Annual Report and Accounts

year ended 31 March 2017

The Cumberland
Building Society

ANNUAL REPORT and ACCOUNTS

Year ended 31 March 2017

CHAIRMAN'S STATEMENT

Having become Chairman of the Society in September 2016, I am delighted to be able to report upon another successful year in both financial and business terms, with a record profit after tax of £19.67 million, 0.90% of mean assets (albeit enhanced by the gain from the sale of the Society's share in VISA Europe to VISA Inc.). We achieved growth in mortgage balances of 5.3%, over £90 million (bringing this to over £600 million, 50% over the last four years) and growth in share balances of 8.1%, with a record inflow of funds of £118.5 million.

This success continues that of the last ten years, in which the role of my predecessor, Michael Pratt, was fundamental. Michael joined the Cumberland's Board in 1996, became Chairman in 2007 and led the continual development of the Society's unique business model. This involves developing direct and close relationships with our members within our defined operating area by providing a wide range of modern financial services, covering not just residential mortgages and savings, but also current accounts for both personal and business customers (the delivery of which has changed so significantly over that time), estate agency, vehicle finance and commercial lending. All of the above are underpinned by a demonstrable culture of fairness and putting members' interests first and foremost in everything we do.

I would like to highlight three achievements from this year:

Firstly, for the third consecutive year, we were named 'Best Regional Building Society' at the Mortgage Finance Gazette Awards, for offering the most consistently competitive mortgage rates during the year. This illustrates our commitment to the first time buyers and home movers of our region and indeed, those wishing to remortgage to us. Equally important is the work we do to retain our borrowers, especially by offering them the same or better products as those offered to new customers, when their products expire.

Secondly, in Spring 2017 the consumer organisation Fairer Finance rated the Cumberland's current accounts number 1 in the UK for the second time running for our focus on our customers – in particular for having the happiest customers, being trusted by our customers, and for having consistently low numbers of complaints. This is thanks to the high levels of customer service offered by both our branches and Head Office contact team in Carlisle, and the ease and convenience of our mobile and internet banking. This year has seen the number of building societies offering personal current accounts reduce to only two, and the Cumberland is the only one to offer business current accounts, which complement our commercial lending activities. We believe that providing this service to our members is essential for achieving our vision of being the preferred choice for financial services products in our operating area and especially, for continuing to attract younger customers.

Thirdly, we introduced our online appointment booking system, 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 - another example of us making "doing business with the Cumberland" easier. Whilst we are continually seeking to develop our digital services, we are committed to maintaining our personal contact with our members. This is particularly resonant at a time of regular announcements of local bank branch closures, which have left the Cumberland as the only remaining financial institution in several locations in our area. Where this is the case, we are very well placed and have been highly successful in attracting both new personal and business customers.

Our principal subsidiary companies, Cumberland Estate Agents Limited and Borderway Finance Limited have both made significant progress this year. It is, however, regrettable that we have had to withdraw the financial advice we have offered in conjunction with Legal & General as a result of the cessation of their financial planning advice service, although we continue to provide independent financial advice through Cumberland Financial Services Limited.

Further details of our financial and business performance are contained in the Strategic Report, together with information on the Society's strategy, our current view of our operating environment, service developments for members and community involvement.

With respect to the Board, I am delighted to have welcomed a new non-executive director, Eric Gunn, who brings with him strong experience in banking and in particular, risk management, from his career with a major clearing bank. Alan Johnston has also succeeded me as Vice-Chairman and Chairman of the Audit Committee.

I, my Board colleagues and senior management past and present, were saddened by the death in May 2017 of James Carr OBE, the Society's Chairman from 1996 to 2007. As in my comments on Michael Pratt earlier, James was fundamental to the development of the Society's business model during his tenure. His wise stewardship during those years enabled the Society to be extremely well placed when the credit crunch began in 2007, leading to the subsequent recession which caused such turmoil in the financial services industry, but which impacted the Cumberland to a very limited extent. He, therefore, played a key role in providing the strong foundations for the Cumberland's successes of the ten years that followed. James was awarded the OBE for services to conservation, education and the community in Cumbria in the 2017 New Year's Honours List, a thoroughly deserved honour, and we at the Cumberland wish both to pay tribute to him and express our thanks for his contribution to the Society.

Although we are living through a period of great uncertainty, the strength of the Cumberland's balance sheet, capital, strategy and culture and its highly professional and enthusiastic team has brought successful performance over many years and our aim is to build on our strengths while moving forward. It is vital that our products and services are relevant and accessible to all, and therefore standing still is never an option.

With our extremely strong regional presence and the unwavering commitment of our staff, who are a real asset and who always place our members at the heart of everything we do, I am confident that the Cumberland will continue to provide a truly first class customer experience, coupled with the delivery of financial products and services which will meet the expectations of our membership long into the future – whatever challenges emerge.

Trevor Hebdon

Trevor Hebdon
Chairman
23 May 2017

STRATEGIC REPORT

The Directors have pleasure in presenting their 167th Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 March 2017.

BUSINESS OVERVIEW

Cumberland Building Society's vision is to continue to operate using a regional mutual banking model, growing on a sustainable and profitable basis for the benefit of existing and new members, being the preferred choice for financial services products in its operating area.

To achieve this aim, the Cumberland offers a wide range of financial services, principally through its branch offices, and delivers long term benefits to members through the provision of competitive products combined with excellent customer service.

The Cumberland Group, which principally consists of the Society along with subsidiaries which provide services to customers as set out below, aims to achieve sufficient profit to maintain its capital strength to safeguard the interests of members.

STRATEGY

The Society seeks to achieve its vision through its strategy based on the following elements:

- Mutual – remaining independent and mutual for the benefit of its members, treating them fairly and acting fairly in all that it does;
- Regional – offering products and services across its operating area;
- Direct – focusing on direct relationships with customers, particularly through local branches and the local customer service team;
- Customer Focus – differentiating itself from its competitors by offering a market leading customer service and compelling customer experience to build long-term relationships with customers;
- Diversified – offering a broad range of products and services to customers. This includes money transmission services, estate agency sales and lettings and lending outside core residential / buy to let mortgages (holiday let, commercial lending, car finance); and
- Commercial Focus – maximising other appropriate commercial or business opportunities, for example out of area introduced business, to maintain financial strength, and support the Society's ability to offer competitive products and services in its operating area.

During 2016-17 the Board carried out its annual review of strategy which refined the Group's Corporate Plan. The Group's long term strategy has been consistent for many years, based on the business model which follows, although naturally there are tactical adjustments to this in response to the operating environment of the time. Nevertheless, the strength of the strategy has been amply demonstrated over the last ten years, with the Group's profitability having remained amongst the strongest and steadiest in the building society sector throughout that time.

The Cumberland's strategic objectives include, as well as maintaining a strong capital position, achieving a suitable balance between profitability and the growth of the business, and the fair treatment of members with in particular, the maintenance of a fair balance between the interests of investing and borrowing members, both existing and new.

BUSINESS MODEL

The Society's business model is derived from the key elements of its strategy above.

The Board regards as essential, the establishment of direct relationships with members, and the deepening of these relationships through the provision of a wide range of services and excellent customer service. This is supported by:

- a strong branch network; the Society's branch operating area consists of Cumbria (with 26 branches), Dumfries and Galloway (5 branches), North Lancashire (with branches in Preston and Lancaster) and West Northumberland (a branch in Haltwhistle, with an area deemed to extend east to Hexham);
- a customer service centre within its Head Office in Carlisle; and
- the wide range of financial services offered, including a strong commitment to developing internet and mobile banking services for members as technology advances.

Therefore, as well as the traditional building society products such as residential mortgages and savings, the Group also operates:

- a full current account service, including internet banking for both personal and business customers, and a mobile app for personal customers;
- a commercial lending operation, focussed primarily on owner-occupied guest houses and hotels, holiday let and buy to let properties, with the majority of its lending located within the branch operating area and in particular, the Lake District;
- an estate agency and lettings service, through Cumberland Estate Agents Limited;
- motor vehicle finance, through Borderway Finance Limited; and
- financial advice, through Cumberland Financial Services Limited.

The Board considers that the concentration on relationships with local customers has been a source of strength for many years and is committed to continuing to develop this approach. The Cumberland continues to evolve its brand, marketing, products and services to ensure that it attracts new, younger members whilst remaining sensitive to the needs of existing members of all age groups. This includes updating the Society's external branding to ensure it remains contemporary, some of which can be seen on the front and back cover of this report.

The large majority of residential lending has been undertaken through the Society's branches or its estate agency and within the branch operating area, and this will continue to be the case as it is fundamental to the Society's vision and strategy. However, since 2012, additional residential lending has been undertaken in partnership with a limited number of carefully selected introducers, and as virtually all of this lending has been undertaken outside the branch operating area, it has broadened the geographical distribution of the mortgage book.

The Society is very strongly funded by its savings and current account members together with local business customers, with for many years, very little funding having been obtained from the financial markets, although since 2012, drawings have been made from the Government's Funding for Lending Scheme (FLS) to supplement this. With very limited exceptions, the Society does not offer savings and current accounts to those living outside of its branch operating area.

The Group is very committed to developing its digital services over the next few years, by building on those which are already offered, such as internet and mobile banking, as it regards this as vital in ensuring that it continues to provide the services that members want.

THE OPERATING ENVIRONMENT

The year has been dominated by the outcome of the EU referendum of 23 June 2016. The Bank of England responded in August 2016 by reducing its base rate to 0.25%, and by introducing the Term Funding Scheme (TFS), building on the previous FLS and providing further funding to financial institutions at base rate, through to February 2022. Since 2012, the FLS has both stimulated lower mortgage rates and depressed rates for savers and the Society will continue to seek to strike a balance between competing strongly in the mortgage market, while protecting its existing savings customers as far as possible. It is believed that its financial and business performance over the last few years has demonstrated its success in this respect.

The Society is confident of its ability to adjust its margins appropriately, while being fully mindful of the interests of members, whenever and in whatever direction rates move next. It sought to respond to the August 2016 base rate reduction in a balanced way, by reducing the standard variable rate for owner occupier borrowers by 0.25%, and by not reducing any variable savings rates by more than 0.25%.

The timing of another interest rate change is highly uncertain. However an ongoing outcome of the very low interest rate environment of the last eight years, is a strong preference by borrowers for fixed rate loans, and for savers to prefer variable rate products. The Cumberland's experience is wholly consistent with this, but with respect to fixed rate mortgages, it has continued to hedge these very closely with interest rate swaps, in order to ensure that its position is essentially protected should interest rates rise.

Overall it is felt that the economy and housing market have been reasonably resilient since the outcome of the EU referendum, although it must be stressed that the Brexit process is in its very early stages and clearly considerable uncertainty remains. Within the Society's branch operating area both house prices and residential mortgage demand have been virtually static, with demand for buy to let loans having been reduced by tax changes intended to achieve that result. Owner occupier mortgage rates have been extremely competitive, particularly for those customers with relatively large deposits. Savings rates in the market generally have remained low and the Society has maintained a strong competitive position in relation to them.

PRINCIPAL RISKS AND UNCERTAINTIES

Building societies operate in a highly competitive market, and with significant uncertainties arising from the general economic environment. Therefore the management of risk and strategic direction are key activities, vital for the success of the business.

The Board of Directors, aided by a number of committees, ensures risk management and strategic direction are considered thoroughly and appropriate actions implemented.

The principal risks facing the Group and the procedures put in place to manage them are described below.

Liquidity Risk

Liquidity risk is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. The Society's Assets and Liabilities Committee (ALCO), assists the Society's management and the Board to manage this risk. Responsibility for the daily management of the risk lies with the Treasurer, who reports directly to the Finance Director. Monthly, the balance sheet is stress tested to confirm that the Group can withstand normal and extreme cash outflows. The Financial Risk Management Policy and the Individual Liquidity Adequacy Assessment Process, both regularly reviewed by the ALCO and agreed by the Board, ensure that the daily activities of the treasury team are conducted within a prudent framework and in line with the requirements of the Prudential Regulation Authority. The minutes of the monthly ALCO meeting are presented to the Board each month.

Market Risk

The primary market risk faced by the Group is interest rate risk. This is the risk of fluctuations in interest rates and changes in the value of derivative contracts impacting upon the value of the Group's assets and liabilities. The ALCO assists management and the Board to manage that risk. The balance sheet is stress tested on a monthly basis to inform the ALCO of the effects on income or costs of interest rates rising or falling. The Treasurer manages the daily position within a framework in accordance with the Financial Risk Management Policy. A detailed analysis of the Group's interest rate sensitivity at 31 March 2017 and 2016 can be found in note 26 to the accounts.

Quarterly, the Board assesses the Society's position in relation to its net interest margin, including sources of basis risk, and considers the exposure to negative scenarios in this respect.

Credit Risk

The Group is exposed to credit risk in respect of either mortgage customers or treasury counterparties being unable to meet their obligations as they become due. The Residential and Commercial Lending Policy Statements, approved by the Board, set out the approaches to residential and commercial mortgage lending.

In respect of residential mortgages, lending mandates are strictly controlled and all applications are reviewed by a specialist residential mortgage underwriting team. Applications outside individuals' mandates are considered by the Residential Credit Committee.

In respect of commercial mortgages, the Society's specialist commercial lending managers produce detailed appraisals of each application. All applications of over £500,000 are considered by members of the Commercial Credit Committee.

Either the Head of Risk or the Group Risk Manager attend Residential and Commercial Lending Credit Committee meetings to provide independent oversight.

The Financial Risk Management Policy contains limits on credit exposures to individual counterparties and these are monitored on an ongoing basis by the ALCO.

Operational and Conduct Risks

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events and the Group Operational Risk Policy sets out the Group's approach to its management. Conduct risk is the risk arising from the Group's conduct in its relationship with customers, including failing to treat customers fairly with resulting detriment, or potential detriment, to those customers. The Society's Conduct Risk Policy Statement sets out its approach to the management of Conduct Risk.

Whilst line management is responsible for identifying and managing these risks, this is carried out using an agreed framework and methodology, with quarterly reporting to the Executive Risk Management Committee, which consists of all of the members of the Executive, the Head of Internal Audit and the Group Compliance Manager. The Committee meets on a quarterly basis and reports to the Board Risk Committee, which in turn reports to the Board.

During 2016-17 the profile of cyber risk rose as a result of several highly publicised incidents, both within and outside the financial services sector. The Society has taken this area of risk very seriously for many years and has committed significant resources, including further investments in the latest year, to ensure that both its business generally and our members' money and personal information in particular, are safe and secure. Whilst there can never be any guarantees in this respect as new threats emerge, everyone at the Society is highly conscious of the importance of this area and it is a key priority for the Board and senior management.

FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's objective is to minimise the impact of financial risk upon its performance. An explanation of the financial risks and the controls in place to manage them is given in notes 25 to 28 to the annual accounts.

The disclosures required under Pillar 3 of the Capital Requirements Directive IV and the Capital Requirements (Country by Country Reporting) Regulations 2013 will be published on the Society's website.

KEY PERFORMANCE INDICATORS

Very many aspects of financial (and other) performance are monitored on a regular basis, but the table below focuses on those that are considered key to business success.

	2017	2016	2015
Including hedge accounting:			
Group Profit After Tax (£million)	19.67	12.62	8.91
Group Profit After Tax as a % of Mean Total Assets	0.90	0.62	0.49
Excluding hedge accounting:			
Group Profit After Tax (£million)	19.96	12.62	9.92
Group Profit After Tax as a % of Mean Total Assets	0.91	0.62	0.55
Interest Margin for Members (%)	1.78	1.70	1.70
Society Administrative Expenses and Depreciation as a % of Mean Total Assets	0.88	0.91	0.98
Gross Capital as a % of Shares and Borrowings	7.43	7.31	7.39
Loans and Advances to Customers - Balance change % #	5.28	12.83	12.90
Lending During the Year (£million) #	350.41	422.17	375.86
Inflow of Funds from Customers (£million)	118.50	74.60	80.70
Other Funding as a % of Shares and Borrowings	14.89	17.50	13.54

 # Excludes lending by Borderway Finance Limited and fair value adjustment for hedge risk.

It should also be noted that the 2017 results include the gain on equity share investment of £6.066 million (before tax), as a result of the sale of the Society's share in VISA Europe to VISA Inc. in June 2016. Note 31 to the accounts provides further information on this. Without this, the Group's profit after tax including hedge accounting would have been £14.82 million, 0.68% of mean assets, and without hedge accounting, £15.10 million, 0.69% of mean assets.

EXPLANATION OF INDICATORS

Group Profit After Tax

Group profit after tax is the net amount earned after taking into account all expenses and tax charges.

Group Profit After Tax as a % of Mean Total Assets

This relates the Group's profit after tax to its mean total assets, which are calculated as the simple average of total assets at the beginning and end of the financial year.

Gross Capital as a % of Shares and Borrowings

Gross capital comprises the general reserve and the available for sale reserve, and this ratio measures the proportion of this in relation 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 any difficulties that might arise in the Group's business and therefore protects investors.

Interest Margin for Members
This ratio takes the interest received from residential mortgage borrowers as a percentage of mean residential mortgage balances, minus the interest paid to members with share accounts as a percentage of mean share balances (after adjusting for net income or expense on financial instruments). It therefore primarily reflects the pricing of the Society's residential mortgage and savings products, but can also reflect in respect of fixed rate products the net income and expense on financial instruments. The measure shown excludes the impact of hedge accounting.

Society Administrative Expenses and Depreciation as a % of Mean Total Assets
Administrative expenses and depreciation consist mainly of the costs of running the Society's business, including staff costs. This ratio measures the proportion that these costs bear to mean total assets. It is an indication of the Society's efficiency and the aim is, over time, to see it reduce. In relation to its peers however, the Society's business model of offering a wide range of services, including current accounts with associated services such as internet and mobile banking, and obtaining the substantial majority of its residential mortgage and all of its savings business directly from customers rather than through intermediaries, means that its ratio will inevitably be higher than were that not the case.

Loans and Advances to Customers - Balance Change %
This shows the change in the Society's mortgage book (both residential and commercial) and reflects both the popularity of its products and services offered to new and existing borrowing members, and the Society's appetite for credit risk.

Lending During the Year
This figure reflects the same factors as mentioned above.

Inflow of Funds from Customers
This reflects the net movement of funds in and out of the Society's savings and current account products.

Other Funding as a % of Shares and Borrowings
This reflects the extent to which the Group is funded by deposits owed to credit institutions and other customers, rather than its members. The Group's aim is to be funded predominantly by its members, i.e. individual savers and current account customers, in line with the principal purpose of a building society.

FINANCIAL AND BUSINESS PERFORMANCE

Income and expenditure
Whilst as a mutual organisation, the maximisation of profit is not a key aim, the Group seeks to make sufficient profit to ensure its ongoing financial strength. The Group achieved a strong profit after tax of £19.67 million in 2016-17, representing 0.90% of mean total assets, up from 0.62% in the previous year. As mentioned above however, without the gain on equity share investment as a result of the sale of the Society's share in VISA Europe to VISA Inc., profit after tax would have been £14.82 million, 0.68% of mean total assets. Excluding the impact of this gain, the increase in profit after tax was principally a result of a strengthening of net interest receivable as a result of:

- the cumulative effect of the strong growth in both mortgage balances over the last few years (particularly holiday let and buy to let lending, which generally produce better yields than owner occupier lending), albeit that this was reduced in the latest year compared with the previous one, and in retail savings and current account balances; and
- the ongoing reduction in funding costs which resulted from the Government's Funding for Lending Scheme (FLS), both in terms of funds drawn under the Scheme, and as a result of its effect upon market interest rates for retail funding.

The 'net interest margin for members' key performance indicator increased slightly in the latest year, as the fall in the mean interest rate percentage received in relation to residential mortgages was less than the fall in the mean interest rate percentage paid on savings and current accounts. However, the former reflected to some extent the growth in the Society's holiday let and buy to let lending over the last few years, together with its lending through a small number of introducer firms, which requires specialist underwriting and therefore achieves a higher yield than mainstream owner occupier lending. As will be discussed later in this report, the Society achieved a record inflow of funds, which indicates the competitiveness of its savings and current account products. The Society sought to make its response to the Bank of England's base rate reduction in August 2016 as neutral as possible for profitability, and no savings accounts had rate reductions of greater than the base rate reduction of 0.25%.

With respect to the ratio of administrative expenses and depreciation as a proportion of mean total assets, this fell slightly in the year because Society administrative expenses and depreciation rose by 4.0% while mean total assets rose by 8.1%.

Subsidiary companies
Borderway Finance Limited, our motor finance business, enjoyed another successful year with a profit after tax of £572,000. 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. During the year it launched a 'personal contract purchase' product which is expected to become increasingly popular.

The operations of Cumberland Estate Agents Limited were significantly restructured during 2015-16 in order to respond to customer demand by providing extended opening hours in evenings and at weekends, and to develop a highly competitive offering to address the challenge posed by internet-only estate agencies, while still retaining a high street presence. In 2016-17 the company made a post-tax loss of £134,000, but it increased its value of mortgage approvals introduced to the Society by over 50%, and performed increasingly well as the year progressed across a range of metrics, with for example, property listings up 64% in March 2017 compared with the same month a year earlier. Data from Rightmove confirmed a similar increase in its market share. The Group remains committed to strengthening the company, given its importance in attracting first time buyers and home movers.

Cumberland Financial Planning Limited made a profit after tax of £62,000, but its operations ceased on 30 September 2016, as a result of the withdrawal of Legal and General, whose products it offered, from the market for such advice. The Group regrets the inability of providers to construct a business model in this area which can deliver a suitable return while meeting regulatory requirements, as it is believed that this restricts the opportunity for customers with relatively modest sums to invest, to receive such advice. However, the Group's independent financial advisor firm, Cumberland Financial Services Limited, achieved a profit after tax of £22,000, and will continue to operate.

The Group's two property company subsidiaries, Cumberland Property Services Limited and Cumberland Homes Limited, broke even and made a loss after tax of £12,000 respectively, as professional fees for advice on developing the use of their land were incurred.

Capital

In the latest year the gross capital ratio has increased slightly because the Group's reserves increased at a faster rate than its shares and borrowings. The Society has an extremely strong capital position and in particular, has no capital provided by outside parties which require remuneration.

The Group's Common Equity Tier 1 (CET1) ratio (which reflects accumulated profits compared with risk weighted assets) was 17.24% at 31 March 2017 (2016: 17.24%).

Assets – Loans and Liquid Assets

The Society achieved mortgage balance growth of 5.3% during the year with total lending of £350.41 million. As indicated in this report last year, having achieved mortgage growth of 42% in the previous three years, it was anticipated that this would reduce in 2016-17. It is believed that the uncertainty both in the economy generally and in the housing market in particular, following the outcome of the EU referendum, also restricted growth. With respect to owner occupier lending, the substantial majority of which is obtained directly through its branches and estate agency offices, the Society's products were very competitive throughout the year, as evidenced by the Society being named for the third consecutive year, 'Best Regional Building Society' at the Mortgage Finance Gazette Awards. The Society continued to offer existing customers whose mortgage products had reached the end of their term, the same or better products as those available to new customers. It also continued to develop its lending with a small number of introducer firms.

The Society participated strongly in the holiday let lending market. However, changes from April 2016 to stamp duty for second properties and taxation of income from buy to let properties, dampened growth in this sector. Lending on commercial properties continued to be principally in the leisure and hospitality sectors, in line with our approach for many years, and our specialist commercial lending team enjoyed another successful year.

Prudent and responsible lending has long been a key part of the Society's approach, with rigorous underwriting processes ensuring that loans are affordable. All loans are subject to manual underwriting by a specialist team within our Head Office rather than automated credit scoring. In line with the parameters set, many are then considered by the Residential and Commercial Lending Credit Committees. The success of this approach is reflected in that at 31 March 2017, only 0.15% of our residential mortgages were in arrears of three months or more, and only four of our commercial mortgages, well below industry averages.

With respect to liquid assets, the Society maintained strong and readily available levels throughout the year, well in excess of its regulatory requirements.

Liabilities – Customer Shares and Deposits and Other Funding

The Society has historically been, and continues to be, very strongly funded by its individual members, virtually all of whom are located within its branch operating area. The Cumberland achieved a record inflow of funds of £118.5 million, with strong receipts across a wide range of accounts, including both personal and business current accounts, bringing the total amount of inflow in the last four years to £348 million. As a member owned organisation, the Cumberland has not lost sight of the need to give its savers a good deal in a climate which has been very difficult for them, and the strong ongoing inflow of funds is the result of not only the competitiveness of its rates, but also its track record over many years of providing good long term value.

As a result of the high inflow of funds leading to a growth in savings and current account balances which was greater than that in mortgage balances, funding from other sources on the balance sheet declined slightly over the year. Drawings from the FLS totalled £325 million at 31 March 2017, of which £133 million remained off balance sheet and therefore available for use in the future. The Society intends to participate strongly in the Term Funding Scheme announced by the Government in August 2016, but nevertheless continues to actively undertake work on its options for when this scheme ends in 2022.

With respect to current accounts, balances increased by 15.0% over the year. Moreover, an independent survey undertaken during Autumn 2016 by the consumer organisation Fairer Finance, which asked over 23,000 customers across the UK their opinions on their bank or building society, ranked the Cumberland top overall, and in particular, found that the Cumberland's current account customers were the happiest in the UK. A repeat of the survey in Spring 2017 resulted in the same outcome. We believe this is a reflection both of the quality of our current account services, and the high quality customer service provided by our branches and Head Office contact team. The Cumberland is now one of only two building societies to offer current accounts and indeed, the only one to offer them to businesses.

DEVELOPMENT OF SERVICES AND SYSTEMS

We continue to develop our services and systems to ensure that they remain up to date, relevant to the needs of our members and secure. As an increasing number of our members choose to manage their finances through digital solutions, such as our internet banking service or mobile banking app, ongoing development of these systems is essential.

As the pace of digital and other developments in the market increases, this year has been busier than ever, with the following developments being achieved:

- redevelopment of the Society's websites to significantly improve the usability and appearance of the sites and their responsiveness to use on any device;

- the launch of the Society's online appointment booking service, which enables customers to easily book, over the internet, appointments in any of our branches, our estate agency and with Cumberland Business;
- a significant upgrade to the Society's internet banking system, with an updated 'look and feel' and integration of responsive design, to help customers to use the service on the device of their choice;
- providing business customers with the ability to access their current account through the mobile app;
- enhancements to our mortgage affordability calculator on the Society's website to make this easier for customers to use on any mobile device;
- use of SMS text messaging to provide customers with regular updates as their mortgage application progresses;
- extension to the service available to our existing borrowers at the end of their mortgage product term, enabling them to select a new product without visiting a branch;
- the continued roll out of contactless debit cards, including to our Cumberland Business customers; and
- in response to customer demand for a shorter initial mortgage appointment, the Society developed the 15 minute mortgage interview, in which the Society's mortgage advisers can indicate the amount an individual can borrow and what the monthly payment will be.

Behind the scenes, the following projects were undertaken:

- the use of mobile technology within Cumberland Estate Agents to speed up our ability to prepare property details and bring clients' properties to the market; and
- integration of multiple systems within Borderway Finance, to make the process of delivering decisions to potential borrowers faster and more efficient.

Projects currently underway include:

- working with the Cheque & Credit Clearing Company and the banking industry to introduce cheque imaging, a process which will modernise and accelerate the cheque clearing process; and
- further enhancing our internet banking services and mobile banking app to introduce new features.

COMMUNITY INVOLVEMENT AND CHARITABLE DONATIONS

The Cumberland is an integral part of its local communities and therefore its involvement with them is regarded as very important. Further information on this can be found within the Annual Review booklet. Over £100,000 has been donated to charities, clubs and voluntary organisations within our operating area. As in previous years, a donation is made each year based on 50 pence for each vote recorded at our Annual General Meeting, and last year with over 22% of the eligible membership voting, over £11,000 was raised for the Stroke Association. This year, Alzheimer's Society and Alzheimer Scotland will be the beneficiaries.

STAFF

Great importance is placed on the recruitment, training and retention of high calibre employees. It is recognised that staff will play a vital role in the continuing success of the Cumberland. Training and staff development policies are continuously reviewed and, where appropriate, updated to meet the organisation's needs.

The Cumberland is committed to effective communication with staff, who are kept informed of matters relating to business performance and objectives. Staff involvement in matters affecting them is maintained by regular meetings.

The Cumberland has an equal opportunities policy and considers applications for employment from disabled persons. In the event of existing staff becoming disabled every effort is made to assist them in continuing to work for the organisation.

All staff are given opportunities for training, career development and promotion, taking into account their aptitudes, abilities and the particular demands of the job.

The directors very much appreciate the skill, dedication and enthusiasm of the Group's staff and their role in achieving the excellent business and financial results. Whether in our branches, our Head Office or in our subsidiary companies, the team in all parts of the Group have continued to deliver a high level of performance, both in serving members directly and in the development of new products and services for them, as outlined earlier in this report.

GOING CONCERN AND VIABILITY STATEMENT

The Group's business activities and financial performance are set out earlier in this report, together with its principal risks and uncertainties, and further information on these is presented in notes 25 to 28 of the annual accounts. Having considered these, and reviewed the Group's plans and forecasts covering profitability, capital, liquidity and funding over its corporate planning period of the next three years (which the Board considers to be an appropriate timeframe), the directors consider that the Group's financial and business performance will be such that it will have adequate resources to continue its operations and meet its liabilities for the foreseeable future. Accordingly, the annual accounts continue to be prepared on the going concern basis.

OUTLOOK

Given that the Brexit negotiations are in their very early stages and views on their outcome are somewhat speculative, the outlook for the UK economy is very uncertain. Although consumer confidence has been resilient thus far, the depreciation in sterling is likely to lead to higher inflation and the terms of future trade, upon which so many jobs depend, will be the subject of intense negotiation both with the EU and the rest of the world. Possible changes to migration policies will have different effects in different parts of the country. These issues will in time significantly influence the health of the economy generally, and in particular for the Society, interest rates and the strength of the housing market. The general election in June may or may not provide a clearer steer for the country, and beyond that, a second independence referendum in Scotland may have significant ramifications in our operating area.

Trevor Hebdon
Chairman

Alan Johnston
Vice-Chairman

Kevin Parr
Chief Executive

Peter Temple
Deputy Chief Executive

John Kidd
Finance Director

Chris McDonald
Operations & H.R. Director

Gill Gardner
Non-executive Director

Eric Gunn
Non-executive Director

Peter Anstiss
Non-executive Director

John Hooper
Non-executive Director

Michael Hulme
Non-executive Director

Nevertheless, the Cumberland starts from a position of considerable strength following its financial and business performance over the last ten years, during which both its reserves (without any paid-for capital) and total assets have grown by 75%. The Group continues to monitor all developments and assess alternative scenarios so as to be as prepared as possible for them, and firmly believes that it can address successfully any additional challenges whether emerging from competitors, technological developments, regulatory requirements or the course of the economy.

Fundamentally, the Group will maintain its long term strategy of putting members first in everything we do, developing direct relationships with them and providing excellent long term value combined with high quality customer service and products. The Cumberland has a well-earned reputation for both professionalism and fairness and this contributes hugely to our ongoing robust performance. Most of all however, the continuing strong support of our members which is greatly appreciated, enables us to move forward with confidence.

On behalf of the Board of Directors

Trevor Hebdon
Chairman
23 May 2017

DIRECTORS' REPORT

Information on the Group's strategy and its financial and business performance is provided within the Strategic Report on pages 3 to 9.

DIRECTORS

The directors at 31 March 2017 and at the date of this report are shown on page 9; further information on them is provided in the Annual Business Statement on page 44, and their attendance at the Board and Board Committees is set out in the Report on Corporate Governance on pages 12 to 14.

Alan Johnston, John Kidd and Peter Temple retire at the Annual General Meeting and, being eligible, seek re-election. Eric Gunn, who was appointed to the Board during the year, also retires and being eligible, seeks election. None of the directors had an interest in shares in, or debentures of, any subsidiary undertaking of the Society at any time during the financial year.

At 31 March 2017 three directors or persons connected to them had mortgage loans granted in the ordinary course of business, amounting to £806,000 (2016: three directors, £745,000). A register is maintained at the Principal Office of the Society, containing details of loans, transactions and arrangements between the Society and its directors and connected persons; requisite particulars from it are available for inspection.

In addition, directors and their connected persons have savings and current accounts with the Society, on the same terms as those available to all persons.

MORTGAGE ARREARS AND FORBEARANCE

At 31 March 2017, there were two accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £0.28 million, and the amount of arrears was £0.03 million, which represents less than 0.01% of mortgage balances.

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty. Such measures include agreeing a temporary transfer to interest only payments, or a capitalisation of arrears, in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they are able. During the year, the Society undertook forbearance measures for 24 residential mortgage accounts which had total balances of £1.24 million at 31 March 2017 (2016: 28 accounts, balances of £2.34 million). 9 of these cases had arrears of less than £0.01 million at 31 March 2017 (2016: 14, less than £0.01 million). Where the Society considers that there is a possibility of a loss, a specific provision is made in accordance with the Society's policies, and the level of forbearance undertaken is also an element of the Society's collective provisioning methodology.

CREDITOR PAYMENT POLICY

The Group policy concerning the payment of trade creditors is to agree terms of payment, to ensure that suppliers fulfil their contractual obligations and to settle invoices for the provision of goods and services within the agreed payment terms. At 31 March 2017 the total amount owed to suppliers was equivalent to 5 days credit (2016: 3 days).

CHARITABLE AND POLITICAL DONATIONS

During the year, charitable donations of £102,810 were made to a number of organisations within our operating area, of which £25,000 was given to the Cumberland Building Society Charitable Foundation. No contributions were made for political purposes.

EVENTS SINCE THE YEAR END

The directors consider that there have been no events since the year end that have had a material effect on the position of the Society or any of its subsidiary undertakings.

GOING CONCERN

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the annual accounts continue to be prepared on the going concern basis.

AUDITOR

Deloitte LLP are eligible for re-appointment and have offered themselves for re-election.

On behalf of the Board of Directors

Trevor Hebdon
Chairman 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 contained in note 8 to the accounts.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS, THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE ANNUAL BUSINESS STATEMENT

The directors are responsible for preparing the Annual Report, Annual Business Statement, Strategic Report, Directors' Report and the annual accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 ('the Act') requires the directors to prepare Group and Society annual accounts for each financial year. Under the Act they have elected to prepare these in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

The Group and Society annual accounts are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial year.

In preparing each of the Group and Society annual accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

In addition to the annual accounts the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group.

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made under the Financial Services and Markets Act 2000.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

CORPORATE GOVERNANCE

DIRECTORS' REPORT ON CORPORATE GOVERNANCE

Cumberland Building Society is committed to good practice in corporate governance and this report explains how the Society has regard to the principles in the UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council.

Whilst the Society is not required to comply with the Code, as it is not a listed company, the recommendations have been adopted where they are appropriate and proportionate to the Society.

THE BOARD

Code Principle A.1: Every company should be headed by an effective board, which is collectively responsible for the long term success of the company.

The principal functions of the Board are the development and monitoring of strategy, the review of business and financial performance, and to ensure that effective systems and controls are in place for risk management.

The Board meets every month and policy review meetings are held when required, normally once a year.

There is a formal schedule of matters reserved for the Board and the Board has full and timely access to all relevant information to enable it to discharge its duties effectively.

The non-executive directors meet without the executive directors present on a regular basis.

The Board normally conducts an annual self-assessment exercise to review its effectiveness and highlight any areas which should be improved. However, in early 2017-18 an external firm is conducting an independent review of the Board's effectiveness.

In addition, the Board has established four committees to consider specific areas in more detail than would be possible within Board Meetings. Each of the Board committees has Board approved terms of reference, which are published on the Society's website, www.cumberland.co.uk, or are available from the Society's Secretary on request.

The Board receives recommendations from the committees within their terms of reference and the minutes of the committee meetings are reported to the Board.

AUDIT COMMITTEE

This monitors internal controls, financial reporting, and regulatory compliance matters, reviews the work of the Internal Audit function, assesses its effectiveness, considers the appointment of the external auditor, and reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process. It also has responsibility for ensuring that effective whistle-blowing arrangements are in place, enabling any concerns to be raised by employees in confidence.

The Committee consists of its chairman Alan Johnston, who has recent and relevant financial experience, and two other non-executive directors, Michael Hulme and Eric Gunn. The four executive directors, the Head of Internal Audit, the Head of Risk and representatives from the external auditors also attend Committee meetings by invitation to assist in its deliberations.

RISK COMMITTEE

The Risk Committee is responsible for oversight of the Society's risk management framework to ensure there are adequate and effective arrangements in place for the identification, monitoring, measurement, control and mitigation of risk, for ensuring that effective arrangements are in place for compliance with regulatory requirements, for monitoring the Society's key risk exposures against appetite and for reviewing current and emerging risks that could impact upon the achievement of strategic goals.

The Committee consists of its chairman John Hooper, and three other non-executive directors, Trevor Hebdon, Alan Johnston and Gill Gardner. The remaining three non-executive directors, the four executive directors, the Head of Risk and the Head of Internal Audit also attend Committee meetings by invitation.

REMUNERATION COMMITTEE

This consists of its chairman Michael Hulme and all of the other non-executive directors. The Committee's main role is to approve the level of remuneration for the Society's executive and senior management. The Committee is also responsible for determining, on behalf of the Board, the structure of any incentive schemes for staff. Details of the remuneration policy can be found in the Report on Directors' Remuneration on page 11.

NOMINATION COMMITTEE

This consists of all directors and is chaired by the Society's Chairman, Trevor Hebdon. The Committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including board and executive succession planning, the appointment of new directors and the election and re-election of directors.

Set out on page 13 are details of the directors during 2016-17 and their attendance record at Board meetings and Audit, Risk, Remuneration and Nomination Committee meetings.

DIVISION OF RESPONSIBILITIES

Code Principle A.2: There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

The roles of Chairman and Chief Executive are held by different individuals, with a clear division of responsibilities. The Chairman, who is a part-time non-executive director, is responsible for leading the Board and ensuring it acts effectively. The Chief Executive has responsibility for managing the Society and for the implementation of the strategies and policies agreed by the Board.

THE CHAIRMAN

Code Principle A.3: The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

The Chairman sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors and maintaining constructive relations between executive and non-executive directors. The Chairman also ensures that directors receive accurate, timely and clear information.

NON-EXECUTIVE DIRECTORS

Code Principle A.4: As part of their role as members of a unitary Board, non-executive directors should constructively challenge and help develop proposals on strategy.

The non-executive directors of the Society are drawn from a wide range of backgrounds to provide the appropriate skills, knowledge and experience to ensure a robust level of challenge and debate. The role requires an understanding of the risks in a financial services business, commercial leadership within a framework of prudent and effective risk management controls and the ability to monitor performance and resources while providing support to executive management in developing the Society.

Director	Board	Audit	Risk	Remuneration	Nomination
Trevor Hebdon	12 (12)	5 (5)	12 (12)	9 (9)	12 (12)
Michael Pratt	6 (6)			3 (3)	5 (5)
Peter Anstiss	11 (12)			9 (9)	11 (12)
David Clarke	3 (3)			3 (3)	3 (3)
Gill Gardner	10 (12)		11 (12)	8 (9)	11 (12)
Eric Gunn	5 (5)	1 (1)		4 (4)	5 (5)
John Hooper	10 (12)		10 (12)	8 (9)	10 (12)
Michael Hulme	12 (12)	6 (6)		9 (9)	12 (12)
Alan Johnston	11 (12)	6 (6)	12 (12)	9 (9)	11 (12)
John Kidd	12 (12)				12 (12)
Chris McDonald	12 (12)				12 (12)
Kevin Parr	12 (12)				12 (12)
Peter Temple	12 (12)				12 (12)

Directors' attendance at Board and Board Committee meetings during the year ended 31 March 2017

The figure in brackets indicates the number of meetings that the director was eligible to attend during the year.

not a member of the committee

THE COMPOSITION OF THE BOARD

Code Principle B.1: The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

The Board consists of four executive and seven non-executive directors.

All of the non-executive directors have served for less than the maximum of nine years recommended by the UK Corporate Governance Code and can be defined as independent under it.

In the view of the Board, all the non-executive directors are independent in character and judgement, are free of any relationship or circumstance that could interfere with the exercise of their judgement, and bring wide and varied commercial experience to Board deliberations.

Gill Gardner is the Society's Senior Independent Director and is available to members if they have concerns which they either have been unable to resolve, or feel cannot be resolved, by contact through the normal channels of the Chairman or the executive directors.

APPOINTMENTS TO THE BOARD

Code Principle B.2: There should be a formal, rigorous and transparent procedure for appointment of new directors to the Board.

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Board maintains a succession plan and develops a role profile for vacancies arising. Candidates are identified in a number of ways, including the use of external search consultants. A key consideration for the Nomination Committee is the diversity of the Society's workforce, especially at a senior level. The Group recognises the benefits that a diverse workforce can bring and is committed to a culture that attracts and retains talented people to deliver outstanding performance. Appointments are made on merit and against objective criteria, whilst still giving consideration to diversity in respect of gender and other characteristics.

All directors must meet and maintain the fitness and propriety standards of the Prudential Regulation Authority and Financial Conduct Authority and must be approved by them in order to hold a Senior Management Function. They are also subject to election by members at the Annual General Meeting following their appointment.

During 2016-17, to support it in the appointment of directors, the Committee has used the services of an external recruitment agency, Warren Partners, which is independent of the Society.

COMMITMENT

Code Principle B.3: All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

The Nomination Committee evaluates the ability of directors to commit the time required for their role prior to appointment. The formal appraisal process carried out by the Chairman each year also assesses whether directors have demonstrated this ability during the year.

DEVELOPMENT

Code Principle B.4: All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

On appointment, directors are given appropriate induction and training. To ensure their skills remain updated, directors attend industry conferences, seminars and training courses and the Board regularly receives presentations from senior managers. Training and development needs are identified as part of the annual appraisal of directors.

INFORMATION AND SUPPORT

Code Principle B.5: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The Chairman ensures that the Board receives sufficient accurate, timely and clear information to enable it to fulfil its responsibilities. The directors have access to the advice and services of the Secretary and, if necessary, are able to take independent professional advice at the Society's expense.

PERFORMANCE EVALUATION

Code Principle B.6: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual directors.

The Society has a process to evaluate, at least annually, the performance and effectiveness of individual directors, the Chairman, the Board and Board Committees. The performance of the Chief Executive and non-executive directors is evaluated annually by the Chairman. The Chairman is evaluated by the Senior Independent Director, after consulting and obtaining the views of the other directors. Those non-executive directors who have served at least six years on the Board are subject to a particularly rigorous performance evaluation in line with the Code's requirements. Annually, the Board and the Board Committees evaluate their overall performance, and the membership and terms of reference of the committees are reviewed and agreed by the Board.

RE-ELECTION

Code Principle B.7: All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

The Board seeks to ensure planned and progressive refreshing of its membership. Directors are subject to election by members at the Annual General Meeting following their appointment and seek re-election every three years thereafter.

The Board has considered the Code provisions relating to re-election of directors and does not feel that it would be appropriate to submit the entire Board for annual re-election by the members. Any non-executive directors serving for over nine years are, however, subject to annual re-election by the members.

FINANCIAL AND BUSINESS REPORTING

Code Principle C.1: The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Statement of Directors' Responsibilities on page 11 sets out the Board's responsibilities in relation to the preparation of the Group's Annual Report and Accounts. Business performance is reviewed in the Chairman's Statement and the Strategic Report and a statement that the Group's business is a going concern is included in the Directors' Report.

The Audit Committee has advised the Board that in its opinion, the Annual Report and Accounts are fair, balanced and understandable. The primary areas of judgement considered by the Committee in relation to these accounts related to loan loss provisions, the valuation of the defined benefit pension scheme, the FSCS levy position and property revaluations.

RISK MANAGEMENT AND INTERNAL CONTROL

Code Principle C.2: The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

The Board has delegated responsibility for managing the Society's risk management framework and system of internal control to senior management. The Group Internal Audit function, the Head of Risk and the Group Compliance Manager provide independent assurance to the Board on the effectiveness of the system of internal control and risk management through their reporting to and attendance at, the Audit Committee and the Risk Committee respectively.

The information received and considered by the Audit Committee and the Risk Committee provided reasonable assurance that during the financial year there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate system of internal control. Further information on the Society's approach to risk management is included in the 'Principal Risks and Uncertainties' section of the Strategic Report.

AUDIT COMMITTEE AND AUDITORS

Code Principle C.3: The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Society's auditors.

The role and membership of the Audit Committee is set out earlier in this report.

The Committee meets at least five times a year. At least annually, the external auditors meet with the Committee without the executive directors present. Minutes of the Committee's meetings are provided to the subsequent Board Meeting.

The Committee implements the Society's policy on the use of the external auditor for non-audit work, the purpose of which is to ensure the continued independence and objectivity of the external auditor. The external auditor, Deloitte LLP, undertook four non-audit related assignments during the year.

REMUNERATION

Code Principle D.1: Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Code Principle D.2: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

The remuneration policies for executive and non-executive directors are set out in the Report on Directors' Remuneration on page 11. These policies explain the Society's application of the Code principles.

DIALOGUE WITH SHAREHOLDERS

Code Principle E.1: There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

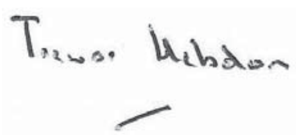
As a mutual organisation, the Society has members rather than shareholders. The Society seeks the views of its members in a variety of ways, including customer feedback surveys. Members are invited to attend the Annual General Meeting, where they can ask questions and voice their opinions.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM)

Code Principle E.2: The Board should use the AGM to communicate with investors and to encourage their participation.

Each year the Society sends details of the AGM to all members eligible to vote. Members are encouraged to vote by post, in branches or online (by appointing a proxy to vote on their behalf and in accordance with their instructions) or by attendance at the Meeting. For several years the Society has encouraged members to vote by linking the numbers of votes received to donations to local charities. This year, the Society will donate 50 pence for each vote to be shared between Alzheimer's Society and Alzheimer Scotland, for use within the Society's operating area.

All members of the Board are present at the AGM each year unless there are exceptional circumstances. The Chairs of the Board and of its committees are available to answer questions.



On behalf of the Board of Directors

Trevor Hebdon *Chairman*

23 May 2017

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBERLAND BUILDING SOCIETY

We have audited the Group and Society financial statements of Cumberland Building Society for the year ended 31 March 2017 which comprise Group and Society Income and Expenditure Accounts, the Statements of Comprehensive Income, the Group and Society Balance Sheets, the Statements of Changes in Members' Interest, the Consolidated Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit 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 or the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs as at 31 March 2017 and of the Group's and the Society's income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

OPINION ON OTHER MATTERS PRESCRIBED BY THE BUILDING SOCIETIES ACT 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

David Heaton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

23 May 2017

GROUP AND SOCIETY INCOME AND EXPENDITURE ACCOUNTS

For the year ended 31 March 2017

	Notes	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Interest receivable and similar income	3	**59,049**	56,560	**57,310**	55,517
Interest payable and similar charges	4	**(21,634)**	(24,644)	**(21,635)**	(24,645)
Net interest receivable		**37,415**	31,916	**35,675**	30,872
Fair value losses on financial instruments	5	**(358)**	(6)	**(361)**	(4)
Pension finance charge	24	**(321)**	(209)	**(321)**	(209)
Fees and commissions receivable		**2,875**	3,671	**1,658**	2,160
Fees and commissions payable		**(2,216)**	(1,812)	**(1,975)**	(1,759)
Other operating income		**3,047**	2,648	**3,050**	2,657
Gain on equity share investment	31	**6,066**	-	**6,066**	-
Total Income		**46,508**	36,208	**43,792**	33,717
Administrative expenses	6	**(19,763)**	(18,904)	**(17,631)**	(16,680)
Depreciation and profit on sale of tangible fixed assets		**(1,721)**	(1,758)	**(1,644)**	(1,625)
(Loss)/gain on revaluation of investment properties		**(56)**	558	**(116)**	583
Provisions for bad and doubtful debts	13	**(353)**	344	**(326)**	345
Provisions for contingent liabilities and commitments - FSCS Levy	22	**130**	(432)	**130**	(432)
Write off of amount owed by subsidiary	14	**-**	-	**(172)**	-
Profit on ordinary activities before tax		**24,745**	16,016	**24,033**	15,908
Tax on profit on ordinary activities	9	**(5,075)**	(3,400)	**(5,045)**	(3,400)
Profit for the financial year		**19,670**	12,616	**18,988**	12,508

The above results are derived from continuing operations of the business.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Notes	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Profit for the financial year		**19,670**	12,616	**18,988**	12,508
Items that may subsequently be reclassified to income and expenditure:					
Available for sale investment securities gain/(loss)	11	**4**	(2)	**4**	(2)
Movement in deferred tax relating to investment securities		**(1)**	-	**(1)**	-
Movement in gain on equity share investment	31	**(2,534)**	3,369	**(2,534)**	3,369
Movement in deferred tax relating to equity share investment		**532**	(674)	**532**	(674)
Items that may not subsequently be reclassified to income and expenditure:					
Actuarial loss on retirement benefit obligations	24	**(10,096)**	(3,044)	**(10,096)**	(3,044)
Movement in deferred tax relating to retirement benefit obligations		**1,716**	548	**1,716**	548
Total comprehensive income for the year		**9,291**	12,813	**8,609**	12,705

The notes on pages 20 to 42 form part of these accounts.

GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2017

Assets	**Notes**	**Group 2017 £000**	Group 2016 £000	**Society 2017 £000**	Society 2016 £000
Cash in hand and balances with the Bank of England	10	**162,882**	198,674	**162,882**	198,672
Loans and advances to credit institutions	25	**118,817**	96,316	**118,817**	96,316
Debt securities	11	**24,077**	-	**24,077**	-
		305,776	294,990	**305,776**	294,988
Derivative financial instruments	29	**677**	261	**670**	256
Loans and advances to customers	12				
Loans fully secured on residential property		**1,733,482**	1,636,330	**1,733,482**	1,636,330
Other loans		**177,036**	175,711	**156,484**	159,971
		1,910,518	1,812,041	**1,889,966**	1,796,301
Investments in subsidiary undertakings	14	**-**	-	**21,823**	15,823
Investment in equity shares	31	**3,263**	3,369	**3,263**	3,369
Tangible fixed assets	15	**12,194**	12,085	**11,913**	11,858
Investment properties	16	**4,179**	4,235	**2,684**	2,800
Other assets	17	**4,031**	2,027	**4,675**	2,174
Prepayments and accrued income		**1,339**	1,270	**921**	954
Total Assets		**2,241,977**	2,130,278	**2,241,691**	2,128,523

Liabilities					
Shares	19	**1,743,879**	1,613,296	**1,743,879**	1,613,296
Derivative financial instruments	29	**11,314**	11,090	**11,283**	11,057
Amounts owed to credit institutions	25	**204,356**	233,083	**204,356**	233,083
Amounts owed to other customers	25	**100,763**	109,234	**102,094**	110,254
Other liabilities	20	**4,390**	3,616	**4,221**	3,531
Accruals and deferred income	21	**5,245**	6,646	**5,103**	4,582
Provisions for liabilities	22	**372**	954	**372**	954
Pension liability	24	**19,424**	9,416	**19,424**	9,416
Total Liabilities		**2,089,743**	1,987,335	**2,090,732**	1,986,173
Total equity attributable to members		**152,234**	142,943	**150,959**	142,350
Total Equity and Liabilities		**2,241,977**	2,130,278	**2,241,691**	2,128,523
Memorandum items					
Commitments	23	**7,187**	7,757	**7,187**	7,757

The notes on pages 20 to 42 form part of these accounts.

These accounts were 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, Director and Chief Executive

STATEMENTS OF CHANGES IN MEMBERS' INTEREST

Group	General Reserve £000	Available for Sale Reserve £000	Total Equity attributable to members £000
At 1 April 2015	130,128	2	130,130
Comprehensive income for the year	10,120	2,693	12,813
At 31 March 2016	140,248	2,695	142,943
Comprehensive income for the year	11,290	(1,999)	9,291
At 31 March 2017	151,538	696	152,234

Society			
At 1 April 2015	129,643	2	129,645
Comprehensive income for the year	10,012	2,693	12,705
At 31 March 2016	139,655	2,695	142,350
Comprehensive income for the year	10,608	(1,999)	8,609
At 31 March 2017	150,263	696	150,959

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Profit before tax	**24,745**	16,016
Depreciation and profit on sale of tangible fixed assets	**1,721**	1,758
Loss/(gain) on revaluation of investment properties	**56**	(558)
Changes in fair values	**358**	6
Provisions for bad and doubtful debts	**353**	(344)
Value of VISA Inc. preference shares at date of sale of VISA Europe	**(2,428)**	-
Pension contributions	**(1,250)**	(1,258)
Pension charges	**1,040**	978
Net cash flow from operating activities	**24,595**	16,598
Movements in operating assets and liabilities		
Loans and advances to customers	**(99,223)**	(210,778)
Shares	**130,610**	91,522
Loans and advances to credit institutions and other liquid assets	**(21,313)**	(19,243)
Amounts owed to credit institutions and other customers	**(37,198)**	103,957
Prepayments and accrued income	**51**	(188)
Other assets	**201**	53
Accruals and deferred income	**(1,401)**	1,465
Other liabilities and provisions for contingent liabilities and commitments	**(754)**	(491)
Other non-cash movements	**(135)**	(133)
Taxation paid	**(4,087)**	(2,502)
Net cash used in movements in operating assets and liabilities	**(33,249)**	(36,338)
Cash flows from investing activities		
Net purchase and maturity of debt securities	**(24,000)**	1,000
Purchase of tangible fixed assets	**(1,951)**	(2,097)
Sale of tangible fixed assets	**121**	63
Net cash used in investing activities	**(25,830)**	(1,034)
Net decrease in cash and cash equivalents	**(34,484)**	(20,774)
Cash and cash equivalents at beginning of year	**215,449**	236,223
Cash and cash equivalents at end of year	**180,965**	215,449
Represented by:		
Cash and balances with the Bank of England	**162,882**	198,674
Loans and advances to credit institutions repayable on demand	**18,083**	16,775
	180,965	215,449

1. Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

Basis of Preparation

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. During the year, the Group has also adopted IAS 39 Financial Instruments: Recognition and Measurement, as permitted by FRS 102.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Society and its subsidiary undertakings made up to 31 March 2017. All intra-group transactions are eliminated on consolidation.

Going Concern

The Group's financial position and business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report.

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the annual accounts continue to be prepared on the going concern basis.

Corporation Tax

Corporation tax is charged in the accounts on the profit for the year as adjusted for taxation purposes. Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred Taxation

Provision for deferred tax is made in respect of all timing differences that have originated but not reversed by the balance sheet date. Timing differences represent differences between gains and losses recognised for tax purposes in periods different from those in which they are recognised in financial statements. No deferred tax is recognised on permanent differences between the Group's taxable gains and losses and its results as stated in the financial statements. Deferred tax assets and liabilities are stated without discounting and are calculated at the tax rates that are substantively enacted at the time the timing differences are expected to reverse.

Fixed Assets and Depreciation

The cost of additions and major alterations to freehold land and buildings and equipment is capitalised. Freehold land and buildings are depreciated at 1% per annum on cost. In addition, included in freehold land and buildings are amounts in respect of refurbishment and plant which are depreciated over their estimated useful lives on a straight line basis at rates between 5% and 20%.

The costs less estimated residual values of fixed assets other than freehold land and buildings are written off over their estimated useful lives on a straight line basis using the following annual rates:

Fixtures and Fittings and Office Furniture	20%
Computer Equipment	20% to 50%
Office Equipment	20%
Motor Vehicles	20%

Pension Costs

The Group operates a defined benefit pension scheme and three defined contribution pension schemes for staff. The assets of the schemes are held separately from those of the Group in independently administered funds.

The defined benefit pension scheme's assets are measured at market value at each balance sheet date and the liabilities are measured using the projected unit method with a suitable control period which reflects the expected ageing of the scheme, discounted using the current rate of return on a high quality corporate bond of equivalent term of the liability.

The resultant surplus or deficit is carried on the balance sheet, as is the associated deferred tax.

Increases in the present value of scheme liabilities from employee service or service benefit improvements, are charged to the income and expenditure account as administrative expenses. The expected return on the scheme's assets less the increase in the scheme's liabilities, arising from the passage of time, is disclosed as a pension finance income or charge.

Any resulting actuarial gains or losses, that is gains or losses arising from differences in the expected return on scheme assets compared to the actual return and changes in assumptions, or factors which affect those assumptions, used in measuring the scheme liabilities, are recognised immediately in the Statement of Comprehensive Income.

Contributions to the defined contribution pension schemes are charged to the income and expenditure account as incurred.

Investment Properties

When land and buildings are held for rental purposes or capital appreciation, they are classified as investment properties and held in the balance sheet at their open market valuation and not depreciated. Changes in the fair value are included in the income and expenditure account in the period in which they arise.

Financial Instruments

Purchases and sales of financial assets are accounted for at settlement date. In accordance with IAS 39 the financial instruments of the Group have been classified into the following categories:

i) Loans and advances

Interest in respect of all loans is measured using the effective interest rate method.

ii) At fair value through income and expenditure

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The need for credit valuation adjustments is considered in the determination of the fair value of derivatives. All derivatives are carried as assets when their fair values are positive and as liabilities when their fair values are negative.

Derivatives can be designated as fair value hedges.

iii) Available for sale

Available for sale assets are non-derivative financial assets that are not classified into either of the two categories above. The available for sale assets are held at fair value with changes in the fair value recognised in other comprehensive income. Impairment losses are recognised in the income and expenditure account when they arise.

The premia and discounts arising from the purchase of available for sale assets are amortised over the period to the maturity date of the security on an effective yield basis. Any amounts amortised are charged or credited to the income and expenditure account in the relevant financial years.

iv) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest rate method, except for those financial liabilities measured at fair value through income and expenditure, e.g. derivative liabilities.

v) Derecognition of financial assets and liabilities

Financial assets are only derecognised when the contractual rights to receive cash flows from them have expired or when the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are only derecognised when the obligation is discharged, cancelled or has expired.

vi) Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans and investment products. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income and expenditure account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income and expenditure account over the period to maturity.

If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income and expenditure account.

Provisions for bad and doubtful debts

Provisions are made to reduce the value of loans and advances to the amount which the directors consider is likely ultimately to be received.

Throughout the year and at the year end, individual assessments are made of all loans and advances on properties which are in possession or in arrears by three months or more. Specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale, the anticipated realisation costs and the amount recoverable under mortgage indemnity policies. The directors recognise that not all accounts in arrears will result in possession and apply a factor based on recent experience to reflect this probability when calculating the provision for accounts in arrears.

In addition, a collective provision is made against those loans and advances to customers where objective evidence, including forbearance measures taken to assist borrowers who are, or could be experiencing financial difficulty, indicates that it is likely that losses may ultimately be realised and thus a loss event has occurred. These factors take into account the Group's experience of default and delinquency rate, loss emergence periods, regional house price movements and adjustments to allow for forced sale values.

Loans and advances in the balance sheet are shown net of provisions, specific and collective. The charge or credit to the income and expenditure account comprises the movement in the provisions together with losses written off in the year.

Interest income and expense

Interest income and expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method. The effective interest rate method is a method of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Fees integral to the loan yield are included within interest income and expense.

Fees and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided.

2. Critical Accounting Estimates and Judgements

Some asset and liability amounts reported in the accounts are based on management estimates, judgements and assumptions. There is, therefore, a risk of changes to the carrying amounts for these assets and liabilities within the next financial year.

Provisions for bad and doubtful debts

The Group reviews its loan portfolios to assess impairment on a monthly basis, to determine whether an impairment loss should be recorded in the income and expenditure account. In undertaking this review, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before such decrease in an individual loan can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status or borrower's position, including forbearance measures such as a transfer to interest only products and term extensions. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Management also assesses the expected loss on loans and advances as a result of the movement in house price indices and the discount on the sale of possession properties. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience.

Fair value of derivatives and collateral loans

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Effective interest rate

IAS 39 requires that financial instruments carried at amortised cost be accounted for on an effective interest rate basis. Revenue on financial instruments classified as loans and receivables, available for sale, or financial liabilities at amortised cost, is recognised on an effective interest rate basis. This calculation takes into account interest received or paid and fees and commissions paid or received that are integral to the yield as well as incremental transaction costs. The effective interest rate recognises the expected future cash flows over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial instrument at initial recognition.

In respect of residential mortgages, incremental fees and costs associated with the origination of a mortgage are deferred and amortised over the mortgage product life.

Pensions

The Group operates a defined benefit pension scheme. Significant judgements (on areas such as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme.

These judgements, which are based upon the Board receiving external advice from the Scheme Actuary, are outlined in note 24 to the Accounts.

3. Interest Receivable and Similar Income	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
On loans fully secured on residential property	**56,360**	54,307	**56,133**	54,307
On other loans	**8,520**	7,493	**6,966**	6,406
On debt securities				
Interest and other income	**154**	5	**154**	5
On other liquid assets				
Interest and other income	**1,181**	1,509	**1,181**	1,509
Net expense on financial instruments	**(7,166)**	(6,754)	**(7,124)**	(6,710)
Total interest receivable	**59,049**	56,560	**57,310**	55,517

All income is derived from operations within the UK.

4. Interest Payable and Similar Charges				
On shares held by individuals	**19,316**	22,183	**19,316**	22,183
On deposits and other borrowings	**2,412**	2,561	**2,413**	2,562
Net income on financial instruments	**(94)**	(100)	**(94)**	(100)
Total interest payable	**21,634**	24,644	**21,635**	24,645

5. Fair Value Gains less Losses				
Change in fair value derivatives in designated fair value hedge accounting relationships	**187**	(3,879)	**187**	(3,879)
Change in fair value derivatives not in designated fair value hedge accounting relationships	**3**	(2)	**-**	-
Adjustment to hedged items in designated fair value hedge accounting relationships	**(548)**	3,875	**(548)**	3,875
	(358)	(6)	**(361)**	(4)

The fair value accounting volatility loss above represents the net fair value movement on derivative instruments that are matching risk exposures on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items.

6. Administrative Expenses				
Staff costs (note 7)	**12,197**	11,656	**10,877**	10,287
The analysis of the auditor's remuneration is as follows:				
Fees payable to the Group's auditor for the audit of the annual accounts	**78**	67	**60**	50
Other Services:				
Other assurance services	**52**	110	**52**	110
Other expenses	**7,436**	7,071	**6,642**	6,233
	19,763	18,904	**17,631**	16,680

7. Staff Numbers and Costs

The average number of persons employed during the year (including executive directors) was as follows:	**Full time**		**Part time**	
	2017	2016	**2017**	2016
Society's principal office	**157**	155	**71**	64
Society's branches	**115**	119	**109**	109
Subsidiaries	**35**	37	**12**	18
	307	311	**192**	191

The aggregate costs of these persons were as follows:	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Wages and salaries	**10,668**	10,025	**9,504**	8,844
Social security costs	**810**	862	**715**	745
Other pension costs (note 24)	**719**	769	**658**	698
	12,197	11,656	**10,877**	10,287

The Group operates a salary sacrifice scheme whereby the employee agrees to a reduction in salary in return for the Group making the pension contributions that were previously paid by the employee. The amounts shown above under wages and salaries include the headline salary (i.e. before the salary sacrifice deduction) and other pension costs exclude the additional contributions made by the Group as a result of the salary sacrifice scheme. This also applies to the executive directors' remuneration disclosures in note 8.

8. Directors' Remuneration

	2017 £000	2016 £000
Total directors' remuneration	**1,191**	1,045
Non-executive directors' remuneration		
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
	263	218

Executive directors' remuneration

2017	**Salary £000**	**Bonus £000**	**Pension Contributions £000**	**Taxable Benefits £000**	**Total £000**
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**
	683	**118**	**56**	**32**	**889**

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

2016	Salary £000	Bonus £000	Pension Contributions £000	Taxable Benefits £000	Total £000
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
	618	81	85	29	813

Defined Benefit Pension Scheme Pension benefits earned by directors:	**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

None of the directors had an interest in shares in, or debentures of, any subsidiary undertaking of the Society at any time during the financial year.

9. Taxation	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
(a) Analysis of charge in year:				
Current tax				
Corporation tax at 20%	**5,043**	3,057	**5,021**	3,038
Over provision of corporation tax in prior years	**(10)**	(3)	**(6)**	(3)
Total current tax	**5,033**	3,054	**5,015**	3,035
Deferred tax at 17% (2016 - 18%)				
Origination and reversal of timing differences	**42**	346	**30**	365
Tax on profit on ordinary activities	**5,075**	3,400	**5,045**	3,400
Total deferred tax relating to items of other comprehensive income	**(2,247)**	126	**(2,247)**	126

(b) Factors affecting tax charge in year:
The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax is as follows:

	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Profit on ordinary activities before tax	**24,745**	16,016	**24,033**	15,908
Tax on profit on ordinary activities at UK standard rate of 20%	**4,949**	3,203	**4,807**	3,181
Effects of:				
Expenses not deductible for tax purposes	**136**	200	**244**	222
Over provision of corporation tax in prior years	**(10)**	(3)	**(6)**	(3)
Total tax charge for year	**5,075**	3,400	**5,045**	3,400

10. Cash in Hand and Balances with the Bank of England

	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Cash in hand	**3,215**	2,981	**3,215**	2,979
Balances with the Bank of England	**159,667**	195,693	**159,667**	195,693
Included in cash and cash equivalents	**162,882**	198,674	**162,882**	198,672

Balances with the Bank of England do not include cash ratio deposits of £1.86 million (2016 - £1.87 million) which are not available for use in the Group's day to day operations. Such deposits are included within Loans and Advances to Credit Institutions in the Balance Sheet.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances which are repayable on demand:

	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Cash in hand and balances with the Bank of England (as above)	**162,882**	198,674	**162,882**	198,672
Loans and advances to credit institutions	**18,083**	16,775	**18,083**	16,775
	180,965	215,449	**180,965**	215,447

11. Debt Securities	Group and Society 2017 £000	2016 £000
(a) Debt securities are repayable from the date of the balance sheet in the ordinary course of business as follows:		
Unlisted - In not more than one year	**24,000**	-
Accrued interest	**73**	-
Fair value adjustment	**4**	-
	24,077	-

Debt securities are held as available for sale assets and carried at their fair value.

(b) The movement in available for sale debt securities is summarised as follows:	2017 £000	2016 £000
At 1 April	**-**	1,007
Additions	**60,000**	-
Maturities	**(36,000)**	(1,000)
Gains/(losses) from changes in fair value	**4**	(2)
Increase/(decrease) in accrued interest	**73**	(5)
At 31 March	**24,077**	-

In addition, at 31 March 2017 the Society had drawn £325 million (2016 - £316 million) of Treasury Bills under the Bank of England's Funding for Lending Scheme, of which £133 million (2016 - £94 million) were held off balance sheet.

12. Loans and Advances to Customers	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Loans and advances to customers comprise:				
Loans fully secured on residential property	**1,724,418**	1,626,470	**1,724,418**	1,626,470
Other loans				
Loans fully secured on land	**156,967**	160,373	**156,967**	160,373
Other loans	**21,915**	17,234	**1,363**	1,494
Fair value adjustment for hedge risk	**9,548**	10,123	**9,548**	10,123
	1,912,848	1,814,200	**1,892,296**	1,798,460
Less: Provisions for bad and doubtful debts (note 13)	**(2,330)**	(2,159)	**(2,330)**	(2,159)
	1,910,518	1,812,041	**1,889,966**	1,796,301

At 31 March 2017 £471.7 million (2016 - £464.7 million) of loans had been pledged as collateral to the Bank of England under the Funding for Lending Scheme.

13. Provisions for bad and doubtful debts

	Group and Society 2017			
	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Total £000
At 1 April 2016				
Collective impairment	196	1,250	40	1,486
Individual impairment	67	577	29	673
	263	1,827	69	2,159
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	200	(89)	-	111
Individual impairment	39	160	8	207
	239	71	8	318
Amount written off during the year				
Individual impairment	(18)	(126)	(3)	(147)
At 31 March 2017				
Collective impairment	396	1,161	40	1,597
Individual impairment	88	611	34	733
	484	1,772	74	2,330

The total charge of £326,000 in the Society's income and expenditure account consists of the £318,000 shown above, and a net charge of £8,000 in respect of additional costs and recoveries against loans which had been written off in prior years. Borderway Finance Limited had a charge of £10,000 and Cumberland Estate Agents Limited a charge of £17,000.

	Group and Society 2016			
At 1 April 2015				
Collective impairment	350	1,179	40	1,569
Individual impairment	148	978	35	1,161
	498	2,157	75	2,730
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	(154)	71	-	(83)
Individual impairment	(81)	(182)	(6)	(269)
	(235)	(111)	(6)	(352)
Amount written off during the year				
Individual impairment	-	(219)	-	(219)
At 31 March 2016				
Collective impairment	196	1,250	40	1,486
Individual impairment	67	577	29	673
	263	1,827	69	2,159

The total credit of £345,000 in the income and expenditure account consisted of the credit of £352,000 shown above, and a net charge of £7,000 in respect of additional costs and recoveries against loans which had been written off in prior years. Borderway Finance Limited had a charge of £1,000.

14. Fixed Asset Investments

	Shares £000	Loans £000	Total £000
Investments by the Society in subsidiary undertakings			
Cost at 1 April 2016	1,890	13,933	15,823
Advances	-	6,000	6,000
Cost at 31 March 2017	1,890	19,933	21,823

Subsidiary undertakings

The Society has ordinary share investments in the following subsidiary undertakings, all registered in England at the Society's Principal Office, Cumberland House, Cooper Way, Parkhouse, Carlisle, CA3 0JF, and in each case the interest of the Society is 100%.

	Principal Activity
Direct	
Cumberland Holdings Ltd	Holding Company
Indirect	
Borderway Finance Ltd	Motor Vehicle Finance
Cumberland Estate Agents Ltd	Estate Agents
Cumberland Financial Planning Ltd	Financial Adviser (ceased to trade on 30 September 2016)
Cumberland Financial Services Ltd	Independent Financial Adviser
Cumberland Homes Ltd	Development Company
Cumberland Property Services Ltd	Property Company
Cumberland Building Society Insurance Ltd	Dormant
Cumberland Leasing Ltd	Dormant
Cumberland Conveyancing Services Ltd	Dormant
Cumberland Insurance Services Ltd	Dormant
Solway Mortgage Solutions Ltd	Dormant

An intercompany balance of £172,000 owed by Cumberland Estate Agents Ltd to Cumberland Buildling Society was written off at 31 March 2017.

15. Tangible Fixed Assets (Group)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2016	16,707	9,286	25,993
Additions	121	1,830	1,951
Disposals	-	(1,790)	(1,790)
At 31 March 2017	16,828	9,326	26,154
Depreciation			
At 1 April 2016	8,135	5,773	13,908
Charge for year	372	1,421	1,793
Disposals	-	(1,741)	(1,741)
At 31 March 2017	8,507	5,453	13,960
Net book value			
At 31 March 2017	8,321	3,873	12,194
At 31 March 2016	8,572	3,513	12,085

Tangible Fixed Assets (Society)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2016	16,416	8,824	25,240
Additions	121	1,660	1,781
Disposals	-	(1,398)	(1,398)
At 31 March 2017	16,537	9,086	25,623
Depreciation			
At 1 April 2016	7,851	5,531	13,382
Charge for year	370	1,324	1,694
Disposals	-	(1,366)	(1,366)
At 31 March 2017	8,221	5,489	13,710
Net book value			
At 31 March 2017	8,316	3,597	11,913
At 31 March 2016	8,565	3,293	11,858

The net book value of land and buildings occupied by the Group for its own activities at 31 March 2017 was £8,120,000 (Society £8,115,000) (2016 - Group £8,039,000, Society £8,039,000).

16. Investment Properties	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
At 1 April	**4,235**	2,952	**2,800**	1,492
Additions	**-**	-	**-**	229
Properties transferred from 'tangible fixed assets'	**-**	730	**-**	501
Recovery in relation to original cost	**-**	(5)	**-**	(5)
Revaluation	**(56)**	558	**(116)**	583
At 31 March	**4,179**	4,235	**2,684**	2,800

Valuations of all investment properties were carried out on an open market value basis by an independent valuer, T.M. Hargraves BSc FRICS, Director of Hyde Harrington Ltd, as at 31 March 2017.

If investment properties had not been revalued they would have been included at the following amounts:

Cost	**4,587**	4,587	**3,375**	3,375
Depreciation	**1,676**	1,640	**1,624**	1,590
	2,911	2,947	**1,751**	1,785

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	Group and Society	
	2017 £000	2016 £000
Within one year	**94**	149
In the second to fifth years inclusive	**118**	216
After five years	**3**	13
	215	378

The Group is additionally contractually obliged to carry out annual repairs and maintenance in respect of investment properties, which in the current year amounted to £16,000 (2016 - £24,000).

17. Other Assets	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Deferred taxation asset (note 18)	**3,868**	1,663	**3,901**	1,684
Other	**163**	364	**774**	490
	4,031	2,027	**4,675**	2,174

18. Deferred Taxation				
At 1 April	**1,663**	2,135	**1,684**	2,175
Charge to the income and expenditure account (note 9)	**(42)**	(346)	**(30)**	(365)
Credit/(charge) to other comprehensive income	**2,247**	(126)	**2,247**	(126)
At 31 March	**3,868**	1,663	**3,901**	1,684
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Difference between accumulated depreciation and amortisation and capital allowances	**322**	232	**303**	209
Collective mortgage loss provisions	**271**	267	**271**	267
Revaluation of investment properties	**(85)**	(100)	**(79)**	(105)
Pension scheme	**3,302**	1,695	**3,302**	1,695
Investment in equity share	**(142)**	(674)	**(142)**	(674)
Debt securities	**(1)**	-	**(1)**	-
Differences arising from transition to FRS 102	**201**	243	**247**	292
	3,868	1,663	**3,901**	1,684

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Group.

19. Shares

	Group and Society 2017 £000	Group and Society 2016 £000
Held by individuals	**1,743,819**	1,613,209
Other	**7**	7
Fair value adjustment for hedged risk	**53**	80
	1,743,879	1,613,296

20. Other Liabilities

	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Other liabilities falling due within one year:				
Corporation tax	**2,478**	1,532	**2,318**	1,455
Income tax	**-**	703	**-**	703
Other creditors	**1,912**	1,381	**1,903**	1,373
	4,390	3,616	**4,221**	3,531

21. Accruals and Deferred Income

	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Accruals	**1,558**	1,278	**1,422**	1,118
Accrued interest relating to derivative financial instruments	**738**	358	**738**	358
Other deferred income	**2,949**	5,010	**2,943**	3,106
	5,245	6,646	**5,103**	4,582

Accruals and deferred income includes £2.71 million (2016 - £2.93 million) relating to deferred income arising as a result of the effective interest rate method in line with FRS 102.

22. Provisions for Liabilities

	Group and Society 2017 £000	Group and Society 2016 £000
Financial Services Compensation Scheme Levy:		
At 1 April	**954**	1,471
Paid	**(452)**	(949)
(Credited)/charged to income and expenditure account	**(130)**	432
At 31 March	**372**	954

The Financial Services Compensation Scheme (FSCS) makes annual levies on all regulated UK deposit-takers in relation to its running expenses (the management expenses levy) and any compensation claims made against it (the compensation levy). The levies for each deposit-taker are based on its share of the total of protected deposits.

The management expenses levy includes the cost of interest on sums borrowed by the FSCS from the Bank of England, and eventually HM Treasury, in order to fund the exceptional compensation payments arising from deposit-taker failures during 2008 and 2009. Levies were made in relation to Bradford and Bingley plc, the UK retail deposit-taking arms of Icelandic banks (Heritable, Kaupthing Edge and Icesave), London Scottish Bank plc and Dunfermline Building Society.

Interest is charged on each outstanding loan at the higher of 12 months LIBOR plus 100 basis points and the relevant gilt rate published by the Debt Management Office, on which the management expenses levies for scheme years 2015-16 and 2016-17 have been based.

On 31 March 2017 UK Asset Resolution confirmed the sale of £11.8 billion of Bradford and Bingley assets, which will enable it to repay £10.9 billion of the £15.65 billion FSCS loan. This is expected to result in a substantial reduction in FSCS levies for the scheme year 2017-18, which is accrued for in these accounts.

In the current year, the Society paid £435,000 in respect of the levy for 2015-16 and a further £17,000 in respect of an additional claim by the FSCS in February 2017 in relation to the life and pensions intermediation class under its cross-subsidy mechanism.

The credit of £130,000 in the latest year reflects an over provision in respect of the scheme year 2016-17, which was accrued for at 31 March 2016, as a result of the reduction in the interest due on the sums borrowed by the FSCS, and the Society’s estimated share of the management expenses levy for 2017-18.

23. Financial Commitments

(a) The Society has undertaken to discharge the liabilities of all its subsidiary undertakings, in so far as they are unable to discharge them out of their own assets.

(b) Financial Services Compensation Scheme
The Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme as outlined in note 22.

(c) Capital commitments at 31 March for which no provision has been made in the accounts were as follows:

	Group 2017 £000	Group 2016 £000	**Society 2017 £000**	Society 2016 £000
Contracted but not provided for	**-**	88	**-**	71
(d) Memorandum items				
Irrevocable mortgage commitments	**7,187**	7,757	**7,187**	7,757

24. Pensions

The Group operates a defined benefit pension scheme and three defined contribution schemes.

Defined contribution schemes

The Group operates three defined contribution schemes funded by contributions from the Group and its staff. One scheme is open to all new employees. The total expense charged to income and expenditure in the year ended 31 March 2017 was £587,000 (2016 - £613,000).

Defined benefit scheme

The Group operates a defined benefit scheme which was closed to new entrants in April 2000, and to further accrual at 31 March 2015.

All of the following details relate solely to the defined benefit scheme.

The valuation used for FRS 102 disclosures has been prepared by a qualified independent actuary to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 31 March 2017 using the projected unit method with a suitable control period which reflects the expected ageing of the scheme.

Scheme assets are stated at their market value at 31 March 2017.

The most recent full actuarial valuation was as at 27 August 2015 and showed a deficit of £113,000. 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 deficit calculated on the FRS 102 accounting basis outlined in the remainder of this note.

Key assumptions used:	**Valuation at**	
	2017 %	2016 %
Rate of increase in pensions in payment	**2.30 - 3.20**	2.30 - 3.20
Discount rate	**2.50**	3.50
Inflation assumptions - RPI	**3.10**	3.30
- CPI	**2.10**	2.30

Mortality assumptions:
Post-retirement mortality is based on 95% of the 2015 S2PxA year of birth tables, projected assuming medium cohort improvements with a minimum improvement of 1.25% per annum. No allowance is made for pre-retirement mortality.

The number of years' life expectancy, retiring at 62, is as follows:	**2017**	2016
Retiring today:		
Males	**87.5**	87.6
Females	**89.6**	89.8
Retiring in 20 years:		
Males	**89.3**	89.5
Females	**91.6**	91.8

The Group has not contributed in the current and previous financial years following the closure of the scheme to further accrual at 31 March 2015, other than that, in line with the scheme's recovery plan, it made contributions of £503,000 in June 2015 and June 2016.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:	**2017 £000**	2016 £000
Present value of defined benefit obligations	**(75,561)**	(61,050)
Fair value of scheme assets	**56,137**	51,634
Liability recognised in the balance sheet	**(19,424)**	(9,416)
Movements in the present value of defined benefit obligations were as follows:		
At 1 April	**61,050**	61,232
Interest cost	**2,117**	1,999
Service cost	**94**	96
Benefits paid	**(1,158)**	(1,345)
Actuarial loss/(gain)	**13,458**	(932)
At 31 March	**75,561**	61,050
Movements in the fair value of scheme assets were as follows:		
At 1 April	**51,634**	54,662
Actuarial gain/(loss)	**3,362**	(3,976)
Expected return on assets	**1,796**	1,790
Contributions from employers	**645**	645
Benefits paid	**(1,158)**	(1,345)
Expenses paid	**(142)**	(142)
At 31 March	**56,137**	51,634
The analysis of the scheme assets at the balance sheet date was as follows:		
Growth assets	**36,386**	35,040
Liability driven investments	**16,904**	13,827
Cash	**280**	265
Other assets	**2,567**	2,502
	56,137	51,634

The scheme's assets are not intended to be realised in the short term and their market values may be subject to significant change before the assets are realised.

Amounts recognised in the performance statements under the requirements of FRS 102

a) Administrative expenses

Service cost	**94**	96

The service costs in the current and prior years have arisen as a result of an augmentation of the retirement benefits of two executive directors, Mr. Parr and Mr. Kidd, as part of the Board's succession planning.

The operating charge of £94,000 (2016 - £96,000), plus the Group's contributions to the defined contribution schemes of £587,000 (2016 - £613,000) and life assurance premiums of £38,000 (2016 - £60,000), comprise the Group's other pension costs total of £719,000 (2016 - £769,000) shown in note 7.

b) Pension finance charge

Expected return on pension scheme assets	**1,796**	1,790
Interest on pension scheme liabilities	**(2,117)**	(1,999)
Net charge	**(321)**	(209)

c) Statement of Comprehensive Income

Actual return less expected return on pension scheme assets	**3,362**	(3,976)
Actuarial (loss)/gain on defined benefit obligation	**(13,458)**	932
Actuarial loss	**(10,096)**	(3,044)
Movement in deferred taxation relating to pension scheme	**1,716**	548
Actuarial loss recognised in the Statement of Comprehensive Income	**(8,380)**	(2,496)

d) **Movement in the deficit in the scheme during the year**	**2017 £000**	2016 £000
Deficit in scheme at beginning of year	**(9,416)**	(6,570)
Movement in year:		
Service cost	**(94)**	(96)
Contributions net of expenses paid	**503**	503
Pension finance charge	**(321)**	(209)
Actuarial loss	**(10,096)**	(3,044)
Deficit in scheme at end of year	**(19,424)**	(9,416)

History of experience gains and losses	**2017**	2016	2015	2014	2013
Actual return less expected return on pension scheme assets (£000)	**3,362**	(3,976)	4,833	(441)	2,664
Percentage of scheme assets	**6.0**	7.7	8.8	0.9	6.1
Actuarial (loss)/gain on defined benefit obligation (£000)	**(13,458)**	932	(9,956)	973	(3,130)
Percentage of scheme liabilities	**17.8**	1.5	16.3	2.0	6.4

Note: the 2017, 2016 and 2015 figures in the table above are on the FRS 102 basis; those in the previous years are on the UK GAAP basis.

25. Liquidity Risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, wholesale funding facilities and management control of the growth of the business.

It is Group policy to ensure that sufficient liquid assets are at all times available to meet the Group's statutory, regulatory and operational obligations.

The development and implementation of liquidity policy is the responsibility of the ALCO and approved by the Board. The day-to-day management of liquidity is the responsibility of Treasury, with oversight from the independent Risk Function.

A series of liquidity stress tests are performed each month to confirm that liquidity levels in relation to the limits remain appropriate. The ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group balance sheet.

Limits on potential cash flow mismatches over defined time horizons are the principal basis of liquidity control.

The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows and access to contingent funding from the Bank of England.

Contractual Maturity and Derivatives

The following table details the Group's expected maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the conditions existing at the reporting date. For these calculations, interest rates have been projected based on the yield curves existing at the reporting date and where the amount varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000
At 31 March 2017:				
Swap contracts	(1,847)	(1,923)	(3,598)	(10,032)
At 31 March 2016:				
Swap contracts	(1,470)	(708)	(2,800)	(5,760)

Maturity profile of financial instruments

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period between the balance sheet date and the contractual maturity date. The Society's maturity grouping is not materially different to the Group position.

	Repayable on demand £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	Over 5 years £000	Non-interest bearing £000	Total £000
At 31 March 2017:							
Assets							
Cash in hand and balances with the Bank of England	162,865	-	-	-	-	17	162,882
Loans and advances to credit institutions	18,083	62,357	27,000	11,278	-	99	118,817
Debt securities	-	24,000	-	-	-	77	24,077
Derivative financial instruments	-	-	-	-	-	677	677
Loans and advances to customers							
Loans fully secured on residential property and land	2,634	18,980	62,714	326,340	1,470,717	7,292	1,888,677
Other loans	1,363	49	571	19,932	-	(74)	21,841
Liabilities							
Shares	1,185,650	190,901	339,983	22,630	-	4,715	1,743,879
Derivative financial instruments	-	-	-	-	-	11,314	11,314
Amounts owed to credit institutions	-	14,250	-	189,991	-	115	204,356
Amounts owed to other customers	55,505	32,727	11,903	420	-	208	100,763
At 31 March 2016:							
Assets							
Cash in hand and balances with the Bank of England	198,637	-	-	-	-	37	198,674
Loans and advances to credit institutions	16,775	26,874	40,500	11,948	-	219	96,316
Derivative financial instruments	-	-	-	-	-	261	261
Loans and advances to customers							
Loans fully secured on residential property and land	2,146	17,802	57,081	319,114	1,390,700	8,033	1,794,876
Other loans	1,494	18	258	15,464	-	(69)	17,165
Liabilities							
Shares	1,036,458	195,069	285,887	89,538	-	6,344	1,613,296
Derivative financial instruments	-	-	-	-	-	11,090	11,090
Amounts owed to credit institutions	-	18,000	-	214,873	-	210	233,083
Amounts owed to other customers	44,226	44,684	16,858	3,040	-	426	109,234

Included within Other loans are balances of £20,552.000 (2016 - £15,740,000) relating to loans and advances to customers of Borderway Finance Limited.

26. Interest Rate Risk

The primary market risk faced by the Group is interest rate risk. The net interest income of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of derivatives. There has been no change to the way that interest rate risk is managed during the year.

The Group does not run a trading book and therefore does not have the type of higher risk exposure incurred by many banking institutions.

The Group uses interest rate stress testing and gap analysis to analyse and manage its interest rate position.

The following table provides a summary of the interest rate re-pricing profile of the Group's assets and liabilities. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date.

The table takes account of derivative financial instruments which alter the interest basis of Group assets and liabilities. The non-interest bearing balances have been included in a separate column.

At 31 March 2017:	Not more than 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but not more than 5 years £000	Non-interest bearing £000	Total £000
Assets						
Liquid assets	289,583	3,000	13,000	-	193	305,776
Derivative financial instruments	-	-	-	-	677	677
Loans and advances to customers	825,075	66,740	156,576	854,909	7,218	1,910,518
Tangible fixed assets	-	-	-	-	12,194	12,194
Other assets	-	-	-	-	12,812	12,812
Total assets	1,114,658	69,740	169,576	854,909	33,094	2,241,977
Liabilities						
Shares	1,500,550	55,774	94,774	73,465	19,316	1,743,879
Derivative financial instruments	-	-	-	-	11,314	11,314
Amounts owed to credit institutions and other customers	300,046	581	1,246	834	2,412	305,119
Other liabilities, pension liability, accruals and deferred income	-	-	-	-	29,431	29,431
Reserves	-	-	-	-	152,234	152,234
Total liabilities	1,800,596	56,355	96,020	74,299	214,707	2,241,977
Net assets / (liabilities)	(685,938)	13,385	73,556	780,610	(181,613)	-
Derivative instruments	1,053,025	(61,325)	(165,900)	(825,800)	-	-
Interest rate sensitivity gap	367,087	(47,940)	(92,344)	(45,190)	(181,613)	-
Cumulative gap	367,087	319,147	226,803	181,613	-	-

At 31 March 2016:	Not more than 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but not more than 5 years £000	Non-interest bearing £000	Total £000
Assets						
Liquid assets	244,286	22,500	16,000	11,948	256	294,990
Derivative financial instruments	-	-	-	-	261	261
Loans and advances to customers	838,350	37,537	84,773	843,417	7,964	1,812,041
Tangible fixed assets	-	-	-	-	12,085	12,085
Other assets	-	-	-	-	10,901	10,901
Total assets	1,082,636	60,037	100,773	855,365	31,467	2,130,278
Liabilities						
Shares	1,381,860	54,633	80,922	89,537	6,344	1,613,296
Derivative financial instruments	-	-	-	-	11,090	11,090
Amounts owed to credit institutions and other customers	336,018	3,731	1,439	493	636	342,317
Other liabilities, pension liability, accruals and deferred income	-	-	-	-	20,632	20,632
Reserves	-	-	-	-	142,943	142,943
Total liabilities	1,717,878	58,364	82,361	90,030	181,645	2,130,278
Net assets / (liabilities)	(635,242)	1,673	18,412	765,335	(150,178)	-
Derivative instruments	907,250	(32,600)	(77,550)	(797,100)	-	-
Interest rate sensitivity gap	272,008	(30,927)	(59,138)	(31,765)	(150,178)	-
Cumulative gap	272,008	241,081	181,943	150,178	-	-

The Society's interest rate re-pricing profile is not materially different to the Group's position. The following table details the Group's and Society's sensitivity to a 200 basis point change in interest rates at the year end with all other variables held constant. A positive number indicates an increase to income and equity reserves.

	Group and Society +200bps 2017 £000	Group and Society +200bps 2016 £000	**Group and Society -200bps 2017 £000**	Group and Society -200bps 2016 £000
Impact on equity reserves	**(1,957)**	(1,926)	**2,214**	2,214
Impact on income and expenditure	**(2,217)**	(1,839)	**2,217**	1,839

Interest rate risk is managed on a Group basis.

The above interest rate risk represents the market value movement, calculated using a discounted cash flow basis, on all of the Society's financial assets and liabilities, resulting from an immediate 200 basis points parallel shift in interest rates.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics, such as LIBOR and Bank of England Base Rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages or withdrawal of fixed rate savings) are also monitored closely and regularly reported to the ALCO.

27. Wholesale Credit Risk

The Society holds various investments in order to satisfy operational demand at the same time as to meet current and future liquidity regulatory requirements. Credit risk arises because of factors such as deterioration in the counterparty's financial health and uncertainty within the wholesale market generally.

Wholesale lending credit risk is managed through setting strict limits to each type of investment in relation to time to maturity, credit rating and country of origin. These limits are set by the ALCO, approved by the Board and monitored by the treasury team on a continuous basis.

Comprehensive management information ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance.

There has been no change in the year to the manner in which the Group manages and measures wholesale credit risk.

At 31 March 2017 none of the Group's treasury portfolio exposure was either past due or impaired. There are no assets that would otherwise be past due or impaired whose terms have been renegotiated. 73% (2016 - 80%) of the Group's treasury investments are rated A3 or better.

The table below provides ratings details for the Group's treasury investment portfolio as at 31 March 2017:

	Group and Society	
	2017 %	2016 %
Aa3-A3	**19**	10
Sovereign exposure to the UK	**54**	70
Other	**27**	20
	100	100

All wholesale exposures are to UK financial institutions. The largest exposure to a single institution other than the UK Government was £23.7 million (2016 - £12.4 million).

The Group's agreements to enter derivatives transactions with counterparties are all documented through the International Swaps and Derivatives Association (ISDA) Master Agreement. In addition, the Group's agreements in respect of repurchase contracts are documented through the Global Master Repurchase Agreement (GMRA). Credit Support Annexes are in place with all of the Group's ISDA and GMRA counterparties. These provide the legal basis for measuring the extent of any credit risk exposures and govern how cash is moved as collateral between the Group and the counterparty to offset these exposures, which arise as a result of movements in interest rates.

Wholesale credit risk is recorded in the extracts from the balance sheet below:

	Group 2017 £000	Group 2016 £000	**Society 2017 £000**	Society 2016 £000
Cash in hand and balances with the Bank of England	**162,882**	198,674	**162,882**	198,672
Loans and advances to credit institutions	**118,817**	96,316	**118,817**	96,316
Debt securities	**24,077**	-	**24,077**	-
Total wholesale credit risk	**305,776**	294,990	**305,776**	294,988

28. Credit Risk on Loans and Advances to Customers

Experienced credit risk functions operate within the Group and comprehensive management information on movements and performance within the various loan portfolios ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance.

The Group's exposure to retail credit risk can be broken down as follows:

	Group	
	2017 £000	2016 £000
Loans fully secured on residential property	**1,724,418**	1,626,470
Loans fully secured on land	**156,967**	160,373
Other loans	**21,915**	17,234
Total gross exposure (contractual amounts)	**1,903,300**	1,804,077
Impairment and hedging adjustments	**7,218**	7,964
Total net exposure	**1,910,518**	1,812,041

Loans fully secured on residential property

The Group is firmly committed to the management of this risk at all stages of the lending cycle. The Group monitors closely customer affordability and income multiples at the application and underwriting stage and takes a proactive approach to the control of bad and doubtful debt, which is managed by a specialist team dedicated solely to the collections and recovery process.

	Group and Society	
Geographical distribution	**2017 %**	2016 %
North West	**56**	59
Scotland	**10**	10
London	**10**	10
South East	**9**	7
South West	**7**	6
Yorkshire & Humberside	**2**	2
East of England	**2**	2
North East	**1**	1
West Midlands	**1**	1
East Midlands	**1**	1
Wales	**1**	1
	100	100

Loan to value distribution:

The indexed loan to value analysis on the Group's residential loan portfolio is as follows:

<70%	**76**	86
70%-80%	**12**	10
80%-90%	**9**	3
>90%	**3**	1
	100	100

The overall indexed loan to value of the residential portfolio is 43% (2016 - 39%).

Payment due status	Group and Society 2017 £000	2017 %	Group and Society 2016 £000	2016 %
Not impaired:				
Neither past due nor impaired	**1,715,343**	**99**	1,615,916	99
Past due up to 3 months but not impaired	**6,064**	**1**	8,196	1
Impaired:				
Past due 3 to 6 months	**979**	**-**	1,242	-
Past due 6 to 12 months	**1,862**	**-**	951	-
Possessions	**170**	**-**	165	-
	1,724,418	**100**	1,626,470	100

Note: Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

Forbearance strategies

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. Such forbearance strategies include the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, and aim to avoid repossession.

At 31 March 2017:	Interest only concession £000	Arrears capitalised £000	Transfer to interest only £000	Term extension £000	Total forbearance £000
Neither past due nor impaired	602	44	204	497	1,347
Past due up to 3 months	-	-	21	28	49
Past due more than 3 months	113	-	-	-	113
Total loans and advances	715	44	225	525	1,509
At 31 March 2016:					
Neither past due nor impaired	1,406	129	146	42	1,723
Past due up to 3 months	194	81	-	-	275
Past due more than 3 months	320	20	-	-	340
Total loans and advances	1,920	230	146	42	2,338

Loans fully secured on land

Credit risk associated with lending fully secured on land is affected by similar factors as for residential mortgages, although on average loans are generally larger. Loans fully secured on land are split by industry type as follows:

Industry type	Group and Society 2017 %	2016 %
Leisure and hotel	**74**	74
Commercial investment and industrial units	**17**	17
Retail	**2**	2
Offices	**1**	1
Others, including mixed use	**6**	6
	100	100
Unindexed loan to value distribution		
<70%	**96**	91
70%-80%	**1**	4
80%-90%	**2**	1
>90%	**1**	4
	100	100

The following table provides further information on the Groups's loans fully secured on land by payment due status. The balances exclude the fair value adjustment for hedge risk and impairment losses.

Payment due status	**Group and Society** **2017** **£000**	**2017** **%**	Group and Society 2016 £000	2016 %
Not impaired:				
Neither past due nor impaired	**154,280**	**98**	157,506	98
Past due up to 3 months but not impaired	**1,845**	**1**	2,169	1
Impaired:				
Past due 3 to 6 months	**343**	**1**	-	-
Past due 6 to 12 months	**215**	**-**	-	-
Possessions	**284**	**-**	698	1
	156,967	**100**	160,373	100

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

29. Derivative Financial Instruments

Derivative financial instruments are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates, exchange rates, or stock market indices. These types of instruments tend to have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return as cash flows and are generally settled at a future date.
Derivatives are only used by the Group in accordance with section 9A of the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes.

Types of derivatives
The main derivatives used by the Group are interest rate swaps. The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed using on balance sheet instruments or natural hedges that exist within the Group balance sheet.

Activity	**Risk**	**Types of Derivative**
Fixed rate savings products	Sensitivity to falls in interest rates	Receive fixed interest swaps
Fixed rate lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps

The following table shows the notional principal amounts of the different types of derivatives held, and their positive and negative market values.

	Group 2017			Group 2016		
	Notional principal amount £000	**Positive market value £000**	**Negative market value £000**	Notional principal amount £000	Positive market value £000	Negative market value £000
Interest rate swaps designated as fair value hedges	**1,099,725**	**670**	**(11,283)**	957,800	228	(11,057)
Interest rate swaps not designated as hedges	**13,700**	**7**	**(31)**	13,300	5	(33)
Equity swaps	**-**	**-**	**-**	2,700	28	-
Total derivatives held for hedging	**1,113,425**	**677**	**(11,314)**	973,800	261	(11,090)

	Society 2017			Society 2016		
	Notional principal amount £000	**Positive market value £000**	**Negative market value £000**	Notional principal amount £000	Positive market value £000	Negative market value £000
Interest rate swaps designated as fair value hedges	**1,099,725**	**670**	**(11,283)**	957,800	228	(11,057)
Equity swaps	**-**	**-**	**-**	2,700	28	-
Total derivatives held for hedging	**1,099,725**	**670**	**(11,283)**	960,500	256	(11,057)

The following table shows the notional principal and credit risk weighted amounts, and the replacement costs of the derivatives, and their residual maturity.

	Group 2017			Group 2016		
	Notional principal amount £000	**Credit risk weighted amount £000**	**Replacement cost £000**	Notional principal amount £000	Credit risk weighted amount £000	Replacement cost £000
Interest rate swaps	**1,113,425**	**1,932**	**821**	971,100	3,298	656
Equity swaps	**-**	**-**	**-**	2,700	-	-
	1,113,425	**1,932**	**821**	973,800	3,298	656
Under one year	**287,625**	**46**	**112**	162,700	159	319
Between one and five years	**825,800**	**1,886**	**709**	811,100	3,139	337
	1,113,425	**1,932**	**821**	973,800	3,298	656

	Society 2017			Society 2016		
	Notional principal amount £000	**Credit risk weighted amount £000**	**Replacement cost £000**	Notional principal amount £000	Credit risk weighted amount £000	Replacement cost £000
Interest rate swaps	**1,099,725**	**1,902**	**815**	957,800	3,263	652
Equity swaps	**-**	**-**	**-**	2,700	-	-
	1,099,725	**1,902**	**815**	960,500	3,263	652
Under one year	**286,925**	**46**	**112**	158,700	160	319
Between one and five years	**812,800**	**1,856**	**703**	801,800	3,103	333
	1,099,725	**1,902**	**815**	960,500	3,263	652

30. Fair Values

The following tables summarise the carrying amounts and fair values of those financial assets and liabilities by category where these are different. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated for other financial instruments by discounting cash flows at prevailing interest rates.

	Group and Society	
At 31 March 2017:	**Carrying Value £000**	**Fair Value £000**
Financial assets:		
Loans and advances to customers		
Loans fully secured on residential property	1,723,934	1,745,755
Loans fully secured on land	155,195	152,819
Financial liabilities:		
Shares	1,743,826	1,741,584

	Group and Society	
At 31 March 2016:	Carrying Value £000	Fair Value £000
Financial assets:		
Loans and advances to customers		
Loans fully secured on residential property	1,626,207	1,649,079
Loans fully secured on land	158,546	156,126
Financial liabilities:		
Shares	1,613,216	1,610,193

The fair value and carrying value of balance sheet items not included in the table above are the same, as shown on the balance sheet.
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms-length transaction.
Loans and advances to customers and shares are calculated using the effective interest rate method, less provisions for impairment together with fair value adjustments using discounted cash flow principles set out in IAS 39. They are Level 2 assets, as defined in FRS 102. In addition, the 'investment in equity share' which is shown in the balance sheet at fair value (see note 31) is a Level 3 asset, as its valuation includes certain assumptions which are deemed to be unobservable.

The following table analyses the Group's assets and liabilities by the class of financial instrument to which they are assigned by the measurement basis:

At 31 March 2017:	Financial assets/ liabilities at fair value through Income and Expenditure £000	Financial assets available for sale £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Non-financial assets/ liabilities £000	Total £000
Financial Assets:						
Cash and balances with the Bank of England	-	-	162,882	-	-	162,882
Loans and advances to credit institutions	-	-	118,817	-	-	118,817
Debt securities	-	24,077	-	-	-	24,077
Derivative financial instruments	677	-	-	-	-	677
Loans and advances to customers						
Loans fully secured on residential property	9,548	-	1,723,934	-	-	1,733,482
Loans fully secured on land	-	-	155,195	-	-	155,195
Other loans	-	-	21,841	-	-	21,841
Investment in equity shares	-	3,263	-	-	-	3,263
Non-financial assets	-	-	-	-	21,743	21,743
Total assets	**10,225**	**27,340**	**2,182,669**	-	**21,743**	**2,241,977**
Financial Liabilities:						
Shares	53	-	-	1,743,826	-	1,743,879
Derivative financial instruments	11,314	-	-	-	-	11,314
Amounts owed to credit institutions	-	-	-	204,356	-	204,356
Amounts owed to other customers	-	-	-	100,763	-	100,763
Non-financial liabilities	-	-	-	-	29,431	29,431
General and other reserves	-	-	-	152,234	-	152,234
Total reserves and liabilities	**11,367**	**-**	**-**	**2,201,179**	**29,431**	**2,241,977**
At 31 March 2016:						
Financial Assets:						
Cash and balances with the Bank of England	-	-	198,674	-	-	198,674
Loans and advances to credit institutions	-	-	96,316	-	-	96,316
Derivative financial instruments	261	-	-	-	-	261
Loans and advances to customers						
Loans fully secured on residential property	10,123	-	1,626,207	-	-	1,636,330
Loans fully secured on land	-	-	158,546	-	-	158,546
Other loans	-	-	17,165	-	-	17,165
Investment in equity share	-	3,369	-	-	-	3,369
Non-financial assets	-	-	-	-	19,617	19,617
Total assets	**10,384**	**3,369**	**2,096,908**	**-**	**19,617**	**2,130,278**
Financial Liabilities:						
Shares	80	-	-	1,613,216	-	1,613,296
Derivative financial instruments	11,090	-	-	-	-	11,090
Amounts owed to credit institutions	-	-	-	233,083	-	233,083
Amounts owed to other customers	-	-	-	109,234	-	109,234
Non-financial liabilities	-	-	-	-	20,632	20,632
General and other reserves	-	-	-	142,943	-	142,943
Total reserves and liabilities	**11,170**	**-**	**-**	**2,098,476**	**20,632**	**2,130,278**

31. Investment in equity shares

The investment in equity shares is in respect of VISA Inc. preference shares.

On 2 November 2015, VISA Inc. announced the proposed acquisition of VISA Europe to create a single global payments business under the VISA brand and the transaction completed on 21 June 2016. In exchange for its single ordinary share the Society received cash of £3.638 million, and VISA Inc. preference shares, initially valued at £2.427 million. These amounts are included within 'gain on equity share investment' in the income and expenditure account. The preference shares are convertible into Class A common shares of VISA Inc. at a future date subject to conditions including that the conversion rate may be reduced to cover certain litigation costs (primarily the setting of interchange fees).

At 31 March 2017, the VISA Inc. preference shares have been recognised at a fair value of £3.263 million. The difference of £0.835 million between this and their value at the date of the transaction has been recognised in the available for sale reserve, net of deferred tax.

In the financial statements at 31 March 2016 the cash receipt expected at that time of £3.369 million was recognised in the balance sheet and net of deferred tax, within the available for sale reserve. The 'movement in gain on equity share investment' and the related deferred tax reported within the statements of comprehensive income for the current year represent the net movement of the reversal of the expected cash receipt recognised at 31 March 2016, and the movement in the fair value of the preference shares between the date of the transaction and 31 March 2017.

In addition, the Society may receive deferred cash consideration in 2020 which is contingent upon certain performance thresholds being met. As this cannot currently be reliably measured, this has been valued at nil.

ANNUAL BUSINESS STATEMENT

For the year ended 31 March 2017

1. **Statutory Percentages**	**31 March 2017 %**	Statutory Limit %
Lending Limit	**10.26**	25
Funding Limit	**14.89**	50

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets comprise Group total assets plus provision for bad and doubtful debts, less liquid assets and tangible fixed assets.

The Funding Limit measures the proportion of shares and other borrowings not in the form of shares held by individuals.

The statutory limits are laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. **Other Percentages**	**Group 31 March 2017 %**	Group 31 March 2016 %
As percentage of shares and borrowings:		
Gross capital	**7.43**	7.31
Free capital	**6.91**	6.77
Liquid assets	**14.92**	15.08
Profit for the financial year as a percentage of mean total assets*	**0.90**	0.62
Management expenses as a percentage of mean total assets	**0.98**	1.02

	Society 31 March 2017 %	Society 31 March 2016 %
Management expenses as a percentage of mean total assets	**0.88**	0.91

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

The above percentages have been prepared from the Group and Society accounts and in particular:

'Shares and borrowings'	represent the total value of shares, amounts owed to credit institutions and amounts owed to other customers.
'Gross capital'	represents the general reserve and the available for sale reserve.
'Free capital'	represents the aggregate of gross capital and collective loss provisions for bad and doubtful debts less tangible fixed assets.
'Mean total assets'	represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
'Liquid assets'	represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
'Management expenses'	represent the aggregate of administrative expenses and depreciation.

3. Information relating to the Directors as at 31 March 2017

Name	Occupation	Date of Birth	Date of Appointment	Other Directorships (excluding dormant companies)
DIRECTORS				
T. Hebdon, ACIB	Business Consultant	21.3.54	11.12.09	Carlisle Cathedral Development Trust
A. J. Johnston, BA, FCA	Chartered Accountant	13.2.60	15.2.11	Armstrong Watson Financial Planning Ltd Future Money Ltd Armstrong Watson Accountants Armstrong Watson General Partner Ltd Armstrong Watson Audit Ltd Carlisle Cathedral Development Trust
P. Anstiss	Company Director	8.1.55	25.1.16	Anstiss Consulting Ltd
G. F. Gardner, MA (Cantab)	Council Secretary of the Co-operative Group	28.9.64	17.9.12	
E. R. Gunn, FCIBS	Retired Bank Executive	4.1.61	9.11.16	
J. Hooper Member of the Australian Institute of Directors	Company Director/Advisor	26.5.61	20.11.15	The Leasing Industry Philanthropic and Research Foundation Ltd Sarhon Developments Ltd Sarhon Homes Ltd John Hooper Consulting Ltd
M. K. Hulme, MPhil	Company Director	10.5.57	3.9.15	
J. C. N. Kidd, BA, ACA	Building Society Finance Director	10.6.65	28.3.02	Cumberland Homes Ltd Cumberland Property Services Ltd Borderway Finance Ltd
C. McDonald, BSc	Building Society Operations and Human Resources Director	6.11.62	13.10.14	Mobile Payments Service Company Ltd
K. Parr, BA, FCCA	Building Society Chief Executive	27.5.60	26.7.94	Cumberland Holdings Ltd Cumberland Financial Services Ltd Cumberland Property Services Ltd Cumberland Estate Agents Ltd Cumberland Homes Ltd Cumberland Financial Planning Ltd Borderway Finance Ltd
P. R. Temple, BSc, MBA	Building Society Deputy Chief Executive	9.3.61	1.9.07	Cumberland Estate Agents Ltd Cumberland Financial Services Ltd Cumberland Holdings Ltd Cumberland Financial Planning Ltd Borderway Finance Ltd

Mr K. Parr, Mr J.C.N. Kidd, Mr P.R. Temple and Mr C. McDonald are employed under contracts terminable by the Society on twelve months' notice or by the individual on six months' notice. Mr Parr's contract was signed on 28 January 1997, Mr Kidd's on 16 May 2002 and Mr Temple's on 30 January 2008, and all were varied by a side letter determining the notice periods above on 26 March 2013. Mr McDonald's contract was signed on 18 December 2014.

Correspondence to the Directors jointly or individually should be addressed 'Private and Confidential' and c/o Deloitte LLP, 2 Hardman Street, Manchester, M3 3HF.

It's grin up north

AUTUMN 2016
Fairer Finance
1ST PLACE
GOLD RIBBON
Bank accounts

SPRING 2017
Fairer Finance
1ST PLACE
GOLD RIBBON
Bank accounts

Our bank account customers are **still** the happiest in the UK

Fairer Finance award winners for the second time in a row; Autumn 2016 and Spring 2017

Cumberland Building Society
Cumberland House, Cooper Way,
Parkhouse, Carlisle, CA3 0JF

Phone: 01228 403141

customerservice@cumberland.co.uk

cumberland.co.uk

The Cumberland