

annual . review

year ended 31 March 2018

INCLUDING SUMMARY FINANCIAL STATEMENT
AND NOTICE OF ANNUAL GENERAL MEETING



The Cumberland
Building Society

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Chairman's welcome

Welcome to the 2018 members' Annual Review

This has been my first full year as Chairman of the Cumberland, and I am delighted to report upon another very successful year for the Society, featuring a strong profit of £17.53 million after tax, growth of over £150 million in mortgage balances and an inflow of £78.6 million into savings and current accounts. You can read more about these results on pages 10 to 13 of this booklet.

For the fourth consecutive year, the Cumberland was named the 'Best Regional Building Society' at the Mortgage Finance Gazette Awards, for offering the most consistently competitive mortgage rates over the course of a year. Although this highlights our competitiveness for new customers, we offer our existing borrowers the same or better products when their current mortgage deal expires. Our long established approach is also to ensure that existing savers receive variable rates which are the same as, or better than, those available to new customers.

At the same awards ceremony, we also secured the 'Best Customer Service' award. During the year we launched webchat to provide our members with another means of engaging with our contact centre, and introduced Apple Pay and Google Pay for our current account customers, building on our track record over the last few years of adopting mobile and internet banking innovations.

You may also be aware that the large banks have left a number of the towns in our operating area. As a result, many of their personal and business customers are responding by joining the Cumberland, and so several of our branches have enjoyed significant increases in business volumes.

As an independent, mutual building society, one of our core values is putting our members first and foremost in everything we do, as we are free from the demands of external shareholders. On pages 17 to 19 you can read about our Annual General Meeting which will be held on 3 July. Please cast your vote, especially as each member doing so will raise

50p to be shared between MIND and Support in Mind Scotland, for their tremendous work within our operating area.

There are some changes to key personnel during 2018 and details are set out on page 11. Nevertheless, with the solid foundations of our values, culture, strong regional presence and terrific team of people throughout the business, allied with up to date technology and our track record of providing first class service and value for local people, I firmly believe that the Cumberland will continue to thrive and prosper and in doing so, assist you, our members, to do so too. Thank you for your ongoing support, which is greatly appreciated.

Trevor Hebdon

Trevor Hebdon
Chairman, 22 May 2018



2017/18 - THE HEADLINES

We've lent over £449 million this year to people buying their homes, developing their businesses or simply looking to save money on their monthly mortgage payments. This has helped us increase our total assets to over £2.5 billion, reaffirming our position as one of the UK's top 10 building societies.

Record mortgage lending

Savings and current account growth

We maintained consistently competitive rates across our savings range during the year for both existing customers and those joining our Society. This helped create an inflow into our savings and current accounts of over £78 million. Our banking services also remain popular with both personal and business customers alike, and we now operate over 60,000 current accounts. By the end of June this year we will be the only banking provider with a branch in 11 locations across our region.

Apple Pay & Google Pay

Last Summer we introduced Apple Pay and Google Pay, easy and secure ways to pay that are fast and convenient.



Current account holders can now pay for goods and services simply by using their mobile phone or other enabled device anywhere they see the contactless symbol. To register, or to find out more information, visit cumberland.co.uk/current-accounts.

Cloud-based accounting for business customers



Xero is the UK's leading provider of online accounting software for small and medium-sized businesses, providing cloud-based accounting packages which allow businesses to manage their finances anywhere, at any time. In February this year we integrated the Xero service with our business current account. Using a simple sign up process, customers can now have their business banking and savings transactions sent automatically to their Xero account every day.

Web chat launched

Our live web chat service was introduced in August 2017. Web chat makes it easier for users of our website to quickly find the information they need and to ask questions about our products and services. The service has been exceptionally popular with over 4,000 chat requests since its launch. We now employ 2 full-time team members to help with enquiries and we have also extended the service to our estate agency and vehicle finance websites.

Best customer service in the UK

We won Mortgage Finance Gazette's Best Customer Service award in November 2017 in recognition of the work we've been doing this year to improve our customer experience. We were also named Best Regional Building Society for the fourth successive year for providing the most consistently competitive mortgages.



Customer feedback

In January 2018, we began working with Feefo, an independent online review website. Feefo allows customers to rate our service, providing an open and transparent opinion of their experience. The responses we've received to date have been overwhelmingly positive, but we know there's always room to improve. We'll be using your feedback to help ensure we continue to meet your needs and that our service remains exceptional.



500 AND GROWING

We now employ over 500 people across our 34 branches, head office and subsidiary businesses. We're always looking for more talented people to join us. If you, or someone you know, is interested in a career with us, visit cumberland.co.uk/careers for more information.

No. 1 estate agency

Our Sales & Lettings team were the most successful estate agents in Cumbria during 2017, gaining more new instructions and agreeing more sales than any other agent in the county.

(Source: Zoopla from 1 Jan - 31 Dec 17)

Introducing Des Moore...

our **new** Chief Executive

IN APRIL THIS YEAR DES MOORE WAS APPOINTED AS OUR NEW CHIEF EXECUTIVE, replacing Kevin Parr, who had been in the role for over 15 years.

Des gave us an insight into his background and interests, what he'll be doing at The Cumberland and what he sees as the business's main challenges.

First of all - welcome to The Cumberland! What was it about us that attracted you?

Thank you! As someone that's worked in regional banking for over three decades I was very familiar with The Cumberland before I joined. It's a truly unique organisation with a diverse and interesting range of products and services and, of course, it's been one of the UK's most successful building societies for many years. The attraction of being able to bring my experience of regional banking to help shape the business for the future, and contribute towards the next stage of its growth was an opportunity I couldn't resist.

How are we different from other businesses you've worked in?

The biggest difference between The Cumberland and other businesses I've worked for is definitely its people. I've only been here a short time but it's clear we have a great team who are incredibly committed to the business. What's really struck me was how many people have chosen to work here because the business's values matched their own personal values. This is very rare in business, particularly in financial services, and it's not something I've experienced in the banks I've worked for.

What does your role as Chief Executive involve?

My role is to lead the business in achieving its strategic vision, which is to be the natural choice for mortgages, savings and current accounts across our region. I lead our executive team in the development and delivery of our longer-term strategies, and I'm responsible for the business's commercial and operational performance, risk management and regulatory obligations. I'm also the main point of communication between our board and the rest of the business.

What have you been doing since you started?

My first couple of months has been spent listening to people involved in the business. To be successful in my role I need a deep understanding of what we do and how we do it. I'm not just looking for what we do well and what's made us successful, I want to know what's not so good and where we can improve. I'm in the process of visiting every branch and meeting all my new colleagues, and I'm also talking to as many customers as I can. I want to see the business from different perspectives, not just through the eyes of a CEO.

What challenges lie ahead for The Cumberland?

The main challenge we face as a business is ensuring we are delivering our services in the way our customers expect. People want to do business with us in many different ways, and it's not just about having the latest tech. We need to understand exactly what our customers want in order to continue providing outstanding customer experiences. Many financial services organisations forget about this when they're developing their

products and services. We need to ensure our customers remain the focus of every decision we make.

There's also a number of regulatory changes on the horizon which provide significant challenges. A lot of time and resource will be required to deliver new regulations governing payment services and data protection as well as the introduction of Open Banking, an industry initiative aimed at encouraging better choice and customer experience. However, we fully embrace these changes as they are positive and make it easier and safer for customers to do business with us.

Finally, we need to look at where we're going as a business in the longer term, and this is the challenge I'm most looking forward to. There's never been a time like this in the financial services industry. The pace of change is startling and there's no reason to think that this is going to slow up, but our business is in excellent shape and we have a superb platform. Together with my team, we will develop a clear strategy for the business that will take us well into the next decade, ensuring we remain strong, sustainable and relevant to current and future generations of customers.

What can we find you doing when you're not at work?

I'm married with three children and one grandchild, so I spend most of my time with my family. When I do get a bit of time to myself you'll find me on a bike. As a keen cyclist, both mountain and road, I'm looking forward to exploring the beautiful scenery we have in the region on two wheels this summer.

Cumberland in the Community

We support hundreds of charities and community organisations across our region each year. Here's just a taste of some of the activities we've been involved in.

FOCUSING ON dementia



Alzheimer's Society and Alzheimer Scotland were the beneficiaries of last year's Pledge for Votes. We have been privileged to have worked with both charities during the year, helping them to raise money and increase awareness of their work.

We've been involved in a number of activities including a charity football match, a sponsored bike ride, volunteering at the Carlisle Memory Walk and fundraising to support World Alzheimer's Day and Dementia Awareness Week.

We have also joined Dementia Action Alliance groups across the region which help businesses and other organisations share best practice, and we now have a Dementia Friend in every branch to provide additional support for those customers and their families that need it.



Out and about IN THE COMMUNITY

Everyone that works for The Cumberland has the opportunity to take a 'Community Day', a paid day off to help a local charity or community organisation of their choice. Last year, several teams from across the business took time out to support organisations across the region, including Eden Animal Rescue, Eden Valley Hospice and CancerCare North Lancashire and South Cumbria.



ENCOURAGING

physical and mental wellbeing

We support a variety of activities that provide opportunities for both children and adults that will benefit their physical and mental wellbeing.

This year we've purchased equipment for many sporting teams across the region. One of the highlights was arranging a series of coaching sessions for Furness Rovers Knights U16s, a football team in Barrow that provides opportunities for children to play in a football league regardless of their skill level.

We also sponsored Active Cumbria's School Games, the largest multisport participation event for young people in Cumbria and Eden Valley Hospice's Colour Run, both of which we will be supporting again in 2018.



This year's Pledge for Votes beneficiaries are local branches of Mind and Support In Mind Scotland. We're looking forward to helping both charities in their work supporting those affected by mental illness across our region.

Over £100,000



The Charitable Foundation

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

A total of almost £25,000 was donated by the Foundation during the year. Young Enterprise Scotland, Lancashire Partnership Against Crime and Lakeland Rowing Club were just some of those receiving a donation.



One of this year's beneficiaries was Cumbria Rugby League Management Company, an organisation that identifies talented rugby league players and provides opportunities for them to progress in representing their county and country.

Can we help?

If you know, or are a member of, a local charity or voluntary organisation that would like to be considered for a donation, please apply at cumberland.co.uk/charitable-foundation or by sending an email to charitablefoundation@cumberland.co.uk

Summary Financial Statement

FOR THE YEAR ENDED 31 MARCH 2018

This financial statement is a summary of information in the full Annual Report and Accounts, which will be available to members and depositors, free of charge, on demand at every office of Cumberland Building Society, and on our website, www.cumberland.co.uk, from 18 June 2018.

Summary Directors' Report

Group profit after tax was £17.53 million which, relative to size, again represents one of the best results in the building society industry. Total assets exceed £2.5 billion and the Cumberland remains the 10th largest building society in the UK.

Our vision, based on being a mutual, independent and regional building society, is to grow on a sustainable and profitable basis for the benefit of existing and new members, and to be the preferred choice for financial services products in our operating area. Our long established strategy has been to develop direct relationships with members by providing excellent service and long term value across a wide range of financial services. Fundamental to our approach, is a commitment to put our members first and foremost in everything we do.

Further details of our results are provided below, and on pages 12 and 13.

Mortgages

- Mortgage balances (excluding a £13.1 million movement in the year relating to the 'fair value adjustment for hedge risk', which is within the figures for 'mortgages' shown on page 12) grew by 8.05% in the year, with lending of £449 million. The Society continued to perform strongly in retaining its mortgage customers when their existing products expire, as it offers them new ones which are the same as, or better than, those available to new customers.
- Our core focus remains our lending to first time buyers, home movers or remortgage customers within our branch operating area, and directly through our branches and Cumberland Estate Agents. We also though, diversify by working with a small number of introducer firms for residential lending, by participating strongly in the holiday let and buy to let markets and through our commercial lending.
- The quality of our mortgage book continues to be very high, with only one residential and no commercial properties being in possession at 31 March 2018.

Savings and Banking Services

- We received a record inflow of funds of £78.6 million, bringing the total over the last five years to £426 million. This strong inflow of funds over this prolonged period of very low interest rates reflects our track record of providing good long term value, and this is in line with our long established approach of ensuring that existing savers receive variable rates which are the same as, or better than, those available to new customers.
- Balances in current accounts grew by 15% as customers have continued to be attracted by the combination of our high level of internet and mobile banking functionality, excellent customer service and extensive branch network; moreover, as the large banks leave many towns in our operating area, we increasingly see many customers, both personal and business, respond by moving to the Cumberland.

Service Developments

Amongst many developments, in particular the year saw the introduction of:

- Apple Pay and Google Pay for our current account customers;
- The ability to enquire and transact on savings accounts within our internet banking system or mobile app
- Webchat, giving customers another way of engaging with our customer service contact team in Carlisle at their convenience.

Subsidiary Companies

Cumberland Estate Agents broke even, has more than doubled the value of mortgage approvals it has introduced to the Society in the last two years, and new sales instructions were up by 20% and houses sold up by 42% in the year.

Borderway Finance, our motor finance business, enjoyed another successful year with a profit after tax of £748,000, an increase of 31%, with its loan balances growing by 6.4% to £21.9 million.

Charitable Donations

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

Board of Directors

Kevin Parr stepped down as Chief Executive on 31 March 2018, Chris McDonald stepped down as Operations and Human Resources Director on 30 April 2018, and Peter Temple, Deputy Chief Executive, will retire on 31 August 2018. All three have made outstanding contributions to the Society's success and to its record of consistently being one of the most profitable in the sector for many years, combined with strong business growth, and have been integral to the development of the Society's values and culture.

Des Moore became Chief Executive from 1 April 2018, bringing from First Trust Bank in Northern Ireland, considerable experience of

leading a regional banking institution.

The Board is currently considering other changes to the senior management structure, being always mindful of the importance of the Society's mutual status and culture, together with the need to ensure the right balance of experience, knowledge and skills is in place to deliver the Society's strategy and business plan.

With respect to non-executive directors, Peter Anstiss stepped down in February 2018 to pursue other interests, and Jackie Arnold joined the Board in March 2018, bringing with her a wealth of experience in finance, strategy and skills development, together with an in depth understanding of the local economy.

Corporate Governance

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

Outlook for 2018-19

The outlook for the UK economy is very unclear, and this will continue until certainty is reached with respect to future relations with the EU, particularly on the future terms of trade. The Society's profitability has been exceptional in the last couple of years and is not expected to remain at these levels, partly as a result of increasing costs, many of which arise from regulatory requirements. Nevertheless, key strengths of the Cumberland are its well established strategy and distinctive business model, which have been highly successful in differing economic climates and which we believe will continue to be so in the future. Whatever challenges arise, the Cumberland will continue to adhere to its fundamental principle of putting members first in everything we do.

On behalf of the Board
Trevor Hebdon, Chairman
22 May 2018

Financial Results

FOR THE YEAR ENDED 31 MARCH 2018

	Group 2018 £000	Group 2017 £000
Results for the year		
Net interest receivable	39,224	37,415
Fair value gains/(losses) on financial instruments	2,450	(358)
Other income and charges	3,221	3,385
Gain on equity share investment	-	6,066
Administrative expenses and depreciation	(22,928)	(21,484)
Loss on revaluation of investment properties	(376)	(56)
Provisions for bad and doubtful debts	(77)	(353)
Provision for FSCS levy	(109)	130
Profit for the year before taxation	21,405	24,745
Taxation	(3,871)	(5,075)
Profit for the year	17,534	19,670
Statement of Comprehensive Income		
Profit for the financial year	17,534	19,670
(Loss)/gain on available for sale investment securities	(2)	3
Movement in gain on equity share investment	650	(2,534)
Movement in deferred tax on equity share investment	(111)	532
Actuarial gain/(loss) on retirement benefit obligations	3,587	(10,096)
Movement in deferred tax on retirement benefit obligations	(610)	1,716
Total recognised gains and losses for the year	21,048	9,291
Financial position at end of year		
ASSETS		
Liquid assets	440,046	305,776
Mortgages	2,027,123	1,888,677
Other loans	23,366	21,841
Derivative financial instruments	7,519	677
Fixed and other assets	24,716	25,006
Total assets	2,522,770	2,241,977
LIABILITIES		
Shares	1,824,878	1,743,879
Borrowings	493,398	305,119
Derivative financial instruments	2,617	11,314
Other liabilities	28,595	29,431
Reserves	173,282	152,234
Total liabilities	2,522,770	2,241,977

Summary of key financial ratios	Notes	2018 %	2017 %
Gross capital as a percentage of shares and borrowings	1	7.47	7.43
Liquid assets as a percentage of shares and borrowings	2	18.98	14.92
Profit for the year as a percentage of mean total assets*	3	0.74	0.90
Management expenses as a percentage of mean total assets	4	0.96	0.98

*Profit for the year ended 31 March 2017 as a percentage of mean total assets excluding the gain on equity share investment, which related to the sale of the Society's share in VISA Europe to VISA Inc in June 2016, was 0.68%.

Approved by the Board of Directors on 22 May 2018

T Hebdon Chairman

A Johnston Vice-Chairman and Chairman of the Audit Committee

D Moore Chief Executive

NOTES

1. **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.
2. **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.
3. **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.
4. **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 for the year ended 31 March 2018 which comprises the results for the year, statement of comprehensive income, financial position at the end of the year 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 this booklet with the full Annual Report and Accounts, Annual Business Statement, Strategic Report and Directors' Report and their 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 full 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, Strategic Report and Directors' Report of Cumberland Building Society for the year ended 31 March 2018 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, United Kingdom

22 May 2018

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 Remuneration Committee, and he does not attend the sections of the meetings at which his remuneration is set and takes no part in the consideration of this matter. The remuneration of the executive directors is determined by the Remuneration Committee, which consists of its Chairman Michael Hulme 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 2018, agreed a bonus based on overall business

performance achieved, including customer service, mortgage growth, the increase in current accounts and Group profitability.

Mr. Temple and Mr. Kidd are deferred members of the Society's contributory defined benefit pension scheme which was closed to further accrual on 31 March 2015. All of the executive directors 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 to them as a pension replacement amount. They are also provided with a car and membership of a private medical insurance scheme. They are employed under contracts terminable by the Society on twelve months' notice and by the individual on six months' notice. The same arrangements applied to Mr. Parr until he stepped down from the Board on 31 March 2018.

Full details of individual directors' remuneration are shown overleaf.

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

On behalf of the Remuneration Committee
Michael Hulme
Chairman
22 May 2018

The remuneration of the Society's directors is listed below:	2018	2017
Non-Executive Directors	£000	£000
Trevor Hebdon (Chairman from 24 September 2016, Chairman of the Audit Committee to 14 September 2016 and Vice-Chairman to 23 September 2016)	54	47
Michael Pratt (Chairman, retired 23 September 2016)	-	26
Alan Johnston (Chairman of the Audit Committee from 15 September 2016 and Vice-Chairman from 24 September 2016)	42	36
Peter Anstiss (resigned 2 February 2018)	29	30
Jackie Arnold (appointed 16 March 2018)	3	-
David Clarke (retired 5 July 2016)	-	7
Gill Gardner	33	31
Eric Gunn (appointed 9 November 2016)	33	15
John Hooper (Chairman of the Board Risk Committee)	39	37
Michael Hulme (Chairman of the Remuneration Committee)	37	34

Executive Directors	Salary £000	Bonus £000	Pension Contributions £000	Pension Replacement Amounts £000	Taxable Benefits £000	Total £000
2018						
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

Mr. McDonald has also received £30,000 in compensation for loss of office in respect of his resignation from the Board and the Society on 30 April 2018. The Remuneration Committee has also agreed that Mr. Temple will receive a compensatory payment in respect of loss of office, but this has not yet been finalised; details will be provided in the 2018-19 financial statements.

2017						
Kevin Parr	234	41	-	33	7	315
Peter Temple	156	27	21	-	9	213
John Kidd	159	27	21	-	8	215
Chris McDonald	134	23	14	4	8	183

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

Defined Benefit Pension Scheme

	Accumulated total accrued pension at 31 March 2018	Increase in accrued pension in year to 31 March 2018	Increase in accrued pension in year to 31 March 2017
	£000	£000	£000
Kevin Parr	76	2	2
Peter Temple	61	-	-
John Kidd	51	-	-

Notice of Annual General Meeting 3 July 2018

The Annual General Meeting (AGM) of Cumberland Building Society will be held at 6.30pm on Tuesday, 3 July 2018 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 2018.
- To approve the Report on Directors' Remuneration.
- To approve the re-appointment of Deloitte LLP as Auditors of the Society.

Election and Re-election of Directors

- To elect/re-elect Directors as follows:
 - to elect Jacqueline Arnold;
 - to elect Desmond Moore;
 - to re-elect Gillian Gardner;
 - to re-elect Eric Gunn;
 - to re-elect Trevor Hebdon;
 - to re-elect John Hooper;
 - to re-elect Michael Hulme;
 - to re-elect Alan Johnston; and
 - to re-elect John Kidd.

BY ORDER OF THE BOARD

Paul Vines, Secretary, 22 May 2018

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

Notes on Voting

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

By completing either Part 1 or Part 2 of the voting form, either on paper or online, you are appointing someone to act for you (a proxy). The person you choose can attend the Meeting and vote on your behalf. The Chairman of the Meeting will automatically act as your proxy unless you choose someone else by filling in the box 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.

- To be valid, your completed voting form must be received at the Principal Office by midnight on 30 June 2018, or at a branch by 5pm on 28 June 2018. If voting online, votes must be cast by midnight on 30 June 2018.
- You should check if you are eligible to vote by reading the voting conditions on the voting form.
- 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 22 May 2018 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 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.

JACQUELINE ARNOLD - NON-EXECUTIVE DIRECTOR STANDING FOR ELECTION



Jackie joined the Board as a Non-Executive Director in March 2018. She is a member of the Nomination and Remuneration Committees. 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 also a Professor of Practice at the University of Cumbria and Vice-Chair of Cumbria Local Enterprise Partnership. Jackie lives in Barrow-In-Furness.

DESMOND MOORE - EXECUTIVE DIRECTOR STANDING FOR ELECTION



Des was appointed as the Society's Chief Executive and joined the Board in April 2018. He is a member of the Nomination 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.

GILLIAN GARDNER - NON-EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Gill joined the Board as a Non-Executive Director in September 2012. She is the Senior Independent Director and a member of the Nomination, Remuneration and Board Risk Committees. Gill is Council Secretary of The Co-operative Group, working in Manchester. This corporate governance role follows over 20 years working in private practice as a corporate lawyer, latterly with Brabners LLP. Gill lives in Arkholme, near Kirkby Lonsdale.

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



Eric joined the Board as a Non-Executive Director in November 2016 and is a member of the Nomination, Remuneration and Audit Committees. 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.

TREVOR HEBDON - CHAIRMAN STANDING FOR RE-ELECTION



Trevor joined the Board as a Non-Executive Director in December 2009, was appointed Vice Chairman in January 2015 and Chairman in September 2016. He is Chairman of the Nomination Committee and a member of the Remuneration and Board Risk Committees. Trevor has a background in banking and was previously Chief Executive of H&H Group. He is a trustee of Carlisle Cathedral Development Trust. Trevor lives in Rosley, near Wigton.

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



John joined the Board as a Non-Executive Director in November 2015. He is Chairman of the Board Risk Committee and a member of the Nomination and Remuneration Committees. 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 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 Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. 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 Sedbergh.

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 Nomination, Remuneration and Board Risk Committees. 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.

JOHN KIDD - EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



John joined the Society in 1994 as Financial Controller, and was appointed to the Board in March 2002 as Finance Director. He is a member of the Nomination Committee. He has executive director responsibility for Finance, Treasury, IT, Group Legal Services and Management Information. He is a graduate of Newcastle University and a chartered accountant. John was born in Carlisle, attended Trinity School, and lives in Lazonby, near Penrith.

NB. Peter Temple is not standing for re-election as he will stand down as a Director on 31 August 2018. His appointment as a Director will continue until that date.

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