

# annual. review

INCLUDING SUMMARY  
FINANCIAL STATEMENT  
AND NOTICE OF ANNUAL  
GENERAL MEETING

year ended 31 March 2012



## **FIVE MINUTES WITH...**

Nyree Legge, Assistant General Manager tells us about her role

## **WHENEVER, WHEREVER...**

Mobile Banking comes to the Cumberland

## **IN THE COMMUNITY...**

Projects we have supported during the year

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The Cumberland Building Society Great Cumbrian Run took place in October 2011, attracting around 1,400 runners. The Cumberland has recently extended its sponsorship of the event until 2014.

Picture courtesy of CN Group.



## Chairman's welcome

### Welcome to the 2012 members' Annual Review



It has been another successful year for the Cumberland in respect of its financial performance, which you can read more about on pages 10 to 13. Our aim is unchanged from previous years; to balance the need to make a healthy level of profit that maintains a strong capital position, with the equally important need to provide our members with competitive mortgages and savings, backed up by a first class level of friendly, conscientious and efficient service.

A highlight this year has been the introduction of a new service for members, mobile banking through internet enabled phones. The Society was the first building society to offer such a service (indeed, we were ahead of some major banks) and it has become increasingly popular with our internet banking customers as its ease of use and the functions it offers are excellent.

The economy and our operating environment continue to be difficult and, as with other financial institutions, we are still having to pay for the failures of others via the Financial Services Compensation Scheme. Moreover, regulation continues to grow and become ever more complicated. Nevertheless, the Cumberland does and will continue to take such factors in its stride.

We have one of the strongest capital positions and profit records over the last five years within the building society sector, and we seek to maintain this while continuing to improve our products and services. Our aim, as always, is to be the natural choice for financial services for people in our operating area.

Our mutual status and independence are crucial in underpinning our efforts to provide a local force in financial services that can be trusted and relied upon. On pages 17 to 19 you can read about our Annual General Meeting which will be held on 26 June, and I would encourage you to cast your votes, especially as each member doing so will raise 50p for this year's beneficiary of our 'pledge for votes', The Royal British Legion.

Finally, I would like to thank our staff for their skill and dedication during the year, and you, our members, for your continued support.

**Michael Pratt**  
Chairman, May 2012



*Nyree Legge is one of the Cumberland's Assistant General Managers and is responsible for the smooth running of the Society's branches. We asked her about her role.*

**Q What do you do at the Cumberland?**

I am part of the Society's Executive Team, responsible for our 33 branches and our financial advice services.

I regularly visit our branches to ensure we continue to improve the service we provide to our customers. My role also involves reviewing the products and services offered by our branches so that these meet our customers' needs and are delivered as efficiently as possible.

**Q What products and services do your branches offer?**

We offer a wide range; in addition to those that you would expect from a traditional building society, such as savings and mortgages, we offer current accounts with mobile and internet banking, financial planning services and a range of insurance products. Our business banking services are also available in all our branches.

**Q Why should I come to the Cumberland instead of one of the high street banks?**

The Cumberland is different from a bank as we are owned by you, our members, not by shareholders. This means you are our top priority and we are focussed on providing you with a competitive range of financial products and the highest level of customer service.



# five minutes with

**Q Some of the large banks have closed branches in our region recently. What are your plans for your branch network?**

Our mortgages are amongst the most competitive available and regularly feature in national 'best-buy' tables. In 2011, we were named the 'Best Regional Building Society' for the second time in three years by the Mortgage Finance Gazette for providing consistently competitive mortgages.

Our Cumberland Plus current account offers everything you would expect and we remain one of very few current account providers who will not charge you to use your debit card abroad.

We are also never far away if you need us. You can speak to a member of staff at any of our branches, all of which are open six days a week. If you can't get to a branch, you can speak directly to one of our Carlisle-based customer service team, who are available seven days a week.

But even though we have great products and more branches in Cumbria and Dumfriesshire than any other bank or building society, I firmly believe it is our staff and our service that really make us different. Our aim is to provide you with a level of service that we would expect our own families to receive, and this is ingrained in everything we do.

Our strategy is to build personal relationships with our members and deliver our products and services through our branches. Rather than planning to close any branches, we plan to open a new branch in Lancaster during 2012.



The Society's Fisher Street, Carlisle branch



# Whenever... wherever...

THE PAST FEW YEARS HAVE SEEN SIGNIFICANT CHANGES IN THE WAY PEOPLE MANAGE THEIR CURRENT ACCOUNTS AND SAVINGS

The Cumberland launched internet banking in 2007 and went a step further in November 2011 when it became the first building society in the country to offer mobile banking. We asked Gary Richardson, the executive in charge of IT systems at the Cumberland to explain what this means for members and what might be coming next.



Gary Richardson, Assistant General Manager (IT)

## Q What is Cumberland Mobile Banking?

Cumberland Mobile Banking allows you to use your mobile phone to check your current account and savings balances and check the balance on your Cumberland mortgage. You can transfer money between your Cumberland accounts and also make payments to people and businesses that have been set up and verified through our main internet banking system.



branch · internet · mobile

## Q Why did you decide to introduce mobile banking when no other building society in the country does this?

People might be surprised that a building society of our size has introduced mobile banking, but we see this as a logical extension of our current account service. The use of mobile phones to access the internet has now increased to the point where we believe that offering mobile banking is essential.

## Q Does this mean the end of my local branch?

Absolutely not. Our internet and mobile banking services are designed to complement the services offered in our branches and allow our members to combine the traditional personal service they receive in a branch with the convenience of being able to access their account whenever they wish and wherever they are.

## Q Surely using a mobile phone must increase the risk for customers. How do you ensure your mobile banking is safe and secure?

We have made Cumberland Mobile Banking as secure as possible. Before we introduced mobile banking we undertook our own extensive testing and we also employed security specialists to conduct a range of tests to ensure our system was safe and secure. In addition, there are the extensive security features you would expect in any form of internet or mobile banking.

## Q So, now you've introduced mobile banking, what is next?

With the introduction of innovative new technology, we need to stay on top of market developments and understand the changing needs of our customers. One of the projects on the schedule for 2012 is the introduction of balance alerts via SMS text messages to improve customer service.



Current Account  
Balance: £29.90  
Available: £29.90

### Recent Transactions

22 September 2011

Mr Customer & M  
-£1.01

Mr Customer & M

# Cumberland in the Community

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



## Singing Out

Carlisle Cathedral's outreach programme, 'Singing Out', received a donation from the Society.

As well as singing coaching, the programme aims to help children grow in confidence, build teamwork and develop creativity and concentration. To date, children from 11 primary schools in North Cumbria have taken part since the programme was launched in May 2011.

## Savvy Savers



Students from the Furness area in South Cumbria took part in a financial education challenge, sponsored by the Society, which saw them develop a new children's savings account. The challenge was designed to help build their economic and business understanding as well as developing financial capability skills.

## LAKE DISTRICT CALVERT TRUST



In 2011, the Society agreed to support the Lake District Calvert Trust's bursary scheme for three years. The Trust's residential centre near Keswick provides opportunities for people with disabilities to take part in outdoor adventure activities such as sailing, climbing, abseiling and horse-riding. The Society's donation will be used to help people from our region to visit the centre.

## The Charitable Foundation

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

Last year, the Foundation made 75 donations with a combined value of more than £33,000 - these included:

- Feature Youth Club, Ulverston
- Garrigill Village Hall
- South Lakeland Hydrotherapy Trust



## NEED HELP WITH YOUR CHARITY?

If you support a charity which you would like to be considered for a donation, you can apply via our website or by sending an email to: [enquiries@cumbriafoundation.org](mailto:enquiries@cumbriafoundation.org) or [charitablefoundation@cumberland.co.uk](mailto:charitablefoundation@cumberland.co.uk)

## Cumberland Community Fund

Mark Byrne is responsible for managing the Society's charitable and community involvement. We asked him about the Cumberland's Community Fund.

### Q How do you choose which projects and funding requests to support?

Typically, we aim to provide financial assistance to projects that involve educational objectives or physical activities and that will benefit communities in our operating area. We receive many more applications than we are able to provide support for so we do have to make difficult decisions but, where possible, we try to support applications that will directly benefit a significant number of people.

### Q How much do you give?

Depending on the application, we provide amounts from £25 to £10,000. We support around 150 individual applications each year, which range from local fundraising activities such as a sponsored cycle ride through to large sporting events like the Cumbria School Games.

### Q How do I apply for funding?

You can apply via our website or by sending an email with details of your request to [communityfund@cumberland.co.uk](mailto:communityfund@cumberland.co.uk)

*Mark Byrne, Assistant General Manager is responsible for the Society's marketing department and manages the Society's charitable and community involvement.*



# Summary Financial Statement

FOR THE YEAR ENDED 31 MARCH 2012

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors, free of charge, on demand at every office of Cumberland Building Society, and on our website, [www.cumberland.co.uk](http://www.cumberland.co.uk), from 11 June 2012.

## Summary Directors' Report

The Society has again maintained its consistent record over the last few years of producing a strong set of financial results, with profit after tax almost exactly the same as last year, at £5.86 million; further details are provided below, and on pages 12 and 13.

Economic conditions have continued to be difficult, with rising unemployment, low if any salary increases and inflation which through most of the year was at around 5%, all combining to result in declining living standards for many people. The future course of the economy remains very uncertain with, we believe, the real impact of public spending cuts yet to manifest itself fully.

Nevertheless, mortgage business markedly increased on that in the previous year, as the Society has offered very competitive products for both new and existing borrowers. Savings business levels have been lower, with an outflow of funds, but this needs to be seen in the context of the last five years as a whole. In the three years to 31 March 2010 the Society attracted £178 million of new funds, far above its actual market share.

The Society's consistently strong results are, we believe, thanks to our long term strategy of being a prudent, 'traditional' building society, focusing on our service to and relationships with members, but combining this with an enthusiasm for adapting to the modern environment, which is driven by a desire to provide up to date products and services to people in our operating area. Our mutual status is crucial in that it enables us to take a long term view and put our members first, without having to meet the demands of equity shareholders.

## Financial Results

- Profit after tax was £5.86 million, 0.38% of mean total assets.
- Mortgage balances increased by 1.5% to £1,168.11 million.
- Share balances reduced by 1.2% to £1,325.78 million.
- Administrative expenses and depreciation rose by 4.9% as a result of general inflation, the increase in VAT, the Society investing in new services and strengthening its resources in several key areas, but were still 1.6% less than in 2008-09.
- Gross capital as a percentage of shares and borrowings rose to 7.76% from 7.71%.
- Funding other than from individual members, increased slightly, but at 7.10% of total funding,

remained at a low level, and almost half of this was from local businesses, rather than the financial money markets.

- No deposits are placed with institutions or governments from outside of the UK.

## Mortgages

- The Society's standard variable mortgage rate remained very competitive throughout the year at 4.49%, and is currently the second lowest of the 15 largest building societies.
- Residential mortgage balances grew by 2.2% in the year, with new advances rising by 39% to £179 million, as the Society participated vigorously in a very competitive market.
- The quality of the Society's residential mortgage book remains very high, with only

three properties in possession at 31 March 2012, and the number of mortgage accounts in arrears remains very low in relation to industry figures.

- Non-residential, commercial lending balances reduced by 3.2%. This part of the business continues to perform well even in the difficult economic conditions.

## Savings and Banking Services

- As stated earlier, the Society's share balances fell slightly over the year, following a low increase in the previous year, but after very large increases in the three years before that. Balances are still 25% higher than five years ago, and given the very low interest rate environment, which inevitably leads many members to make repayments to their mortgages rather than build up savings, this represents a strong performance.
- The Society introduced mobile banking for internet enabled phones in November 2011. We were the first building society in the UK to achieve this, ahead of several major banks, and this has proved popular with many members. Continually mindful of improving security, we introduced the 'SecureCall' system for internet banking customers, to give them even greater protection over their transactions.
- Balances held in current and cashcard accounts increased by over 10% in the year, continuing the growth seen in previous years. Balances in these accounts have doubled over the last five years as the quality of the Society's service in this area, combined with the ongoing technological developments, has attracted many new customers.

## Estate Agency

Cumberland Estate Agents Limited made a profit for the third consecutive year, and was particularly successful in generating mortgages for the Society.

## Charitable Donations

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

## Board of Directors

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

## Corporate Governance

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

## Outlook for 2012-13

- Despite the difficult economic conditions which are expected to prevail for some considerable time yet, we will maintain the Cumberland's strong financial position and thereby safeguard the interests of our members, while seeking to treat both borrowers and savers fairly.
- The Society is currently in the process of upgrading its authorisation system for its internet banking, Visa debit and ATM services and its correspondence management system.
- In April 2012 the Society purchased premises for a new branch in the centre of Lancaster, which will open later this year. Our Preston and Kendal branches already serve many customers living in the area and we believe that the establishment of a branch there will be a popular development. In addition, a new ATM will be installed at Cleator Moor branch.
- A new Cumberland Estate Agents Limited lettings and management service is to be launched and estate agency branches in Lancaster and Preston will open later in the year.
- The Cumberland remains committed to its independent mutual status and we will continue to strive to be the natural choice for financial services for the people of our region.

On behalf of the Board  
**Michael Pratt, Chairman** 17 May 2012

# Financial Results

FOR THE YEAR ENDED 31 MARCH 2012

	Group 2012	Group 2011
	£000	£000
<b>Results for the year</b>		
Net interest receivable	19,471	18,689
Other income and charges	5,931	6,101
Administrative expenses	(15,970)	(15,219)
Provisions for bad and doubtful debts	(976)	(944)
Operating profit before FSCS levy	8,456	8,627
Provision for FSCS levy	(525)	(205)
Profit for the year before taxation	7,931	8,422
Taxation	(2,075)	(2,570)
Profit for the year	5,856	5,852
<b>Statement of total recognised gains and losses</b>		
Profit for the financial year	5,856	5,852
Actuarial loss recognised in pension scheme	(5,150)	(75)
Movement in deferred tax relating to pension scheme	1,236	19
Unrealised gain on revaluation of investment properties	-	394
Total recognised gains and losses for the year	1,942	6,190
<b>Financial position at end of year</b>		
<b>ASSETS</b>		
Liquid assets	363,113	359,337
Mortgages	1,168,109	1,150,307
Other loans	1,687	2,116
Fixed and other assets	15,713	15,011
Total assets	1,548,622	1,526,771
<b>LIABILITIES</b>		
Shares	1,325,782	1,341,389
Borrowings	101,377	70,169
Other liabilities	10,748	6,440
Reserves	110,715	108,773
Total liabilities	1,548,622	1,526,771

	Notes	2012	2011
		%	%
<b>Summary of key financial ratios</b>			
Gross capital as a percentage of shares and borrowings	1	7.76	7.71
Liquid assets as a percentage of shares and borrowings	2	25.44	25.46
Profit for the year as a percentage of mean total assets	3	0.38	0.38
Management expenses as a percentage of mean total assets	4	1.04	0.98

## Approved by the Board of Directors on 17 May 2012

M J Pratt Chairman  
R Atkinson Vice-Chairman and Chairman of the Audit and Risk Committee  
K Parr Chief Executive

## NOTES

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

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

We have examined the summary financial statement of Cumberland Building Society for the year ended 31 March 2012 set out on pages 10 to 13.

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

### Respective responsibilities of directors and auditor

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

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

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

### Basis of opinion

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

### Opinion on Summary Financial Statement

In our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of Cumberland Building Society for the year ended 31 March 2012 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Andrew Walker,  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
*Chartered Accountants*  
St James' Square, Manchester M2 6DS  
17 May 2012

## 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, other than that of the Chairman, this is reviewed and agreed annually by the Board. The remuneration of the executive directors and the Society's Chairman is determined by the Remuneration Committee, which consists of its Chairman Richard Atkinson and two other non-executive directors, Simon Berry and David Clarke.

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. As I reported last year, the Committee reintroduced a modest executive bonus scheme for the year ended 31 March 2011. A similar scheme was also implemented for the year ended 31 March 2012 and a payment representing 5% of salary has been awarded. The Chief Executive has voluntarily waived his entitlement to receive a bonus under this scheme.

The executive directors are members of the Society's contributory defined benefit pension scheme and one of them is also a member of a defined contribution scheme in respect of the portion of his salary above a certain amount. They are also provided with a car and membership of a private medical insurance scheme. They are employed under contracts terminable by the Society or by the individual on six months' notice, under normal circumstances.

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

The Society has complied with the FSA's Remuneration Code since its implementation on 1 July 2011.

On behalf of the Remuneration Committee  
Richard Atkinson  
Chairman 17 May 2012

## Notice of Annual General Meeting 26 JUNE 2012

The Annual General Meeting of Cumberland Building Society will be held at 6.30pm on Tuesday, 26 June 2012 at Tullie House, Castle Street, Carlisle for the following purposes:

### Ordinary Resolutions

- To approve the Annual Report and Accounts for the year ended 31 March 2012.
- To approve the Report on Directors' Remuneration.
- To approve the re-appointment of KPMG Audit Plc as auditors.

### Re-election of Directors

- To re-elect Directors as follows:
  - to re-elect Richard Atkinson
  - to re-elect Simon Berry
  - to re-elect Kevin Parr
  - to re-elect Michael Pratt

### BY ORDER OF THE BOARD

John C N Kidd, Secretary, 17 May 2012

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

## Notes on Voting

- These Notes form part of the Notice of Meeting.
- There are three ways 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 on the back of the paper voting form; this option is not available if voting online. If you wish to instruct your proxy to vote for or against the resolutions, please place an 'X' or click in the appropriate box on the paper or online voting forms respectively. If you leave the voting boxes blank, your proxy may vote as he or she decides. If you do not want your proxy to vote on a resolution, place an 'X' in or click on the withheld box on the paper or online voting forms. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

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

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

The emoluments of the Society's directors are listed below:

	2012 £000	2011 £000
<b>Non-Executive Directors</b>		
Michael Pratt (Chairman)	40	39
Richard Atkinson (Vice-Chairman)	28	28
Simon Berry	22	21
David Clarke	22	21
Trevor Hebdon	22	21
Alan Johnston (appointed 15 February 2011)	22	3
Charles Waddington (retired 29 June 2010)	-	5

Executive Directors	Salary £000	Bonus £000	Taxable Benefits £000	Sub-total £000	Increase in accrued pension £000	Pension contributions £000	Total £000
<b>2012</b>							
Kevin Parr	186	-	6	192	3	-	195
John Leveson	140	7	6	153	2	-	155
John Kidd	129	6	7	142	2	-	144
Peter Temple	114	6	4	124	2	3	129

<b>2011</b>							
Kevin Parr	183	9	8	200	4	-	204
John Leveson	116	5	8	129	3	-	132
John Kidd	127	6	5	138	3	-	141
Peter Temple	112	6	5	123	2	2	127

Kevin Parr has voluntarily waived his entitlement to a bonus for the year ended 31 March 2012. John Leveson was absent on long term sickness leave during the year ended 31 March 2011 and part of his salary during this period was covered by permanent health insurance.

### Defined Benefit Pension Scheme

	Directors' contributions £000	Accumulated total accrued pension at year end £000	Transfer value of accrued benefits, 31 March 2012 £000	Transfer value of accrued benefits, 31 March 2011 £000	Difference in transfer value less contributions £000
Kevin Parr	14	54	1,122	810	298
John Leveson	11	32	567	422	134
John Kidd	10	36	635	442	183
Peter Temple	7	45	1,149	827	315

The transfer values of the accrued benefits of the executive directors' pensions are calculated on a basis set by the trustees of the defined benefit pension scheme. The increases in the year were overwhelmingly the result of significant falls in the yields of gilts which were used in their calculation, together with a change in the basis of the calculation.

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

3. To be valid, your completed voting form must be received at the Principal Office by midnight on 23 June 2012, or at a branch by 5pm on 21 June 2012. If voting online, votes must be cast by midnight on 23 June 2012.
4. You should check if you are eligible to vote by reading the voting conditions on the back of the voting form.
5. If you are appointing a proxy other than the Chairman of the Meeting, please ensure that your proxy brings an appropriate form of identification to the Meeting.

## Explanatory Notes on the Ordinary 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 17 May 2012 and you are, therefore, asked to vote 'FOR' this resolution.

### Report on Directors' Remuneration

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

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

### Re-appointment of Auditors

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

## Re-election of Directors

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

### RICHARD ATKINSON, VICE-CHAIRMAN



**Age:** 58

**Joined the Board:** August 1997

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

### SIMON BERRY, NON-EXECUTIVE DIRECTOR



**Age:** 52

**Joined the Board:** January 2003

*Simon Berry is a non-executive director and also a member of the Remuneration and Nomination Committees. Simon is Chairman and Managing Director of English Lakes Hotels Group, which operates hotels and other leisure businesses in South Cumbria and North Lancashire. He is also a director of Cumbria Tourist Board.*

### KEVIN PARR, EXECUTIVE DIRECTOR



**Age:** 52

**Joined the Board:** July 1994

*Kevin Parr is Chief Executive and a member of the Nomination Committee. He is a qualified accountant and has wide financial services experience, including audit and treasury. Kevin joined the Society in 1993, becoming Deputy Chief Executive in 1997 and then Chief Executive in 2002. He is a director of each of the Society's subsidiary companies.*

### MICHAEL PRATT, CHAIRMAN



**Age:** 56

**Joined the Board:** September 1996

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

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