



# Annual Review

year ended 31 March 2019

Including  
**SUMMARY FINANCIAL  
STATEMENT**  
and  
**NOTICE OF ANNUAL  
GENERAL MEETING**

The Cumberland  
Building Society



# Chairman's Welcome

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### Welcome to the 2019 members' Annual Review

In this, my last year as your Chairman, I can report that The Cumberland – your Society – has continued to perform strongly during the year under review, notwithstanding the prolonged uncertainty around the UK's future relationship with the European Union and the subdued demand for mortgages in what has become a crowded and fiercely competitive market.

Not only has your Society delivered another solid financial and business performance, details of which you will find within the pages that follow - but we have also seen a number of important developments and early investments under the leadership of Des Moore, our Chief Executive Officer, who joined us on 1 April 2018.

Your Board oversaw three significant pieces of work during the year. In addition to there being an in depth strategic review of the business, we took a critical look at the way in which we care for the people who work for us and the effectiveness of our corporate governance arrangements.

Moreover, and to ensure that we continue to meet the expectations of the Prudential Regulation Authority and the Financial Conduct Authority, there has been additional investment in our people to further strengthen our internal audit, risk and treasury functions.

For our members, we continually strive to provide a first-class customer experience. In recognition of how well our products and services are received by our customers, The Cumberland achieved a Feefo score of 4.8/5 from our customers, and we were rewarded with a 'Gold Trusted Service' accolade from Feefo. Equally, we were very pleased to be presented with two national awards during the year, Mortgage Finance Gazette's 'Best Regional Building Society' and Moneyfacts' 'Regional Lending Provider of the Year'.

For all who work at The Cumberland, I was especially delighted to be part of the decision-making which saw the implementation of the real living wage, alongside the introduction of greater flexible working and enhanced

family friendly policies. Also, your Board's signing up to the Women in Finance Charter was a positive commitment to further the promotion of women into senior management roles.

There have been two new Board appointments since the previous year end. Mark Stanger, who joined us as a Non-Executive Director on 1 June 2018 and Richard Ellison, who was appointed as our Chief Financial Officer on 29 April 2019, following John Kidd's decision to leave the business after 24 years of service.

Having served nearly 10 years on your Society's Board, and in accordance with the requirements of good corporate governance of which I am a strong advocate, I will be stepping down at the conclusion of this year's AGM. It has been both an honour and a privilege to have been part of The Cumberland.

John Hooper, who has been a Non-Executive Director at the Society for over 3 years and Chair of our Board Risk Committee, will be succeeding me as your Chairman.

As a result of the firm foundations which have been put in place and the prudent approach which has been adopted by your Board over many years, your Society is in a very strong financial position (profitable, well capitalised and with high levels of liquidity) and, together with our exceptional regional presence, our hugely supportive membership, our terrific team of committed people and our robust strategic plans for the future, I am confident that The Cumberland will continue to be a sustainable and successful business for many more years to come.

**Trevor Hebdon**  
Chairman, 4 June 2019





# Comment from the Chief Executive Officer



I AM DELIGHTED TO REPORT THAT 2018-19 WAS A YEAR OF SIGNIFICANT DEVELOPMENT FOR THE CUMBERLAND AS IT CELEBRATED 169 YEARS OF UNBROKEN SERVICE TO OUR COMMUNITY. As well as producing another strong set of financial results with a profit before tax of £14.3m, we completed a major strategic review of our business and redefined our Purpose, Vision and Core Values. We enhanced our People capability by improving working conditions, recruiting for additional skills and appointing a new Senior Leadership Team.

This year also saw improvements in risk and governance, capability and expertise alongside the introduction of some new committees to provide greater Board oversight and the continued embedding of our risk culture.

We took the opportunity to carry out a deep review of our existing business model during the past 12 months, in order to develop a clear strategic direction for the future, called "Cumberland 2025". As the name implies, this strategy identifies what we need to do to ensure that The Cumberland remains a sustainable and successful business to 2025 and beyond. We will be unveiling more details of this plan in the coming year.

The past five years have marked a period of strong and profitable growth, helped by the availability in the market of low cost funding from the Bank of England and by banks leaving the high streets of many of the towns in our region. However, as we



**Our new senior leadership team.** Pictured (L-R) are Will O'Carroll, Jill Johnston, Des Moore, Susanne Parry, Richard Ellison and Alex Windle.

look forward, we expect some uncertain market conditions ahead.

In responding to these challenges, we have firm foundations to build on: our strong regional franchise and brand continues to be valued by members as a local alternative to the mainstream banks. Our expertise in specialist lending drawn from experience in our local area allows us to attract business nationally, such as in the leisure, hospitality and tourism sector and in mortgages for customers in later life.

Nevertheless the Society does need to evolve if it is to be well positioned for the future. In particular, it needs to upgrade its digital services to respond to the needs of existing members and to ensure it attracts customers who do not wish to be served in branches. It also needs to develop greater flexibility allowing it to deliver new products and services more quickly, and be able to offer them to customers outside our region who we know from research find The Cumberland's brand appealing and who offer opportunity for us to grow.

This does not mean we will leave behind our personal customer service, and our

focus on building relationships via branch or telephone; it is about enhancing these and developing other ways for members to interact with us and is how our brand remains relevant to customers.

In order to achieve this, we will focus primarily on our core business of mortgages and savings, which will allow us to prioritise our investments to be able to better serve the customer needs of the future. We will also need our people to develop new skills, as well as attract new talent into the region.

I am proud of how much has been achieved by our people over the past 12 months and that we have put in place some solid foundations for a bright and sustainable future in terms of a clear strategic direction, an experienced leadership team, motivated people and a robust financial plan. The coming year will, no doubt, reveal many challenges, but I am confident that we can continue to deliver strongly against our overarching purpose to make a positive difference to the lives of our Customers, our Communities and our People.

**Des Moore**, Chief Executive



**Our purpose is to make a positive difference to the lives of our customers, our communities and our people.**

For us, as a customer-owned organisation, making a difference extends beyond helping people buy their homes and save for their future. It's also about providing a wider level of support for communities across our region. Here's a snapshot of some of the things we were involved in last year.

be donating to good causes to 1.5% of the previous year's Group profit after tax and for 2019-20 this donation will be £171,000.

**Looking Out for Each Other**

The charities Mind and Support in Mind Scotland were the beneficiaries of last year's AGM donation. Your votes enabled us to provide them with a donation of over £8,000, which was shared between their offices around our region. We've been privileged to work with both charities throughout the year, and they

by April 2021. As at 31 March 2019 this percentage was 23%. To help identify reasons which may deter women from applying or progressing with us we introduced a Diversity and Inclusion Working Group with people across our business. Their role was to review policies and procedures and provide recommendations to address any gender imbalances. As a result, a more flexible approach to working has already been introduced across many areas of the business and we have enhanced our family friendly schemes. We'll also be undertaking unconscious bias training in relation to recruitment and progression with all people managers this year.

Up to  
**£30,000**

**Pledge for Votes**

Barnado's do incredible work in our region to protect and support the most vulnerable children and young people. They are making an incredible difference to the lives of many people and we're proud to be teaming up with them this year to help raise funds and grow awareness of their work. For each vote we receive at our AGM in July we'll donate £1, up to a maximum of £30,000, which will be used to help provide the services at their Children's Centres around our region. Find out more about their work at [barnados.org.uk](http://barnados.org.uk).



**£1**



Charlotte Owen and Andrew Gordon volunteering at Carlisle Youth Zone



Our head office baking extravaganza in aid of World Mental Health Day



Players from the Cumberland FA's Ability Counts league

# Making a **positive** difference

**In the Community**

During the year we supported over 250 charitable and community initiatives that make a positive difference to people in our region. One of the many highlights was partnering with the Cumberland FA to help them grow their 'Ability Counts' league. This initiative provides people over 16 with a disability an opportunity to play football regularly. A number of our team attended the matches during the season and were inspired by the social, physical and emotional support that the players receive while taking part. We're delighted to have agreed to continue our sponsorship of the league for a further two years. We're keen to make even more of a difference in our communities so this year we've increased the amount of money we'll

have been instrumental in helping us launch our new Mental Health in the Workplace initiative. This programme included the delivery of mental health awareness training to over 90 of our people managers so they can better support people within their teams. We also professionally trained four of our people as Mental Health First aiders and introduced a support service to give our people access to a 24 hour, confidential, health and wellbeing resource.

**Diversity and Equality**

In 2018 we signed up to the Women in Finance Charter, which commits us to supporting progression of women into senior roles in our organisation. We aim to have women occupying at least a third of our senior leadership and Board positions

People from across the business took part in the fundraising activities at Eden Valley Hospice's Colour Run in 2018



# Summary Financial Statement

FOR THE YEAR ENDED 31 MARCH 2019

This Summary Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors free of charge, on demand, at every office of The Cumberland Building Society from 25 June 2019. This information is also available from our website, [cumberland.co.uk](http://cumberland.co.uk).

## Summary Directors' Report

This has been another good year for the Group with profit before tax of £14.3 million. Total assets grew to £2.6 billion and The Cumberland remains the 10th largest building society in the UK.

Along with many other lenders, The Cumberland has benefited over the last three years from low cost funding opportunities from the Bank of England, and has been able to post enhanced profits. This period is coming to an end and the Group has seen growing marketplace challenges including competitive pressure on margin. Alongside substantial investment in our business, particularly in risk, credit, audit, treasury and distribution, this has contributed to the reduction in profit before tax for the year, down from £21.4m in 2018. The majority of the profit reduction relates to the movements in the valuations of the derivative financial instruments held by the Society for risk management purposes, as explained in the footnote below.

Further details of our results are provided below, and on pages 10 and 11.

## Lending

We have seen increasing levels of competition in our core lending markets over the last year, and we expect this to continue. Combined with the uncertainty surrounding the UK's exit from the EU, this put further downward pricing pressure on our net interest margin, which has fallen by 5 bps from 1.66% to 1.61%. Net interest income increased by £1.4m in the year, to £40.6m.

Notwithstanding the challenging mortgage market we have continued to grow our residential lending book which rose to £1.9 billion and included £358m of new lending. Our lending remains of a very high quality, as reflected in our arrears figures. At 31 March 2019 only 0.1% of our residential mortgages were in arrears by 3 months or more, which is significantly below both the market and building societies average.

Our commercial lending team had a successful year recording the highest level of approvals in the Group's history. The commercial lending

book grew by 3.5% to £166m, and only five of our commercial mortgages were in arrears of three months or more at 31 March 2019.

## Funding and Liquidity

The Society continues to be strongly funded by its retail depositors, the great majority of whom are located within its branch operating area. We saw an inflow of funds of £101 million, a 28% uplift on the previous year. As a result all new lending was funded by deposit growth. We continue to see strong performance across a wide range of accounts, including both personal and business current accounts, and we achieved good retention levels on fixed rate savings which help provide stability to our funding base. Our performance reflects the Society's track record of providing good long term value.

Our strong retail deposit growth has enabled us to modestly reduce the level of wholesale funding.

The Society's overall liquidity remains strong at 21.9% of Shares, Deposits and Liabilities.

We held a higher level of liquidity than normal going into the financial year end in anticipation of the original Brexit date of 29 March 2019; and we will continue to manage our liquidity prudently as the uncertainty around this continues.

## Subsidiary Companies

The Group's financial statements incorporate the assets, liabilities and results of its subsidiary companies, the largest of which are Borderway Finance Limited (BFL) and Cumberland Estate Agents Limited (CEAL). BFL, our motor finance business, reported a profit after tax of £538,000 (2018: £748,000) with its loan balances growing by 4.9% to £22.9m.

CEAL faced market headwinds including the impact of new business models in estate agency and, despite management efforts, returned to loss in 2019 (£194,000 after tax) after breaking even in 2018.

## Charitable Donations

During the year, charitable donations of £104,000 were made to a number of organisations within our operating area, of which £25,000 was given to the Cumberland Building Society Charitable Foundation.

## Board of Directors

Des Moore became Chief Executive Officer from 1 April 2018, as reported in last year's Summary Financial Statement, and Richard Ellison was appointed as Chief Financial Officer on 29 April 2019. Richard was, until recently, interim Finance Director at the Newcastle Building Society, prior to which he was Deputy Chief Financial Officer and Chief Data Officer of CYBG PLC (Clydesdale and Yorkshire Banking Group). Richard also spent 14 years at PwC, latterly as a Director of the Banking and Capital Markets practice.

Chris McDonald stepped down on 30 April 2018, Peter Temple on 22 June 2018 and John Kidd on 11 December 2018.

With respect to non-executive directors, Mark Stanger joined the Board in June 2018 and Gill Gardner stepped down in July 2018. Mark brings current and very relevant accountancy and audit experience, knowledge and skills to our Board, as well as sound commercial judgement and his deep understanding of the economic and social challenges within our region.

## Corporate Governance

The Society's Board is committed to good practice in corporate governance and has complied with the UK Corporate Governance Code.

## Outlook for 2019-20

The outlook for the UK economy remains uncertain, and this will continue until the relationship with the EU is settled, particularly with respect to the terms of trade. There is an expectation that interest rates will increase over time, without a so-called "hard Brexit", but the Bank of England has signalled that any such increases are likely to be made in a gradual manner and that, should the economy falter, they will become less likely.

The Society's profitability is expected to reduce further over the coming three years as it comes under increasing market pressure and competition, and as it strategically invests in its future towards Cumberland 2025.

Nevertheless, The Cumberland has already benefited from the clarity brought by the Group's strategic review and is well placed to benefit from the planned investment. This coupled with the strong foundations provided by its distinctive business model which has been highly successful in differing economic climates will continue to allow the Society to thrive into the future.

On behalf of the Board  
**Trevor Hebdon**, *Chairman*  
4 June 2019

The Society uses derivative financial instruments to manage its exposure to changes in interest rates which arise from fixed rate mortgage lending and fixed rate retail savings products. It is required to fair value these derivatives at the year end. Fair values can and do fluctuate over time leading to volatility in our results. As the Society's year end coincided with the proposed date of Brexit this volatility was pronounced and the swing in fair value year on year was £4.3m.

These gains or losses are only realised if the Society chooses to sell the derivatives before they reach maturity; otherwise the movements will reverse over the derivatives' remaining lives resulting in a zero net impact on profit over time.

# Financial Results

FOR THE YEAR ENDED 31 MARCH 2019

	Group 2019 £000	Group 2018 £000
<b>Results for the year</b>		
Net interest receivable	40,623	39,224
Fair value (losses)/gains on financial instruments	(1,842)	2,450
Other income and charges	2,836	3,221
Administrative expenses and depreciation	(27,083)	(22,928)
Loss on revaluation of investment properties	(163)	(376)
Provisions for bad and doubtful debts	(64)	(77)
Provision for FSCS levy	14	(109)
Profit for the year before taxation	14,321	21,405
Taxation	(2,920)	(3,871)
Profit for the year	11,401	17,534
<b>Statement of Comprehensive Income</b>		
Profit for the financial year	11,401	17,534
Gain/(loss) on available for sale investment securities	68	(2)
Movement in deferred tax relating to investment securities	(14)	-
Movement in gain on equity share investment	1,584	650
Movement in deferred tax on equity share investment	(269)	(111)
Actuarial (loss)/gain on retirement benefit obligations	(1,107)	3,587
Movement in deferred tax on retirement benefit obligations	188	(610)
Total recognised gains and losses for the year	11,851	21,048
	Group 2019 £000	Group 2018 £000 (restated)
<b>Financial position at end of year</b>		
<b>ASSETS</b>		
Liquid assets	462,351	440,046
Mortgages	2,061,951	2,024,544
Other loans	24,414	23,366
Derivative financial instruments	1,367	7,519
Fixed and other assets	26,721	24,162
Total assets	2,576,804	2,519,637
<b>LIABILITIES</b>		
Shares	1,933,232	1,824,878
Borrowings	429,420	493,398
Derivative financial instruments	3,905	2,617
Other liabilities	25,114	25,462
Reserves	185,133	173,282
Total liabilities	2,576,804	2,519,637

Summary of key financial ratios	Notes	2019 %	2018 %
Gross capital as a percentage of shares and borrowings	2	7.84	7.47
Liquid assets as a percentage of shares and borrowings	3	19.57	18.98
Profit for the year as a percentage of mean total assets	4	0.45	0.74
Management expenses as a percentage of mean total assets	5	1.06	0.96

## Approved by the Board of Directors on 4 June 2019

T Hebdon Chairman

A Johnston Vice-Chairman and Chair of the Audit Committee

D Moore Chief Executive

## NOTES

### 1. Prior Year Restatement

Effective interest rate adjustment

The Group has reclassified the fees earned and incurred as a result of mortgage origination from prepayments and accrued income and deferred income into loans and advances to customers. These fees and charges which are amortised over the effective lives of the loans are better presented as part of the carrying value of the attendant loans. This change has been applied retrospectively in these financial statements and the prior year comparative disclosures restated accordingly. There is no impact on the Group's income, comprehensive income, cashflows or members' interests. In the year ended 31 March 2018 prepayments and accrued income have been reduced by £0.554m, accruals and deferred income has been reduced by £3.133m and loans and advances to customers reduced by £2.579m.

2. **The Gross Capital Ratio** measures the proportion that the Group's reserves bears to the Group's liabilities to holders of shares and borrowings. The Group's reserves consist of profits accumulated over many years. Capital provides a financial cushion against difficulties that might arise in the Group's business and therefore protects investors.

3. **The Liquid Assets Ratio** measures the proportion that the Group's assets held in the form of cash, short term deposits and government securities, bears to the Group's shares and borrowings. Most of the Group's assets are long term mortgages, while many of its liabilities to investors are repayable on demand. Liquid assets are generally readily realisable, enabling the Group to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

4. **The Profit/Assets Ratio** measures the proportion that the Group's profit after taxation for the year bears to the average of the Group's total assets during the year. The Group needs to make a reasonable level of profit each year in order to maintain its capital ratio at a suitable level to protect investors. However, unlike a company, a building society does not have to pay dividends to equity shareholders. The Group is therefore able to operate safely with lower profits than a bank.

5. **The Management Expenses Ratio** measures the proportion that the Group's administrative expenses bears to the average of the Group's total assets during the year. Management expenses consist mainly of the costs of running the Group's branches and other office costs, including the cost of employing staff. Expenses need to be controlled so that the Group operates as efficiently as possible while providing the service that members require.



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

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

We have examined the summary financial statement for the year ended 31 March 2019 which comprises the results for the year, financial position at the end of the year, statement of comprehensive income and summary of key financial ratios together with the Summary Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with section 76(5) of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

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

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

We also read the other information contained in the Annual Review as described in the contents section and consider the implications for our report if we become

aware of any apparent misstatements or material inconsistencies with the summary financial statement.

We conducted our work in accordance with Bulletin 2008/3 "The auditor's statement on the summary financial statement in the United Kingdom" issued by the Auditing Practices Board. Our report on the Group and Society's Annual Report and Accounts describes the basis of our audit opinion on those financial statements.

### Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the Annual Report and Accounts, the Annual Business Statement and Directors' Report of Cumberland Building Society for the year ended 31 March 2019 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

**Deloitte LLP**  
Statutory Auditor  
Manchester  
4 June 2019

## 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 People, Remuneration and Culture Committee (PARC). The remuneration of the executive directors is determined by PARC, which consists of its Chair Michael Hulme, Alan Johnston and Jackie Arnold.

In determining non-executive and executive director remuneration, both the Board and PARC 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 2019, agreed a bonus based on key elements of the financial and strategic plan delivered in a way that is consistent with The Cumberland's core values and framework.

Executive directors in office at 31 March 2019 are members of a defined contribution scheme and are entitled to receive contributions towards this, although depending upon their individual circumstances, they may be paid as a pension replacement amount. Executive directors are also provided with a car (or car allowance) and membership of a private medical insurance scheme. They are employed under contracts terminable by the Society on nine to twelve months' notice and by the individual on six months' notice.

Full details of individual directors' remuneration, including the arrangements that applied to executive directors who stepped down in the year, are disclosed overleaf.

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

On behalf of the People, Remuneration & Culture Committee  
**Michael Hulme**  
Chair  
4 June 2019

The remuneration of the Society's directors is listed below:	2019	2018
Non-Executive Directors	£000	£000
Trevor Hebdon (Chairman)	67	54
Alan Johnston (Chair of the Audit Committee and Vice-Chairman)	50	42
Peter Anstiss (resigned 2 February 2018)	-	29
Jackie Arnold (appointed 19 March 2018)	38	3
Gill Gardner (resigned 2 July 2018)	11	33
Eric Gunn	41	33
John Hooper (Chair of the Board Risk Committee)	45	39
Michael Hulme (Chair of the People, Remuneration and Culture Committee)	44	37
Mark Stanger (appointed 1 June 2018)	32	-

Executive Directors	Salary £000	Bonus £000	Pension Contributions £000	Pension Replacement Amounts £000	Taxable Benefits £000	Total £000
<b>2019</b>						
Des Moore (appointed 1 April 2018)	250	50	-	35	12	347
Peter Temple (resigned 22 June 2018)	37	-	5	-	7	49
John Kidd (resigned 11 December 2018)	116	-	8	9	7	140
Chris McDonald (resigned 30 April 2018)	14	-	2	-	1	17

Mr. Temple received £55,000 in compensation for loss of office in respect of his resignation from the Board and Society on 22 June 2018. Mr. McDonald received £55,000 in compensation for loss of office in respect of his resignation from the Board and the Society on 30 April 2018 (of this amount £30,000 had been provided in the 2018 financial statements).

<b>2018</b>						
Kevin Parr	247	43	-	34	8	332
Peter Temple	163	29	10	16	9	227
John Kidd	163	29	10	16	8	226
Chris McDonald	153	27	10	16	8	214

#### Defined Benefit Pension Scheme

	Accumulated total accrued pension at 31 March 2019 £000	Increase in accrued pension in year to 31 March 2019 £000	Increase in accrued pension in year to 31 March 2018 £000
Kevin Parr (resigned 31 March 2018)	n/a	n/a	2
Peter Temple (resigned 22 June 2018)	61	-	-
John Kidd (resigned 11 December 2018)	51	-	-

The accumulated accrued pension is shown as at the date of resignation for the two directors.



## Notice of Annual General Meeting 16 July 2019

The Annual General Meeting (AGM) of Cumberland Building Society will be held at 6.30pm on Tuesday, 16 July 2019 at Cumberland House, Cooper Way, Parkhouse, Carlisle for the following purposes:

### Ordinary Resolutions

1. To approve the Annual Report and Accounts for the year ended 31 March 2019.
2. To approve the Report on Directors' Remuneration.
3. To approve the re-appointment of Deloitte LLP as Auditors of the Society.

### Election and Re-election of Directors

4. To elect/re-elect Directors as follows:
  - a) to elect Richard Ellison
  - b) to elect Mark Stanger
  - c) to re-elect Jacqueline Arnold
  - d) to re-elect Eric Gunn
  - e) to re-elect John Hooper
  - f) to re-elect Michael Hulme
  - g) to re-elect Alan Johnston
  - h) to re-elect Desmond Moore

BY ORDER OF THE BOARD

Paul Vines, Secretary, 4 June 2019

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

## Notes on Voting

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

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

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

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

3. To be valid, your completed voting form must be received at the Principal Office by midnight on 13 July 2019, or at a branch by 5pm on 11 July 2019. If voting online, votes must be cast by midnight on 13 July 2019.
4. You should check if you are eligible to vote by reading the voting conditions on the voting form.
5. If you are appointing a proxy other than the Chairman of the Meeting, please ensure that your proxy brings an appropriate form of identification to the Meeting.

## Explanatory Notes on the Ordinary Resolutions

### The Annual Report and Accounts

You are asked to approve the Annual Report and Accounts. This means that you are asked to endorse the Board's decision to approve them at the Board Meeting held on 4 June 2019 and you are, therefore, asked to vote 'FOR' this resolution.

### Report on Directors' Remuneration

You are asked to approve the Report on Directors' Remuneration on pages 13 to 15 of this booklet. This Report informs members of the Group's policy on the remuneration of directors, both executive and non-executive.

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

### Re-appointment of Auditors

Deloitte LLP have performed well as the Society's Auditors and your Board recommends that you vote 'FOR' their re-appointment.

## Election and Re-election of Directors

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

### RICHARD ELLISON - EXECUTIVE DIRECTOR STANDING FOR ELECTION



Richard joined the Society as Chief Financial Officer on 29 April 2019. He is Chair of the Board Assets and Liabilities Committee, and a member of the Board Customer Innovation and Technology Committee, and the Nomination and Governance Committee.

Richard was previously interim Finance Director of Newcastle Building Society Group. Prior to this he was Deputy Chief Financial Officer and Chief Data Officer of CYBG PLC where he played a leading role in the successful demerger and IPO of Clydesdale Bank PLC from National Australia Bank, and led the restructure and cultural transformation of the finance function. He also spent 14 years at PwC, latterly as a Director in the Banking and Capital Markets practice.

Richard lives in Carlisle.

### MARK STANGER - NON-EXECUTIVE DIRECTOR STANDING FOR ELECTION



Mark joined the Board as a Non-Executive Director in June 2018. He is a member of the Audit Committee, Board Assets and Liabilities Committee, Board Risk Committee and Nomination and Governance Committee.

Mark has over 30 years' experience in the accountancy sector and is a Senior Partner and Managing Partner with Gibbons, the West Cumbrian-based chartered accountancy practice. He is also a member of the Board of Governors at Lakes College in Lillyhall, and, until recently, had held the role of Chairman of the Board for six years.

Mark lives in Workington.

### JACQUELINE ARNOLD - NON-EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Jackie joined the Board as a Non-Executive Director in March 2018. She is a member of the Board Customer Innovation and Technology Committee, the Nomination and Governance Committee and the People, Remuneration and Culture Committee (becoming Chair of that Committee in July 2019).

Jackie has over 35 years' experience in financial and business management. Her most recent position was Head of Strategy at BAE Systems. Prior to this, she held a number of other senior positions with BAE Systems and was Managing Director at Lakeland Power Limited. Jackie is ProVice Chancellor of the University of Cumbria and Deputy Chair of Cumbria Local Enterprise Partnership.

Jackie lives near Barrow-In-Furness.

### ERIC GUNN - NON-EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Eric joined the Board as a Non-Executive Director in November 2016. He is a member of the Board Assets and Liabilities Committee, Board Customer Innovation and Technology Committee, Board Risk Committee and Nomination and Governance Committee.

Eric has almost 40 years' experience of the UK banking sector, having spent his entire career at Clydesdale Bank PLC. His most recent role was Chief Risk Officer and member of the Executive Management Team, with responsibility for managing the risk profile of the UK operations of the National Australia Bank Group. Prior to this, Eric held a number of senior roles within Clydesdale Bank in the UK.

Eric lives in Linlithgow.

### JOHN HOOPER - NON-EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



John joined the Board as a Non-Executive Director in November 2015. He is Chair Elect, and the current Chair of the Board Risk Committee but, upon taking up the Chair following the AGM, he will also take up Chair of the Nomination and Governance Committee, and will stand down from the Board Risk Committee.

John has extensive banking experience, having been an Executive Director at National Australia Bank Europe Limited and Clydesdale Bank PLC, with responsibilities including finance, treasury, IT and risk. He previously held a number of senior positions at National Australia Bank.

John lives near Knaresborough and has a home and business interests in Cumbria.

### MICHAEL HULME - NON-EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Michael joined the Board as a Non-Executive Director in September 2015. He is the Senior Independent Director, Chair of the Board Customer Innovation and Technology Committee, Chair of the People, Remuneration and Culture Committee (stepping down as Chair in July 2019) and a member of Audit Committee and Nomination and Governance Committee.

Michael's background is in research and consultancy, examining technological change and its current and future impact on strategy and behaviour. Having served on both public and private company boards, he has over 20 years' experience as a Non-Executive Director.

Michael lives in Arnside.

### ALAN JOHNSTON - VICE CHAIRMAN STANDING FOR RE-ELECTION



Alan joined the Board as a Non-Executive Director in February 2011. He became Vice-Chairman and Chair of the Audit Committee in 2016, and is a member of the Board Risk Committee, People, Remuneration and Culture Committee and Nomination and Governance Committee.

Alan is a Chartered Accountant and retired in March 2018 from Armstrong Watson, after 36 years with the firm, latterly as Senior Partner. Alan is also Chair of Governors at Robert Ferguson School in Carlisle and a trustee of the Carlisle Cathedral Development Trust.

Alan lives in Carlisle.

### DESMOND MOORE - EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Des was appointed as the Society's Chief Executive Officer and joined the Board in April 2018. He is a member of the Board Assets and Liabilities Committee, Board Customer Innovation and Technology Committee and Nomination and Governance Committee.

He has over 30 years' experience in retail and commercial banking. Before joining the Society, Des spent 5 years as Managing Director of First Trust Bank, the trading division of AIB (UK) plc's Northern Ireland operations. He has also held a number of previous senior positions at Bank of Ireland, Permanent TSB and National Irish Bank. Des lives in Carlisle.

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