

# ANNUAL REVIEW

*Year ended 31 March 2011*

INCLUDING SUMMARY  
FINANCIAL STATEMENT  
AND NOTICE OF ANNUAL  
GENERAL MEETING

mortgages  
current accounts  
savings  
insurance  
business banking  
commercial mortgages  
financial planning  
estate agents  
internet banking



  
**Cumberland**  
Building Society

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## Chairman's welcome



Welcome to the 2011 members' Annual Review.

I am glad to report that the Cumberland continues to steer a successful course through difficult economic conditions, which unfortunately are expected to continue for the foreseeable future. The impact of the austerity measures being taken by the Government will affect many people within our local area in the coming year. It remains to be seen to what extent the employment losses expected shortly in the public sector will affect the fortunes of firms in the private sector, and how quickly the private sector can create new jobs to offset those lost. For everyone, there appears to be pressure from increased living costs

which are expected to lead at some point in the coming year to higher interest rates. Such a scenario will naturally concern borrowers, but please savers following two years of Bank of England base rate at its historic low of 0.50%.

The Cumberland's profitability over the last year has essentially remained steady. Although after tax it has reduced from £6.34 million to £5.85 million, much of this reduction was the outcome of a credit of £0.87 million last year in respect of the ongoing liability to the Financial Services Compensation Scheme (which reflected lower interest rates), being replaced by a charge of £0.21 million, as a provision for a further time period has had to be made. This need to assist in the reimbursement of customers of the failed financial institutions is an ongoing liability for us, and the ultimate outcome still remains uncertain. It is comforting to note, however, that the Society has one of the strongest recent profit records and capital positions in the building society sector.

Our mortgage balances showed a modest reduction, although around half of this was due to a fall in residential loans held outside our branch operating area, as the Society focused on lending locally. We have found though, in spite of offering very competitive mortgage products, lending up to 90% of a property's value and assisting first time buyers as much as possible, that perhaps not surprisingly given the economic worries, demand for new mortgages has been subdued. In addition, many of our existing borrowers have sought to take advantage of low interest rates by making repayments on their loans, rather than building up their savings. Linked to this, a relatively modest inflow of funds from savers was recorded this year, but given low interest rates and improvements in stock markets, it is worth noting that many other institutions have experienced outflows, so overall we have been content with this outcome.

We have been fortunate since the 'credit crunch' started nearly four years ago, that our long term strategy has been shown to be a robust one. The core of this is putting our members first in everything we do, both in terms of customer service by branch, telephone or the internet, and in how we set interest rates to give long term value rather than short lived offers, for both borrowers and savers.

We continue to believe firmly that the Society's independence and mutual status enable us to put the interests of our members first and to support our local communities wherever possible. In the following pages you will find details of our successes during the year, highlights of our financial results in the Summary Financial Statement and information on the Society's 161<sup>st</sup> Annual General Meeting to be held on Tuesday 28 June 2011.

Finally, I would like to say that the skill, commitment and enthusiasm of our staff are greatly appreciated, as is the continuing strong support we receive from you, our members.

A handwritten signature in black ink, appearing to read 'Michael Pratt'.

**Michael Pratt**  
Chairman, 18 May 2011

# putting members first

THE CUMBERLAND IS A LOCAL BUILDING SOCIETY run by local people for local people, aiming to be first class in terms of customer service and long term value.

We want to provide you, our members, with the level of individual customer service that we would expect our families to receive. As we say, you are 'more than a number' when you are part of the Cumberland.

## What do we offer?

- You can visit any of our 33 branches and talk directly to our friendly, helpful staff, who will treat you as an individual and take the time to understand your needs. We are open six days a week and in places where some banks have either reduced their opening hours or closed altogether.
- You can ring our Customer Service team in Carlisle and speak directly to a person without having to select a series of options on your phone beforehand or respond to an automated voice.
- If you wish to switch your current account to the Cumberland, our team in Carlisle will personally handle everything that needs to be done, smoothly and efficiently. Our research this year showed that 99% of customers who used this service would recommend us to a friend.
- If you are looking for a mortgage, our qualified mortgage advisors will help you every step of the way.



Here to help... Genna Fell (above) and Liam Benson (above right) from our Customer Service team

- Your mortgage application will not be processed by an automated 'credit scoring' system. Our experienced staff look at all cases on an individual basis, which means that we can make a decision that is right for both you and us.



## How do we give great long term value?

- Firstly, we treat both our borrowers and savers fairly by balancing their interests as evenly as we possibly can.
- We make sure that our products remain competitive by monitoring the mortgage and savings markets every day.
- It is important to us that we offer long term value, rather than introductory offers to attract new customers with headline rates that soon disappear. Existing savers will always be offered a rate which is at least the same as, and in many cases better than, that available to new customers.
- We remain one of very few current account providers who will not charge you to use your debit card abroad.
- Our current account customers who take a mortgage with us can receive a refund of £100 on their arrangement fees on selected products.
- At nine of our larger branches, members can buy Euros and US dollars straightaway at very competitive rates.

- At 4.49%, our standard variable mortgage rate continues to be the second lowest of the UK's 'top 15' building societies; this rate has not changed for over two years.
- Existing borrowers who wish to transfer to another product when their current deal reaches the end of its term, can choose from our range of competitive mortgages and on certain products will receive a reduction in the mortgage arrangement fee.
- Often, our products are restricted to local borrowers, but if they had been available nationally, many would have featured in newspaper 'best buy' tables.
- We are doing all we can to help first time buyers and continued to offer them mortgages of up to 90% of a property's value throughout the year.

## How do we keep up to date?

The Society was founded in 1850 to provide financial security to its members. This remains true today, but our products and services are designed to meet the needs of our customers now.

- We are one of only four building societies that offer internet banking, giving our customers access to their current account at any time. Since its launch in 2007, over 10,000 customers have started to use this service.
- We are currently implementing a new system called 'SecureCall' which enables our internet banking customers to verify, very simply, payments that they are making to people for the first time. The system has been very successful in Australia and we are delighted to be introducing it to the UK.



# putting members first

- During the year we have implemented a new fraud detection system, further enhancing our ability to identify quickly potential fraudulent transactions on customers' current accounts.
- We introduced our first FTSE-100 index linked 'structured deposit' in January 2011. This gives customers, over 5 years, a higher return if the index increases or a lower return if it does not, while returning the capital invested. Although the return is uncertain, so the product will not be suitable for everyone, there is the potential to earn more than is currently available from our conventional savings products. We expect to offer more of these products during 2011-12 and details can be obtained from your local branch.
- Last year we introduced a new shared equity product, designed to make it easier for first time buyers to buy their first home.
- In the coming year we will upgrade our core computer system and the authorisation system for our internet banking, Visa debit and ATM services.



Here to help....Emma Bright,  
Mortgage Advisor, Fisher Street branch



Staff from the Kendal branch at the Westmorland Show

## What else do we offer?

### Estate Agency

Cumberland Estate Agents has eight branches and despite the difficult market conditions helped its customers to sell more than 800 homes in 2010-11. Based on Land Registry data it achieved a record share of property sales in Cumbria for the 12 months to 31 December 2010.

### Household insurance

Through our relationship with Aviva, we provide household insurance which combines the personal and trusted service you would expect from the Cumberland with the quality of cover provided by one of the country's leading insurers.

This is available to all customers regardless of whether they have a Cumberland mortgage and includes access to a 24-hour helpline.

### Life insurance

As well as the life insurance and mortgage payment protection insurance available to members with a Cumberland mortgage, through Aviva we have introduced a straightforward life insurance product for the over 50's. There are no medical checks and, as long as you are aged 50 – 80 and a UK resident, you are guaranteed to be accepted.

### Stocks and Shares ISA

In addition to the Cash ISAs available in branch, Cumberland customers can open a Stocks and Shares ISA as part of the financial planning service provided in conjunction with Aviva. Our financial planning consultants can also offer access to a wide range of other Aviva investment products.

### Independent financial advice

We also offer access to independent financial advice through Cumberland Financial Services Limited.

## How can we get better?

This is always on our mind, because we want to make sure that you feel you are 'more than a number' when you are part of the Cumberland.

Last year, you sent us more than 3,000 customer satisfaction questionnaires. Whilst 98% of these said that you would recommend us to a friend, you helped us to identify areas where we were not performing as well as we should. Once we know about a problem, we can then do everything possible to put it right.

We also use an external company to 'mystery shop' by visiting our branches anonymously to check that you are receiving the service we wish to provide. We plan to increase the frequency of mystery shopping in 2011-12.

*If you have any suggestions for how we can continue to improve customer service please contact our Customer Service team on 0845 601 8396 or click on the button on the home page of our website. Alternatively, you can contact any of the Executive team directly using the email addresses which are available in the 'About Us' section of the Cumberland's website, [www.cumberland.co.uk](http://www.cumberland.co.uk)*



# in the community cumberland in the community cumberland in the

THE CUMBERLAND HAS CONTINUED TO SUPPORT THE LOCAL COMMUNITY with donations of more than £100,000 to community, educational and charitable initiatives within our area.



Children taking part in the Cumbria School Olympics, supported by the Society.



Grant Seaton, Brampton branch manager, presenting Low Luckens Organic Resource Centre with a donation to fund educational farm visits.



Members of the Rainbows, Brownies and Guides of the Border Division receiving three new laptop computers from Miranda Housby, English Street office manager.

**Cumbria School Olympics:** The Society was the main supporter of the 2010 Cumbria School Olympics, the largest multi-sport participation event for young people in Cumbria. The event provided opportunities for approximately 8,000 young people aged 7-11 to participate in a range of organised sporting competitions. Around 900 children took part in the event's finals, which were held in Penrith in June.

**Low Luckens Organic Resource Centre:** Low Luckens, near Brampton, offers school children and community groups the opportunity to visit a farm and learn about food, sustainable farming, health, wildlife and the local environment. Thanks to the Cumberland's support, the centre was able to invite approximately 1,500 local people to the farm.

**First Responders:** The Society provided donations to two groups of Cumbrian First Responders to help towards the purchase of life-saving equipment to be used by first aid volunteers in rural areas of the county.

**Girl Guides:** The Society donated six laptop computers to the West Cumbrian and Border divisions of the Girl Guides to help develop the girls' IT skills and provide a safe online environment in which to chat with other Guides around the world.

At an individual branch level, we made donations to more than 90 community projects in 2010-11 including Silloth Carnival, the Dumfries and Galloway Senior Forum, and the Brantfield Parent and Toddler Group, near Kendal.

If you are involved in a community project which could benefit from the Society's support, you can find details of how to apply for funding in our 'About Us' leaflet, which is available from any of our branches. Alternatively, you can send an email to [communityfund@cumberland.co.uk](mailto:communityfund@cumberland.co.uk).



In 2010, the Society became the main sponsor of the **Great Cumbrian Run**. Approximately 1,800 runners took part in the annual half-marathon which started at Carlisle Castle and finished at the city's Sheepmount Stadium. The Society is proud to be associated with this prestigious local event and is delighted to be supporting the run again in 2011.

## Pledge for Votes

The Society's 'Pledge for Votes' scheme is designed to encourage members to vote at our Annual General Meeting by linking a donation to local charities to the number of votes received. Thanks to your support, last year we raised almost £11,000 for Macmillan Cancer Support.

This year the Society will donate 50p for each vote received at the 2011 AGM, to be split equally between the Lake District Search and Mountain Rescue Association and the Salvation Army, to support their charitable work in our operating area.

## 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 77 donations with a combined value of more than £32,000. These included Carlisle Wheelchair Sports Club, the Moor Row Jubilee Club and Ashton Group's Theatre Factory in Barrow-in-Furness.

If you support a charity which you would like to be considered for a donation, please write to: The Secretary, Cumberland Building Society Charitable Foundation, Cumberland House, Castle Street, Carlisle, CA3 8RX, or send an email to [charitablefoundation@cumberland.co.uk](mailto:charitablefoundation@cumberland.co.uk).

## Our Staff

During the year our staff have raised thousands of pounds for a wide range of charitable causes. These fundraising activities have included running the Cumberland Building Society Great Cumbrian Run, the Great North Run, the Manchester 10k and the Race for Life; busking dressed as a banana; cycling for eight hours on an exercise bike; skydiving; organising coffee mornings and participating in the Midnight Memory Walk, in aid of Eden Valley Hospice.

# Summary Financial Statement

FOR THE YEAR ENDED 31 MARCH 2011

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 13 June 2011.

## Summary Directors' Report

The Society maintained its strong performance of the last few years, with a profit after tax of £5.85 million. This was lower than the £6.34 million recorded last year, but the principal reason for this, as outlined in the Chairman's Welcome on page 3, was the impact of our liability to the Financial Services Compensation Scheme.

Mortgage and savings business levels were generally lower than in previous years, which is to be expected given the increasingly difficult economic conditions; details of our performance are shown below.

The Society's long term strategy has proved to be very resilient in dealing with the 'credit crunch' which took place nearly four years ago, and the subsequent economic downturn. We are mindful that the future course of the economy remains very uncertain, especially in the light of the forthcoming public spending cuts. We are though, confident that we are well placed to continue to meet successfully the challenges which will arise.

We will continue to strive to maintain the ethos of a 'traditional' building society for which service to our members, and treating both borrowers and savers fairly, are paramount, while providing competitive and up to date services.

### Financial Results

- Profit after tax was £5.85 million, 0.38% of mean total assets.
- Share balances increased by 1.6% to £1,341.39 million.
- Mortgage balances reduced by 2.5% to £1,150.31 million.
- Administrative expenses and depreciation fell by 3.1%.
- Gross capital as a percentage of shares and borrowings rose from 7.01% to 7.71%.
- Funding other than from individual members, fell to less than 5% of the total.

### Savings and Banking Services

- The inflow of funds of £5 million was much smaller than in each of the previous three years, in which a total of £178 million was received. Nevertheless, we regard this as a real success in that the funds attracted in those three years were effectively retained, in the face of stiff competition, recovering stock markets and the continuing very low interest rate environment, which has led many members to make repayments to their mortgages rather than build up savings.
- The Society implemented a new fraud detection system during the year, which has significantly enhanced our ability to protect our members. It is also currently in the process of introducing the new 'SecureCall' system for its internet banking customers, which will give them even greater protection over their transactions.

- The popularity of the internet banking system continues to grow and over 30% of current accounts are now internet-enabled.
- Balances held in current, money management and cashcard accounts increased by over 10% in the year, continuing the growth seen in previous years.

### 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.
- Mortgage balances fell by 2.5%, as demand for new loans continued to be subdued and as mentioned earlier, many members chose to take advantage of low interest rates to make repayments to their loans. However, around half of this fall was due to a reduction in residential mortgage balances held outside our operating area, as the Society focused on lending within this.
- Mortgage lending was £143.9 million, reduced by 5.9% from the previous year. However, the Society remained very much open for business for new mortgage lending throughout the year and continued to offer loans of up to 90% of a property's value for first time buyers and its existing borrowers within its operating area, together with competitive products for those borrowers whose product term expired.
- The number of mortgage accounts in arrears remains very low in relation to industry averages as a result of the Society's responsible approach to lending over many years. Only five properties were in possession at the year end.
- We continue to deal sympathetically with those borrowers who are affected by the difficult economic conditions.

### Estate Agency

Cumberland Estate Agents Limited made a healthy profit in a very subdued housing market. It remains an essential part of the Group's strategy as a vital source of high quality mortgage business, and raises the profile of the Cumberland throughout the area.

### Charitable Donations

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

### Board of Directors

Alan Johnston was appointed as a new non-executive director and brings to the Board extensive financial and general commercial experience. Following his liver transplant operation in December 2009, John Leveson has made an excellent recovery and was able to return to work in July 2010.

### Corporate Governance

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

### Outlook for 2011-12

- The Cumberland remains committed to its independence and mutual status and we will continue to strive to be the natural choice for financial services for the people of our region.
- The Society will upgrade its core computer system, the authorisation system for its internet banking, Visa debit and ATM services and its correspondence management system in the coming year, utilising new technological features to improve its efficiency and service to customers, together with additional security features.
- We will strive to maintain the Cumberland's strong financial position, safeguarding the interests of our members. The operating environment remains difficult but we are well placed to deal with whatever materialises in the coming year. This is thanks to the strength of our long term strategy of concentrating on the interests of our members and treating both borrowers and savers fairly, and the resilience of our profitability and capital.

On behalf of the Board  
**Michael J. Pratt, Chairman** 18 May 2011

# Financial Results

FOR THE YEAR ENDED 31 MARCH 2011

	Group 2011	Group 2010
Results for the year	£000	£000
Net interest receivable	18,689	18,993
Other income and charges	6,101	5,434
Administrative expenses	(15,219)	(15,705)
Provisions for bad and doubtful debts	(944)	(748)
Operating profit before FSCS levy	8,627	7,974
Provision for FSCS levy	(205)	869
Profit for the year before taxation	8,422	8,843
Taxation	(2,570)	(2,499)
Profit for the year	5,852	6,344
<b>Statement of total recognised gains and losses</b>		
Profit for the financial year	5,852	6,344
Actuarial (loss)/gain recognised in pension scheme	(75)	139
Movement in deferred tax relating to pension scheme	19	(39)
Unrealised gain/(loss) on revaluation of investment properties	394	(35)
Total recognised gains and losses for the year	6,190	6,409
<b>Financial position at end of year</b>		
<b>ASSETS</b>		
Liquid assets	359,337	377,600
Mortgages	1,150,307	1,180,079
Other loans	2,116	1,464
Fixed and other assets	15,011	14,522
Total assets	1,526,771	1,573,665
<b>LIABILITIES</b>		
Shares	1,341,389	1,320,679
Borrowings	70,169	142,744
Other liabilities	6,440	7,659
Reserves	108,773	102,583
Total liabilities	1,526,771	1,573,665

Summary of key financial ratios	Notes	2011	2010
		%	%
Gross capital as a percentage of shares and borrowings	1	7.71	7.01
Liquid assets as a percentage of shares and borrowings	2	25.46	25.80
Profit for the year as a percentage of mean total assets	3	0.38	0.41
Management expenses as a percentage of mean total assets	4	0.98	1.00

## Approved by the Board of Directors on 18 May 2011

M J Pratt Chairman

R Atkinson Vice-Chairman and Chairman of the Audit and Risk Committee

K Parr 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 of Cumberland Building Society for the year ended 31 March 2011 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 2011 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  
18 May 2011

## 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, during the year an external review of executive and non-executive remuneration was undertaken.

The review concluded that, when taking into account the size and complexity of the Society's operations, both executive and non-executive remuneration was below market levels; this was particularly the case in respect of the roles of chairman, vice-chairman and chairman of the Audit and Risk Committee. The conclusions were noted and will be kept under review. In the meantime, the Board agreed that a small supplemental fee be paid to reflect the additional responsibilities of the chairman of the Audit and Risk Committee.

The executive directors voluntarily waived any entitlement to bonuses for the year ended 31 March 2009. For the year ended 31 March 2010, the Committee, having consulted with the executive directors, agreed that no bonuses relating to performance against corporate targets

would be paid. This was in spite of the Society achieving excellent financial results in a difficult operating environment. However, 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 decided to reintroduce a modest executive bonus scheme for the year ended 31 March 2011 and payments representing 5% of basic salary have been awarded. A scheme has also been implemented for the year ending 31 March 2012.

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 Financial Services Authority (FSA) announced the final rules for its Remuneration Code in December 2010, and these will apply to the Cumberland with effect from 1 July 2011. The Committee considers that the Society already complies with aspects of the earlier Code where appropriate and following a detailed review, will comply with the new FSA Remuneration Code by this date.

On behalf of the Remuneration Committee  
Richard Atkinson  
Chairman 18 May 2011

The emoluments of the Society's directors are listed below:	2011 £000	2010 £000
<b>Non-Executive Directors</b>		
Michael Pratt (Chairman)	39	37
Richard Atkinson (Vice-Chairman)	28	25
Simon Berry	21	15
David Clarke	21	20
Trevor Hebdon (appointed 11 December 2009)	21	7
Alan Johnston (appointed 15 February 2011)	3	-
Charles Waddington (retired 29 June 2010)	5	20

Mr Berry was on sabbatical leave for three months in 2009-10.

Executive Directors	Salary £000	Bonus £000	Taxable Benefits £000	Sub-total £000	Increase in accrued pension £000	Pension contributions £000	Total £000
<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

<b>2010</b>							
Kevin Parr	176	-	8	184	9	-	193
John Leveson	123	-	8	131	2	-	133
John Kidd	125	-	5	130	2	-	132
Peter Temple	108	8	6	122	1	2	125

Mr Leveson was absent on long term sickness leave during both of these years 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 2011 £000	Transfer value of accrued benefits, 31 March 2010 £000	Difference in transfer value less contributions £000
Kevin Parr	14	51	810	704	92
John Leveson	10	30	422	370	42
John Kidd	10	34	442	390	42
Peter Temple	7	43	827	750	70

During the year the Society implemented 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.

## Notice of Annual General Meeting 28 JUNE 2011

The Annual General Meeting of Cumberland Building Society will be held at 6.30pm on Tuesday, 28 June 2011 at Tullie House, Castle Street, Carlisle for the following purposes:

#### Ordinary Resolutions

1. To approve the Annual Report and Accounts for the year ended 31 March 2011.
2. To approve the Report on Directors' Remuneration.
3. To approve the re-appointment of KPMG Audit Plc as auditors.

#### Election/Re-election of Directors

4. To elect/re-elect Directors as follows:
 

a) to elect Alan Johnston	d) to re-elect John Kidd
b) to re-elect Richard Atkinson	e) to re-elect Michael Pratt
c) to re-elect David Clarke	f) to re-elect Peter Temple

#### BY ORDER OF THE BOARD

John C N Kidd, Secretary, 18 May 2011

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

## Notes on Voting

1. These Notes form part of the Notice of Meeting.
2. 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.

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.

3. To be valid, your completed voting form must be received at the Principal Office by midnight on 25 June 2011, or at a branch by 5pm on 23 June 2011. If voting online, votes must be cast by midnight on 25 June 2011.
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 18 May 2011 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.

## Election/Re-election of Directors

The number of candidates standing for election/re-election at this year's Annual General Meeting equals the number of vacancies. Your Board firmly believes that the six candidates have the relevant experience and skills and urges you to vote 'FOR' each candidate. Details of the directors standing for election/re-election are given below.



### Richard Atkinson

Richard joined the Cumberland's Board as a non-executive director in 1997. Vice-Chairman since 2007, Richard is also Chairman of the Society's Audit and Risk and Remuneration Committees. Richard grew up in West Cumbria and is a solicitor and the senior partner in Milburns, a practice which operates throughout this area.



### David Clarke

David joined the Society as a non-executive director in February 2005. Before leaving full time employment in 2003, he was Director - UK Division at Scottish Power plc. Resident in the South Lakes area, he is a business graduate with more than 25 years' board level experience, primarily in marketing and customer service. David serves on the boards of a number of other organisations, including Forensic Science Service Ltd, Phonepay Plus Ltd, the Independent Mobile Classification Body Ltd and The Pensions Advisory Service Ltd. He is also a National Trustee of The Abbeyfield Society. David is a member of the Society's Remuneration Committee.



### Alan Johnston

Alan was appointed to the Board in 2011 and is also a member of the Society's Audit and Risk Committee. He has 30 years' 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 Chair of Governors at Robert Ferguson School in Carlisle.



### John Kidd

John joined the Society in 1994 as Financial Controller, became Assistant General Manager (Finance) in 1997 and joined the Board in 2002 as Finance Director. He is also the Society's Secretary and in addition to Finance his reporting areas are IT, Treasury and Group Legal Services. John is from Carlisle and attended Trinity School. He is a graduate of Newcastle University and a Chartered Accountant. Prior to joining the Cumberland, he worked in Newcastle for KPMG.



### Michael Pratt

Michael was appointed to the Board as a non-executive director in September 1996 and has been Chairman since June 2007. He is from Workington and until his recent retirement was the senior partner in the firm of Gibbons Chartered Accountants, which operates throughout West Cumbria. Michael also chairs the Nomination Committee and is a Trustee of the Society's defined benefit pension scheme. He has a number of business interests and is also a non-executive director of The Veterinary Defence Society Limited.



### Peter Temple

Peter attended school in Brampton and joined the Society straight from university in 1982. He has undertaken a wide range of roles in the Society, leading up to his appointment to the Board in 2007. As Operations and Human Resources Director, Peter has executive responsibility for Customer Service operations and product and service development, together with Personnel and Training. Peter is Vice-Chair of Governors at Trinity School in Carlisle.



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