

annual . review

year ended 31 March 2017

INCLUDING SUMMARY FINANCIAL STATEMENT
AND NOTICE OF ANNUAL GENERAL MEETING




The Cumberland
Building Society

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Chairman's welcome

Welcome to the 2017 members' Annual Review

It has been a great honour to succeed Michael Pratt as your Chairman during the year, and I am delighted to report upon another very successful year for the Cumberland, featuring a strong profit of £19.67 million after tax, growth of over £90 million in mortgage balances and an inflow of £118.5 million into savings and current accounts. You can read more about these results on pages 10 to 13 of this booklet.

For the third 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. With our competitive rates combined with our 15 minute initial mortgage interviews making access to our highly skilled team of mortgage advisors so easy, our attractiveness to first time buyers, home movers and those wishing to remortgage to us is clear.

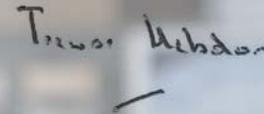
We were also delighted that the consumer organisation Fairer Finance ranked the Cumberland's current account top in their research, and found that our current account customers were the happiest in the U.K. This is a remarkable accolade for a regional organisation, reflecting the high levels of customer service which both our branches and Head Office contact team in Carlisle provide, and the ease of using the various aspects of our current account such as its mobile functionality.

Again, the Cumberland team has undertaken many projects to further enhance the customer experience during the year. The introduction of a new online appointment booking service has been a particular highlight, enabling both members and new customers to choose, at their own convenience, an available appointment time in our branches, estate agency or with our Cumberland Business team.

We can concentrate on putting your interests first and foremost in everything we do because our mutual status and independence mean that 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 4 July. Please cast your vote, especially as each member doing so will raise 50p to be shared between Alzheimer's Society and Alzheimer Scotland, for their work within our operating area.

Finally, our achievements over many years are the outcome of a combination of our approach to business, the strength of our balance sheet and capital, the skill and enthusiasm of our staff, and vitally, strong support from you, our members, which is greatly appreciated by us all.



Trevor Hebdon
Chairman, 23 May 2017



2016/17 AT A GLANCE

Gross mortgage lending was £350 million



We've helped hundreds of first time buyers and home movers buy their homes this year, and many hundreds more have switched their mortgage to us to save money. We've also helped many businesses buy property for commercial and investment purposes.

Record savings and current account inflow of over £118 million

Although low interest rates continue to provide a challenging environment for savers, we have maintained our approach of being fair when setting our savings rates, ensuring they are priced as competitively as possible.



Top 10 building society

Our assets increased to £2.2 billion this year, confirming our position as the 10th largest building society in the UK. In fact, we're also one of the most diverse building societies in the country, offering an extensive range of products and services including personal and business banking, residential property sales and lettings, vehicle finance, commercial mortgages and an independent financial advice service.



Online appointment booking system launched

In December 2016, we launched our online appointment booking system, an easy to use and convenient service which allows you to arrange an appointment at any of our branches or book a valuation with our estate agents using your mobile, tablet or desktop computer. The system suggests alternative branches if your preferred date, time or location isn't available, and confirms your appointment with an email. It even sends you a text message reminder so you don't forget!

Arrange an appointment at booking.cumberland.co.uk.



Help to Buy ISA



Our Help to Buy ISA was launched in 2016 and offers both a market-leading interest rate and a government bonus of up to £3,000. There was a fantastic response to the new product in its first year, with over 1,700 first time buyers opening an account to begin saving for their new home. For more information, visit cumberland.co.uk/savings.

Happiest banking customers in the UK... again



In an independent survey of over 23,000 people conducted by Fairer Finance – a consumer group focusing on the banking industry – our current account customers were found to be the happiest in the UK for the second time in a row.

Mobile banking app



Our mobile banking app, available to Apple and Android users, is now used by over 10,000 customers.



Vehicle finance



Borderway Finance, our vehicle finance specialists, helped over 1,300 customers purchase a vehicle. In addition to providing loans and hire purchase, in June last year Borderway Finance introduced a new Personal Contract Purchase (PCP) finance product. Find out more at borderwayfinance.co.uk.

Charitable donations

We're committed to the communities we serve, and during the year we're proud to have supported over 250 funding requests from a range of charities and community groups across the region. You can read more about our community activities on pages 8 and 9.

Over
£100,000



How we're helping...

borrowing in retirement



Traditionally, most people would have paid their mortgage off by the time they'd retired. In fact, the bank would probably have insisted on it.

Times change though, and if you're retired and own your own home, a mortgage is one way of releasing some of the money tied up in your property to help yourself or your family. Whether it's to undertake home improvements, help your children with a deposit for their first home or simply to enjoy your retirement a little more, age shouldn't be an obstacle to borrowing money.

However, a lot of banks and building societies still have an upper age limit for borrowers and, even with sufficient equity and ample income,

older borrowers can struggle to find a mortgage lender who will help. At the Cumberland, our mortgage range is available to everyone, irrespective of age. Our decisions to lend are based on affordability and a person's circumstances, not age, and we're proud to be helping people around our region, both early and later in retirement, borrow the money they need to help them achieve their goals.

For more information on mortgages in retirement, speak to one of our team. Arrange an appointment online at [booking.cumberland.co.uk](https://www.booking.cumberland.co.uk) or call 0800 032 3030.

It is a sad fact that we have customers with vulnerabilities who not only have to deal with difficult issues on a daily basis, but also face an increased threat of crime from fraudsters and rogue traders.

Vulnerability comes in many forms, from physical disabilities and mental health conditions, to financial inexperience or a lack of English language skills. The impact can cause debt, stress and anxiety.

Alzheimer's Society and Alzheimer Scotland provide support to many vulnerable people around our region and we are delighted they are the beneficiaries of this year's Pledge for Votes scheme. For every vote we receive at our AGM we will pledge 50p, with the total donation shared between the two charities. In addition, we will be working with both organisations during the year to help increase their profile and raise awareness of the services they provide.

How we're helping...

our vulnerable customers

Identifying when our customers are in these situations is of paramount importance to us. We've an ongoing training programme in place to help our branch and head office teams recognise when a customer needs additional support or safeguarding. We also share best practice with a variety of organisations to help improve ways of identifying potentially vulnerable customers.

If you want to find out more about dementia, or are looking for support or advice, then visit [alzheimers.org.uk](https://www.alzheimers.org.uk) or [alzscot.org](https://www.alzscot.org).



Cumberland in the Community

In the last year, we've donated more than £100,000 to support charitable and community projects across our operating area.

Cumberland Community Fund

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

Depending on the request, we provide amounts of up to £10,000, and we supported over 250 individual applications last year.

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



Cumbria Volunteer Service

Cumbria Volunteer Service (CVS) helps community, voluntary and not-for-profit organisations develop and improve by organising training and support. We were delighted to sponsor Volunteers' Week 2016, an annual event to raise the profile of volunteers across the county and inspire others to get involved. Several of our team were involved, and pictured left is Kerry Charters, lending manager, with members of CVS in West Cumbria.



Blood Bikes Cumbria

Blood Bikes Cumbria is a charity run by local volunteers who transport urgently needed blood and medical supplies to hospitals and healthcare sites around the county.

The organisation relies on donations to operate its fleet of vehicles, so in February 2017 we made a donation towards fuel costs.

Sunbeams Music Trust



Annie Mawson's Sunbeams Music Trust uses community music therapy to assist in the remedial treatment of children and adults suffering from physical, emotional, psychological or other mental health problems.

Our donation was used to fund a music therapy session for disabled children in Kendal. Kevin Aitken, branch manager, handed over our donation and took part.



REACT Foundation

We've been a proud partner of REACT Foundation's Science & Engineering Shows for several years. 'Danger, High Voltage!', an exciting and interactive live show, was performed by the Science Museum's Outreach Team to over 8,000 school children in West Cumbria.

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 £19,000 was donated by the Foundation during the year. Solway Adventure Sailing, Helena Thompson Museum and Cumbria DeafVision were just some of those receiving a donation.



Another of this year's beneficiaries was Growing Well Limited, an organisation that provides therapy for adults experiencing mental health problems.

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 2017

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 19 June 2017.

Summary Directors' Report

The Society has again produced a strong set of financial and business results.

Group profit after tax was £19.67 million, although this includes the gain made from the sale of the Society's share in VISA Europe to VISA Inc. in June 2016. Without this, Group profit after tax was £14.82 million which, relative to size, represents again one of the best results in the building society industry.

Total assets exceed £2.2 billion and the Cumberland remains the 10th largest building society in the UK.

The Society's mutual status and independence underpin its vision of seeking to grow on a sustainable and profitable basis for the benefit of existing and new members, and of being the preferred choice for financial services products in our operating area. The Society's strategy for many years 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

- Mortgages grew by 5.2% in the year, with lending of £350 million. This represented a planned consolidation of the Society's position, after growth of 42% over the previous three years. The Society continued to perform strongly in retaining its mortgage customers, as it offers the same or better mortgage products to customers whose products expire, as to new customers.
- Lending to the people of our region, whether first time buyers, home movers or remortgage customers, through our branches and estate agency offices, remains our core focus. The Society has also continued its diversification of the last few years 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 its commercial lending.

- The Society's lending has over the last few years been assisted by its participation in the Government's Funding for Lending Scheme and going forward, we will seek to utilise the Term Funding Scheme introduced in August 2016 in the same way.
- The quality of our mortgage book continues to be very high, with only one commercial and two residential properties being in possession at 31 March 2017.

Savings and Banking Services

- We received a record inflow of funds of £118.5 million, bringing the total over the last four years to £348 million. As a member owned organisation, the Cumberland has continued to strive to give its savers a good deal at a time when low interest rates generally have been very difficult for them. The strong ongoing inflow of funds reflects not only the competitiveness of our rates,

but also our track record over many years of providing good long term value.

- Balances in current accounts grew by 15% as customers continued to be attracted by the high level of internet and mobile banking functionality offered combined with excellent customer service and our extensive branch network.

Service Developments

Amongst many developments, in particular the year saw:

- The launch of our online appointment booking service, enabling customers to book easily, over the internet, appointments in any of our branches, our estate agency and with our Cumberland Business team;
- A significant upgrade to our internet banking system, with an updated 'look and feel' and integration of responsive design, to help customers to use the service on any device;
- Enhancements to our mortgage affordability calculator on the Society's website to make this easier for customers to use on any device.

Subsidiary Companies

The operations of Cumberland Estate Agents Limited were significantly restructured during 2015-16 to provide extended opening hours in evenings and at weekends and to address the challenge posed by internet-only estate agencies, while still retaining a high street presence. During 2016-17 business results showed the new structure performing increasingly well as the year progressed, with its market share and the value of mortgages introduced to the Society improving significantly. Borderway Finance Limited, our motor finance business, enjoyed another successful year; its loan balances exceeded £20.5 million at 31 March 2017, with advances during the year of £14.5 million, 34% higher than in the previous year.

Charitable Donations

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

Board of Directors

Michael Pratt retired in September 2016 after 20 years as a director, the last 9 as Chairman; his contribution and leadership have been fundamental to the Society's success during those years. He has been succeeded by Trevor Hebdon as Chairman, who in turn has been succeeded as Vice-Chairman by Alan Johnston.

Eric Gunn joined the Board as a new non-executive director during the year, bringing detailed knowledge of banking and in particular risk management from his career.

Corporate Governance

The Society's Board is committed to good practice in corporate governance. Further details as to how the Society has regard to the principles in the UK Corporate Governance Code, can be found within the Directors' Report on Corporate Governance on pages 12 to 14 of the Annual Report and Accounts.

Outlook for 2017-18

With a general election and Brexit on the horizon the outlook is somewhat uncertain at present, but the Cumberland starts from a position of considerable strength as a result of its financial and business performance over the last ten years, during which both its reserves and total assets have grown by 75%. We continue to monitor all developments and strongly believe that we can address successfully any additional challenges whether emerging from competitors, technological developments, regulatory requirements or the course of the economy while maintaining our approach to business of putting members first.

On behalf of the Board
Trevor Hebdon, Chairman
23 May 2017

Financial Results

FOR THE YEAR ENDED 31 MARCH 2017

	Group 2017 £000	Group 2016 £000
Results for the year		
Net interest receivable	37,415	31,916
Fair value losses on financial instruments	(358)	(6)
Other income and charges	3,385	4,298
Gain on equity share investment (note 1)	6,066	-
Administrative expenses and depreciation	(21,484)	(20,662)
(Loss)/gain on revaluation of investment properties	(56)	558
Provisions for bad and doubtful debts	(353)	344
Provision for FSCS levy	130	(432)
Profit for the year before taxation	24,745	16,016
Taxation	(5,075)	(3,400)
Profit for the year	19,670	12,616
Statement of Comprehensive Income		
Profit for the financial year	19,670	12,616
Gain/(loss) on available for sale investment securities	3	(2)
Movement in gain on equity share investment (note 1)	(2,534)	3,369
Movement in deferred tax on equity share investment	532	(674)
Actuarial loss on retirement benefit obligations (note 2)	(10,096)	(3,044)
Movement in deferred tax on retirement benefit obligations	1,716	548
Total recognised gains and losses for the year	9,291	12,813
Financial position at end of year		
ASSETS		
Liquid assets	305,776	294,990
Mortgages	1,888,677	1,794,876
Other loans	21,841	17,165
Derivative financial instruments	677	261
Fixed and other assets	25,006	22,986
Total assets	2,241,977	2,130,278
LIABILITIES		
Shares	1,743,879	1,613,296
Borrowings	305,119	342,317
Derivative financial instruments	11,314	11,090
Other liabilities	29,431	20,632
Reserves	152,234	142,943
Total liabilities	2,241,977	2,130,278

Summary of key financial ratios	Notes	2017 %	2016 %
Gross capital as a percentage of shares and borrowings	3	7.43	7.31
Liquid assets as a percentage of shares and borrowings	4	14.92	15.08
Profit for the year as a percentage of mean total assets*	5	0.90	0.62
Management expenses as a percentage of mean total assets	6	0.98	1.02

*Profit for the year ended 31 March 2017 as a percentage of mean total assets excluding the gain on equity share investment (note 1) was 0.68%.

Approved by the Board of Directors on 23 May 2017

T Hebdon Chairman

A Johnston Vice-Chairman and Chairman of the Audit Committee

K Parr Chief Executive

NOTES

- The Gain on equity share investment** is in respect of the sale of the Society's share in VISA Europe to VISA Inc. on 21 June 2016 and comprised of cash and VISA Inc. preference shares. The anticipated cash element of this was recognised in the Statement of Comprehensive Income at 31 March 2016. Note 31 in the Annual Report and Accounts provides further details.
- The Actuarial loss on retirement benefit obligations** is a significant element of the FRS 102 accounting valuation of the defined benefit pension scheme, which showed a deficit of £19.4 million at 31 March 2017, before allowing for deferred tax. It should also be noted however, that the most recent full actuarial valuation at 27 August 2015 showed a deficit of £113,000, and a simplified update on this basis at 31 March 2017 showed a gross deficit of £6.2 million, i.e. £13.2 million less than the FRS 102 accounting valuation, which uses a different methodology. Note 24 in the Annual Report and Accounts provides further details.
- 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 for the year ended 31 March 2017 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 2017 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Deloitte LLP

Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

23 May 2017

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 2017, agreed a bonus based on overall business

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

Mr. Parr, Mr. Temple and Mr. Kidd are deferred members of the Society's 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.

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
23 May 2017

The remuneration of the Society's directors is listed below:	2017	2016
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)	47	34
Michael Pratt (Chairman, retired 23 September 2016)	26	46
Alan Johnston (Chairman of the Audit Committee from 15 September 2016 and Vice-Chairman from 24 September 2016)	36	27
Peter Anstiss (appointed 25 January 2016)	30	6
David Clarke (retired 5 July 2016)	7	25
John Davidson (retired 31 March 2016)	-	27
Gill Gardner	31	27
Eric Gunn (appointed 9 November 2016)	15	-
John Hooper (appointed 20 November 2015, Chairman of the Risk Committee from 1 April 2016)	37	11
Michael Hulme (appointed 3 September 2015)	34	15

Executive Directors	Salary £000	Bonus £000	Pension Contributions £000	Taxable Benefits £000	Total £000
2017					
Kevin Parr	234	41	-	7	282
Peter Temple	156	27	21	9	213
John Kidd	159	27	21	8	215
Chris McDonald	134	23	14	8	179

In addition, Mr. Parr received £33,000 in lieu of pension contributions, and Mr. McDonald received £4,000.

2016					
Kevin Parr	208	31	29	7	275
Peter Temple	143	21	20	6	190
John Kidd	150	11	20	8	189
Chris McDonald	117	18	16	8	159

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 2017 £000	Increase in accrued pension in year to 31 March 2017 £000	Increase in accrued pension in year to 31 March 2016 £000
Kevin Parr	74	2	1
Peter Temple	61	-	7
John Kidd	51	-	6

Notice of Annual General Meeting 4 July 2017

The Annual General Meeting (AGM) of Cumberland Building Society will be held at 6.30pm on Tuesday, 4 July 2017 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 2017.
- 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 Eric Gunn
 - to re-elect Alan Johnston
 - to re-elect John Kidd
 - to re-elect Peter Temple

BY ORDER OF THE BOARD

Paul Vines, Secretary, 23 May 2017

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 on the back of the paper voting form; this option is not available if voting online. If you wish to instruct your proxy to vote for or against the resolutions, please place an 'X' or click in the appropriate box on the paper or online voting forms respectively. If you leave the voting boxes blank, your proxy may vote as he or she decides. If you do not want your proxy to vote on a resolution, place an 'X' in or click on the withheld box on the paper or online

voting forms. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

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

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

- To be valid, your completed voting form must be received at the Principal Office by midnight on 1 July 2017, or at a branch by 5pm on 29 June 2017. If voting online, votes must be cast by midnight on 1 July 2017.
- You should check if you are eligible to vote by reading the voting conditions on the back of 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 23 May 2017 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.

ERIC GUNN - NON-EXECUTIVE DIRECTOR STANDING FOR ELECTION



Eric is 56, was appointed to the Board in November 2016 and is a member of the Audit Committee.

Eric has almost 40 years of 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.

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



Alan is 57 and was appointed to the Board in February 2011.

He became Vice-Chairman and Chair of the Audit Committee in 2016 and is a member of the Risk Committee. Alan has over 30 years of experience as an accountant with local firm, Armstrong Watson. After joining them as a graduate in 1981, he was appointed a partner in 1989 and elected senior partner in 2004. Alan is also Chair of Governors at Robert Ferguson School in Carlisle. Alan lives in Carlisle.

JOHN KIDD - EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



John is 51, joined the Society in 1994 as Financial Controller, and was appointed to the Board in March 2002 as Finance Director.

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.

PETER TEMPLE - EXECUTIVE DIRECTOR STANDING FOR RE-ELECTION



Peter is 56 and joined the Society on graduating from London University in 1982. He has since obtained a Masters Degree in Business Administration and undertook a wide range of roles leading up to his appointment to the Board in September 2007. Peter became Deputy Chief Executive in 2015 and is responsible for Branches, Marketing, Cumberland Business and the Group's Estate Agency, Vehicle Finance and Financial Planning subsidiaries. Peter went to school in Brampton and lives in Carlisle.

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