implementation of liquidity policy is the responsibility of the ALCO and approved by the Board. The day-to-day management of liquidity is the responsibility of Treasury, with oversight from the independent Risk Function.

A series of liquidity stress tests are performed each month to confirm that liquidity levels in relation to the limits remain appropriate. The ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group balance sheet.

Limits on potential cash flow mismatches over defined time horizons are the principal basis of liquidity control.

The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows and access to contingent funding from the Bank of England.

Contractual Maturity and Derivatives

The following table details the Group's expected maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the conditions existing at the reporting date. For these calculations, interest rates have been projected based on the yield curves existing at the reporting date and where the amount varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000
At 31 March 2016:				
Swap contracts	(1,470)	(708)	(2,800)	(5,760)
At 31 March 2015:				
Swap contracts	(788)	(646)	(2,681)	(2,107)

Maturity profile of financial instruments

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period between the balance sheet date and the contractual maturity date. The Society's maturity grouping is not materially different to the Group position.

	Repayable on demand £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	Over 5 years £000	Non-interest bearing £000	Total £000
At 31 March 2016:							
Assets							
Cash in hand and balances with the Bank of England	198,637	-	-	-	-	37	198,674
Loans and advances to credit institutions	16,775	26,874	40,500	11,948	-	219	96,316
Derivative financial instruments	-	-	-	-	-	261	261
Loans and advances to customers							
Loans fully secured on residential property and land	2,146	17,802	57,081	319,114	1,390,700	8,033	1,794,876
Other loans	1,494	18	258	15,464	-	(69)	17,165
Liabilities							
Shares	1,036,458	195,069	285,887	89,538	-	6,344	1,613,296
Derivative financial instruments	-	-	-	-	-	11,090	11,090
Amounts owed to credit institutions	-	18,000	-	214,873	-	210	233,083
Amounts owed to other customers	44,226	44,684	16,858	3,040	-	426	109,234
At 31 March 2015:							
Assets							
Cash in hand and balances with the Bank of England	224,842	-	-	-	-	84	224,926
Loans and advances to credit institutions	11,297	14,000	37,000	9,079	-	109	71,485
Debt securities	1,000	-	-	-	-	7	1,007
Derivative financial instruments	-	-	-	-	-	726	726
Loans and advances to customers							
Loans fully secured on residential property and land	1,466	17,235	55,984	297,896	1,210,831	3,624	1,587,036
Other loans	1,559	1	97	8,230	-	(75)	9,812
Liabilities							
Shares	918,981	191,951	306,698	96,744	-	7,432	1,521,806
Derivative financial instruments	-	-	-	-	-	7,671	7,671
Amounts owed to credit institutions	-	6,500	-	119,721	-	81	126,302
Amounts owed to other customers	38,585	52,893	16,721	3,369	-	490	112,058

Included within Other loans are balances of £15,740,000 (2015 - £8,328,000) relating to loans and advances to customers of Borderway Finance Limited.

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27. Interest Rate Risk

The primary market risk faced by the Group is interest rate risk. The net interest income of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of derivatives. There has been no change to the way that interest rate risk is managed during the year.

The Group does not run a trading book and therefore does not have the type of higher risk exposure incurred by many banking institutions.

The Group uses interest rate stress testing and gap analysis to analyse and manage its interest rate position.

The following table provides a summary of the interest rate re-pricing profile of the Group's assets and liabilities. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date.

The table takes account of derivative financial instruments which alter the interest basis of Group assets and liabilities. The non-interest bearing balances have been included in a separate column.

	Not more than 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but not more than 5 years £000	Non-interest bearing £000	Total £000
At 31 March 2016:						
Assets						
Liquid assets	244,286	22,500	16,000	11,948	256	294,990
Derivative financial instruments	-	-	-	-	261	261
Loans and advances to customers	838,350	37,537	84,773	843,417	7,964	1,812,041
Tangible fixed assets	-	-	-	-	12,085	12,085
Other assets	-	-	-	-	10,901	10,901
Total assets	1,082,636	60,037	100,773	855,365	31,467	2,130,278
Liabilities						
Shares	1,381,860	54,633	80,922	89,537	6,344	1,613,296
Derivative financial instruments	-	-	-	-	11,090	11,090
Amounts owed to credit institutions and other customers	336,018	3,731	1,439	493	636	342,317
Other liabilities, pension liability, accruals and deferred income	-	-	-	-	20,632	20,632
Reserves	-	-	-	-	142,943	142,943
Total liabilities	1,717,878	58,364	82,361	90,030	181,645	2,130,278
Net assets / (liabilities)	(635,242)	1,673	18,412	765,335	(150,178)	-
Derivative instruments	907,250	(32,600)	(77,550)	(797,100)	-	-
Interest rate sensitivity gap	272,008	(30,927)	(59,138)	(31,765)	(150,178)	-
Cumulative gap	272,008	241,081	181,943	150,178	-	-
At 31 March 2015:						
Assets						
Liquid assets	255,140	13,000	20,000	9,078	200	297,418
Derivative financial instruments	-	-	-	-	726	726
Loans and advances to customers	792,798	26,185	73,123	701,193	3,549	1,596,848
Tangible fixed assets	-	-	-	-	12,539	12,539
Other assets	-	-	-	-	6,696	6,696
Total assets	1,047,938	39,185	93,123	710,271	23,710	1,914,227
Liabilities						
Shares	1,288,487	64,052	81,360	80,475	7,432	1,521,806
Derivative financial instruments	-	-	-	-	7,671	7,671
Amounts owed to credit institutions and other customers	218,700	9,893	5,827	3,369	571	238,360
Other liabilities, pension liability, accruals and deferred income	-	-	-	-	16,260	16,260
Reserves	-	-	-	-	130,130	130,130
Total liabilities	1,507,187	73,945	87,187	83,844	162,064	1,914,227
Net assets / (liabilities)	(459,249)	(34,760)	5,936	626,427	(138,354)	-
Derivative instruments	711,650	(23,600)	(40,600)	(647,450)	-	-
Interest rate sensitivity gap	252,401	(58,360)	(34,664)	(21,023)	(138,354)	-
Cumulative gap	252,401	194,041	159,377	138,354	-	-

The Society's interest rate re-pricing profile is not materially different to the Group's position. The following table details the Group's and Society's sensitivity to a 200 basis point change in interest rates at the year end with all other variables held constant. A positive number indicates an increase to income or expenditure and other equity.

	Group and Society +200bps 2016 £000	Group and Society +200bps 2015 £000	**Group and Society -200bps 2016 £000**	Group and Society -200bps 2015 £000
Impact on equity reserves	**(1,926)**	(2,322)	**2,214**	2,636
Impact on income and expenditure	**(1,839)**	(2,273)	**1,839**	2,273

Interest rate risk is managed on a Group basis. As such, the Society will differ to the overall Group position as the sensitivity would generate offsetting movements in subsidiaries.
The above interest rate risk represents the market value movement, calculated using a discounted cash flow basis, on all of the Society's financial assets and liabilities, resulting from an immediate 200 basis points parallel shift in interest rates.
Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, such as LIBOR and Bank of England Base Rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages or withdrawal of fixed rate savings) are also monitored closely and regularly reported to the ALCO.

28. Wholesale Credit Risk

The Society holds various investments in order to satisfy operational demand at the same time as to meet current and future liquidity regulatory requirements. Credit risk arises because of factors such as deterioration in the counterparty's financial health and uncertainty within the wholesale market generally.
Wholesale lending credit risk is managed through setting strict limits to each type of investment in relation to time to maturity, credit rating and country of origin. These limits are set by the ALCO, approved by the Board and monitored by the treasury team on a continuous basis.
Comprehensive management information ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance.
There has been no change in the year to the manner in which the Group manages and measures wholesale credit risk.
At 31 March 2016 none of the Group's treasury portfolio exposure was either past due or impaired. There are no assets that would otherwise be past due or impaired whose terms have been renegotiated. 80% (2015 - 85%) of the Group's treasury investments are rated single A or better.

The table below provides ratings details for the Group's treasury investment portfolio as at 31 March 2016:

	Group and Society	
	2016 %	2015 %
A1-A3	**10**	8
Sovereign exposure to the UK	**70**	77
Other	**20**	15
	100	100

All wholesale exposures are to UK financial institutions. The largest exposure to a single institution other than the UK Government was £12.4 million (2015 - £11.5 million).
The Group's agreements to enter derivatives transactions with counterparties are all documented through the International Swaps and Derivatives Association (ISDA) Master Agreement. In addition, the Group's agreements in respect of repurchase contracts are documented through the Global Master Repurchase Agreement (GMRA). Credit Support Annexes (CSA) are in place with all of the Group's ISDA and GMRA counterparties. These provide the legal basis for measuring the extent of any credit risk exposures and govern how cash is moved as collateral between the Group and the counterparty to offset these exposures, which arise as a result of movements in interest rates.

Wholesale credit risk is recorded in the extracts from the balance sheet below:

	Group 2016 £000	Group 2015 £000	**Society 2016 £000**	Society 2015 £000
Cash in hand and balances with the Bank of England	**198,674**	224,926	**198,672**	224,924
Loans and advances to credit institutions	**96,316**	71,485	**96,316**	71,485
Debt securities	**-**	1,007	**-**	1,007
Total wholesale credit risk	**294,990**	297,418	**294,988**	297,416

The debt security held at 31 March 2015 was a certificate of deposit, and is shown at fair value.

29. Credit Risk on Loans and Advances to Customers

Experienced credit risk functions operate within the Group and comprehensive management information on movements and performance within the various loan portfolios ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance.

The Group's exposure to retail credit risk can be broken down as follows:

	Group	
	2016 £000	2015 £000
Loans fully secured on residential property	**1,626,470**	1,430,061
Loans fully secured on land	**160,373**	153,351
Other loans	**17,234**	9,887
Total gross exposure (contractual amounts)	**1,804,077**	1,593,299
Impairment and hedging adjustments	**7,964**	3,549
Total net exposure	**1,812,041**	1,596,848

Loans fully secured on residential property

The Group is firmly committed to the management of this risk at all stages of the lending cycle. The Group monitors closely customer affordability and income multiples at the application and underwriting stage and takes a proactive approach to the control of bad and doubtful debt, which is managed by a specialist team dedicated solely to the collections and recovery process.

	Group and Society	
Geographical distribution	**2016 %**	2015 %
North West	**59**	63
Scotland	**10**	10
London	**10**	8
South East	**7**	6
South West	**6**	5
East of England	**2**	2
Yorkshire & Humberside	**2**	2
East Midlands	**1**	1
West Midlands	**1**	1
Wales	**1**	1
North East	**1**	1
	100	100

Loan to value distribution:

The indexed loan to value analysis on the Group's residential loan portfolio is as follows:

<70%	**86**	80
70%-80%	**10**	12
80%-90%	**3**	7
>90%	**1**	1
	100	100

The overall indexed loan to value of the residential portfolio is 39% (2015 - 40%).

The collateral held consists of residential property. The use of such collateral is in line with terms that are usual and customary to standard lending activities. Upon initial recognition of loans and advances, the fair value of collateral is based on the sales price for the property.
In subsequent periods, the fair value is updated to reflect market price based on the quarterly Halifax house price index.

The following table provides further information on the Group's loans to residential mortgage customers by payment due status.
The balances exclude the fair value adjustment for hedge risk and impairment losses.

Payment due status	Group and Society 2016 £000	Group and Society 2016 %	Group and Society 2015 £000	Group and Society 2015 %
Not impaired:				
Neither past due nor impaired	**1,615,916**	**99**	1,413,596	99
Past due up to 3 months but not impaired	**8,196**	**1**	14,255	1
Impaired:				
Past due 3 to 6 months	**1,242**	**-**	1,116	-
Past due 6 to 12 months	**951**	**-**	758	-
Possessions	**165**	**-**	336	-
	1,626,470	**100**	1,430,061	100

Note: Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

Forbearance strategies

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. Such forbearance strategies include the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, and aim to avoid repossession.

The following table provides further information on loans by types of forbearance measures in the years to 31 March 2015 and 2016.

At 31 March 2016:	Interest only concession £000	Arrears capitalised £000	Transfer to interest only £000	Term extension £000	Total forbearance £000
Neither past due nor impaired	1,406	129	146	42	1,723
Past due up to 3 months	194	81	-	-	275
Past due more than 3 months	320	20	-	-	340
Total loans and advances	1,920	230	146	42	2,338

At 31 March 2015:	Interest only concession £000	Arrears capitalised £000	Transfer to interest only £000	Term extension £000	Total forbearance £000
Neither past due nor impaired	1,005	306	208	740	2,259
Past due up to 3 months	303	-	139	51	493
Past due more than 3 months	-	-	-	-	-
Total loans and advances	1,308	306	347	791	2,752

Loans fully secured on land

Credit risk associated with lending fully secured on land is affected by similar factors as for residential mortgages, although on average loans are generally larger.
Loans fully secured on land are split by industry type as follows:

Industry type	Group and Society 2016 %	Group and Society 2015 %
Leisure and hotel	**74**	74
Commercial investment and industrial units	**17**	16
Retail	**2**	2
Offices	**1**	1
Others, including mixed use	**6**	7
	100	100
Unindexed loan to value distribution		
<70%	**91**	92
70%-80%	**4**	3
80%-90%	**1**	1
>90%	**4**	4
	100	100

The collateral held against loans fully secured on land consists of commercial property, in line with terms that are usual and customary to commercial lending activities.
The following table provides further information on the Groups's loans fully secured on land by payment due status. The balances exclude the fair value adjustment for hedge risk and impairment losses.

Payment due status	Group and Society 2016 £000	Group and Society 2016 %	Group and Society 2015 £000	Group and Society 2015 %
Not impaired:				
Neither past due nor impaired	**157,506**	**98**	148,314	97
Past due up to 3 months but not impaired	**2,169**	**1**	3,626	2
Impaired:				
Past due 3 to 6 months	**-**	**-**	676	1
Past due 6 to12 months	**-**	**-**	199	-
Possessions	**698**	**1**	536	-
	160,373	**100**	153,351	100

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

30. Derivative Financial Instruments

Derivative financial instruments are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates, exchange rates, or stock market indices. These types of instruments tend to have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return as cash flows and are generally settled at a future date.
Derivatives are only used by the Group in accordance with section 9A of 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 main derivatives used by the Group are interest rate swaps. 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. These risks may alternatively be managed using on balance sheet instruments or natural hedges that exist within the Group balance sheet.

Activity	Risk	Types of Derivative
Fixed rate savings products	Sensitivity to falls in interest rates	Receive fixed interest swaps
Fixed rate lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps

The following table shows the notional principal amounts of the different types of derivatives held, and their positive and negative market values,

	Group 2016 National principal amount £000	Group 2016 Positive market value £000	Group 2016 Negative market value £000	Group 2015 National principal amount £000	Group 2015 Positive market value £000	Group 2015 Negative market value £000
Interest rate swaps designated as fair value hedges	**957,800**	**228**	**(11,057)**	848,250	557	(7,645)
Interest rate swaps not designated as hedges	**13,300**	**5**	**(33)**	6,000	-	(26)
Equity swaps	**2,700**	**28**	**-**	3,700	169	-
Total derivatives held for hedging	**973,800**	**261**	**(11,090)**	857,950	726	(7,671)

	Society 2016 Notional principal amount £000	Society 2016 Positive market value £000	Society 2016 Negative market value £000	Society 2015 Notional principal amount £000	Society 2015 Positive market value £000	Society 2015 Negative market value £000
Interest rate swaps designated as fair value hedges	**957,800**	**228**	**(11,057)**	848,250	557	(7,645)
Equity swaps	**2,700**	**28**	**-**	3,700	169	-
Total derivatives held for hedging	**960,500**	**256**	**(11,057)**	851,950	726	(7,645)

The following table shows the notional principal and credit risk weighted amounts, and the replacement costs of the derivatives, and their residual maturity.

	Group 2016			Group 2015 (Restated)		
	Notional principal amount £000	**Credit risk weighted amount £000**	**Replacement cost £000**	Notional principal amount £000	Credit risk weighted amount £000	Replacement cost £000
Interest rate swaps	**971,100**	**3,298**	**656**	854,250	3,409	1,419
Equity swaps	**2,700**	**-**	**-**	3,700	-	-
	973,800	**3,298**	**656**	857,950	3,409	1,419
Under one year	**162,700**	**159**	**319**	167,800	261	522
Between one and five years	**811,100**	**3,139**	**337**	690,150	3,148	897
	973,800	**3,298**	**656**	857,950	3,409	1,419

	Society 2016			Society 2015 (Restated)		
	Notional principal amount £000	**Credit risk weighted amount £000**	**Replacement cost £000**	Notional principal amount £000	Credit risk weighted amount £000	Replacement cost £000
Interest rate swaps	**957,800**	**3,263**	**652**	848,250	3,388	1,419
Equity swaps	**2,700**	**-**	**-**	3,700	7	-
	960,500	**3,263**	**652**	851,950	3,395	1,419
Under one year	**158,700**	**160**	**319**	167,800	260	522
Between one and five years	**801,800**	**3,103**	**333**	684,150	3,135	897
	960,500	**3,263**	**652**	851,950	3,395	1,419

31. Fair Values

The following tables summarise the carrying amounts and fair values of those financial assets and liabilities by category where these are different. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated for other financial instruments by discounting cash flows at prevailing interest rates.

	Group and Society	
At 31 March 2016:	**Carrying Value £000**	**Fair Value £000**
Financial assets:		
Loans and advances to customers:		
Loans fully secured on residential property	1,626,207	1,649,079
Loans fully secured on land	158,546	156,126
Financial liabilities:		
Shares	1,613,216	1,610,193

	Group and Society	
At 31 March 2015:	Carrying Value £000	Fair Value £000
Financial assets:		
Loans and advances to customers:		
Loans fully secured on residential property	1,429,563	1,450,724
Loans fully secured on land	151,194	147,150
Financial liabilities:		
Shares	1,521,694	1,518,382

The fair value and carrying value of balance sheet items not included in the table above are the same, as shown on the balance sheet.
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms-length transaction.
Loans and advances to customers and shares are calculated using the effective interest rate method, less provisions for impairment together with fair value adjustments using discounted cash flow principles set out in IAS 39. They are Level 2 assets, as defined in FRS 102. In addition, the 'investment in equity share' which is shown in the balance sheet at fair value (see note 32) is a Level 3 asset, as its valuation is not based on observable market data.

The following table analyses the Group's assets and liabilities by the class of financial instrument to which they are assigned by the measurement basis:

At 31 March 2016:	**Financial assets/ liabilities at fair value through Income and Expenditure £000**	**Financial assets available for sale £000**	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**	**Non-financial assets/ liabilities £000**	**Total £000**
Financial Assets:						
Cash and balances with the Bank of England	-	-	198,674	-	-	198,674
Loans and advances to credit institutions	-	-	96,316	-	-	96,316
Derivative financial instruments	261	-	-	-	-	261
Loans and advances to customers:						
Loans fully secured on residential property	10,123	-	1,626,207	-	-	1,636,330
Loans fully secured on land	-	-	158,546	-	-	158,546
Other loans	-	-	17,165	-	-	17,165
Investment in equity share	-	3,369	-	-	-	3,369
Non-financial assets	-	-	-	-	19,617	19,617
Total assets	**10,384**	**3,369**	**2,096,908**	**-**	**19,617**	**2,130,278**
Financial Liabilities:						
Shares	80	-	-	1,613,216	-	1,613,296
Derivative financial instruments	11,090	-	-	-	-	11,090
Amounts owed to credit institutions	-	-	-	233,083	-	233,083
Amounts owed to other customers	-	-	-	109,234	-	109,234
Non-financial liabilities	-	-	-	-	20,632	20,632
General and other reserves	-	-	-	142,943	-	142,943
Total reserves and liabilities	**11,170**	**-**	**-**	**2,098,476**	**20,632**	**2,130,278**
At 31 March 2015:						
Financial Assets:						
Cash and balances with the Bank of England	-	-	224,926	-	-	224,926
Loans and advances to credit institutions	-	-	71,485	-	-	71,485
Debt securities	-	1,007	-	-	-	1,007
Derivative financial instruments	726	-	-	-	-	726
Loans and advances to customers:						
Loans fully secured on residential property	6,279	-	1,429,563	-	-	1,435,842
Loans fully secured on land	-	-	151,194	-	-	151,194
Other loans	-	-	9,812	-	-	9,812
Non-financial assets	-	-	-	-	19,235	19,235
Total assets	7,005	1,007	1,886,980	-	19,235	1,914,227
Financial Liabilities:						
Shares	112	-	-	1,521,694	-	1,521,806
Derivative financial instruments	7,671	-	-	-	-	7,671
Amounts owed to credit institutions	-	-	-	126,302	-	126,302
Amounts owed to other customers	-	-	-	112,058	-	112,058
Non-financial liabilities	-	-	-	-	16,260	16,260
General and other reserves	-	-	-	130,130	-	130,130
Total reserves and liabilities	7,783	-	-	1,890,184	16,260	1,914,227

32. Investment in equity share

The investment in equity share is in respect of Visa Europe Limited (VE).

On 2 November 2015, Visa Inc. announced the proposed acquisition of VE to create a single global payments business under the VISA brand. The Society is a member and shareholder of VE and in exchange for its single €10 ordinary share will receive cash of approximately €4.25 million and Visa Inc. preference shares (at 21 December 2015 valued by Visa Inc. at approximately €2.93 million). The preference shares are convertible into Class A common shares of Visa Inc. at a future date subject to conditions, including that the conversion rate may be reduced to cover certain litigation costs (primarily the setting of interchange rates). In addition, the Group may receive deferred cash consideration in 2020 which is contingent on certain performance thresholds being met.

The Society previously did not recognise its investment in the VE share as an asset on the balance sheet as it did not have a quoted market price in an active market, and could not otherwise be reliably measured. At 31 March 2016, the share has been recognised at the sterling equivalent (£3.369 million) of the €4.25 million upfront cash consideration. As the preference shares and deferred cash consideration components cannot currently be reliably measured, these elements have been valued at nil.

On completion of the transaction, the Society expects to recognise a gain in the Income and Expenditure Account based on the upfront proceeds and a fair value amount in relation to the preference shares and deferred cash consideration at that time. The fair value amount will need to reflect a number of factors and uncertainties relating to these elements. Subject to regulatory approval, completion is currently expected to occur later in 2016.

33. Transition to FRS 102 and IAS 39

This is the first year that the Group has presented its financial statements under Financial Reporting Standard 102 (FRS 102) and IAS 39. The following disclosures are required in the year of transition.

The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2015. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Further information on the impact of the adoption of FRS 102 and IAS 39 is contained in the report on 'Changes to the Basis of the Financial Statements' on pages 8 and 9. The reconciliation of equity at 1 April 2014 and 31 March 2015, and profit after tax for the year ended 31 March 2015, between these accounts and those published last year, are shown below.

Reconciliation of equity	**Group**		**Society**	
	At 1 April 2014 £000	At 31 March 2015 £000	At 1 April 2014 £000	At 31 March 2015 £000
Equity reported under previous UK GAAP	125,116	130,521	125,114	129,956
Adjustments to equity on transition to FRS 102				
1. Hedge accounting	388	(623)	388	(602)
2. Provisions	1,082	1,457	1,082	1,457
3. Revaluation of investment properties	(163)	(146)	(103)	(87)
4. Effective interest rate	(1,102)	(1,081)	(1,102)	(1,081)
5. Debt securities	-	2	-	2
Equity reported under FRS 102	125,321	130,130	125,379	129,645

Reconciliation of profit after tax for the year ended 31 March 2015	**Group £000**	**Society £000**
Profit for the financial year under previous UK GAAP	10,218	9,652
1. Hedge accounting	(1,011)	(990)
2. Pension scheme	(630)	(630)
3. Provisions	375	375
4. Revaluation of investment properties	(68)	(66)
5. Effective interest rate	21	21
Profit reported under FRS 102	8,905	8,362

For the year ended 31 March 2016

1. Statutory Percentages	**31 March 2016 %**	Statutory Limit %
Lending Limit	**10.90**	25
Funding Limit	**17.50**	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 2016 %**	Group 31 March 2015 (Restated) %
As percentage of shares and borrowings:		
Gross capital	**7.31**	7.39
Free capital	**6.77**	6.77
Liquid assets	**15.08**	16.90
Profit for the financial year as a percentage of mean total assets	**0.62**	0.49
Management expenses as a percentage of mean total assets	**1.02**	1.11

	Society 31 March 2016 %	Society 31 March 2015 (Restated) %
Management expenses as a percentage of mean total assets	**0.91**	0.98

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 reserve and the available for sale reserve.
'Free capital'	represents the aggregate of gross capital and collective 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 as at 31 March 2016

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
T. Hebdon, ACIB	Business Consultant	21.3.54	11.12.09	Carlisle Cathedral Development Trust
P. Anstiss	Company Director	8.1.55	25.1.16	Anstiss Consulting Ltd
D. M. Clarke, BSc, FCIM, FCIMC	Company Director	22.5.48	14.2.05	Fellside Management Services Ltd
J. S. Davidson	Business Advisor	1.9.54	8.7.14	
G. F. Gardner, MA (Cantab)	Council Secretary of the Co-operative Group	28.9.64	17.9.12	
J. Hooper Member of the Australian Institute of Directors	Company Director/Advisor	26.5.61	20.11.15	The Leasing Industry Philanthropic and Research Foundation Ltd Sarhon Developments Ltd Sarhon Homes Ltd John Hooper Consulting Ltd
M. K. Hulme, MPhil	Company Director	10.5.57	3.9.15	Social Futures Observatory Ltd
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 Armstrong Watson Audit Ltd Carlisle Cathedral Development Trust
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 Borderway Finance Ltd
C. McDonald, BSc	Building Society Operations and Human Resources Director	6.11.62	13.10.14	Mobile Payments Service Company 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 Borderway Finance Ltd
P. R. Temple, BSc, MBA	Building Society Deputy Chief Executive	9.3.61	1.9.07	Cumberland Estate Agents Ltd Cumberland Financial Services Ltd Cumberland Holdings Ltd Cumberland Financial Planning Ltd Borderway Finance Ltd

Mr K. Parr, Mr J.C.N. Kidd, Mr P.R. Temple and Mr C. McDonald 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 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. Mr McDonald's contract was signed on 18 December 2014.

Correspondence to the Directors jointly or individually should be addressed 'Private and Confidential' and c/o Deloitte LLP, 2 Hardman Street, Manchester, M3 3HF.

Cumberland
Building Society

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