Annual Report and Accounts

year ended 31 March 2020

The Cumberland
Building Society

2019/2020 HIGHLIGHTS

gross **mortgage** lending **£411m**

total **assets** **£2.66bn**

profit after tax **£6.6m**

funds inflow **£44m**

charitable donations **£217k**

customer satisfaction **4.8/5** ☆☆☆☆☆

Annual Report and Accounts

year ended 31 March 2020

STRATEGIC REPORT

CHAIRMAN'S WELCOME

On behalf of the board of directors, I am delighted to present Cumberland Building Society's Annual Report and Accounts for the first time since I became Chairman.

I have long been an admirer of The Cumberland; its values; what it has sought to do; and what it has achieved over the years. Thanks to the dedication and outstanding work of our board and my predecessor, Trevor Hebdon, I have the privilege to lead an extremely well-run organisation that fully deserves the trust of our members. This trust is not taken lightly and your Society remains committed to helping our members achieve their financial goals.

THE IMPACT OF CORONAVIRUS

At this stage, it is important to note the impact of the global coronavirus pandemic. My thoughts are with those that have been affected, in particular those that have lost loved ones during this time.

At the time of writing, the nation is in lockdown, with no clear timeline for when measures will be fully lifted. While the future remains uncertain, we continue to work to a focused strategy that will ensure we place the relevant resources where they are most needed to support our customers, our communities and our people during this time and beyond.

SAFE AND SECURE

The Cumberland is profitable, well capitalised, and well funded, with high levels of liquidity, and so now, as throughout our 170 year history, offers the strength and stability you require and expect as our members, as we face the future together.

BRIGHTER BANKING

As a customer-owned building society, we are here to serve our members. Our new Brighter Banking strategy is The Cumberland's commitment to make a positive difference to the lives of our customers, our communities and our people. This means that profit, while important, is not the only yardstick for our success. I am pleased to be able to report that we have delivered another strong set of results for the year across all aspects of the business.

As members of a mutual, our customers continue to benefit from consistently competitive interest rates on savings and mortgages over the long-term. But we believe you expect more from us than that. Your board has a responsibility to create a stronger, more resilient Society with a bright, sustainable future.

INVESTING IN THE FUTURE

Technology is changing quickly and, like many businesses, The Cumberland is constantly working to update and replace legacy systems to deliver digital services via modern platforms. The management team is continuing to direct resources into our IT infrastructure, ensuring it is robust and flexible to support the development of the contemporary internet banking service that our customers expect. We also recognise that a physical presence on the high street is essential for many members and still an important part of the banking experience. To this end we have commenced a programme of investment in our branch network which will support the delivery of our Brighter Banking approach and ensure we continue to provide exceptional customer experiences.

The recent full strategic review of our business concluded that in order to better serve our customers, we should concentrate on our core businesses - mortgages and savings. Your board therefore decided to endorse a management buy out of our estate agency business, which is now in the ownership of a new company, Hunters. We wish our former colleagues well, as they move forward in this specialised field where they excel.

MAINTAINING COMPLIANCE

The Cumberland is operating within an increasingly regulated environment, which is a good thing for our members. There are increased rules and stringency around compliance in managing risk and our conduct in operational matters. Staying agile and responsive while complying with these in a responsible way requires significant investment and your board is satisfied that these needs are being met. Your Society is prepared for the impact of the inevitable future changes of emphasis within regulation.

SPECIALISING IN HOSPITALITY

Our region has a long tradition of friendly, high-quality service in the hospitality industry and our enviable track record demonstrates expert insights and experience in providing specialist mortgages that meet the unique requirements of this sector.

Coronavirus will continue to present a challenge for our society, and to the management of businesses up and down the country. Naturally, the measures that are being taken to combat the virus have had, and will continue to have, a negative effect on tourism and hospitality this year. We take a long-term view and are committed to supporting this key contributor to our local economy.

OUR PEOPLE

Since joining The Cumberland, I have been struck by the dedication shown by our people to our customers and to their own colleagues. I would like to take this opportunity to thank them all. We are renewing our commitment to our people individually, by increasing investment in their learning and development, while also actively recruiting more talented individuals to enhance the teams. The Cumberland is strongly focused on equal opportunities and your board expects to announce two new appointments later in the year that will reflect its commitment to diversity and inclusion at a senior level.

THE YEAR AHEAD

Looking ahead, much of this year will be focussed on supporting our customers, colleagues and communities during the coronavirus pandemic and in the subsequent recovery.

As Chairman, I am extremely proud of the way the team at The Cumberland has approached what is, without doubt, the greatest challenge faced by our generation. The hard work and commitment shown has clearly demonstrated our core values. This reassures me that our Brighter Banking proposition is the right strategy for our business. Brighter Banking is transforming the way we serve our members, driving prosperity and wider lifestyle benefits for all of our customers, our communities and our people.

I am honoured to be in a position to help steer Cumberland Building Society through this period in its history and thank you for the trust you put in me and your board.

John Hooper
Chairman 9 June 2020

Chief Executive Officer's Business Review

INTRODUCTION

As we celebrate our 170th Birthday, I am pleased to report that we have made great progress on our journey towards 'Cumberland 2025' - our strategy to remain a strong and sustainable business, despite challenging economic, political and pandemic headwinds.

We have achieved good financial results and at the same time continued to invest heavily in the future of our business for the long term benefit of our customers, our communities and our people.

Key highlights for the past 12 months include:

- Launch of our new brand proposition, 'Brighter Banking'
- Further investment in people and capability, bringing new talent and experience into the region and developing the skills of our existing teams
- Sale, by way of management buyout (MBO), of Cumberland Estate Agents to Hunters
- Deeper embedding of our Risk Management Framework
- Review and simplication of our full range of back book savings products
- Significant uplift in community engagement through increased funding and more active involvement by our people
- Stronger retention of existing mortgage customers, with 80% of our branch mortgage business choosing to keep their mortgage with us this year
- Upgrades of core IT systems
- Increasing our Net Promoter Score (NPS) to 84, achieving Feefo's Gold Service Award for the second successive year with an average customer rating of 4.8 out of 5

COVID-19

I'm writing this as coronavirus has become the focal point in all of our thoughts and actions. I am extremely proud to say that the Society's robust contingency plans were deployed very quickly and to great effect in the early stages of the crisis in order to preserve the provision of key services.

Our response to the pandemic has been based on two key principles: to continue to serve our Customers and Communities to the best of our abilities, while at the same time protecting our Customers, our People and their families. We have followed, and in many cases been ahead of, all Government, NHS and Public Health England (PHE) guidelines.

As the number of our people absent from work for Covid-19 reasons rose, we had to temporarily close some branch locations and reduce opening times in line with changed customer usage patterns. We have since reopened, at least weekly, in all communities we serve. Our focus was on providing essential services to all our members to enable access to cash, money transmission, payments and forbearance and we intend to continue with this approach until 'normality' returns.

We were also able to quickly streamline the processes for our residential and commercial mortgage customers to contact us using standard templates. I'm pleased to say

Our Brampton branch was refurbished earlier this year. The branch opened in March, at the start of the coronavirus lockdown, with a number of social distancing measures to keep our colleagues and customers as safe as possible.

that we have been able to provide mortgage repayment holidays to all the customers who have contacted us and there are no backlogs or waiting times.

In the initial period of the crisis, there was a significantly increased demand on our Customer Care team. We deployed more of our people to support our phone lines, and we increased the use and functionality of our webchat as a method of serving more customers.

We understand that, as the public health dimension to this crisis recedes, there is likely to be an economic recession of some magnitude. We also recognise that some of the measures introduced by the Government and the Bank of England, including the changes in UK interest rates, have brought a real reduction in income for our savings customers.

We will do everything in our power to support our customers in their time of need. Rest assured that the Society has the human and financial resources to withstand the impact of this crisis for the foreseeable future.

Our thoughts are with our Customers, our People, and their families who have suffered bereavement.

STRATEGY

This time last year, I reported that we had developed a clear and focused plan to help secure our future, called 'Cumberland 2025', which started with the appointment of a top level Senior Leadership Team (SLT). Over the past 12 months, the SLT has put in place much of the capability required to deliver on our plan, in areas such as digital architecture, transformation, product management, strategy, change management, data and management information. We continue to work hard on strengthening the foundations in the background, before you will experience visible changes.

Our strategy is driven by our vision "To make Banking Brighter" - to stand apart in the financial services industry in 3 ways:

1. delivering exceptional customer service, as evidenced by our leading Net Promoter Score (NPS) of 84 and our average Feefo customer rating of 4.8 out of 5;
2. being anchored in a clear purpose and values – our commitment to making a positive difference in everything we do for our customers, communities and our people; and
3. developing straightforward digital services that enable customers to bank with us how they want, when they want.

This means focusing our investment on developing our core business of mortgages and savings, making it easier and simpler for customers to bank with us.

We are continuing to invest in upgrading our branches, offering the face-to-face service, that many of our customers prefer, in contemporary surroundings. Our Brampton branch was the first branch to be refurbished in the new style and opened on 30 March this year. We also remain committed to our Cumbria-based call centre, providing a friendly, easily accessible and local voice for many.

At the same time, we are setting the foundations for our digital evolution – a change programme that will provide alternative and more convenient opportunities for our customers to interact with us, while ensuring we remain operationally resilient for the future. This will not only provide greater choice for existing customers, it will also allow us to build on our foundations, as a regional provider, to further expand our lending and savings nationally, in niche sectors such as hospitality and tourism, and lending to people in later life. This is important to ensure we can continue to grow in the long term and ensure the prosperity of our business.

We took great pride in launching our new brand position in January – Brighter Banking. This is our external commitment to continue to deliver exceptional customer experience, from a business with true values and a responsibility to its Customers, Communities and People. We are here to offer simple, straightforward banking that continues to win awards, such as Feefo's Gold Service Award and Fairer Finance's gold ribbon. Despite the challenging economic market we are now operating in, we remain committed to delivering our Brighter Banking promise. Looking after our members and their finances is paramount to delivering a sustainable business that will be here for the long term.

You can expect to see our investment in the future continuing over at least the next four years. We believe as a customer-owned organisation, investing in our business to ensure it remains sustainable and successful is the right decision for our Customers, our Communities and our People.

Our Senior Leadership Team

Chief Operating Officer (COO)
Susanne Parry

The COO has responsibility for direction and control of all organisation operations in accordance with strategy and business planning as agreed by the CEO and the board. Susanne leads the technology, operations, customer service and change functions and supports the Society by ensuring entire enterprise operational resilience.

Chief Financial Officer (CFO)
Richard Ellison

The CFO ensures sound financial management across the Group, including capital, funding and liquidity. Richard is responsible for planning, forecasting, financial reporting and ensuring the accuracy and timeliness of information provided to the PRA and other regulatory bodies. He leads the treasury, finance and prudential management functions. Richard is an executive director and sits on the board.

Chief Executive Officer (CEO)
Des Moore

The CEO is responsible for making major strategic decisions and setting the overarching goals of the Society, and ensuring that they are met. Des manages the overall operations and resources and is the main point of contact between the board and the business. He also ensures the business delivers on its Purpose and upholds its Core Values. Des is an executive director and sits on the board.

Chief People Officer (CPO)
Jill Johnston

The CPO is responsible for leading on people strategy. Jill oversees the development of people and culture across the business, providing support across the people function including recruitment, retention, talent development and performance objectives. In addition to this, she provides organisational development functions including leadership development, wellbeing, team maturity, inclusion and diversity.

Chief Customer Officer (CCO)
Alex Windle

The CCO is responsible for creating and managing the corporate strategy and ensuring the business provides a differentiated and exceptional customer experience to deliver the business' income objectives. Alex is accountable for overall customer acquisition and retention, overseeing all distribution and customer management, including the branch network, customer care, national lending, brokers, Cumberland Business, Borderway Finance, Cumberland Financial Services and Marketing.

Chief Risk Officer (CRO)
Will O'Carroll

The CRO is responsible for managing risk across the Group on behalf of the board. He is accountable for enabling the efficient and effective governance of significant risks and related opportunities for the business and its subsidiaries. Will oversees the management of standard risk categories: strategic, credit, operational, financial, conduct and regulatory, and supports the CEO and SLT to manage the risks in their respective business areas.

VISION, PURPOSE AND CORE VALUES

Our vision has been further refined and broadened over the past 12 months as we began to see the full potential of our Brighter Banking brand positioning. We now have a bold vision – to make banking brighter - in a way that clearly distinguishes ourselves from large faceless banks or more traditional building societies.

Our Purpose - "to make a positive difference to the lives of our Customers, our Communities, and our People" - was new this time last year and has become embedded as our guiding 'North Star', together with our core values:

Customer-led	– we put our customers first in everything we do
Straight forward	– we work hard to make things simple
Responsible	– we do the right thing
Forward thinking	– we embrace new ideas to continuously improve
Better together	– we work as one team

These values shape the way we work every day. Indeed, all of our people are benchmarked against core value behaviours as part of how we manage performance. We have seen our people living these values in their response to serving you during the pandemic lockdown.

OUR CUSTOMERS

Customer experience is at the heart of all we do. In order to enhance this, we are investing in our branch network as well as putting in place the foundations for a long-term digital change programme which will enable customers to bank with us however they choose.

Continuing to improve our customer experience is really important to us. Last summer, we introduced our 'Brilliant Basics' programme. This is an extensive training plan which includes a set of principles to ensure we're providing our differentiated Cumberland customer experience consistently across our branch network, no matter which branch you choose to bank in.

Our Cumbria-based Customer Care team continue to receive incredibly positive feedback from our customers for their warm and genuine support on our phone lines. Their commitment to providing exceptional service, along with our other teams, has been recognised through the accolade of a second successive Feefo Gold Trusted Service Award and increasing Net Promoter Score (NPS) to 84, which is now one of the highest in the industry.

Colleagues from The Cumberland at Cumbria Pride 2019

Furthermore, we were also awarded a Gold Ribbon by Fairer Finance for our banking and savings products, a five star rating from Moneyfacts for our business current account and a highly commended, also from Moneyfacts, in their Best Regional Lending Provider of the Year award.

Most important are the letters, emails and tweets I receive on a weekly basis from our customers recounting how our individuals or teams have solved their problems by listening empathetically and taking the right actions.

OUR COMMUNITIES

This time last year we announced a significant increase in our community funding to a minimum of 1.5% of the previous year's profit after tax. This level of ongoing commitment, tied to our own success, places us in the top 2% globally of companies who support charitable giving.

We also announced a new partnership with the Cumbria Community Foundation (CCF) whereby we would work with them to identify larger projects in our regions to support.

I have been fortunate enough to witness first-hand what this support means to some of the beneficiaries this year. I had the pleasure of spending some time with Susan Aglionby of 'Susan's Farm', near Carlisle, a care farm in Houghton that teaches primary and secondary age children, and children with special needs, about organic and environmentally friendly farming. They also provide opportunities for people with long term mental illness, ex-offenders and teenagers with behavioural problems. Our funding of £15,000 a year for 3 years has allowed Susan to recruit an administrator to help her spend more of her time running the farm.

Dignity in Dementia was another of our major beneficiaries last year, and will receive £20,000 a year for 3 years. The South Lakes-based charity is dedicated to helping people living with dementia. It supports them to continue living at home and remain active in their communities and the organisation will use the funding to expand their operation into West Cumbria.

But that's only one measure of community engagement. During the year our team were actively involved in making positive differences across our region. More than 80 of our people took part in community days, a paid day off to support a charity or community activity of their choice. Many of our team were also involved in supporting educational initiatives with schools and community groups around the region. One of the year's highlights was helping James Rennie School in Carlisle with their launch of their school bank, a project designed to help pupils improve their social interaction and numeracy skills. You can see the full story on film at brighterbanking.co.uk.

Another day from last year that we won't forget was 'Brighter Cumbria' Day, which took place on 20 January. To help celebrate the launch of our Brighter Banking brand proposition, we attempted to break the world record for the most acts of kindness undertaken on one day. On 'Blue

Brighter Cumbria Day, an initiative to encourage people to undertake random acts of kindness and launch our Brighter Banking brand, was supported by schools and businesses across Cumbria, and our colleagues from South West Scotland and Lancashire joined in too! Over 22,000 acts of kindness were recorded, a new unofficial world record.

Monday', traditionally the most miserable day of the year, we encouraged people around the region to simply do something kind for someone else. The response to the initiative was absolutely phenomenal with over 20 schools taking part and businesses from around Cumbria joining in. In all, over 22,000 acts of kindness were undertaken – a new unofficial world record.

OUR PEOPLE AND CULTURE

A substantial part of our investment has been in developing our culture and our people, and this remains a major focus for our business. We are already well underway in our cultural journey and we want our people to feel like The Cumberland is a great place to work, where people feel valued and can produce their best work and there are a number of strands to that.

Culture

We recognise that as the world continues to evolve at an increasingly rapid pace, we too must adapt the way things are done here by changing our culture. The destination on our cultural journey is empowerment. We want to provide an environment where our people are empowered to take decisions within a framework where they are accountable by encouraging new ways of thinking and working, innovating, experimenting and growing personally.

This year, all of our senior managers took part in a bespoke leadership development programme designed to support our evolving culture. This is not a single iteration, rather a continuous evolution which will unlock the potential of our people.

In line with our strategy and vision for the future, a group of 50 of our people managers went through our Leadership 2025 programme in 2019/2020 to ensure our managers and leaders feel supported and have the skills to drive performance, navigate change and inspire our colleagues. The task with the superhero masks was to think about themselves as 'superleaders'

All our colleagues are able to take a paid day's leave to support a charity or community group of their choice. This year, over 80 of our team from all areas of the business helped make a positive difference to the lives of communities right around the region.

Capability

In order to achieve this, we have invested in people with deeper capability in such areas as enterprise architecture, transformation, balance sheet management, and in upskilling our existing teams – change management, project management and information security, supporting qualifications where applicable, such as project management apprenticeships through the University of Cumbria. Our recruitment process has been refreshed, led by a recruitment microsite, a competency based approach and new on boarding tools.

Our approach to family friendly practices and policies continues to develop as we look to create an enhanced working environment.

Diversity

A diversity working group was launched earlier this year to celebrate individual differences in our workforce and more importantly to value the contributions of all of our people from whatever background they may come. A team from the Society took part in the Cumbria Pride parade for the first time. We are signatories to the Women in Finance Charter and we have set a goal of having at least a third of our SLT and board positions held by women by 31 March 2021 (current figures are on page 29). We also committed to becoming a founding member of the Missing Middle project in partnership with the Work Foundation, Women in Finance and Banking and the University of Lancaster. Closing the gender pay gap remains a priority and while some further progress was made this year, we acknowledge that much remains to be done.

Communication

We also launched our internal communications brand, 'Straight Talk', which has brought a consistent and supportive "tone of voice" to all of our communications. We've opened up the opportunity for the SLT to listen to smaller groups of our people (250 people have attended since 1 January 2020) over lunch or coffee and this has provided an invaluable feedback loop from the greatest of our resources – our people.

Results from our annual Best Companies Employee Engagement Survey showed that we made progress against virtually all of the key areas and we have empowered a group to devise action plans to continue our upward trajectory.

BRIGHTER FUTURE AHEAD

I am incredibly proud of how far the team here at The Cumberland has come over the past 12 months and am hugely energised by the progress we are making towards Cumberland 2025 - delivering a sustainable, future-proofed business against the headwinds of significant public health and economic challenges.

Thanks to our robust contingency plans we expect to continue to meet the needs of our customers during the current crisis by being agile and flexible. We have been serving our communities since 1850 and have overcome some major challenges in that time.

While the situation may appear challenging today, I am confident we will ultimately come through this crisis together to emerge stronger and wiser and with a much brighter future ahead of us.

Des Moore
Chief Executive Officer
9 June 2020

KEY PERFORMANCE INDICATORS

The Society monitors many aspects of financial and non-financial performance on a regular basis. The table focuses on those measures that are reported to and considered key to business success by the board.

	2020	2019
Customers		
Feefo Rating	**4.8/5.0**	4.8/5.0
People		
Engagement Score (max 900.0)	**650.0**	627.3
Financial		
Group Profit Before Tax (£ million)	**8.3**	14.3
Group Profit Before Tax as a % of Mean Total Assets	**0.32**	0.56
Excluding hedge accounting, provisions and other one-off items:		
Group Operating Profit Before Tax (£ million)	**12.4**	16.4
Group Operating Profit Before Tax as a % of Mean Total Assets	**0.47**	0.64
Net Interest Margin (NIM) (%)	**1.60**	1.61
Cost / Income Ratio (%)	**71.8**	62.2
Common Equity Tier 1 Capital Ratio (%)	**19.0**	17.6
Growth in Loans and Advances to Customers (%)	**4.57**	1.87
Gross Lending During the Year (£ million) #	**411.4**	384.5
Inflow of Funds from Customers (£ million)	**43.6**	100.5
High Quality Liquid Assets (HQLA) (%)	**15.9**	14.4

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

Metric definitions can be found on page 88.

FINANCIAL PERFORMANCE

PROFITABILITY

2020's performance reflects the first full year of our commitment to invest in making The Cumberland a business that is sustainable over the longer term and able to live up to the promises inherent in Brighter Banking from Cumbria. Our profit before tax for the year was £8.3m, generating surplus capital despite, including the first part of the costs required to sustainably meet the expectations of our customers, our communities and our people, alongside the cost of change we face as a highly regulated business. The result, regrettably, includes a number of charges arising from historic matters which are discussed on page 11. The constituent parts of the Group's operating and statutory results are summarised in the table.

	2020	2019
Group Income Statement	**£000**	**£000**
Net interest income	**41,621**	40,623
Other income and charges	**2,213**	2,836
Total operating income	**43.834**	**43,459**
Administrative expenses	**29,391**	24,992
Depreciation	**2,087**	2,021
Operating profit before provisions, hedge accounting and other one-off items ('operating profit')	**12,356**	**16,446**
Provision for bad and doubtful debts	**(1,252)**	(64)
Other provisions and charges	**(1,917)**	(219)
Gain on VISA shares	**429**	-
Loss on disposal of CEAL	**(289)**	-
Fair value gains and losses on hedge accounting	**(987)**	(1,842)
Profit for the year before taxation	**8,340**	**14,321**
Taxation	**(1,779)**	(2,920)
Profit for the year after taxation	**6,561**	**11,401**

During the year, The Cumberland has worked hard to maintain margin and grow its net interest income in the face of a highly competitive mortgage market driven by the large retail banks, who have surplus deposits to deploy as an unintended consequence of ring-fencing. While mortgage rates have dropped to historic lows, The Cumberland has been successful in protecting its margin, while fully repaying its FLS liabilities to the Bank of England (£70m) and a portion of its TFS borrowings (£60m) from the same source. This is a significant achievement.

2020's results reflect the first full year of a multi-year programme of substantial investment in making our business safe, sound, compliant and ultimately sustainable. This is seen in both our people and administrative costs, which rose as new hires joined the business bringing additional skills and capacity, particularly through the second half of the year, and this trend will continue as we move forward. This impact, alongside charges reflecting a number of historic matters we have provisioned for, has contributed to the reduction in profit after tax for the year to £6.6m.

The operating profit (as defined on page 10) for the year of £12.4m (31 March 2019: £16.4m) reduced by £4.0m (24%) primarily driven by investment in capability. Administration expenses rose by £4.4m to £29.4m. £2.2m of the increase was in salaries, with the additional spend focused on senior hires in the customer facing areas of the business, alongside senior operations appointments, bringing new capability and increased capacity to the business. Investments were also made in multiple other areas, including business change and branch staff, as well as reflecting the full year impact of the 2019 investments in risk, credit, audit, human resources and treasury. We also continued to make improvements to our people's benefits and completed some focused regrading towards ensuring our approach to our people is fair and appropriate.

Statutory profit before tax for the year was £8.3m. Statutory profit reflects the cost of provisioning as well as charges for our derivatives used for risk management purposes.

Taking each in turn:

Provisions for bad and doubtful debt were materially impacted by two matters. Firstly, our assessment of the global pandemic on the level of provision required for our performing loan books, which is discussed in further detail below, and, secondly, a charge in relation to a single group of connected companies.

Historically, the Society provided development finance to a number of regional builders and developments. A decision was made to exit new business in this area in 2018 and exposure with existing borrowers has been reducing. Unfortunately, we had to appoint receivers to the largest of these historic exposures in the final quarter of 2019, when their refinancing efforts failed. The charge reflects a conservative evaluation of the risk of loss, including the likely impact of the pandemic driven recession on collateral values, and is at a level that materially reduces the risk of further charge, as the linked exposures unwind as security is sold over 2020. This matter coupled with our recognition of the initial impact of the pandemic on the rest of our lending portfolio has resulted in a loan provisioning charge of £1,252k (2019: £64k).

The other provisions and charges of £1.9m reflect a number of matters, the largest of which is the estimated cost of remediating historic Know Your Customer (KYC) deficiencies in our business current account portfolio. In all, we have provided £850k to remediate these deficiencies and we are also investing going forward in this area both on training and more specialist skills.

The second significant net charge is £702k, which arises from a reduction in the value of a number of buildings owned by the Society, notably the former head office site in Castle Street, Carlisle, alongside losses on disposal of development land bought historically.

Other provisions and charges also incorporate the final charge for the MPPI matter of £251k and operational losses that have emerged as a result of historic control weaknesses, which we have now addressed. Though modest in comparison to both our size and the industry, the impact of PPI remediation over the last 5 years is cumulatively almost £750k.

The charge of £987k (2019: £1,842k) relates to the movements in the valuations of the derivative financial instruments held by the Society for risk management purposes. The Society uses derivative financial instruments to manage its exposure to changes in interest rates, which arise from fixed rate mortgage lending and fixed rate retail savings products. It is required to fair value these derivatives at the year end.

Fair values are driven by market expectations and can, and do, fluctuate over time leading to volatility in our results. The 2020 charge is driven by the impact of the recent sharp rate reductions and the market's view that interest rates will be lower for longer, reflecting the pandemic coming on top of the pre-existing and continued uncertainty around Brexit and the global economy.

These gains or losses are only realised if the Society chooses to sell the derivatives before they reach maturity; otherwise, the movements will reverse over the derivatives' remaining lives, resulting in a zero net impact on profit over time. For this reason, the board focuses on operating profit, which excludes fair value movements and, to the extent that they are significant, other one-off items in measuring operating performance. While the movement in derivatives is ultimately driven by market conditions, which are outside of this control, the Group has made changes during the year to reduce day to day hedging volatility.

LENDING

We have continued to grow our residential lending book which rose by 3.8% to almost £2.0 billion. This included £377m of gross new lending.

Our commercial lending team had a successful year recording the highest level of approvals in the Group's history for the second straight year. At 31 March 2020, the commercial lending book had grown by 8.1% to £179m.

We have seen increasing levels of competition in our core lending markets over the last year; we expect this to continue and exert a high level of downward pricing pressure on our new business mortgage margins, including in a number of the long term niches we have supported. This has resulted in a lower yield on our lending books. Having anticipated the challenge of this alongside the need to begin repayment of historic Bank of England funding, management focused its efforts on value rather than volume. When coupled with our strategic programme to simplify our historic customer liability structure, management's approach resulted in net interest margin stability. It reduced by 1 bp from 1.61% to 1.60%. Net interest income rose by £1.0m in the year, to £41.6m.

ARREARS AND PROVISIONS

The volume of accounts fully secured on residential property (FSRP) and fully secured on land (FSOL) 90 days past due or more at the balance sheet date are as follows:

Accounts in arrears as % of loan book	31 March 2020	31 March 2019
FSRP	**0.08%**	0.10%
FSOL	**0.80%**	0.48%

Up to the end of February 2020, our arrears and provisions had been impacted by the default of a single connection. Excluding this single significant exposure, our lending books remained of a very high quality, as reflected in our very low level of arrears figures. Excluding this single connection, the level of FSOL arrears would be 0.32% (31 March 2019: 0.48%). At 31 March 2020, only 0.08% (31 March 2019: 0.10%) of our residential mortgages were in arrears by 3 months or more, which is significantly below both the market and building societies' average.

Prudent and responsible lending is 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.

The quality of The Cumberland's underwriting has been a long term success story, and despite the disappointment of a single large borrower's failure this year, this remains true; over the last 12 years, the Society's individual impairment charges for residential loans have averaged just £72k per year, which is a remarkable achievement over that period, which, of course, included the last financial crisis and subsequent recession.

Six of our commercial mortgages were in arrears of three months or more at 31 March 2020. Of this number, four were part of the connection discussed above. The Society had no residential or commercial properties in possession at the year end.

RESPONSE TO COVID-19

In March 2020, The Cumberland, alongside the rest of the UK and much of the globe, was impacted by the pandemic caused by Covid-19. The Group has moved swiftly to support its borrowing members, offering payment holidays, or other requested forms of forbearance, in line with both Government and regulatory requests and customer need. The Group was able to deliver all mortgage payment holidays requested by its business and retail customers prior to 31 March, and avoid customers impacted by Covid-19 having to make end of March mortgage payments. The Group has also moved to offer forms of support to its other borrowing and banking customers.

The level of forbearance requested and granted is significant and the Group expects this to grow. While the lockdown is expected to continue for some time, the Group expects there to be a longer period of economic downturn, as businesses and households respond to the loss of revenues and the valuable summer trading months. The impact of these matters is difficult to forecast and the significant Government support packages, including grants, will make a positive difference, changing the likely impact of forbearance measures on credit risk outcomes. Nevertheless, the Group does expect the level of arrears and losses to be elevated over the next year, and potentially for some time longer, and has incorporated this view in the year end provisioning judgements. The level of forbearance granted at 31 March 2020 is noted below:

No. of Cases (% of book)	31 March 2020	29 February 2020	31 March 2019
FSRP (All)	**1267 (7%)**	11 (0%)	13 (0%)
FSRP (Owner Occupied)	**706 (4%)**	5 (0%)	3 (0%)
FSRP (BTL and HL)	**561 (24%)**	6 (0%)	10 (0%)
FSOL	**278 (45%)**	18 (3%)	19 (3%)

Since the 31 March 2020, the Group has continued to offer forbearance to customers that have requested it and the absolute number of customers, subject to payment holiday, has continued to increase, though at a slower level than was seen in March.

The Group's historic credit loss experience has been benign, reflecting its underwriting quality and collateralised lending model; nevertheless, the Group has historically provided in a manner more conservative than many of its peers. This has allowed the Group to mitigate the absolute level of provision increase and charge at 31 March 2020, while taking a prudent path between the desire of regulators and others to prevent provisions from depleting capital available for lending and the need to cover a reasonable best estimate of incurred losses inherent in the book, including those likely to emerge from the loans subject to forbearance.

The charge for loan losses recognised in the year ended 31 March 2020 is £1,252k (31 March 2019: £64k). The total balance sheet provisions held by the Group are now £2.9m. Further detail is included in note 14 to the financial statements.

SUBSIDIARY COMPANIES

The Group's financial statements incorporate the assets, liabilities and results of a small number of subsidiary companies, the largest and only operationally significant of which is Borderway Finance Limited (BFL). BFL, our motor finance business, reported a profit before tax of £549k (2019: £538k) with its loan balances growing by 6.2% to £24.4m.

As part of our ongoing strategy to simplify the Group, we successfully executed the management buy out (MBO) of Cumberland Estate Agents Limited (CEAL), which completed in early November 2019. The MBO was led by the managing director of CEAL, supported by the national estate agency franchise, Hunters. The transaction is an excellent outcome from both the perspective of The Cumberland and CEAL's former employees, as it provides them access to the specialist skills and focus that an industry owner can provide. The transaction resulted in the transfer of 51 people.

The results of CEAL, as well as the costs of the MBO, are disclosed separately as a discontinued operation in the statutory income statement on page 59. During the period prior to the MBO, CEAL continued to be loss making. The results of CEAL, included in the Group's financial statements, exclude commission paid by the Society to CEAL, as it is removed on consolidation. The results of CEAL, historically disclosed, were those of the statutory entity.

FUNDING AND LIQUIDITY

The Society continues to be strongly funded by its retail depositors, the great majority of whom are located within its branch operating area. We saw a net inflow of funds of £44m over 2020. As a result, when coupled with the growth of savers' funds through interest paid by your Society, the majority of net new lending was funded by deposit growth. We continue to see strong performance across a wide range of accounts, including both personal and business current accounts, and we achieved good retention levels on fixed rate savings and growth in new fixed term deposits, which help provide stability to our funding base. Our performance reflects the Society's track record of providing good long term value.

As touched on above, the Society undertook a significant project to simplify its range of historic savings accounts, many of which were closed to further deposits. This rationalisation saw an 80% reduction of rate tiers and the number of account types fell by almost 70%, alongside movement in rates, which supported margin. A significant number of our customers saw rate increases as part of this exercise, including the vast majority of those who had saved modest balances with us. The higher tier rates offered to large depositors and certain closed accounts saw reductions as we moved rates closer towards current market rates, while ensuring that we remained good value and continued to reward long term and loyal customers.

Our strong retail deposit growth has enabled us to reduce the level of wholesale funding used by the Group. This incorporated the repayment of £130m of FLS and TFS funding from the Bank of England well ahead of its scheduled maturity dates, which start in calendar year 2020.

The Society's principal measure of liquidity is high quality liquid assets (HQLA) as a percentage of shares deposits and loans, as this reflects the funds that are immediately and fully available to support the Group's liquidity needs. The level of HQLA was stable and strong at 15.9%.

CAPITAL

The Society holds capital to provide protection for members' deposits against losses from lending, and to protect the Society's continued operation through difficult periods. Our capital comes from retained profits, and our good financial results have improved our gross capital ratio (gross capital expressed as a percentage of total shares and deposits) to 7.96%, up from 7.84% in 2019. This gives us a very strong base to support the business, as we accelerate investment levels as we move towards Cumberland 2025 and respond to the immediate challenges of the pandemic.

The Group's Regulatory Common Equity Tier 1 (CET1) ratio strengthened to 19.0% at 31 March 2020 (2019: 17.6%). If 2020's earned profit was included, this ratio improves to 19.65%.

The Group complied with the Total Capital Requirement (TCR) plus capital buffers, as notified by the Prudential Regulation Authority (PRA), throughout 2020. The Group's TCR is communicated annually by the Regulator. The Group's TCR at 31 March 2020 was £113.1m.

Further information on the Group's capital management can be found in the Pillar 3 disclosures published on the Society's website concurrently with these annual financial statements - www.cumberland.co.uk.

PRINCIPAL RISKS AND UNCERTAINTIES

Ever changing consumer demand, increasing use of technology, new competition and changes to the economic outlook caused by Covid-19 and the final form of Brexit all create significant uncertainties. The Society faces this uncertainty with large scale investments approved and capability in identifying, managing and mitigating levels of risk to support long term sustainability and value for members.

The Society utilises a risk framework that has been benchmarked against best practice and uses the industry standard '3 lines of defence' approach. This is where all risks are owned in the most appropriate business area, be it branches, operational teams or the finance department, because that is the area that will best understand the most suitable approaches to controlling and mitigating these risks. The framework itself is owned, developed and its use overseen by the 'second line of defence' Risk function, led by the Chief Risk Officer (CRO), who is a member of the SLT. The appropriateness of the Risk framework, the skill and capability of the CRO and his risk team and the successful operation of controls to manage risk are all independently overseen by the internal audit team, the 'third line of defence'.

The risk framework supports the design and delivery of Strategy within agreed risk levels, minimum standards and adherence to applicable regulation and legislation. It ensures risks are defined, measured and controlled in a consistent way across the Society and places the Society in the best possible place to manage through severe but plausible shocks.

The following are the principle and significant risks currently facing the Society, the key mitigants that help control those risks and commentary outlining the latest progress in enhancing the Society's approach. The set of risks are consistent with the risks faced in the prior 12 months except for the significant challenges caused by the Covid-19 global pandemic.

Increasing level of risk   Decreasing level of risk   Stable level of risk

Risk and Impact	Mitigation	Movement in risk profile	Latest Progress
Conduct Risk The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to unfair outcomes being created for customers and/or reputational risks materialising	Managed through a Customer Outcome Testing Framework. Looks at all areas of potential customer detriment and tests whether any detriment is occurring. Issues identified are put right for customers affected. Comprehensive set of MI flags areas to investigate. Detailed product governance framework ensures that any new products are developed to minimise the likelihood of customer detriment.		The outlook for this risk is stable as the processes have been embedded and are proactively identifying areas to be investigated and any potential detriment to be put right for our members Over the past 12 months the Society has: Enhanced the frameworks that support fair customer treatment. Benchmarked against best external practice. Completed the review of and where appropriate made offers to customers on all historic MPPI complaints received prior to the FCA's deadline.
Credit Risk The risk that a borrower fails to pay interest or to repay capital on a loan and/or that a counter-party fails to meet their contractual obligations to repay the Society or fails to perform their obligations in a timely manner. This risk is impacted by unemployment rates, changes in house values and interest rates. In a recession, increasing unemployment and falling house prices may mean it is more likely that the Society would lose money if members failed to keep up to date with their loan payments. The impact of Covid-19 is expected to take the UK into recession which may be severe.	Overall lending standards controlled by a board level policy. Lending criteria agreed at formal credit committees, chaired by the Head of Credit Management and attended by SLT members. All lending is fully manually underwritten, checked for affordability, suitability and that the lending is responsible. All high value or complex lending is approved by specialist underwriters. Oversight of credit is provided by assessing the quality of underwriting and tracking portfolio performance and concentrations. Credit management information is summarised at the Board Risk Committee.		Risk profile increasing due to the increased likelihood of a severe recession due to the Covid-19 pandemic and potential for a 'no deal' Brexit. Over the last 12 months the Society has: Recruited additional experienced underwriting capability to support the further delegation of board lending mandates. Developed a comprehensive management information suite across all key products. Developed leading indicators information to support the prediction of future changes in credit risk. Developed an enhanced provisioning methodology to help ensure the Society is holding sufficient funds on the balance sheet to cover all anticipated future credit losses. Regularly adjusted its lending criteria to reflect changes in risk including an immediate response to the Covid-19 lockdown.

Risk and Impact	Mitigation	Movement in risk profile	Latest Progress
Pension Risk The risk that the value of assets in the Society's pension scheme alongside additional contributions are not sufficient to cover the anticipated obligations of the scheme over time.	All pension investment decisions and required Society funding overseen by an independent trustee board who are advised by the Scheme actuary and investment managers. Approach is stress tested against standard requirements set out by the Bank of England. Capital is held to ensure there are sufficient funds to cover severe but plausible changes to pension asset values or liabilities. The Scheme has an agreed journey plan that will de-risk the Schemes investments when certain triggers are met.		Risk profile reducing due to the partial de-risking of the investment strategy and the move to an external professional trustee board. Over the last 12 months the Society has: Transferred governance, actuarial support and administration of the Society's legacy defined benefit and defined contributions Schemes to a specialist third party reducing complexity and cost. The Scheme reached a pre-agreed de-risking point due to the increase in value of its assets in January 2020 and as a result took the decision to rebalance its portfolio away from equities to Credit and LDI. This helped to mitigate the initial impact on asset values of the significant downward stock market movements in March due to Covid-19.
Operational Risk The risk of loss resulting from inadequate or failed internal (including where provided by a third party) processes, people and systems, or from external events. This includes losses from Fraud.	Minimum standards are set through the Operational Risk Policy. Further policies support the management of risks arising from failures by third parties, the management of financial crime risk and the management of information security risk. Risk teams in the business follow agreed processes to identify, measure, manage and mitigate risk. These teams also report any incidents or policy or regulatory breaches. Independent reporting by the risk team helps understand any trends and tracks overall operational risk losses against the agreed risk appetite.		The outlook for this risk was improving as, although a number of historic issues have been identified, provisions have been made, where necessary, remediation has been prioritised and additional capability will be delivered with the roll-out of an operational risk management system during 2020. However, the impact of the Covid-19 pandemic is significant, resulting in a judgement that on balance the level of risk is stable. Over the past 12 months the Society has: Continued to deliver actions from our regular cyber benchmarking, including commencing implementation of a security information and event management system (SIEM). Delivered a pilot of the operational risk management system. Enhanced incident management processes, ensuring all key lessons learned are acted upon. Enhanced the change management processes. Supported the roll-out of 'on the ground' risk capability by having experienced risk resources sitting in the key business areas such as the branch teams and operations. Delivered operational resilience MI and determined initial programme approach. Agreed and prioritised investment to further enhance our data capabilities and controls.
Regulatory Risk The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to non-compliance with regulation or legislation and/or reputational risks materialising.	Minimum standards are maintained through the Regulatory Risk Policy. Business areas in the Society follow agreed processes and standards for managing compliance. Horizon scanning gives a clear view of upcoming regulatory requirements. This is all supported by agreed standards for proactively managing contact with the regulators.		The outlook for this risk is stable as although a number of historic issues have been identified remediation has been prioritised and additional capability acquired and revised processes have been implemented. Over the past year The Cumberland has: Pro-actively managed any challenges with meeting regulatory requirements with the regulator. Enhanced horizon scanning. Created a central hub to ensure the interpretation of all regulation and tracking of regulatory actions sits with skilled resources.

Risk and Impact	Mitigation	Movement in risk profile	Latest Progress
Liquidity Risk The risk of failing to meet demands and commitments to provide funds to customers and other third parties.	Managed through the Assets and Liabilities Committee (ALCO). Liquidity levels stress tested to ensure sufficient liquidity available to meet requirements through a severe stress. Daily dashboard gives full overview of liquidity levels. Liquidity Management Committee ensures all future lending volumes and funding availability is considered in managing liquidity levels. The ILAAP helps ensure appropriate levels of liquidity are maintained at all times. The LCP, which forms part of the Recovery Plan, ensures that pre-determined plans are followed if a liquidity stress was ever to occur.		Risk profile reducing due to enhanced ability to manage liquidity and a higher level of HQLA held. Over the past year the Society has: Refreshed, improved and re-formatted the ILAAP with enhanced analysis and insight. Delivered Liquidity oversight training by external UK Finance expert. Delivered an application to move to the 'Extended Approach' to treasury management to the PRA. If successful this would allow the Society to access additional funding sources and increase the levels of fixed rate lending. Enhanced stress tests based on real world data. Improved forecasting of future liquidity requirements. Implemented a new treasurer's report and regular treasurer attendance at the board.
Capital Risk The risk of having insufficient capital to meet any risks to which the Society is exposed. The Society's capital is mainly made up of 170 years of retained profits.	Managed through ALCO. The ICAAP helps ensure appropriate levels of capital are maintained at all times.		Risk profile reducing due to the reduced levels of capital the regulator requires the Society to hold. Over the past year the Society has: Refreshed its approach to its ICAAP Enhanced its level of capital modelling including stress testing. Benefitted from regulatory assessment delivering a reduced levels of capital required by the regulator, reflecting enhancement in our overall risk management framework. Enhanced credit stress testing. Grown the level of available capital through profitable operation.

Risk and Impact	Mitigation	Movement in risk profile	Latest Progress
Interest Rate Risk The risk of fluctuations in interest rates and changes in the value of contracts we use to manage interest rate risk impacting the Society's earnings or Capital.	Managed through ALCO. A financial risk management policy details all the processes and limits for managing interest rate risk. Stress tests are applied as part of the ICAAP. Additional capital is held to cover any unforeseen losses arising from interest rate risk.		Risk profile stable due to well established process for managing interest rate risk. Over the past year the Society has: Refreshed the Financial Risk Management Policy to clarify the limits and the processes to deliver to those limits. Recruited additional expert capability into the treasury team to support the management of this risk. Developed enhanced stress testing to help predict potential impacts. Delivered detailed training to the board to help them understand the measurement and potential impacts of interest rate risk. Delivered an application to move to the 'Extended Approach' to treasury management to the PRA. If successful this will allow the Society to use additional tools and methods to mitigate interest rate risk.
Strategic Risk The risk that the Society fails to adopt an appropriate business model, set appropriate goals and targets in the Corporate Plan, adapt to external events or that the strategy fails to live up to expectations.	All risks formally assessed as part of the strategy setting process. The acceptable levels of risk that can be taken when delivering the strategy clearly stated in risk appetite. Outcomes against risk appetite and triggers are presented monthly to board.		Risk profile is stable as despite the worsening macro-economic outlook the Society has developed a clear strategy and roadmap to deliver Cumberland 2025 and successfully completed the first year of this journey. Over the past year the Society has: Enhanced the approach to measuring and setting the level of risk acceptable in delivering the strategy. Developed plans to start to understand the future impacts of climate change and support The Cumberland becoming a more sustainable business. Built key elements of the business up to be able to deliver strategic change. Simplified the operations of the Group by the disposal of its estate agency business. Completed a number of key regulatory change projects. Simplified its savings back book by reducing the numbers of products and interest rate tiers.
Brexit Uncertainty The risk that the economic, political or regulatory changes from Brexit detriment the Society.	Brexit risk is assessed as part of the standard horizon scanning process and is discussed at every Board Risk Committee The Society does not trade outside the UK and is not reliant on EU employees		Risk profile is increasing as the likelihood of an orderly transition is reducing as governments are having to focus on the Covid-19 pandemic and little or no progress has been made in agreeing the UKs future trading relationship with our largest external market - Europe. Over the past year the Society has: Ensured the small number of colleagues from the EU will have a right to remain post Brexit. Stockpiled card supplies to ensure availability. Stress tested its potential credit losses more severely than the Bank of England Brexit worst case scenario.

Risk and Impact	Mitigation	Movement in risk profile	Latest Progress
Covid-19 Global Pandemic Will impact members and the Society in many ways including increasing the likelihood of financial difficulty which may result in losses by the Society and increasing challenges in supporting health and wellbeing while serving member needs effectively	Implemented incident management governance as part of our standard incident management plan. Supported members in financial difficulty. Maintained all critical services. Implemented social distancing in branches and head office. Implemented government supported loan scheme (early in 2021) to help local businesses and maintain local jobs.	↑	Risk profile increasing due to uncertainty over exit strategy from the UK-wide lockdown and the length of time likely before a vaccine or suitable treatment becomes available. The Society has stayed open, serving members: Shielded our vulnerable colleagues. Supported additional sick leave for isolating colleagues. Increased the number of colleagues able to work from home. Implemented social distancing in branches and head-office. Implemented streamlined forbearance approaches, including for payment holidays, helping members manage their finances. Temporarily waived fees on our business current accounts and temporarily scrapped interest charges on our personal overdrafts. Reassessed the resilience of all significant third party suppliers in light of the pandemic. Commenced preparation for a post-lockdown recession in areas such as arrears management.

FINANCIAL RISK MANAGEMENT OBJECTIVES 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 26 to 29 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 are published concurrently with this Annual Report and Accounts on the Society's website, www.cumberland.co.uk.

GOING CONCERN AND VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code, the directors have formally assessed the longer term prospects and viability of the Group, taking into account its current financial position and considering the potential impact of the principal and emerging risks set out on pages 14 to 18 immediately above. In the unique circumstances created by the Covid-19 outbreak, the judgements that are required include more uncertainty, over the short to medium term, than has been the case hitherto and these are discussed within this assessment.

LONGER TERM PROSPECTS

The Group's business model and strategic priorities are set out on pages 5 to 9. These are regularly reviewed by the board. In the year ended 31 March 2019, the Group completed a 12 month piece of work which resulted in our refreshed strategy "Cumberland 2025". In its board strategy day in early March 2020, the board assessed progress made, confirmed its support of the overarching strategy, and considered the impact of the last 12 months of trading and delivery against its road map. This work was completed before the initial impact on the UK economy of the Covid-19 outbreak was felt, but was performed in the light of a successful first year of change and a strong financial performance, which have built on the business' resilient foundations. The board considers a three year time horizon in detail, which aligns with its usual forecasting and management reporting, but also has due regard to the longer timescales over which its strategy will ultimately be executed.

These reviews considered the strengths of the Group's business model and financial position, as well as the changes the investment, which the board has approved over the next three years, are expected to make. Actions identified as part of these reviews are incorporated into the Group's strategic thinking and progressed so that the Group's business model remains relevant.

The board's assessment made in early March has been updated in light of the lockdown of the UK in mid March. Our baseline budget has incorporated the impact of the 65bps cut in UK base rates to 0.1% and The Cumberland's decision to pass this on in full to its mortgage customers on variable rates from 1 May 2020, alongside a similarly sized reduction in the amounts it pays to its saving members. It has also incorporated a 50% reduction in its expectation of net deposit growth in 2020/2021, reflecting members' expected need to draw on funds saved in the past, and a very substantially reduced level of lending over the next six months, as consumers are unable to move homes easily and businesses operate in highly restricted circumstances.

ASSESSMENT PERIOD FOR VIABILITY

The directors have considered the viability of the Group and Society over a three year period to 31 March 2023. The three year review period is considered to be the most appropriate timeframe for viability for the following reasons:

- increasing uncertainty regarding the economic, competitive and regulatory environments beyond the three year period, reduces the reliability of a longer assessment of viability. This statement is generally true, but is substantively exacerbated by the current lockdown in response to Covid-19 and the uncertainty all of our members are facing as a result;
- a significant proportion of the Group's assets and liabilities are expected to mature within three years, despite a growing book of 5 year fixed rate mortgages;
- key drivers of financial performance, such as net interest income and impairment losses, are heavily influenced by the level of market interest rates, house prices and unemployment, which are increasingly difficult to predict beyond a three year horizon. Even predicting these over a one year time horizon has currently become fraught, as a result of the immediate sharp economic slow down and restrictions on economic activity; and
- the three year period aligns with the period over which the Group conducts its annual budgetary forecasts.

VIABILITY ASSESSMENT ACTIVITIES

The corporate planning process assesses the forecast financial performance of the Group under a range of scenarios against its strategic risk appetite. The following risk factors, among others, were specifically considered in the modelled scenarios which are aligned with scenarios used in the Group's ICAAP and ILAAP:

- a recession causing a reduction in market interest rates resulting in reduced net interest income; and
- a downturn triggered by a sudden increase in inflation and interest rates, which results in increased credit losses.

The Group's baseline financial forecasts for the next 3 year period were substantially complete prior to the enforcement of a lockdown across the UK, but have been updated since to reflect the substantial changes in interest rates and our response thereto. As noted above, we have also materially reduced our expectations of new business over the immediate time horizon.

As a building society owned by its members, the directors believe that short term profitability is not the only, or indeed the primary, driver of its viability. Nevertheless, the directors expect the Group to remain modestly profitable over the three years of their viability assessment. The financial statements presented alongside this viability discussion incorporate the directors' current best estimate of incurred losses in its lending portfolios at 31 March 2020, which have more forbearance (predominantly payment holidays granted in March) than has ever been the case historically, though this risk is offset by the unprecedented level of state support for both businesses and households announced by the UK Government.

There remains the very real risk that the level of loan losses ultimately suffered as a result of Covid-19 grows dramatically. In this regard, our persistently low levels of loan losses over the last ten years show the strength of our underwriting and quality of our book in relative terms. Our financial budgets have incorporated an elevated level of loan losses vis à vis our actual historic performance in each of the years forecast and this risk is also incorporated in our stress testing.

The directors have also reviewed the Society's viability from a capital and liquidity perspective through the ICAAP and the ILAAP. These processes assess the Society's ability to withstand severe capital and liquidity stresses, in line with regulatory requirements, including new and emerging regulation where sufficient information is known about future requirements. They take into account potential management actions and consider the impact and credibility of those actions in mitigating the potential impacts of the stresses applied. An example of a capital stress would be a significant growth in the level of loan losses or a rise in the pension deficit, both of which could occur as a result of the pandemic.

The ICAAP was last updated in September 2019 and concluded that the Society maintains sufficient capital resources to meet regulatory requirements under the central planning scenario and also, with management actions including reducing the level of new lending, under the modelled economic stress scenarios. The Society's surplus of capital over regulatory requirements in the central scenario modestly increased over the 3 year period assessed and since that time the Society has exceeded its financial forecasts growing its available capital surplus.

The stress tests applied were in line with Bank of England scenarios and are more severe than the impacts seen, to date, as a result of the Covid-19 pandemic and more severe than the most recent Monetary Policy Committee forecasts published in May 2020. Although they did not include consideration of negative interest rates, they did examine the effects of significant house price corrections. Our ICAAP stress testing also incorporates a series of reverse stress tests which explore the extent to which changes in specific underlying factors would render the Society's business model non-viable. These are designed to assist management's understanding of the constraints inherent in the business model.

Since the ICAAP analysis took place the Bank of England has reduced the Countercyclical capital buffer by 1% increasing the level of surplus capital immediately available and reversed its decision to increase the same buffer from December 2020, a matter that was included in the Group's baseline capital plans within its ICAAP. These measures alone increased the Group's available capital surplus by c£20m and the current year's post tax profits are also available as capital shortly after the date of approval of these accounts. While the Group expects an increased level of customers with financial distress and has offered widespread forbearance in both its business and residential mortgage books during March and since, the revised capital plans, which factor in the treatments of such loans outlined by the PRA, show that the Group has more than sufficient capital to support its operations.

At the 31 March 2020, the directors have incorporated the increased level of forbearance seen in the calculations of loan loss provisions and, in addition to the coverage in place from its existing balance sheet provisions as discussed above, it has uplifted its expectations of loan loss charges in its baseline financial plans, well above those seen in recent history.

The ILAAP, which addressed the Group's funding and liquidity, was last updated in December 2019 and concluded that the Group is able to meet both internal risk capacity requirements and regulatory requirements under modelled stress scenarios. Since this date, the Group has updated its funding plans and stress testing to reflect the change in circumstances.

The Group saw modest (single digit millions) outflows from its retail customers early in March as the Covid-19 crisis hit, but these reversed in the second half of the month as the book returned to growth ending the month virtually flat. Since that date, customer deposits with the Society have grown. The Cumberland is an active member of the Sterling Monetary Framework (SMF) and successfully drew on the ILTR facility during March in line with its existing plans and regular use of this facility.

During the year ended 31 March 2020, the Group commenced the repayment of Bank of England funding from the financial crisis. It repaid all of its outstanding FLS (31 March 2019: £70m) and £60m of TFS, well ahead of its maturity and in line with our board approved funding plan. In March 2020, the Bank of England announced a new facility (TFSME), which allows members of the SMF to draw down 4 year funding. This facility will remain open until April 2021 and our updated funding plan, approved by the board on 4 May 2020, shows that we will take advantage of this stable, long term funding in the final quarter of next financial year, rather than accessing public debt markets as originally planned. We will also replace all of the remaining legacy TFS (that we have not repaid earlier in line with our plans next year) removing this outflow from our 2022 plans and markedly extending the tenor and stability of this funding source.

Liquidity stress testing, incorporating each of the relevant principal risks on pages 14 to 18, has been performed to understand the ability of the Group to withstand extreme stress scenarios, including unprecedented adverse movements in key economic indicators, major dislocation and volatility in financial markets, significant liquidity outflows and severe operational risk events. This testing has demonstrated that the Group has the resources, measures and controls in place to manage and withstand such extreme events. Liquidity stress testing is conducted monthly and so has been completed most recently on top of the revised baseline financial plan, which has already incorporated the impact of the drop in interest rates to the lowest level in UK history, a rise in the levels of provisions held, and a material and immediate slowing in new business volumes.

OPERATIONAL VIABILITY ASSESSMENT

The operational resilience of your Society has been tested like never before in the period since the Covid-19 pandemic struck. It has proved itself resilient, both in terms of its IT systems and in delivery of critical functions including call centres, mobile and online channels. As members would expect, and as a critical service provider, the Society has continued to offer its services to both existing and new customers via branch, phone and internet channels.

During March, the Society transitioned the vast majority of head office colleagues to home working in line with government guidelines and moved to protect the viability of branch services and wellbeing of our staff by centralising service provision into 15 locations. The Society has since reopened all initially closed locations and is providing a restored 'once a week' branch service to all towns where we had closed, as part of a progressive response to customer usage of our locations. This form of operation had become a new normal by the date of signing these financial statements and the Group has planned and is confident that it can offer the critical services required by its members even if 50% of staff are unable to work. Plans are also in place to progressively reopen the Group's customer facing locations and head office site as and when this is appropriate. This leaves the directors satisfied that the business can continue to operate safely and soundly even in the unique circumstances it finds itself.

SUPPLIERS AND VIABILITY IN AN EXTENDED LOCK DOWN

In our interconnected modern world, the Group relies on third party suppliers for the provision of both goods and services. These range from the mundane but necessary matters of office and cleaning supplies to more banking specific matters like new debit cards.

As part of the incident management process adopted by the Group, it has reassessed both its own critical services in light of the pandemic and its supplier base. This supplier assessment, which is currently updated weekly by the Head of Operational Resilience and reported into the Incident Management Team (IMT), has considered both the actual performance of the suppliers during lock down and whether the Group has a single point of likely or possible failure, as well as being alert for financial stress. Each supplier is RAG rated and changes in their status are highlighted to the IMT. In a small number of circumstances, the Group has sought and obtained additional suppliers and it is working through its key third parties to identify any further mitigants based on the perceived risk.

At the date of this report, the Group has not identified any current or emerging supplier issues that would impact its assessment of the Group's own viability.

The work of IMT in April turned from primarily day to day operational management, which was reflective of the initial pandemic period, to the longer term. This is designed to ensure that our exit from the pandemic is well managed and controlled and that longer term impacts on both our people, customers and strategy have the necessary focus.

Early in the pandemic period, the Group put in place a formal logging and capture process for all regulatory and industry body pronouncements. The initial frequency was three times a day, reflecting the unprecedented volume of material, but this has since become daily. This has ensured that each pronouncement has been considered and analysed, assigned an owner, and where necessary work performed to implement its requirements. The Group is in standardised bi-weekly contact with the PRA, its primary regulator, and in regular communication with the FCA. Both regulators have been informed where we have made judgements that impact our compliance with the detail of regulation.

Accordingly, the Group is satisfied that there is nothing in its current regulatory or legal position that would have an impact on its viability.

The Group's overarching risk management process, as detailed on pages 14 to 18 and 32 to 33, includes ongoing monitoring and reporting of emerging risks and scenario analysis, enabling further enhancements to the control environment to adapt to these risks. In particular, the effects on the Group's financial position and performance from both the pandemic and the UK's planned departure from the EU have been considered within the corporate planning and stress testing exercises.

CONCLUSION

Based on the above assessments, and having considered each of the principal risks and uncertainties discussed on pages 14 to 18, the directors have concluded that:

- the Group's business model and overarching Cumberland 2025 strategy remain appropriate and actions have been identified which are intended to enable it to remain relevant as the markets in which it operates evolve;
- the Group maintains an appropriate level of liquidity, sufficient to meet both the normal demands of the business and requirements which might reasonably arise in modelled stressed circumstances. The availability and quality of liquid assets are structured so that funds can reasonably be expected to be available to repay maturing wholesale funds and to cover exceptional demand from retail investors;
- the Society has sufficient current capital resources in excess of regulatory requirements and credible plans to meet known future requirements, under both central and modelled stressed scenarios; and
- whilst it is accepted that it is not possible to completely eliminate all risk particularly in the uncharted territory the UK and its economy finds itself, the Society has taken reasonable steps to put in place suitable operational capabilities to manage and mitigate the impacts of risk events to within reasonable tolerances, showing since the middle of March that it can safely operate under highly unusual and stressed circumstances.

Therefore, the directors have a reasonable expectation that the Group and Society will be able to continue in operation and meet their liabilities as they fall due over the three year period.

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

OUTLOOK

The outlook for the UK economy is highly uncertain. In the immediate term, the impact of the pandemic is dramatic and is expected to result in a major recession, despite the significant level of government support. In the background, the significant unknowns around the UK's trading relationship with Europe and the post Covid-19 "rest of the world" will re-emerge. Both matters make any prediction fraught. There is an expectation that interest rates will ultimately rise from their historic lows, but this is more likely in the medium term than in the next financial year.

As outlined in the Chief Executive Officer's Business Review, the Society's profitability is expected to reduce further over the coming three years, as it comes under increasing market pressure and competition, as it absorbs the impact of the coronavirus on the economy through its business, mortgage and overdraft customers, and as it strategically invests in its future towards Cumberland 2025.

Nevertheless, The Cumberland has already benefited from the clarity brought by the Group's strategic review and is well placed to benefit in the medium term from the planned investment. This, coupled with the strong foundations provided by its distinctive business model which has been highly successful in differing economic climates, will continue to allow the Society to thrive into the future.

John Hooper
Chairman
9 June 2020

CORPORATE GOVERNANCE REPORT

INTRODUCTION

This report explains how the Society's board has regard to the principles in the UK Corporate Governance Code 2018 (the 'Code'). The Code is issued by the Financial Reporting Council and a copy can be obtained at frc.org.uk. The Society, as a mutual organisation owned by its members, is not required to comply with the Code, as it is not a listed company, but the PRA requires the Society to have regard to the Code in establishing and reviewing corporate governance arrangements.

FRC Financial Reporting Council

The Society's board of directors is responsible for the governance of the Society. Building upon the comprehensive governance review carried out during 2018/2019, this year the board commissioned a post-implementation review of the project to ensure that the changes introduced were effective and made some further changes to ensure the board's effective operation, which are highlighted later in this report. The board also commissioned a board effectiveness review to be carried out by an independent third party to provide an external perspective, ensuring that the board benefits from good practice developed at other organisations. Unfortunately, this review has had to be delayed due to the restrictions imposed as a result of Covid-19, but will proceed as soon as circumstances allow.

BOARD OF DIRECTORS

JOHN HOOPER

Board Chairman and Nomination and Governance Chair

Non-Executive Director since November 2015, Board Chair since July 2019 (independent on appointment)

COMMITTEES

NGC (Chair)

SKILLS AND EXPERIENCE

John has extensive banking experience, having been an executive director at National Australia Bank Europe Limited and Clydesdale Bank PLC, with responsibilities including finance, treasury, IT and risk. He previously held a number of senior positions at National Australia Bank.

CURRENT MATERIAL EXTERNAL POSITIONS

Non-Executive Director (Chair of Board Risk), VTB Capital Limited

Non-Executive Director, VTB Capital Holdings Limited

Non-Executive Director (Chair of Board Risk), Together Money Personal Finance Limited

Non-Executive Director (Chair), Stubbers Adventure Centre Limited

Non-Executive Director (Chair), Stubbers Trading Limited

PREVIOUS POSITIONS INCLUDE

Director, National Australia Bank Europe Limited

Director, Clydesdale Bank PLC

Non-Executive Director, The Leasing Industry Philanthropic and Research Foundation Limited

ALAN JOHNSTON

Vice-Chair and Audit Chair

Non-Executive Director since February 2011, Vice- Chair and Audit Chair since September 2016

COMMITTEES

NGC; AC (Chair); BRC; PARC

SKILLS AND EXPERIENCE

Alan is a chartered accountant with strong local connections including 36 years with a local firm (latterly as senior partner). Alan has generously devoted his time, and considerable experience, to the Society taking on the role of Vice-Chair, Audit Committee Chair and sitting on the remaining three board committees.

CURRENT EXTERNAL POSITIONS

Non-Executive Director, Future Money Limited

Trustee/Director, The Langham Partnership (UK and Ireland)

Trustee, Carlisle Cathedral Development Trust

Chair of Governors, Robert Ferguson Primary School, Carlisle

PREVIOUS POSITIONS INCLUDE

Senior Partner, Armstrong Watson

MICHAEL HULME

Senior Independent Director

Non-Executive Director since September 2015, SID since July 2018 (independent)

COMMITTEES

NGC; AC; PARC

SKILLS AND EXPERIENCE

Michael has over 20 years' experience in research based consultancy examining the impact of technological change on corporate strategy and personal behaviour, working with many national and multi-national brands including several in the financial services sector. He has been a non-executive director of several public companies.

CURRENT EXTERNAL POSITIONS

Honorary Professorial Fellow, Lancaster University Management School

PREVIOUS POSITIONS INCLUDE

Director of Applied Research, Henley Management College

Non-Executive Director (Chair), Merseyside Special Investment Fund

Non-Executive Director (Chair), Cumbria Vision Board

Non-Executive Director, Artilium Plc

BOARD OF DIRECTORS

ERIC GUNN
Board Risk Chair

Non-Executive Director since November 2016, BRC Chair since August 2019 (independent)

COMMITTEES
NGC; BRC (Chair)

SKILLS AND EXPERIENCE
Eric has 37 years' experience of the UK banking sector, having spent his entire career at Clydesdale Bank PLC, most recently as Chief Risk Officer and member of the Executive Management Team. Eric had responsibility for managing the risk profile of the UK operations of the National Australia Bank Group.

CURRENT EXTERNAL POSITIONS
None

PREVIOUS POSITIONS INCLUDE
Chief Risk Officer, Clydesdale Bank PLC

JACKIE ARNOLD
People, Remuneration and Culture Chair

Non-Executive Director since March 2018, PARC Chair since May 2019 (independent)

COMMITTEES
NGC; PARC (Chair)

SKILLS AND EXPERIENCE
Jackie has over 35 years' experience in financial and business management, most recently as Head of Strategy at BAE Systems. Prior to this she held a number of other senior positions with BAE Systems and was Managing Director at Lakeland Power Limited.

CURRENT EXTERNAL POSITIONS
Pro Vice Chancellor, University of Cumbria

PREVIOUS POSITIONS INCLUDE
Head of Strategy, BAE Systems

Managing Director, Lakeland Power Limited

Vice Chair, Cumbria Local Enterprise Partnership

Member, North West Business Leadership Team

MARK STANGER
Audit Chair (Elect)

Non-Executive Director since June 2018 (independent)

COMMITTEES
NGC; AC; BRC

SKILLS AND EXPERIENCE
Mark has over 30 years' experience in the accountancy sector, and is Senior Partner and Managing Partner with a West Cumbria-based chartered accountancy practice.

CURRENT EXTERNAL POSITIONS
Senior Partner and Managing Partner, Gibbons

Director, Gibbons Wealth Management Limited

Director, Gibbons Properties Limited

Director, Carleton Properties (Cumbria) Limited

PREVIOUS POSITIONS INCLUDE
Chair, Board of Governors, Lakes College, Lillyhall

DES MOORE
Chief Executive Officer

Chief Executive Officer and Executive Director since April 2018

COMMITTEES
NGC

SKILLS AND EXPERIENCE
Des is an accomplished senior leader in Financial Services in the UK and Ireland. He led the restructure and turnaround of AIB(NI) into a reinvigorated brand with clear strategy and sharply improved financial results. Des has been leading the development and implementation of a new vision and strategy for the Society since he arrived in April 2018.

PREVIOUS POSITIONS INCLUDE
Managing Director, First Trust Bank

Senior positions – AIB, Bank of Ireland, Permanent TSB and National Irish Bank

RICHARD ELLISON
Chief Financial Officer

Chief Financial Officer since April 2019 and Executive Director since May 2019

COMMITTEES
NGC

SKILLS AND EXPERIENCE
Richard has considerable experience in the UK finance services sector. Whilst Deputy Chief Financial Officer and Chief Data Officer at CYBG PLC, he played a leading role in the successful demerger and IPO of Clydesdale Bank PLC from National Australia Bank, and led the restructure and cultural transformation of the finance function. Since joining the Society in April 2019, Richard has increased strength and capacity within the treasury function, which is key to opening up new investment opportunities for the Society in the future, as well as uplifting the skills and capability in core finance. On 1 April 2020, Richard also took operational responsibility for Group governance, legal and procurement.

PREVIOUS POSITIONS INCLUDE
Interim Finance Director, Newcastle Building Society Group

Deputy Chief Financial Officer and Chief Data Officer, CYBG PLC

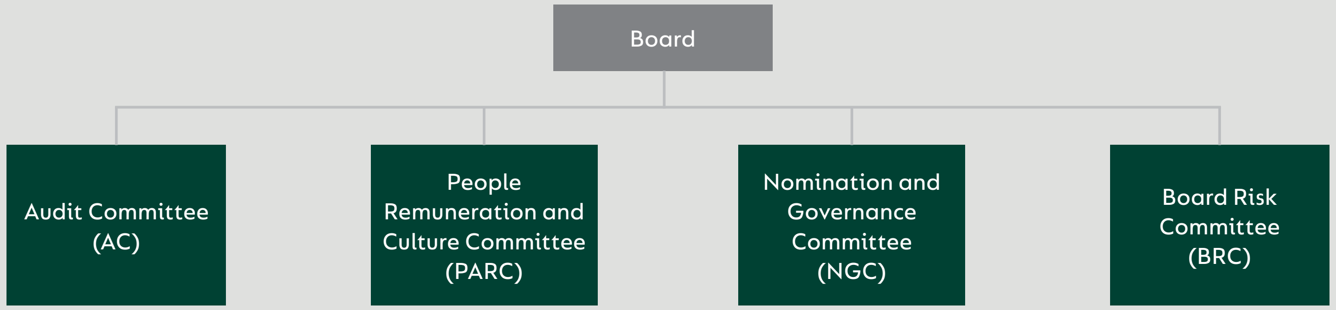
Director, Banking and Capital Markets, PwC

LEADERSHIP AND PURPOSE

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

The Society is led by an effective board. The board meets at least ten times each year; one meeting each year includes an in depth review of strategy. During March 2020's strategic review, the board undertook a comprehensive assessment of the current strategy to ensure that it remained appropriate, both generating and preserving value over the long-term for the Society and its members. Though the strategy was confirmed with certain minor modifications, it will now be necessary to revisit this judgement when the impact of Covid-19 on the business becomes clearer and we emerge from the immediate pandemic period.

The board is assisted by four board committees, which allow it to consider specific areas in more detail than would be possible within board meetings:



Further information on the on the membership and work of each committee can be found in the relevant committee report later in this section.

The Board Customer, Innovation and Technology Committee (BCIT) was discontinued in the year following a post-implementation review of the 2019/2020 governance project, as the Board and management agreed that the work of the committee could be carried out more efficiently by the main Board or by ad hoc committees established for particular projects. Also following the post implementation review, the Board Assets and Liabilities Committee became an executive committee to allow more effective and regular management of financial risk and liquidity, with the main Board providing oversight of its workings via a monthly Treasurer's Report and formal approval of key prudential documents.

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The board has established a purpose, values and strategy for the Society as set out in the Chief Executive Officer's Business Review on pages 4 to 9. The board, through the work of PARC has actively engaged with the changes being made as part of the Society's strategy and their impact on culture. This direct involvement is supported by the Society's Internal Audit function's work, which seeks to assess the Society's culture to ensure alignment with the Society's purpose, values and strategy, as part of its ongoing work, particularly in its end-to-end audit work.

C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Established board reporting formats provide the board with information on the performance of each area of the business; these are proactively amended when new matters and themes emerge. The SLT and a defined group of senior managers are measured against key performance metrics including financial performance, strategic focus, governance and values. This is overlaid with an assessment of their approach to risk (further information on the Society's risk management framework is set out under Principle O as part of the BRC's report).

D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

As a mutual organisation, the Society has members rather than shareholders. The Society values its mutual status and seeks the views of its members in a variety of ways, including customer feedback surveys.

In normal years, members are invited to attend the AGM, where they can ask questions and voice their opinions. However, in 2020, the Covid-19 pandemic means physical participation in the AGM will be subject to restrictions and we would encourage members instead to submit questions through other advertised channels rather than attend in person. 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.

The Society enjoys some of the highest levels of member engagement in the sector and continually strives to increase engagement and harness the member perspective. The Society actively seeks customer engagement feedback through its partnership with Feefo, achieving a second successive Feefo Gold Trusted Service Award with a score of 4.8 (out of 5) for customer service. The member perspective has been instrumental in shaping the Society's strategy. "Customer Led" has been adopted as one of the Society's core values underpinning the strategy.

E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The Chair of the People, Remuneration and Culture Committee is the designated non-executive director for workforce engagement; workforce engagement is facilitated by the Chief People Officer utilising a variety of forums.

ROLES AND RESPONSIBILITIES

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

John Hooper was appointed Chairman at the AGM 2019 and has significant financial services experience. 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.

G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

At the date of this report, the board is comprised of 6 non-executive and 2 executive directors.

All of the non-executive directors, except for Alan Johnston, are considered to be independent under the Code. Alan Johnston will have served on the board for longer than 9 years from his first appointment to the board and was due to step down at the conclusion of the AGM 2020. However, the board succession planning process, which was underway, has been delayed by the Covid-19 pandemic and, therefore, the board considered that it was appropriate for Alan Johnston to stand for re-election again this year to ensure appropriate succession planning (see Report of the Nomination and Governance Committee for further details) and it is anticipated that Alan will step down from board when that process is complete.

Michael Hulme is the Senior Independent Director and acts as a sounding board for the Chairman and serves as an intermediary for the other directors and the members.

The roles of chairman and CEO 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 CEO has responsibility for managing the Society and for the implementation of the strategies and policies agreed by the board.

H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Set out below are details of the directors during 2019/2020 and their attendance record at board meetings. Membership of and attendance at board committees are set in the relevant committee reports. During the year ended 31 March 2020, the board met more frequently than the 10 scheduled meeting reflecting its engagement with the initial period of the Covid-19 pandemic.

Director	Board	Director	Board
John Hooper	11 (11)	Alan Johnston	10 (11)
Jackie Arnold	10 (11)	Mark Stanger	11 (11)
Eric Gunn	9 (11)	Des Moore	11 (11)
Michael Hulme	11 (11)	Richard Ellison	9 (9)

Where directors have other significant commitments, these are set out in the directors' biographies on page 23 to 24.

The non-executive directors review the performance of the Senior Leadership Team against agreed performance objectives. The non-executive directors meet without the executive directors present on a regular basis.

I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently

The Society has established a secretariat, headed by the Society's secretary. The secretary ensures that non-executive directors have access to information and resources. 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.

COMPOSITION SUCCESSION AND EVALUATION

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

These matters are addressed in the Nomination and Governance Committee Report on pages 28 to 31.

On behalf of the board

John Hooper
Chairman
9 June 2020

NOMINATION AND GOVERNANCE COMMITTEE REPORT

CHAIR'S INTRODUCTION

Dear Member,

As Chair of the Nomination and Governance Committee (NGC), which I chair in addition to the board, I am pleased to present the committee's report for the financial year ended 31 March 2020. NGC assists the board in fulfilling its responsibilities in relation to board and senior appointments, succession planning and corporate governance. We lead the process for appointments and ensure plans are in place for orderly succession to both board and senior management positions. This includes ensuring the right mix of capabilities at board level to enable the successful operation of the board.

NGC's remit includes oversight of the Society's wider governance framework to ensure it remains effective, particularly during implementation of the Society's programme to simplify and de-risk the business.

I set out below details of the work the committee has focussed on during the year in relation to the Senior Managers and Certification Regime, board succession planning and board effectiveness.

WHO SITS ON THIS COMMITTEE

John Hooper (Chair) 7/(7)

Jackie Arnold 7/(7)

Eric Gunn 6/(7)

Michael Hulme 7/(7);

Alan Johnston 7/(7)

Mark Stanger 7/(7)

Des Moore 7/(7)

Richard Ellison 6/(6)

Trevor Hebdon (previous Chair) 2/(2)

HOW THE COMMITTEE WORKS

The committee is chaired by the Chairman of the board and all directors are members; their attendance record is set out above. Details of the skills and experience of the committee members can be found in their biographies on pages 23 to 25. The committee is also attended by the Chief People Officer and the Society's secretary. The committee meets as and when required immediately prior to board meetings and the number of meetings held in the year was seven. Following each meeting, the chair of the committee provides verbal updates to the board, summarising activities undertaken, and key decisions made.

The committee reviewed its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the committee's duties and responsibilities can be found within its terms of reference on the Society's website: cumberland.co.uk

The board conducts an annual assessment exercise to review the effectiveness of the board and the board committees and highlight any areas which should be improved. During 2019/2020, the board commissioned a review from an independent, external party to ensure it has access to an external view and best practice from other organisations. The review has been delayed by the Covid-19 pandemic, but will continue as soon as circumstances allow.

The Society also has a process to evaluate, at least annually, the performance and effectiveness of individual directors. The performance of the CEO 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. All directors were appraised during the year and the board is of the view that all directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the AGM 2020.

In relation to diversity and inclusion, the committee works closely with PARC, which oversees diversity and inclusion throughout the organisation (see Report of PARC pages 42 to 45. Diversity and inclusion are core considerations in appointments and female only shortlists have been used to ensure we are able to meet our commitment under the Women in Finance Charter to have at least 33% of women at senior level by April 2021. This will enable us to bring as wide a range of diverse views as possible to our board discussions.

At present, the gender balance of the Society's board, Senior Leadership Team and Extended Leadership Team, which broadly equates to their direct reports, is follows:

	Male	Female
Board	7/8 (88%)	1/8 (12%)
Senior Leadership Team	4/6 (67%)	2/6 (33%)
Extended Leadership Team	15/23 (65%)	8/23 (35%)

REPORT ON THE YEAR

NGC focussed on the following key areas during the year:

Areas of Focus	Committee's Response
Senior Managers and Certification Regime (SMCR)	The committee oversaw significant changes to the allocation of senior manager roles and prescribed responsibilities within the Society following the appointment of a new Senior Leadership Team during 2018/2019. This included a project to revise substantially the Society's management responsibilities map and it now documents the Society's overarching control framework supporting the board in meeting its obligation to ensure it can evidence the establishment of a prudent and effective control framework.
Board Succession Planning	This year much consideration was given to succession planning for the board. Trevor Hebdon stepped down from the board at the AGM 2019 and Alan Johnston was due to step down from the board at the AGM 2020, each in accordance with the requirements of the Code, having served a full 9 years on the board. The committee, therefore, initiated a programme to recruit two additional non-executive directors, required as part of the board's succession plan. The committee appointed specialist search partner, Miles Advisory, to assist with the search and selection process. These appointments are subject to a rigorous selection process to ensure that clear criteria are identified and assessed. This ensures that directors will be aligned against the fitness and propriety standards of the PRA and FCA and that they have the capabilities and experience to discharge their responsibilities under SMCR. Female only shortlists were used to ensure our commitments to diversity and inclusion, as outlined above, are met. Unfortunately, the process has been unavoidably delayed by the restrictions implemented as a result of the Coronavirus pandemic. Therefore, Alan Johnston has kindly agreed to stand for re-election at the AGM 2020 as mentioned above.
Board Action Plan	The committee oversaw the successful delivery of the action plan agreed following the board effectiveness review in 2019.

2020/2021

THE YEAR AHEAD

NGC will focus on the following key areas during 2020/2021:

BOARD RECRUITMENT

The recruitment process started during 2019/2020 will continue and appointments are expected during early 2020/2021, subject to the lifting of the Coronavirus restrictions.

BOARD EFFECTIVENESS REVIEW

The board has commissioned an external Board Effectiveness Review, which has been delayed due to the restrictions imposed as a result of the Coronavirus pandemic. This review will continue as soon as restrictions allow. Following the review, the committee will consider the findings of the review and implement an action plan to address any recommendations.

On behalf of the Nomination and Governance Committee

John Hooper

Chair

9 June 2020

BOARD RISK COMMITTEE REPORT

CHAIR'S INTRODUCTION

Dear Member,

As Chair of the Board Risk Committee, I am pleased to present the committee's report for the financial year ended 31 March 2020. Throughout our report, we explain how the Society complies with the following principles of the Code:

O. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Following my appointment as Chair of Board Risk Committee in August 2019, the committee has continued to focus on providing oversight and advice to the Board on all risk-related matters and supporting the ongoing investment in risk management. We have overseen the maintenance of prudent credit standards with low levels of customer arrears, supported building our cyber and wider operational resilience capability and maintained positive and proactive communication with our regulators at all times. We have also further enhanced frameworks to help ensure the fair and appropriate treatment of you, our members.

In addition to ensuring the robust management of the Society's key risks, the committee continues to provide advice and support to management in relation to the Society's strategy. The committee has overseen a relatively stable risk profile despite the increasing complexity of regulatory change, increases in market competition, growth in cyber threats and uncertainty caused over the final form of Brexit. The Cumberland has faced into this by significantly investing in capability and benchmarking against best practice. This investment in capability has occurred both in the teams that build, manage and oversee the frameworks but also the teams that are at the heart of the business, in our branches and operations.

I believe that, despite the challenges we all face with the Covid-19 global pandemic we have the risk structures, capabilities and governance in place to be in the best possible position to support you, our members, through these most difficult of times, ensuring we maintain our critical services while supporting the health and wellbeing of our members and employees.

WHO SITS ON THIS COMMITTEE

Eric Gunn (Chair)
4/(5)

Alan Johnston
5/(5)

Mark Stanger
5/(5)

John Hooper (Previous Chair) 1/(1)

HOW THE COMMITTEE WORKS

The Board Risk Committee comprises independent non-executive directors whose attendance record is set out above. Eric Gunn became Chair of the committee in August 2019. Details of the skills and experience of the committee members can be found in their biographies on pages 23 to 25. The committee is scheduled to meet four times a year one week ahead of board in January, April, July and October and, additionally, as and when required. The committee is also attended on a standing basis by the CEO, CFO, CRO and the Head of Internal Audit and receives a report from the CRO at each meeting. Subject matter experts are also invited to committee meetings to present on a variety of topics. Following each meeting, a written report is provided to the board by the chair of the committee, summarising activities undertaken, areas where the committee had challenged management and key decisions taken.

The Board Risk Committee also oversees the Risk Management Committee, which is the executive committee responsible for ensuring a co-ordinated risk management approach across all the Society's risks.

The committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the committee's duties and responsibilities can be found within its terms of reference on the Society's website: cumberland.co.uk:

REPORT ON THE YEAR

The purpose of the committee is to provide oversight and advice to the board on all risk-related matters including advising on risk in strategy setting, monitoring the risk profile, horizon scanning future risks, supporting adherence to regulations and ensuring the appropriate level and capability of risk resources.

It supports the board sign off of the following key documents:

- **Risk Management Framework**: the formal framework for identifying and managing risks throughout the business;
- **Risk Appetite**: to support and monitor the delivery of the corporate plan by ensuring an appropriate level of risk is taken; and
- **Risk Policy Framework**: ensuring the adherence to documented minimum standards at all times.

And also delivers the following:

- Oversight and challenge of the Society's significant risks and the controls in place to manage those risks.
- As part of the key processes where the Society ensures it has sufficient capital and liquidity (the ICAAP and ILAAP), the committee reviews scenario assumptions to be used in business planning. The committee then receives the results of stress testing and scenario analysis and challenges whether the proposed mitigation is sufficient to manage the risk exposure within the board's risk appetite.
- The committee ensures the Society is in the best possible position to weather severe but plausible shocks and protect member's interests through overseeing the Recovery Plan and Resolution Pack.
- The committee has also delegated authority from board to sign off key policies such as the Lending and Financial Risk Management Policies and to oversee the report from the Society's Money Laundering Reporting Officer.

KEY AREAS OF FOCUS DURING THE YEAR

BRC focussed on the following key areas during the year:

Areas of Focus	Committee's Response
CONDUCT RISK The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to unfair outcomes being created for customers and/or reputational risks materialising.	• Enhanced the frameworks that support fair customer treatment. • Ensured any areas where we have fallen short are identified and put right for all affected members.
COMPLIANCE RISK The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to non-compliance with regulation or legislation. and/or reputational risks materialising.	• Supported proactive and positive engagement with our regulators at all times. • Oversaw the delivery of the majority of requirements of the new payment services regulation – making payments for our members more secure and supporting 'Open Banking'. • Enhanced the security of our members data with the implementation of the European GDPR data protection standards. • Centralised regulatory horizon scanning with expert resource to ensure the effective and timely implementation of new regulatory requirements.
STRATEGIC RISK The risk that the Society fails to adopt an appropriate business model, set appropriate goals and targets in the Corporate Plan, adapt to external events or that the strategy fails to live up to expectations.	• Supported strategy development by understanding and providing insight into current and future risk levels. • Enhanced the approach to measuring and setting the level of risk acceptable in delivering the strategy. • Developed plans to start to understand the future impacts of climate change and support The Cumberland becoming a more sustainable business.
CREDIT RISK The risk that a borrower fails to pay interest or to repay capital on a loan and/or that a counter-party fails to meet their contractual obligations to repay the Society or fails to perform their obligations in a timely manner.	• Maintained prudent lending standards. • Supported the recruitment of additional underwriting capability and the further delegation of the board lending mandates. • Tracked portfolio performance by overseeing the development of detailed management information (MI). • Oversaw the development of 'Leading indicators' MI to support future horizon scanning of credit risks. • Supported the development of greater consistency as part of the simplification of the Society's strategy to ensure members are treated the same no matter what channel they apply for lending through.

Areas of Focus	Committee's Response
FINANCIAL RISK The risk of the Society having inadequate earnings, cashflow or capital to meet current or future requirements and expectations.	• Supported delivery of the key prudential documents (such as the ICAAP and ILAAP, previously mentioned) through the ALCO. • Helped ensure the Society has sufficient capital and liquidity to survive severe but plausible shocks such as a severe economic downturn. • Oversaw the application to move to the 'Extended Approach' to treasury management. • Oversaw adherence to policy and any breaches of key minimum standards.
OPERATIONAL RISK The risk of loss resulting from inadequate or failed internal (including where provided by a third party) processes, people and systems, or from external events.	• Benchmarked our approaches to managing cyber threats and supported targeted investment to deliver best practice. • Approved and oversaw the purchase and initial stages of implementation of a security information and event management (SIEM) system. • Supported initial implementation of an operational risk management system. • Oversaw enhanced processes for managing incidents and ensuring all key lessons learned are acted upon. • Supported the roll-out of 'on the ground' risk capability by having experienced risk resources sitting in the key business areas such as the branch teams and operations. • Supported enhancements to our approaches to anti-money laundering and fraud. • Oversaw development of initial operational resilience MI and programme approach. • Agreed and prioritised investment to further enhance our data capabilities and controls.

2020/2021

THE YEAR AHEAD

The year ahead will be initially focused on ensuring we are supporting our members through the financial challenges of Covid-19. The committee will also oversee the delivery of the approaches to ensuring that our critical services have operational resilience at their core and the continued enhancements in payment services with the final roll-out of 'Open Banking'. The committee will focus on ensuring the Society's strategy is delivered within agreed levels of risk, minimum standards are adhered to and that when things go wrong, the lessons are learned and we always put things right for our members with no fuss or excuses.

On behalf of the Board Risk Committee

Eric Gunn
Chair
9 June 2020

AUDIT COMMITTEE REPORT

CHAIR'S INTRODUCTION

Dear Member,

As Chair of the Audit Committee, I am pleased to present the committee's report for the financial year ended 31 March 2020. The Audit Committee monitors internal controls, financial reporting and regulatory compliance, the activities of the internal audit function, the independence and objectivity of the external auditor and the effectiveness of the audit process, and oversees the Society's whistleblowing arrangements, enabling any concerns to be raised by employees in confidence.

I set out below details of the work the committee has focussed on during the year. This report also explains how the Society complies with the following principles of the Code:

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

WHO SITS ON THIS COMMITTEE

Alan Johnston
(Chair) 7/(7)

Michael Hulme
7/(7)

Mark Stanger
7/(7)

HOW THE COMMITTEE WORKS

The Audit Committee comprises non-executive directors, who bring a diverse range of experience in business, finance, auditing, risk and controls; their attendance record is set out above. The committee is, therefore, able to challenge and scrutinise the work of management. Its current Chair, Alan Johnston, was due to step down from the board at the AGM in 2020. He will, subject to regulatory approval, be replaced as Chair by Mark Stanger, who has the requisite recent and relevant financial experience. However, Alan will continue to serve on the committee until the board's succession plan has been implemented post the lifting of the Covid-19 restrictions.

The committee also draws on the expertise of key advisors and control functions, including the internal and external auditors, both of whom are standing attendees of the committee. 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 no non-audit related assignments during the year.

The committee is also attended on a standing basis by the CEO and the CFO. At least annually, the external auditors meet with the committee without management present.

The committee meets at least five times a year. The committee provides oversight and advice to the board on the matters listed in its terms of reference (available at cumberland.co.uk) and reports to the board on those matters after each meeting. The committee is authorised by the board to obtain any information it needs from any director or employee of the Society. It is also authorised to seek, at the expense of the Society, appropriate professional advice as needed. The committee did not need to take any independent advice during the year.

The committee works closely with the Board Risk Committee, as some matters are relevant to both committees and the CRO is a standing attendee to facilitate this work.

The committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the committee's duties and responsibilities can be found within its terms of reference.

The committee's effectiveness is reviewed annually.

The Statement of Directors' Responsibilities on page 48 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 the Chief Executive Officer's Business Review and the wider Strategic Report and a statement that the Group's business is a going concern is included in the Directors' Report.

The 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 (including the impact of the coronavirus pandemic as at 31 March 2020), property revaluations, provisions for customer redress and remediation, and the work performed to support the Going Concern and Viability assumptions in the context of the pandemic (including the impact on business volumes and our ability to serve customers).

REPORT ON THE YEAR

The Audit Committee's main purpose is to support the board in protecting the interests of the Society for the benefit of our customers. It has achieved this during 2019/2020 by:

- monitoring and reporting to the board on the integrity and the fair and balanced nature of the Society's financial reporting;
- assessing and reporting to the board on the appropriateness of the Society's accounting policies;
- overseeing the Society's systems of internal control, including the work undertaken by Internal Audit;
- monitoring the external auditor's adherence to the professional ethical standards; and
- overseeing the Society's whistleblowing arrangements.

KEY AREAS OF FOCUS DURING THE YEAR

The significant judgements, issues and actions taken by the committee in relation to the Annual Report and Accounts 2019/2020 are outlined below. Each matter was discussed with the external auditor during the year and where appropriate, have been addressed as areas of audit focus in the Auditors' Report.

Areas of Focus	Committee's Response
Accounting Policies	The committee reviewed The Cumberland's accounting policies and confirmed they were appropriate to be used in the financial statements. In preparing the financial statements, there are inevitably material areas in which significant judgements are necessary, and the committee considered these in detail. This year, these included changes in approach to hedge accounting under FRS102 (IAS39) implemented to improve effectiveness and reduce income statement volatility. Also, the committee reviewed the method to account for the revenue from amortised cost financial instruments on an effective interest rate basis under FRS 102. An Intangible Assets Accounting Policy, which will better match relevant expenditure with the income it subsequently generates (or the cost it subsequently saves) and ensure consistent application, was also reviewed and approved by the committee, prior to the Society stepping up its investment in intangible assets to material levels in 2020/2021.
Going concern and business viability statement	The committee reviewed and recommended to the board the use of the Going Concern basis of preparation for the Annual Report and Accounts and the attendant Going Concern and Viability Statements, having assessed and challenged the basis for the conclusions management had reached. The detailed viability statement can be found on pages 18 to 21.
Fair, balanced and understandable report and accounts	The Society's Annual Report and Accounts, taken as a whole, must be fair, balanced and understandable. The committee assessed the financial statements and was satisfied that they portray both successes and challenges, and fairly represented the results and business performance and the language used was appropriate in that it could be understood by a person with reasonable knowledge of the building society and financial services sectors. The committee reviewed the draft Corporate Governance Report and was satisfied that it presented an accurate view of the work of the board and its committees. After consideration of management's report and the committee's own review, the committee concluded that it could inform the board that, in its opinion, the Annual Report and Accounts were fair, balanced and understandable.

In compiling a set of financial statements, it is necessary to make estimates and judgements about outcomes that are typically dependent on future events. Significant matters are set out below:

Significant Estimates and Judgements	Committee's Response
Impairment provisions for loan portfolios and related disclosures	The committee oversaw the outcomes of management's assessment of loan loss provisioning at 31 March 2020. The committee noted that management had updated all of the key assumptions in its models to reflect actual historic experience of the Society's own portfolios. It considered the impact this would have had on provision levels if applied to the balance sheet at the end of February 2020, prior to the pandemic. The committee considered the outcome of the same models at 31 March 2020 and the impact on the Probability of Default (PD) from the significant growth in forbearance offered in response to the pandemic. The committee challenged management's application of judgement in overlaying worsening of both security realisation rates and the trends seen in forbearance as a result of the pandemic's continuation in April in light of the requiremens of FRS102 (IAS 39), as well as the specific provision judgements required on the in default loans of a large corporate connection. The committee concluded that, despite the difficulty in fairly estimating increased losses at 31 March 2020, management had calculated a suitable best estimate and made no adjustment to the provision proposed.
Provisions for customer redress and remediation	The committee reviewed proposed provisions on conduct related matters and considered whether provisions for customer redress were appropriate. Assumptions used to calculate provisions for customer redress often require judgements to be made in relation to the likely volume of cases and cost of redress. The likelihood of conduct issues materialising was also a factor in deciding whether a provision was needed. Whilst all MPPI claims, received prior to and shortly after the 29 August 2019 deadline, have been processed, a number of customers have not accepted offers made and there remains the possibility of further claims made to the Financial Ombudsman Service following The Cumberland's response to the claim. This has been reflected in the provision booked to conclude this matter. During the period, the Society identified weaknesses in its historic processes for the collection of customer due diligence in certain non-personal current accounts. While no customer detriment has been identified, the Society has provided for the externally supported costs of remediating these matters, which have arisen from its historic actions. The committee concluded that the amounts charged and provisions held by the Society for these matters were appropriate.
Impairment of Investment Properties and Buildings within Fixed Assets	The Society has recognised losses on sale of land historically acquired for development, on its remaining investment properties, and on its branch connected to its former head office. The committee noted that the Group had obtained independent, external valuations to support the values recognised, and impairments, therefore, required. It supported management's decision to include this matter in the critical accounting estimates and judgments note, on the basis that further uncertainty around the value of the buildings emerged late in March 2020, due to the Covid-19 pandemic, and the potential for further reduction in rental yield and property values in future periods.

The committee has responsibility for monitoring the adequacy of the Group's control environment. This has included the ongoing steps being taken to improve Internal Audit's operating model and enhance its service proposition. The committee's review of the operation of internal controls encompassed the following:

Controls	Committee's Response
Control Environment	The committee continued to monitor the overall effectiveness of the Society's control environment during the year by reviewing reports from Internal Audit and updates from management in respect of the design and effectiveness of the systems of control in place to manage risks. Supported by the work of the Internal Audit and the opinion of the Head of Internal Audit, the committee concluded there had been no significant deficiencies in control over the course of the year.
Financial and Treasury Controls	The committee reviewed the financial control framework and was satisfied with the steps management was taking to enhance and simplify processes and controls, where required. In terms of its treasury operations, as the Society prepared to apply to the PRA for the Extended Approach, the committee reviewed Internal Audit's assessment of The Cumberland's readiness against the expectations as prescribed within Supervisory Statement 20/15. The committee was satisfied with the conclusion reached by Internal Audit, which supported management's application to the board for approval to move to the Extended Approach.
IT and Operational Resilience	IT security and the resilience of service provisions to customers are key elements within the Society's overall control framework. The committee noted the developments and improvements required whilst acknowledging the successful manner in which the Society has responded to the current Covid-19 pandemic.
Conduct	The committee noted the Internal Audit's report on the Society's Conduct Risk Framework and the actions taken by management in developing this particular area and concluded that good progress had been made.

INTERNAL AUDIT

The committee works closely with the Head of Internal Audit, who reports directly to the Chair of the Audit Committee. Throughout the year, the committee monitors the progress of the internal audit function. The Audit Committee approved the internal audit plan and all changes to it during the year. The scope of work takes account of the function's own assessment of risks, and the input of first and second line management and the Audit Committee itself. At each meeting the committee received updates from the Head of Internal Audit on the work of the internal audit function, drawing its attention to the most significant audit work which included operational resilience, general IT controls and the Society's readiness for the Extended Approach. The committee continued to focus on the prompt and effective resolution of control issues raised by internal audit, where progress was made during the year. Every six months, the committee reviewed the resourcing of the internal audit function and was satisfied that the resources were appropriate. The Audit Committee Chair and the Head of Internal Audit meet on a regular basis throughout the year to review progress and a private session with the Head of Internal Audit is held either before or after each scheduled committee meeting. The committee also considered the new organisational structure of the internal audit function, which recognises the changing focus of its activities as business priorities and risks develop, concluding that it was appropriate.

EXTERNAL AUDIT

Deloitte acted as the Society's external audit firm throughout the 2019/2020 financial year. The Audit Committee is responsible for overseeing the relationship with the external auditor, and for the effectiveness of the audit process.

Stephen Williams of Deloitte is Cumberland's statutory auditor for the 2019/2020 financial year. This was Stephen Williams' first year as David Heaton of Deloitte rotated off The Cumberland Group as required under regulation. The committee oversaw this transition considering a variety of candidates for engagement leader. Deloitte's report can be found on pages 49 to 58.

AUDIT QUALITY AND MATERIALITY

The committee has a responsibility for reviewing the quality and effectiveness of the external audit. The committee approved the scope of the audit plan and considered the proposed materiality level in advance of the annual audit. Materiality is the level at which the auditor considers that a misstatement would compromise the truth or fairness of the financial statements. For 2019/2020, overall audit materiality was set by Deloitte at £775k (2018/2019: £716k).

AUDITOR INDEPENDENCE

The board has an established policy setting out the non-audit services that can be provided by the external auditor. The aim of the policy, which is reviewed annually, is to safeguard the independence and objectivity of the external auditors and comply with the ethical standards of the Financial Reporting Council (FRC). The policy specifies non-audit services provided by the external auditor that are either permitted or prohibited. Deloitte has confirmed that it has complied with relevant regulatory and professional requirements and its objectivity is not impaired. The committee is satisfied that Deloitte remained independent throughout the year.

AUDIT OUTPUTS

The committee reviewed Deloitte's year end report for the 2019/2020 financial year and its statutory opinion in respect of the year. The committee also reviewed Deloitte's planning report and interim updates on its work. The Audit Committee Chairman met with the Deloitte audit partner in advance of committee meetings during the year and discussed in detail the basis of their opinion on the key judgements in the financial statements.

AUDIT AND NON-AUDIT FEES

The committee reviewed and approved the external auditor's engagement letter and proposed audit fee.

Under the Society's non-audit fees policy, all non-audit work is approved by the Audit Committee where the fee is over £10k, or by its Chair (and subsequently ratified at the next meeting). Where the fee is below £10k approval is required from the Chief Financial Officer. During the 2019/2020 financial year no requests to use the external auditors for non-audit services were made. The fees paid to Deloitte for the year ended 31 March 2020 totalled £123k (2018/2019: £90k). The total fees are set out in note 7 to the financial statements on page 65.

AUDIT EFFECTIVENESS

The committee reviews the effectiveness of the external audit process on an annual basis taking into account management feedback. This review confirmed that the external auditor was performing its duties in an independent and effective manner, with some areas for consideration identified and fed back to the statutory auditor.

THE YEAR AHEAD

In 2020/2021 the Audit Committee will continue to focus on its oversight of the financial reporting and internal controls of The Cumberland. A key area of focus for the committee will be understanding how the Society has maintained the control environment during the Covid-19 pandemic and the arrangements put in place as it transitions back over to a 'business as usual' operating model. In the challenging and competitive environment in which The Cumberland operates, the Audit Committee remains committed to its vital role in overseeing the integrity of financial reporting and the effectiveness of controls.

On behalf of the Audit Committee

Alan Johnston
Chair
9 June 2020

PEOPLE, REMUNERATION AND CULTURE COMMITTEE REPORT

CHAIR'S INTRODUCTION

Dear Member,

As Chair of the People, Remuneration and Culture Committee (PARC), I am pleased to present the committee's report for the financial year ended 31 March 2020. PARC assists the board with overseeing the Society's people, remuneration and culture matters and I set out below details the work the committee has focussed on during the year. This report includes the Report on Directors' Remuneration, which explains the remuneration policies for executive and non-executive directors and how the Society complies with the following principles of the Code:

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

WHO SITS ON THIS COMMITTEE

Jackie Arnold
(Chair) 5/(5)

Michael Hulme
5/(5)

Alan Johnston
4/(5)

HOW THE COMMITTEE WORKS

PARC comprises independent non-executive directors, whose attendance record is set out above. Jackie Arnold became Chair of the committee in May 2019. Details of the skills and experience of the committee members can be found in their biographies on pages 23 to 25. The committee is scheduled to meet four times a year, one week ahead of board, in January, April, July and October and, additionally, as and when required. The committee is also attended on a standing basis by the CEO, CFO, and CPO. Following each meeting, a written report is provided to the board by the chair of the committee, summarising activities undertaken, areas where the committee had challenged management and key decisions taken.

The committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the committee's duties and responsibilities can be found within its terms of reference on the Society's website: cumberland.co.uk.

REPORT ON THE YEAR

The purpose of PARC is to ensure the following:

- remuneration, culture and people policies and practices are designed to support strategy and promote long-term sustainable success;
- executive remuneration is aligned to the Society's purpose and values and is clearly linked to the successful delivery of the Society's long-term strategy; and
- that there is a formal and transparent procedure for developing policy on executive remuneration and determining executive and senior management remuneration.

KEY AREAS OF FOCUS DURING THE YEAR

PARC focussed on the following key areas during the year:

Areas of Focus	Committee's Response
Remuneration	The committee considered remuneration at all levels, including approval of the Society's annual cost of living increase, a review of non-executive director's fees and the implementation of executive and other incentive schemes. The committee also approved enhanced arrangements for pay during sickness absence to support the Society's people. The committee was able to use the benchmarking data gained from significant hires throughout the year to assess the appropriateness of existing remuneration.
People and Culture Strategy	The committee oversaw the development of the Society's people and culture strategy and learning and development strategy. This led to the development of an enhanced recruitment, selection and onboarding process and the introduction and delivery of a leadership development programme.
Diversity and Inclusion	The committee oversaw the Society's diversity and inclusion initiatives, which were focussed on family friendly policies and monitored progress towards achieving its commitment under the Women In Finance Charter to have at least 33% of women at senior level by April 2021. The committee also oversaw and approved the Gender Pay Gap Report.
Employee Engagement Survey	The committee oversaw the Society's annual employee engagement survey, which is a key measure of the effectiveness of the Society's policies relating to people, culture and remuneration. They reviewed the results with management and oversaw the introduction of an appropriate action plan.
Organisational Design	The committee oversaw the development of a new organisational design for the CCO and COO areas. The committee also oversaw the people aspects of the management buy out of the Society's estate agency subsidiary to ensure that the arrangements were aligned with the Society's values.
Covid-19	The committee oversaw management's decisions in relation to The Cumberland's people in response to Covid-19, including management's decision not to participate immediately in the Government supported furlough scheme.

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 PARC. The remuneration of the executive directors is determined by PARC, which consists of its Chair Jackie Arnold, Michael Hulme and Alan Johnston.

In determining non-executive and executive director remuneration, both the board and PARC 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 for executive directors, and for the year ended 31 March 2020, agreed a bonus based on key elements of the financial and strategic plan delivered in a way that is consistent with The Cumberland's core values and framework. As discussed below, payment of all bonus schemes, including amounts disclosed as awarded to executive directors, has been delayed until the impact of the Covid-19 pandemic on the Society becomes clearer.

Executive directors in office at 31 March 2020 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 as a pension replacement amount. Executive directors are also provided with a car (or car allowance) and membership of a private medical insurance scheme. They are employed under contracts terminable by the Society on nine to twelve months' notice and by the individual on six months' notice.

Full details of individual directors' remuneration, including the arrangements that applied to executive directors who stepped down in the prior year, are disclosed in note 9 to the accounts.

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

THE YEAR AHEAD

PARC will continue to support and approve any appropriate people focussed decisions in relation to Covid-19 to ensure these are reflective of the Society's values and long term strategy, focussing on the following key areas during 2020/2021:

REMUNERATION

The committee will continue to oversee the Society's remuneration policies, including incentive schemes, to ensure they remain aligned to achieving the Society strategy particularly as the impact of the Covid-19 pandemic becomes clearer. The committee has supported the Board's decision to delay payment of all variable remuneration awards for 2019/2020 until the Society has successfully and safely existed the Covid-19 lockdown and is conducting levels of business at a more normalised level.

DIVERSITY AND INCLUSION

The committee will continue to monitor the Society's initiatives and progress in relation to diversity and inclusion, in particular the Gender Pay Gap Report and commitments under the Women In Finance Charter.

EMPLOYEE ENGAGEMENT SURVEY

The committee will again oversee the annual survey.

On behalf of the People, Remuneration and Culture Committee

Jackie Arnold
Chair
9 June 2020

DIRECTORS' REPORT

Information on the Group's strategy and its financial and business performance and likely future developments are included within the Strategic Report, which starts on page 2.

DIRECTORS

The directors of the Society during the year and to the date of this report were as follows:

John Hooper	*Chairman*
Alan Johnston	*Vice-Chair*
Michael Hulme	*Senior Independent Director*
Eric Gunn	
Jackie Arnold	
Mark Stanger	
Desmond Moore	*Chief Executive Officer*
Richard Ellison	*Chief Financial Officer* *Appointed: 22 May 2019*

Further information on all of the directors in office as at 31 March 2020 is provided in the directors' biographies on pages 23 to 25, and their attendance at the board and board committees is set out in the corporate governance and committee reports on pages 26 to 45.

All directors will submit themselves for re-election, at the Annual General Meeting. 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 2020, two directors or persons connected to them had mortgage loans granted in the ordinary course of business, amounting to £1.285m (2019: one director, £643k). 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 2020, there were 4 accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £652k, and the amount of arrears was £62k, which represents 0.03% 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. As at 29 February 2020, the Society had undertaken forbearance measures for 11 residential mortgage accounts, which had total balances of £2.1m. As at 31 March 2020, forbearance measures had been agreed for 1,267 residential mortgages with a total balance of £189.7m (2019: 13 accounts, balances of £3.2m). In March 2020, consistent with the requests of the UK government and its regulators, the Society swiftly offered forbearance to those customers that requested it, based on customers self-assessing the need for this help. This has resulted in a fundamentally different level of forbearance than hitherto and the level of forbearance at 31 March 2020 is disclosed more fully on page 12 and in note 29. 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.

FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Society's objective is to minimise the impact of financial risk upon its performance. The financial risks facing the Society are summarised together with an overview of arrangements for managing risk in the Strategic Report on pages 14 to 18 and are discussed in more detail in notes 26 to 29 of the financial statements.

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 2020, the total amount owed to suppliers was equivalent to 12 days' credit (2019: 11 days).

CHARITABLE AND POLITICAL DONATIONS

During the year, charitable donations of £217k were made to a number of organisations within our operating area. No contributions were made for political purposes.

ENGAGEMENT WITH STAKEHOLDERS

The Society has in place arrangements for engagement with employees, suppliers and members. Please see Corporate Governance Report on page 26 for further details of engagement with members, and pages 8 and 9 of the Chief Executive Officer's Business Review for engagement with our employees.

ENVIRONMENTAL IMPACT

We recognise the importance of continuing to mitigate our environmental impact by becoming more energy efficient and reducing our carbon emissions.

Our main sources of carbon emissions are due to gas and electricity consumption from our 34 branches and Head Office, and through UK-based business travel.

Our carbon footprint has been independently verified and a breakdown is available below:

Emissions Source	Total kWh	Carbon as kg CO2e	Carbon as tCO2e
SCOPE 1 - DIRECT EMISSIONS			
Natural gas, kWh	529,653	97,386	97.386
Diesel - average biofuel - Litres - Cars	115,194	28,296	28.296
Petrol - average biofuel - Litres - Cars	21,290	5,027	5.027
Diesel - average biofuel - Litres, Vans & Pool cars	69,179	16,998	16.998
Petrol - average biofuel - Litres, Vans & Pool Cars	9,840	2,337	2.337
Total Scope 1	745,156	150,044	150.044
SCOPE 2 - INDIRECT EMISSIONS			
Electricity - National Grid	1,019,294	268,839	268.839
Total Scope 2	1,019,294	268,839	268.839
Total - Scopes 1 & 2		418,883	418.883
Electricity, average kWh per m2			84.5
Gas, average kWh per m2			79.3
Total tCO2e per FTE, Scopes 1 & 2			1.007
Total tCO2e per £m gross turnover, Scopes 1 & 2			3.520
Notes Average biofuel' is the assumed fuel for GHG conversion calculations. All electricity is bought from National Grid. Branch areas assumed at 12,069m2 for electricity and 6,680m2 for gas			

ENERGY EFFICIENCY

In 2019/2020, we have undertaken a number of actions to improve our energy efficiency and, in turn, our carbon footprint. This includes replacing old, inefficient equipment with new energy efficient alternatives. We have replaced gas boilers at Keswick and installed LED lighting in 7 branches. We have also installed four electric vehicle charging points at our head office.

During 2019/2020, we commenced a branch refurbishment program. As part of this, we are actively reviewing all opportunities to install energy saving options to further assist in reducing our carbon footprint.

We will continue to pro-actively monitor our gas and electricity use to highlight and investigate any unusual consumption, and focus on further improving our energy performance in 2020/2021. As we improve the measurement and understanding of our carbon footprint, we will set realistic reduction targets.

EVENTS SINCE THE YEAR END

The directors consider that there have been no events since the year end, other than the continuation of lockdown of the UK due to the Covid-19 pandemic, that have had a material effect on the position of the Society or any of its subsidiary undertakings. Further information on the pandemic's impact post 31 March 2020 is provided in note 35.

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. Further information on how this assessment was performed and its basis is included as part of the Group's viability statement on pages 18 to 21.

STATEMENT OF DISCLOSURE TO AUDITORS

So far as each director is aware, there is no relevant audit information of which the Society's auditors are unaware. Each of the directors, whose name is listed above have taken all steps that he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and establish that the Society's auditors are aware of that information.

AUDITOR

Deloitte LLP are eligible for re-appointment and have offered themselves for re-election. A resolution to re-appoint Deloitte LLP will be proposed at the AGM.

On behalf of the board of directors

John Hooper
Chairman
9 June 2020

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 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 judgments 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.

INDEPENDENT AUDITOR'S REPORT

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

1. Opinion

In our opinion the financial statements of Cumberland Building Society (the 'Society') and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 March 2020 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the Group and Society income statements;
- the Group and Society statements of comprehensive income;
- the Group and Society balance sheets;
- the Group and Society statements of changes in members' interests;
- the Consolidated cash flow statement; and
- the related notes 1 to 36.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and the Society for the year are disclosed in note 7 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going Concern assessment and related disclosures; • Loan loss provisioning; • Effective Interest rate ("EIR") accounting; and • Hedge accounting. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk

Materiality	The materiality used for the Group financial statements and Society financial statements was £775k (2019: £716k) and £760k (2019: £700k) respectively, which was determined using 0.4% of net assets.
Scoping	We have performed a full scope audit on all entities within the Group which is consistent with the prior year. All full scope audits were performed directly by the Group audit team and executed at levels of materiality applicable to each individual entity. Audit testing to respond to the risks of material misstatement was performed directly by the Group audit engagement team.
Significant changes in our approach	Our risk assessment process has resulted in a number of newly identified key audit matters reported upon within our enhanced audit report. Given the rapid spread of Covid-19 and the ongoing uncertainty surrounding its impact, we have focused a greater degree of audit effort on the directors' judgements. This was both in determining the Group's and the Society's ability to continue to adopt the going concern basis of accounting over a period of at least 12 months from the date of approval of the Financial Statements and the related disclosures. Furthermore, our risk assessment process identified that there was a heightened level of judgement this year in determining the Effective Interest Rate ("EIR") used to allocate interest income on loans and receivables, given the uncertainity of the macroeconomic environment. In accordance with this greater level of audit effort, we have therefore identified new key audit matters in the period relating to the going concern basis of accounting and related disclosures, and the approriateness of the assumptions underlying the EIR calculation.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern We have reviewed the directors' statements in note 1 to the financial statements and in the strategic report about whether they considered it appropriate to adopt the going concern basis of accounting and their identification of any material uncertainties to the Group's and Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. Our challenge of the directors' going concern assessment and related disclosures have been identified as a Key Audit Matter, which is further discussed below in Section 5.1.	**Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.** We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
4.2 Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Society's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: the disclosures on pages 14 -18 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated; the directors' confirmation on page 21 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or the directors' explanation on pages 18 - 21 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	**Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.** We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Going concern assessment and related disclosures

Key audit matter description	The rapid spread and ongoing uncertainty surrounding the impact of Covid-19 has increased the complexity associated with the directors' assessment of the Group's and Society's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements. In addition, there is an increased risk associated with the adequacy of disclosures over the going concern assessment and events after the reporting date. In making their assessment, the directors consider that the going concern basis of accounting is appropriate. The directors' conclusions are based on their judgements in relation to (i) the ongoing confidence in the Group's and Society's capital and liquidity positions, particularly in light of reassessing their baseline financial forecasts as a result of Covid-19, as well as (ii) the capability of the operational resilience framework in place over the assessment period. Details of the impact of events after the reporting date are presented in note 35 to the financial statements. The directors' consideration of the impact of Covid-19 on the Group's and Society's ability to continue as a going concern is detailed on pages 18 to 21 within the Strategic Report and note 1 to the financial statements.
How the scope of our audit responded to the key audit matter	In response to the significant economic disruption associated with the Covid-19 pandemic, we increased our audit effort to challenge whether there was a material uncertainty over the Group's and Society's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements. **Capital, liquidity and stress testing** We reviewed and challenged the capital and liquidity position of the Group, with the support of our prudential specialists where appropriate. Our review and challenge focussed on: • With specific reference to the Group's Internal Capital Adequacy Assessment Process, the forecast assumptions within the Group's and Society's capital plan given current market conditions, as well as provisions and capital in stress taking account of Bank of England guidance, including the guidance issued on 26 March 2020; • With specific reference to the Group's Internal Liquidity Adequacy Assessment Process, the forecast assumptions within the Group's and Society's liquidity and funding plan, which is required to be produced for all regulated banks, taking into account the Group's internal risk appetite, the impact of the combination of low interest rates and credit risk, and regulatory minimum requirements given current market conditions; • Management's stress testing output, with a particular focus on the capital and liquidity headroom available against minimum regulatory requirements and whether the stressed scenarios adequately captured current and forecast market conditions; and • The Prudential Regulatory Authority issued guidance in relation to the temporary use of regulatory buffers where appropriate. **Operational resilience** We reviewed and challenged the operational resilience of the Group, and assessed management's: • Business continuity plans and subsequent changes to those plans as a consequence of a prolonged impact from the Covid-19 pandemic; • Internal monitoring process recently introduced by Management in order to monitor the operational impact of Covid-19 on a regular basis; and • Oversight of the contingency plans in place where a supplier has been deemed at risk. **Events after the reporting date** Although the Covid-19 pandemic occurred before the Group's reporting date, events have continued to occur after the reporting date, as the impact of Covid-19 continues to impact the UK economy. As this situation is still developing, we have considered the events which have occurred since the reporting date within our going concern assessment of the Society. In order to assess whether the post balance sheet event disclosures in note 35 were appropriate we: • Reviewed the most recent Board minutes and regulatory correspondence to identify items of interest; • Evaluated Management's assessment of the impact of the significant business developments that occurred after the year-end; and • Challenged Management's assessment of the impact of events after the reporting date on the carrying value of the Group's assets and liabilities. **Disclosures** We reviewed the disclosures made by management in relation to going concern and events after the reporting date, to assess whether they adequately reflect the current economic outlook and the impact on the Group, and checked the consistency of these disclosures with our knowledge of the Group based on our audit.

Key observations	Based on the work performed, having taken account of the assumptions and other matters disclosed in the going concern statement made by the Directors and elsewhere in the financial statements, we concur with the Directors' conclusion that the significant economic disruption associated with the Covid-19 pandemic does not impact the Group's and Society's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements. We also concluded that the disclosures in relation to going concern and events after the reporting date are appropriate.

5.2 Loan loss provisioning

Key audit matter description	Under IAS 39, the directors are required to assess whether there is objective evidence of impairment of any financial assets that are measured at amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the income statement immediately. The Group currently holds on its balance sheet £1,967m (2019: £1,896m) of loans and advances fully secured on residential property and £179m (2019: £166m) of loans and advances fully secured on commercial property and land. As at 31 March 2020, the Group held incurred loss provisions of £0.6m (2019: £0.5m) against loans fully secured on residential property and £2.2m (2019: £1.2m) against loans fully secured on land in relation to incurred losses seen on these loans. For both portfolios, the provision comprises a collective provision for losses incurred but not reported at the reporting date, and a specific provision for loans where there has been an observable impairment trigger. Loan loss provisioning remains one of the most significant estimates made by management, particularly in light of the uncertain economic outlook in the UK and, at the reporting date, the incurred impact of the Covid-19 pandemic. Management's estimate requires the determination of assumptions relating to potential impairment indicators, customer default rates, the likelihood of repossession occurring and forecast future cash flows. We note that the judgements made in relation to Covid-19 are inherently complex, particularly in light of the fact that, in line with Government and regulatory requests, the Society provided payment holidays to its customers without conducting its usual assessment of a customer's specific circumstances. Furthermore, the Group's focus on tourism related sectors in the FSOL portfolio, where lending to the hospitality and leisure industry makes up over 75% of the book, requires management to make significant judgements around the future performance of this industry. These judgements are inherently complex at this time given it requires an assessment of the likely speed and extent of the unwinding of lockdown measures, the extent of continuing government support and the potential impact of longer term structural changes as a result of the pandemic. We have considered the most significant areas of judgement within the Group's loan loss provisioning methodology to be: • How the impact of the Covid-19 pandemic should be reflected in the collective provisioning methodologies for both portfolios; • The determination of whether any further adjustments are required to address exposures or residual risks that are not captured within the provisioning models at the reporting date; and • The determination of the specific provision for loans fully secured on land given the judgement in determining the expected realisable values of the collateral on which the exposures are secured in the current economic environment. Due to the manual nature of the provision and given the degree of judgement involved in determining key assumptions, we also identified that there is potential for fraud through possible manipulation of this balance. The Group's associated accounting policies in relation to loan loss provisioning are detailed on page 64 with detail about the associated critical accounting estimates on page 64.
How the scope of our audit responded to the key audit matter	We performed a walkthrough to understand the end-to-end loan loss provisioning process that the Group has in place to manage the risk of inappropriate assumptions being used in the loan loss provisioning models, including how the most significant areas of judgement are subject to review, challenge and approval. In conjunction with our internal IT specialists, we tested the general IT controls over the loan administration systems, evaluated the manner in which data used in the determination of key assumptions is extracted from these systems and tested the completeness and accuracy of the underlying data. We challenged the assumptions included within the loan loss provisioning models with reference to the historical experience observed by the Group. In light of the Covid-19 pandemic, we specifically challenged how the offering of payment holidays to customers during the pandemic and the regulatory requests that the Group provide this to all customer who requested it, should be reflected in the collective provisoining methodologies at the reporting date. With support from internal economic modelling experts as appropriate, we also assessed whether previously observed repossession and security realisation rates would be reflective of the future given the uncertain economic outlook. Based on the current economic conditions and market circumstances, we also challenged whether any further adjustments were required to the provision to take into account other sector, regional or systemic risks that are not captured within the provisioning models. With reference to the specific judgement relating to the determination of the specific provision for loans fully secured on land, we worked with internal real estate specialists to challenge management's estimate of the future cash flows arising from realising the collateral on which the exposures are secured, with reference to the specialist's own market knowledge and other relevant forecast information. Our wider procedures over loan loss provisioning included assessing the underlying methodologies for compliance with IAS 39, testing the completeness and accuracy of management's identification of loss events (including forbearance) within the lending portfolios, challenging the Probability of Default used against historical experience, and testing the mechanical accuracy of the underlying models.
Key observations	Based on our audit procedures, we have concluded that the provisions recorded against loans and advances fully secured on residential property and commercial property and land are reasonably stated.

5.3 Effective interest rate accounting

Key audit matter description	The calculation of the EIR used to allocate interest income on loans and advances to customers requires management to exercise judgement in the determination of certain key assumptions. These calculations are based upon historical data and estimates of future economic conditions. The Society has recorded an EIR liability within loans and advances to customers in the current year of £2.0m (2019: £2.7m). There is a level of judgement surrounding the key assumptions applied in determining the EIR adjustment which involves modelling historical customer behaviour to recognise expected future receipts, including early redemption charges ("ERCs") within the EIR model. We note that Management's assessment is that the impact of ERCs within the EIR model is not a material matter, and these have accordingly been excluded from the EIR calculation. Given the degree of judgement involved in determining key assumptions, we also identified that there is potential for fraud through possible manipulation of this balance. The Group's associated accounting policies in relation to interest income are detailed on page 64.
How the scope of our audit responded to the key audit matter	We performed a walkthrough of the revenue cycle to understand the methodology used for the determination of the EIR. Following identification of the key controls in this cycle, we evaluated the design and implementation of the controls around management's review of the EIR calculation including their assessment that it is materially appropriate to not specifically include ERCs in the EIR calculation, and instead recognise them on a receipts basis. We reviewed and challenged management's assessment that the impact of the inclusion of ERCs within the EIR model is immaterial with reference to historical and forecast levels of ERCs and the average behavioural lives of loans and advances to customers. • In conjunction with our internal IT specialists, testing the general IT controls over the loan administration systems, evaluating the manner in which data used in the determination of key assumptions is extracted from these systems and testing the completeness and accuracy of the underlying data; • Comparing the average product life calculations to observed redemptions over recent years; and • Independently reperforming management's calculation to ensure the methodology applied gives a materially accurate approximation of the EIR.

Key observations

Based on the work performed, we concur with Management's assumptions used in the revenue recognition model which supports the EIR asset, and concur with Management's assessment that the impact of the exclusion of ERCs within the EIR model is not a material matter.

5.4 Hedge accounting

Key audit matter description

The Society applies hedge accounting using fair value macro hedge relationships in order to minimise the volatility of fair value movements in the income statement. As the macro hedge evolves, hedged items and the associated derivative, are designated to and subsequently de-designated from the hedge relationship. The fair value adjustment to the hedged item at 31 March 2020 was an asset of £12.2m (2019: asset of £2.1m).

There is a risk that the identification of items that are designated to, and then are subsequently de-designated from, the hedging relationships is not complete and the fair value adjustments on items entering or exiting the hedge are not initially recorded, and/or amortised, correctly.

The hedge effectiveness assessment criteria must also be met on an ongoing basis, both prospectively and retrospectively, for the hedge relationships to be eligible under IAS 39 "Financial Instruments: Recognition and Measurement" criteria for hedge accounting.

Given the degree of judgement involved, we also identified that there is potential for fraud through possible manipulation of this balance.

The fair value adjustment to hedged item and the fair value of derivatives are detailed within notes 6 and 13. The Group's associated accounting policies are detailed on page 63.

How the scope of our audit responded to the key audit matter

We performed a walkthrough to understand the hedge accounting process and identify the relevant internal controls. We evaluated the design and assessed the implementation of those relevant internal controls.

We used a financial instruments specialist to assess management's prospective and retrospective effectiveness testing results and to test the valuation of derivatives. This included understanding management's methodology for assessing items that have de-designated from the hedge relationship, and testing a sample of de-designated instruments by creating an expected amortisation profile and compared that to management's calculation.

We obtained Management's master document where the designation and de-designation adjustments are calculated on a monthly basis and reviewed Management's methodology for assessing items that are de-designated from the hedge relationship. We then tested the accuracy of the amortisation adjustments posted by Management through a full recalculation of the expected remaining amortisation as at 31 March 2020.

We obtained evidence of management's prospective and retrospective effectiveness testing, which is required under IAS 39, to determine that the hedge relationships continue to meet certain criteria, and reviewed the macro hedge effectiveness assessment.

Key observations

Based on our audit procedures, the fair value adjustments accounted for on items designated into the hedge relationship, de-designated from the hedge relationship, and the subsequent amortisation of the adjustments, was considered to be materially appropriate throughout the year.

The macro-hedge relationship has remained effective throughout the period, and therefore the hedge relationships continue to be eligible under IAS 39 criteria for hedge accounting.

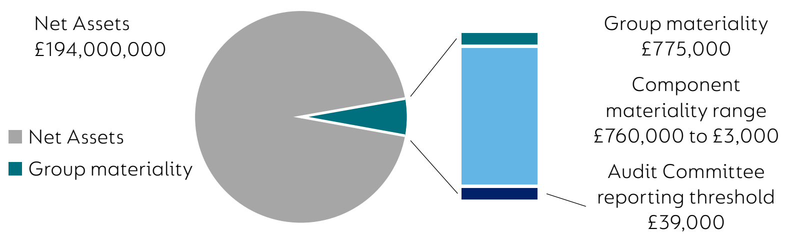
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably kno wledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Materiality	£775,000 (2019: £716,000)	£760,000 (2019: £700,000)
Basis for determining materiality	0.4% of net assets (2019: 5% of profit before tax)	0.4% of net assets (2019: 5% of profit before tax)
Rationale for the benchmark applied	We consider that net assets is an appropriate benchmark to use because the Society's aim is to maintain a strong capital base that will allow the Group to invest in activities for its members including increasing future lending. This will also be a more stable benchmark to use in the medium term due to the strategic transformation programme that is occurring within the Society, and the impact that this may have on the profit before taxation of the Society. The change in materiality benchmark from profit before tax to net assets reflects this, as well as to ensure that our materiality figure reflects the increasing size of the Society's and Group's balance sheet.	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

a. the maintained quality of the Group's control environment;

b. the fact that there were no significant changes in the business that could affect our ability to forecast misstatements; and

c. the low number of prior year uncorrected and corrected misstatements and the low likelihood of errors occurring based on our previous experience.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £39k (2019: £35k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and the other components executed at levels of materiality applicable to each individual entity, which are lower than Group materiality. We, as the Group auditor, were responsible for performing the audit of each subsidiary. At the Group level, we also tested the consolidation process.

7.2 Our consideration of the control environment

Our approach in relation to the Group's business cycles

We have tested the controls in connection with our key audit matters for the Group on an annual basis.

We have also tested the controls over the following business cycles for the Group on a rotational basis:

- Mortgage lending; and
- Customer deposits.

For these business cycles we prepared process flow charts and performed walkthroughs to understand the end-to-end process. This allowed us to identify the key controls that mitigate the risk of material misstatement at the assertion level, which were subsequently tested. Key controls, excluding those addressing key audit matters, are tested over a three year rotational cycle.

In year one, we evaluated the design of each key control within the operating cycles to check they were adequate to mitigate the risks of misstatement identified for the balance, that these key controls were implemented correctly within the Group, and tested that the key controls were operating effectively. We tested the operating effectiveness of key controls by selecting a representative sample based on the frequency of the operation of each key control and assessing the effectiveness against supporting evidence.

In years two and three we continue to evaluate the design and implementation of the key controls within the key business cycles. If the conclusions from our year one testing determined the key controls to be operating effectively, we are able to rely on these conclusions and no further operating effectiveness testing is performed on these key controls until after the full three year rotation.

In the current year we performed operating effectiveness testing only where the design and implementation of the key controls had changed in the present year, with our rotational approach allowing us to rely on prior year operating effectiveness conclusions for the customer deposits cycle.

This testing has allowed us to rely on controls within the mortgage lending and customer deposits cycles.

Our approach in relation to the Group's IT systems

The key IT systems related to the business cycles noted above are:

- The core mortgage system;
- The core savings system; and
- The Treasury system.

We planned to rely on the IT controls associated with these systems, and used IT specialists to undertake this work. We assessed the design and implementation of general IT controls and, where we concluded they were designed and implemented effectively, we subsequently tested their operating effectiveness. Operating effectiveness was tested by selecting a representative sample based on the frequency of the operation of the control and assessing the effectiveness against supporting evidence.

We tested key automated controls as identified during our walkthroughs of the business cycles described in the preceding section. Based on the testing performed, we were able to place reliance on controls for these business cycles as originally planned.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, real estate valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan loss provisioning, revenue recongition, and hedge accounting. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Building Societies Act 1986 for the Society and the UK Companies Act 2006 for the subsidiaries.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's regulatory solvency requirements and the regulations set by the Prudential Regulatory Authority relating to regulatory capital and liquidity requirements.

11.2 Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning, the Effective Interest rate, and hedge accounting as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulatory Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- 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 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.

In the light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

- Under the Building Societies Act 1986 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Society; or
- the Society's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

14. Other matters

14.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 24 June 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 March 2015 to 31 March 2020.

14.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

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 and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Williams (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
9 June 2020

GROUP AND SOCIETY INCOME STATEMENTS

For the year ended 31 March 2020

	Notes	**Group 2020 Continuing £000**	**Group 2020 Discontinued £000**	**Goup 2020 Total £000**	Group 2019 Continuing £000	Group 2019 Discontinued £000	Group 2019 Total £000	**Society 2020 £000**	Society 2019 £000
Interest receivable and similar income	3	**66,937**	**-**	**66,937**	65,966	-	65,966	**65,205**	63,927
Interest payable and similar charges	4	**(25,316)**	**-**	**(25,316)**	(25,343)	-	(25,343)	**(25,316)**	(25,343)
Net interest receivable		**41,621**	**-**	**41,621**	40,623	-	40,623	**39,889**	38,584
Fair value losses on financial instruments	6	**(987)**	**-**	**(987)**	(1,842)	-	(1,842)	**(1,008)**	(1,788)
Pension finance charge	25	**(383)**	**-**	**(383)**	(419)	-	(419)	**(383)**	(419)
Fees and commissions receivable		**1,284**	**922**	**2,206**	1,688	1,172	2,860	**1,092**	1,498
Fees and commissions payable		**(2,565)**	**-**	**(2,565)**	(2,474)	-	(2,474)	**(2,242)**	(2,184)
Other operating income		**2,955**	**-**	**2,955**	2,869	-	2,869	**2,948**	2,876
Deferred consideration received on equity share investment	32	**429**	**-**	**429**	-	-	-	**429**	-
Total Income		**42,354**	**922**	**43,276**	40,445	1,172	41,617	**40,725**	38,567
Administrative expenses	7	**(28,555)**	**(1,088)**	**(29,643)**	(23,256)	(1,736)	(24,992)	**(27,715)**	(22,474)
Depreciation, impairment and profit on sale of tangible fixed assets		**(2,285)**	**(59)**	**(2,344)**	(1,975)	(46)	(2,021)	**(2,254)**	(1,944)
Loss on revaluation and disposal of investment properties	17	**(445)**	**-**	**(445)**	(163)	-	(163)	**(385)**	(63)
Provisions for bad and doubtful debts	14	**(1,243)**	**(9)**	**(1,252)**	(59)	(5)	(64)	**(1,095)**	(27)
Provisions for liabilities and charges	23	**(963)**	**-**	**(963)**	(56)	-	(56)	**(963)**	(56)
Write off of amounts owed by and investments in subsidiaries	15	**-**	**-**	**-**	-	-	-	**(150)**	(1,473)
Profit on ordinary activities before tax		**8,863**	**(234)**	**8,629**	14,936	(615)	14,321	**8,163**	12,530
Loss on disposal of operations	5	**-**	**(289)**	**(289)**	-	-	-	**-**	-
Tax on profit	10	**(1,867)**	**88**	**(1,779)**	(2,960)	40	(2,920)	**(1,765)**	(2,854)
Profit for the financial year		**6,996**	**(435)**	**6,561**	11,976	(575)	11,401	**6,398**	9,676

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Notes	**Group 2020 £000**	Group 2019 £000	**Society 2020 £000**	Society 2019 £000
Profit for the financial year		**6,561**	11,401	**6,398**	9,676
Items that may subsequently be reclassified to income and expenditure:					
Available for sale investment securities (loss)/gain	12	**(61)**	68	**(61)**	68
Movement in deferred tax relating to investment securities		**12**	(14)	**12**	(14)
Movement in gain on equity share investment	32	**463**	1,584	**463**	1,584
Movement in deferred tax relating to equity share investment		**(149)**	(269)	**(149)**	(269)
Items that may not subsequently be reclassified to income and expenditure:					
Actuarial gain/(loss) on retirement benefit obligations	25	**2,016**	(1,107)	**2,016**	(1,107)
Movement in deferred tax relating to retirement benefit obligations		**(25)**	188	**(25)**	188
Total comprehensive income for the year		**8,817**	11,851	**8,654**	10,126

The notes on pages 63 to 85 form part of these accounts.

GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2020

Assets	Notes	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Cash in hand and balances with the Bank of England	11	**389,706**	270,023	**389,706**	270,023
Loans and advances to credit institutions	26	**62,250**	128,146	**62,250**	128,146
Debt securities	12	**5,036**	64,182	**5,036**	64,182
		456,992	462,351	**456,992**	462,351
Derivative financial instruments	30	**40**	1,367	**-**	1,358
Loans and advances to customers	13				
Loans fully secured on residential property		**1,979,162**	1,897,225	**1,979,162**	1,897,225
Other loans		**202,634**	189,140	**178,396**	166,215
		2,181,796	2,086,365	**2,157,558**	2,063,440
Investments in subsidiary undertakings	15	**-**	-	**22,615**	21,943
Investment in equity shares	32	**5,960**	5,497	**5,960**	5,497
Tangible fixed assets	16	**12,103**	13,127	**12,030**	12,860
Investment properties	17	**2,175**	3,620	**2,060**	2,445
Other assets	18	**2,699**	3,021	**2,721**	2,973
Prepayments and accrued income		**1,773**	1,456	**1,383**	1,068
Total Assets		**2,663,538**	2,576,804	**2,661,319**	2,573,935
Liabilities					
Shares	20	**2,000,282**	1,933,232	**2,000,282**	1,933,232
Derivative financial instruments	30	**13,391**	3,905	**13,362**	3,886
Amounts owed to credit institutions	26	**298,939**	295,425	**298,939**	295,425
Amounts owed to other customers	26	**137,796**	133,995	**137,926**	134,378
Other liabilities	21	**1,200**	4,360	**2,776**	4,830
Accruals and deferred income	22	**3,131**	2,603	**2,964**	2,466
Provisions for liabilities and charges	23	**906**	229	**906**	229
Pension liability	25	**13,943**	17,922	**13,943**	17,922
Total Liabilities		**2,469,588**	2,391,671	**2,471,098**	2,392,368
Total equity attributable to members		**193,950**	185,133	**190,221**	181,567
Total Equity and Liabilities		**2,663,538**	2,576,804	**2,661,319**	2,573,935

The notes on pages 63 to 85 form part of these accounts.

These accounts were approved by the board of directors on 9 June 2020
J. Hooper, Chairman
A. Johnston, Vice-Chairman and Chair of the Audit Committee
D. Moore, Director and Chief Executive Officer

STATEMENTS OF CHANGES IN MEMBERS' INTEREST

Group	General Reserve £000	Available for Sale Reserve £000	Total Equity Attributable to Members £000
Balance at 1 April 2018	172,049	1,233	173,282
Profit for the year	11,401	-	11,401
Other comprehensive income	(919)	1,369	450
Total comprehensive income for the year	10,482	1,369	11,851
Balance at 31 March 2019	182,531	2,602	185,133
Profit for the year	6,561	-	6,561
Other comprehensive income	1,991	265	2,256
Total comprehensive income for the year	8,552	265	8,817
Balance at 31 March 2020	191,083	2,867	193,950

Society	General Reserve £000	Available for Sale Reserve £000	Total Equity Attributable to Members £000
Balance at 1 April 2018	170,208	1,233	171,441
Profit for the year	9,676	-	9,676
Other comprehensive income	(919)	1,369	450
Total comprehensive income for the year	8,757	1,369	10,126
Balance at 31 March 2019	178,965	2,602	181,567
Profit for the year	6,398	-	6,398
Other comprehensive income	1,991	265	2,256
Total comprehensive income for the year	8,389	265	8,654
Balance at 31 March 2020	187,354	2,867	190,221

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2020

	2020 £000	2019 £000
Cash flows from operating activities		
Profit on ordinary activities before tax	**8,340**	14,321
Adjustments for:		
Loss on disposal of operations	**289**	-
Depreciation and profit on sale of tangible fixed assets	**2,344**	2,021
Loss on revaluation and disposal of investment properties	**445**	163
Changes in fair values of derivatives	**987**	1,842
Provisions for bad and doubtful debts	**1,252**	64
Provisions for liabilities and charges	**677**	56
Pension finance charge and service cost	**383**	703
Other non-cash movements	**10**	(489)
Cash generated from operations	**14,727**	18,681
Movements in operating assets and liabilities		
Loans and advances to customers	**(86,488)**	(32,287)
Shares	**66,777**	108,209
Loans and advances to credit institutions and other liquid assets	**68,890**	(23,175)
Amounts owed to credit institutions and other customers	**7,315**	(63,978)
Prepayments and accrued income	**(232)**	(422)
Other assets	**40**	41
Accruals and deferred income	**362**	159
Other liabilities	**(1,720)**	(1,431)
Pension scheme deficit reduction payment	**(2,346)**	-
Taxation paid	**(3,100)**	(3,844)
Net cash flows from operating activities	**64,225**	1,953
Cash flows from investing activities		
Purchase of debt securities	**(25,000)**	(102,520)
Maturity of debt securities	**84,000**	73,220
Payments to dispose of discontinued operations	**(227)**	-
Purchase of tangible fixed assets	**(1,491)**	(3,168)
Purchase of investment property	**-**	(65)
Sale of tangible fixed assets	**170**	205
Sale of investment property	**1,000**	85
Net cash flows from investing activities	**58,452**	(32,243)
Net increase/(decrease) in cash and cash equivalents	**122,677**	(30,290)
Cash and cash equivalents at beginning of year	**285,728**	316,018
Cash and cash equivalents at end of year	**408,405**	285,728
Represented by:		
Cash and balances with the Bank of England	**389,706**	270,023
Loans and advances to credit institutions repayable on demand	**18,699**	15,705
	408,405	285,728

NOTES TO THE ACCOUNTS

1. Accounting Policies

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

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.

The Society is included in the consolidated annual accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The Society has taken advantage of the exemption from producing a separate Society Cash Flow Statement with related notes.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Society and its subsidiary undertakings for the year ended 31 March 2020. 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 financial statements continue to be prepared on the going concern basis. Further details of the directors' assessment and its basis can be found on pages 18-21.

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 are 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%

Investments in Subsidiary Undertakings

Investments in subsidiaries are measured at cost less accumulated impairment.

If the estimated recoverable amount is lower than carrying amount, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognised immediately in the income statement.

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 statement 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 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 statement 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 statement 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 statement 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 statement in the relevant financial years.

iv) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest 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 statement, 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 statement over the period to maturity.

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

Provisions for Bad and Doubtful Debts

The Group applies the measurement criteria of IAS39. Provisions are made to reduce the value of loans and advances to the directors' best estimate of the amount that 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 if applicable 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 impairment reduction 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. The charge or credit to the income statement comprises the movement in the provisions together with losses written off in the year. The Group's modelling has been updated to incorporate refreshed assumptions from the Group's own historic experience and adjusted for the directors' best estimate of the impact of the pandemic. Further information on the Group's approach is included is notes 14 and 29.

Interest Income and Expense

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. The effective interest rate basis 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. 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.

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

The Group has to make estimates and judgements in applying its accounting policies which affect the amounts recognised in the financial statements. These estimates and judgements are based on the best available information at the balance sheet date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from these estimates. There are no critical accounting judgements.

The Group considers the most significant use of accounting estimates relate to the following areas:

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 statement. 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. At 31 March 2020 the level of judgement and estimation of uncertainty was heightened by the impact of the Covid-19 pandemic. The judgements made in relation to Covid-19 are inherently complex, particularly in light of the fact that, in line with Government and regulatory requests, the Group provided payment holidays to its customers without conducting its usual assessment of a customer's specific circumstances.

Furthermore, the Group's focus on tourism related sectors in the FSOL portfolio, where lending to the hospitality and leisure industry makes up over 75% of the book, requires management to make significant judgements around the future performance of this industry. These judgements are inherently complex at this time given it requires an assessment of the likely speed and extent of the unwinding of lockdown measures, the extent of continuing Government support and the potential impact of longer term structural changes as a result of the pandemic. Certain sectors within this industry may rapidly recover following the unwinding of lockdown measures (for example guesthouses and hotels may benefit from increased levels of domestic tourism) whereas other sectors such as restaurants may become less viable as societal changes impact negatively, although the outlook at this time is uncertain.

The Group incorporated the impact in its modelling by way of adjustment to its expected loss given default (LGD) and probability of default (PD) assumptions for loans subject to forbearance.

If the Group assumed a further increase in LGD of 10% or of 15% across its book for loans subject to collective impairment, holding all other assumptions constant, the following increase in provision would be seen resulting in an income statement charge:

Impact of increase in LGD	10%	15%
	£000	£000
FSOL	430	597
FSRP	283	424
Borderway Finance	14	20
Total	727	1,041

If the Group assumed an increase in PD of 10% or of 15% across its book for loans subject to collective impairment, holding all other assumptions constant, the following increase in provision would be seen resulting in an income statement charge:

Impact of increase in PD	10%	15%
	£000	£000
FSOL	90	135
FSRP	260	369
Borderway Finance	1	1
Total	351	505

Investment Properties

The Group holds £2,175,000 of investment properties at the balance sheet date, having recognised an impairment of £445,000 based on valuations carried out in March by an independent valuer. The valuations of investment properties are inherently estimates, as they are based on factors such as expected future rental yield and sales value. At 31 March 2020, the assumptions used were based on market conditions and recent transactions prior to that point, incorporating the rental agreements with the Group's existing tenants. In mid-March 2020, the UK was locked down as a result of the Coronavirus and this has created a greater level of inherent uncertainty which may impact on the future rental and realisation values of properties, for example by reducing rental rates or the value counterparties place on the Group's assets. If rents fall by 5% and yields similarly rise, the value of the Group's property could, absent other factors, reduce by an amount in the region of £400,000.

Fair Value of Derivatives

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.

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 25 to the Accounts.

3. Interest Receivable and Similar Income	**Group 2020 £000**	Group 2019 £000	**Society 2020 £000**	Society 2019 £000
On loans fully secured on residential property	**55,962**	56,555	**55,892**	56,216
On other loans	**9,465**	9,223	**7,773**	7,512
On debt securities				
Interest and other income	**289**	458	**289**	458
On other liquid assets				
Interest and other income	**3,306**	2,529	**3,306**	2,529
Net expense on derivative financial instruments	**(2,085)**	(2,799)	**(2,055)**	(2,788)
Total interest receivable	**66,937**	65,966	**65,205**	63,927

All income is derived from operations within the UK.

4. Interest Payable and Similar Charges				
On shares held by individuals	**22,037**	22,036	**22,037**	22,036
On deposits and other borrowings	**3,421**	3,338	**3,421**	3,338
Net income on derivative financial instruments	**(142)**	(31)	**(142)**	(31)
Total interest payable	**25,316**	25,343	**25,316**	25,343

5. Discontinued Operations

As part of the Group's strategy to simplify its operations, the Group sold the trade and operational assets of Cumberland Estate Agents Limited by way of management buyout to Graeme MacLeod Property Ltd, which became part of the Hunter Franchise. The sale occurred on 5th November 2019 and 51 employees joined the new business. During the year the operation of Cumberland Estate Agents Limited contributed pre-tax losses of £234,000 (2019: £615,000 loss). The carrying amount of the assets at the date of disposal was £12,000. A loss on disposal of £289,000 which incorporated payments by the Society supporting the set up of the business and its initial post sale trading period was recognised in the income statement. The statutory results of Cumberland Estate Agents Limited incorporate commission received from the Society for introduction of mortgage customers. The revenue is eliminated on consolidation in the results of the Group prior to disposal.

6. Fair Value (Losses)/Gains on Financial Instruments				
Change in fair value derivatives in designated fair value hedge accounting relationships	**(10,834)**	(6,373)	**(10,834)**	(6,373)
Change in fair value derivatives not in designated fair value hedge accounting relationships	**21**	(54)	**-**	-
Adjustment to hedged items in designated fair value hedge accounting relationships	**9,826**	4,585	**9,826**	4,585
	(987)	(1,842)	**(1,008)**	(1,788)

The Group only use derivatives to manage interest rate risk. Accordingly 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. During the year the Group ceased the purchase of LIBOR derivatives and all new hedges are with SONIA derivatives.

7. Administrative Expenses				
Staff costs (note 8)	**17,699**	15,517	**16,430**	13,787
The analysis of the auditor's remuneration is as follows:				
Fees payable to the Group's auditor for the audit of the annual accounts	**123**	90	**99**	70
Other Services:				
Other assurance services	**-**	41	**-**	41
Other expenses	**11,821**	9,344	**11,186**	8,576
	29,643	24,992	**27,715**	22,474

Group and Society other administrative expenses include £2,380,000 (2019 - £846,000) relating to strategic change.

8. Staff Numbers and Costs

The average number of persons employed during the year (including executive directors) was as follows:

	Full time 2020	Full time 2019	Part time 2020	Part time 2019
Society's principal office	**195**	183	**70**	72
Society's branches	**108**	118	**103**	106
Subsidiaries	**27**	42	**11**	16
	330	343	**184**	194

The aggregate costs of these persons were as follows:	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Wages and salaries	**15,302**	13,294	**14,208**	11,801
Social security costs	**1,352**	1,103	**1,247**	961
Other pension costs (note 25)	**1,045**	1,120	**975**	1,025
	17,699	15,517	**16,430**	13,787

The Society 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 9.

9. Directors' Remuneration

	2020 £000	2019 £000
Total directors' remuneration	**946**	961
Non-executive directors' remuneration		
John Hooper (appointed as Chairman 16 July 2019)	**63**	45
Trevor Hebdon (resigned 16 July 2019)	**22**	67
Alan Johnston (Chair of the Audit Committee and Vice-Chairman)	**53**	50
Eric Gunn (Chair of the Board Risk Committee)	**46**	41
Jackie Arnold (Chair of the People, Remuneration and Culture Committee)	**44**	38
Michael Hulme	**47**	44
Mark Stanger (appointed 1 June 2018)	**44**	32
Gill Gardner (resigned 2 July 2018)	**-**	11
	319	328

Trevor Hebdon was the Society's Chairman until his resignation.

Executive directors' remuneration **2020**	Salary £000	Bonus £000	Pension Contributions £000	Pension Replacement Amounts £000	Other Allowances £000	Total £000
Des Moore	**258**	**52**	**-**	**36**	**12**	**358**
Richard Ellison (appointed 22 May 2019)	**194**	**39**	**26**	**-**	**10**	**269**
	452	**91**	**26**	**36**	**22**	**627**

Richard Ellison was employed as Chief Financial Officer on 29 April 2019 and joined the board on 22 May 2019 after receipt of regulatory approval. The remuneration figures are stated from the date of his appointment to the board.

2019						
Des Moore (appointed 1 April 2018)	250	50	-	35	12	347
Peter Temple (resigned 22 June 2018)	37	-	5	-	7	49
John Kidd (resigned 11 December 2018)	116	-	8	9	7	140
Chris McDonald (resigned 30 April 2018)	14	-	2	-	1	17
	417	50	15	44	27	553

Mr. Temple received £55,000 in compensation for loss of office in respect of his resignation from the board and Society on 22 June 2018. Mr. McDonald received £55,000 in compensation for loss of office in respect of his resignation from the board and the Society on 30 April 2018 (of this amount £30,000 had been provided in the 2018 financial statements).

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.

10. Taxation

	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
(a) Analysis of charge in year:				
Current tax				
Corporation tax at 19%	**1,643**	2,891	**1,642**	2,821
Under/(over) provision of corporation tax in prior years	**16**	11	**18**	(1)
Total current tax	**1,659**	2,902	**1,660**	2,820
Deferred tax at 19%				
Origination and reversal of timing differences (note 19)	**120**	18	**105**	34
Tax on profit on ordinary activities	**1,779**	2,920	**1,765**	2,854
Total deferred tax relating to items of other comprehensive income	**162**	95	**162**	95

(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:

Profit on ordinary activities before tax less loss on disposal of operations	**8,340**	14,321	**8,163**	12,530
Tax on profit on ordinary activities at UK standard rate of 19%	**1,585**	2,721	**1,551**	2,381
Effects of:				
Expenses not deductible for tax purposes	**178**	188	**196**	474
Under/(over) provision of corporation tax in prior years	**16**	11	**18**	(1)
Total tax charge for year	**1,779**	2,920	**1,765**	2,854

Finance Acts in 2015 and 2016 provided for a reduction in the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and by a further 2% to 17% from 1 April 2020. Accordingly, both of these rate reductions were reflected in the financial statements for the year ended 31 March 2019 and deferred tax assets were valued at 17%. During the year ended 31 March 2020 the Government announced that it had reversed its decision to reduce the UK corporation tax rate to 17% from 1 April 2020 and has legislated to this effect. Accordingly the deferred tax assets at 31 March 2020 are valued at a rate of 19%.

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

Cash in hand	**14,476**	3,340	**14,476**	3,340
Balances with the Bank of England	**375,230**	266,683	**375,230**	266,683
Included in cash and cash equivalents	**389,706**	270,023	**389,706**	270,023

Balances with the Bank of England do not include cash ratio deposits of £4.28 million (2019 - £3.73 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 2020 £000	Group 2019 £000
Cash in hand and balances with the Bank of England (as above)	**389,706**	270,023
Loans and advances to credit institutions	**18,699**	15,705
	408,405	285,728

12. Debt Securities	Group and Society 2020 £000	2019 £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	**5,000**	64,000
Accrued interest	**28**	113
Fair value adjustment	**8**	69
	5,036	64,182

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:

	2020 £000	2019 £000
At 1 April	**64,182**	34,900
Additions	**25,000**	102,520
Maturities	**(84,000)**	(73,220)
(Losses)/gains from changes in fair value	**(61)**	68
Decrease in accrued interest	**(85)**	(86)
At 31 March	**5,036**	64,182

In addition, at 31 March 2019 the Society had drawn £70 million of Treasury Bills under the Bank of England's Funding for Lending Scheme, £70 million was held off balance sheet. All FLS funding was repaid during the year ended 31 March 2020.

13. Loans and Advances to Customers	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Loans and advances to customers comprise:				
Loans fully secured on residential property before EIR adjustment	**1,969,528**	1,898,274	**1,969,528**	1,898,274
Effective interest rate adjustment	**(2,040)**	(2,666)	**(2,040)**	(2,666)
Loans fully secured on residential property	**1,967,488**	1,895,608	**1,967,488**	1,895,608
Other loans				
Loans fully secured on land	**179,331**	165,902	**179,331**	165,902
Other loans	**25,684**	24,505	**1,315**	1,563
Fair value adjustment for hedge risk	**12,238**	2,139	**12,238**	2,139
	2,184,741	2,088,154	**2,160,372**	2,065,212
Less: Provisions for bad and doubtful debts (note 14)	**(2,945)**	(1,789)	**(2,814)**	(1,772)
	2,181,796	2,086,365	**2,157,558**	2,063,440

Other loans include £1.315 million (2019 - £1.563 million) of overdraft lending to the Society's current account customers. Other loans of the Group also include £24.369 million (2019 - £22.942 million) of loans and advances to customers of Borderway Finance Limited.

As at 31 March 2020 £472.5 million (2019 - £559.5 million) of loans fully secured on residential property had been pledged as collateral to the Bank of England under the Term Funding Scheme (2019 - Term Funding Scheme and Funding for Lending Scheme).

The effective interest rate adjustment of £2.040 million (2019 - £2.666 million) represents fees earned and incurred as a result of bringing mortgages onto the balance sheet. These fees and charges are amortised over the effective lives of the related loans.

14. Provisions for Bad and Doubtful Debts	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Society 2020 Total £000
At 1 April 2019				
Collective impairment	480	1,096	40	1,616
Individual impairment	42	80	34	156
	522	1,176	74	1,772
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	45	(197)	20	(132)
Individual impairment	44	1,177	6	1,227
	89	980	26	1,095
Amount written off during the year				
Individual impairment	(47)	6	(12)	(53)
At 31 March 2020				
Collective impairment	525	899	60	1,484
Individual impairment	39	1,263	28	1,330
	564	2,162	88	2,814

Group provisions for bad and doubtful debts
The table above relates to the Society. Borderway Finance Limited had individual impairment provisions of £22,000 and £109,000 of collective provisions at 31 March 2020, and a charge in the year of £148,000. Cumberland Estate Agents Limited had a charge in the year of £9,000.

During the year ended 31 March 2020 the Group recalibrated its models based on its recent loss and default experience. This would have resulted in significant releases in its collective provision for loans secured on residential property and loans secured on land, reflecting the Group's well secured approach to lending. At 29 February 2020 there was no significant deterioration in any of the Group's portfolio, excepting the single significant connection discussed on page 12. In late February 2020 the first signs of the global pandemic impacting the UK occurred and by 31 March the UK was in lock down and substantial levels of forbearance had been offered by the Group on its FSRP and FSOL portfolio. The Group has accounted for this increase in forbearance based on its recalibrated models. The levels of forbearance offered on the Group's portfolio at 29 February 2020 and 31 March 2020 are disclosed on page 12 and for 31 March 2020 in note 29.

	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Society 2019 Total £000
At 1 April 2018				
Collective impairment	371	1,230	40	1,641
Individual impairment	180	349	36	565
	551	1,579	76	2,206
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	109	(134)	-	(25)
Individual impairment	(42)	88	6	52
	67	(46)	6	27
Amount written off during the year				
Individual impairment	(96)	(357)	(8)	(461)
At 31 March 2019				
Collective impairment	480	1,096	40	1,616
Individual impairment	42	80	34	156
	522	1,176	74	1,772

Group provisions for bad and doubtful debts
The table above relates to the Society. Borderway Finance Limited had individual impairment provisions of £17,000 at 31 March 2019, and a charge in the year of £32,000. Cumberland Estate Agents Limited had a charge in the year of £5,000.

15. Investments in Subsidiary Undertakings

	Shares £000	Loans £000	Society Total £000
Cost less impairment at 1 April 2019	870	21,073	21,943
Advances	-	740	740
Write off of amounts owed by subsidiaries	-	(68)	(68)
Cost less impairment at 31 March 2020	870	21,745	22,615
Cost at 1 April 2018	1,890	20,683	22,573
Advances	-	660	660
Write off of amounts owed by subsidiaries	-	(270)	(270)
Impairment loss	(1,020)	-	(1,020)
Cost less impairment at 31 March 2019	870	21,073	21,943

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%.

	Company Number	Principal Activity
Direct		
Cumberland Holdings Limited	02332404	Holding Company
Indirect		
Borderway Finance Limited	03048466	Motor Vehicle Finance
Cumberland Estate Agents Limited	02348222	Estate Agents
Cumberland Financial Services Limited	02564425	Independent Financial Adviser
Cumberland Homes Limited	02332657	Development Company
Cumberland Property Services Limited	02564021	Property Company
Cumberland Financial Planning Limited	02564416	Dormant

Five dormant subsidiary companies of Cumberland Holdings Limited were dissolved in the year. Cumberland Building Society Insurance Limited, Cumberland Leasing Limited, Cumberland Conveyancing Services Limited, Cumberland Insurance Services Limited and Solway Mortgage Solutions Limited were all dissolved on 17 March 2020. The dissolution of these subsidiaries had no impact on the financial statements of Cumberland Building Society or Cumberland Holdings Limited.

As explained in note 5, the Group sold the trade and operational assets of Cumberland Estate Agents Limited on 5 November 2019 and since that date its only activity has been in relation to the provision of transitional services which are scheduled to cease by November 2020. As part of the business disposal. it was confirmed that the recoverable amount of Cumberland Holdings Limited's investment in Cumberland Estate Agents Limited was £nil (2019 £nil). The Society's investment in Cumberland Holdings Limited was reduced to reflect this in 2019. An intercompany balance of £82,000 (2019 - £183,000), held within other debtors and owed by Cumberland Estate Agents Limited to the Society was written off at 31 March 2020.

An intercompany balance of £68,000 (2019 - £270,000) owed by Cumberland Homes Limited to the Society was written off at 31 March 2020, reflecting the difference between its realisable assets and the carrying value of the Society's ultimate investment.

The loans principally relate to the Society's operational funding of Borderway Finance Limited, the Group's vehicle finance subsidiary.

16. Tangible Fixed Assets (Group)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2019	17,292	13,083	30,375
Additions	238	1,253	1,491
Disposals	(1,880)	(669)	(2,549)
At 31 March 2020	15,650	13,667	29,317
Depreciation			
At 1 April 2019	9,193	8,055	17,248
Charge for year	272	1,815	2,087
Impairment	275	-	275
Disposals	(1,852)	(544)	(2,396)
At 31 March 2020	7,888	9,326	17,214
Net book value			
At 31 March 2020	7,762	4,341	12,103
At 31 March 2019	8,099	5,028	13,127

Tangible Fixed Assets (Society)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2019	16,924	12,901	29,825
Additions	236	1,263	1,499
Disposals	(1,871)	(323)	(2,194)
At 31 March 2020	15,289	13,841	29,130
Depreciation			
At 1 April 2019	8,826	8,139	16,965
Charge for year	270	1,736	2,006
Impairment	275	-	275
Disposals	(1,844)	(302)	(2,146)
At 31 March 2020	7,527	9,573	17,100
Net book value			
At 31 March 2020	7,762	4,268	12,030
At 31 March 2019	8,098	4,762	12,860

The net book value of land and buildings occupied by the Group for its own activities at 31 March 2020 was £7,576,000 (Society £7,576,000) (2019 - Group £7,908,000, Society £7,907,000). During the year the Group recognised an impairment of £275,000 on its branch property attached to its former head office location.

17. Investment Properties	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
At 1 April	**3,620**	3,803	**2,445**	2,528
Additions	**-**	65	**-**	65
Disposals	**(1,000)**	(90)	**-**	(90)
Revaluation	**(445)**	(158)	**(385)**	(58)
At 31 March	**2,175**	3,620	**2,060**	2,445

Valuations of all investment properties were carried out on an open market value basis by an independent valuer, C Smith BSc MRICS of Carigiet Cowen, as at 31 March 2020. The basis of The Group's valuation is discussed further in note 2.

The Group's investment property portfolio consists of properties formerly used by the Group including its historic head office, properties linked to its branch network and those acquired by former management for potential development. The Group is progressively reducing its property exposure where this is unsuited to its core operations. This work is nearing completion and Group properties valued at £115,000 are currently in advanced stages of sale and are expected to be disposed of next financial year.

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

Cost	**3,359**	4,527	**2,969**	3,315
Depreciation	**(1,394)**	(1,767)	**(1,394)**	(1,691)
	1,965	2,760	**1,575**	1,624

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

	Group and Society 2020 £000	Group and Society 2019 £000
Within one year	**150**	147
In the second to fifth years inclusive	**303**	247
After five years	**24**	15
	477	409

The Group is additionally contractually obliged to carry out annual repairs and maintenance in respect of investment properties, which in the year ended 31 March 2020 amounted to £30,000 (2019 - £42,000).

18. Other Assets	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Deferred taxation asset (note 19)	**2,659**	2,941	**2,646**	2,913
Other	**40**	80	**75**	60
	2,699	3,021	**2,721**	2,973

19. Deferred Taxation				
At 1 April	**2,941**	3,054	**2,913**	3,042
Charge to the income and expenditure account (note 10)	**(120)**	(18)	**(105)**	(34)
Charge to other comprehensive income	**(162)**	(95)	**(162)**	(95)
At 31 March	**2,659**	2,941	**2,646**	2,913
Deferred tax assets and liabilities are attributable to the following items:				
Difference between accumulated depreciation and amortisation and capital allowances	**144**	208	**136**	185
Deficit reduction contributions	**334**	-	**334**	-
Pension scheme	**2,649**	3,045	**2,649**	3,045
Investment in equity shares	**(671)**	(522)	**(671)**	(522)
Debt securities	**(2)**	(13)	**(2)**	(13)
Differences arising from transition to FRS 102	**205**	223	**200**	218
	2,659	2,941	**2,646**	2,913

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.

20. Shares	Group and Society 2020 £000	Group and Society 2019 £000
Held by individuals	**1,999,864**	1,933,087
Other	**7**	7
Fair value adjustment for hedged risk	**411**	138
	2,000,282	1,933,232

21. Other Liabilities	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Other liabilities falling due within one year:				
Corporation tax	**(285)**	1,155	**(287)**	1,088
Income tax	**1**	2	**1**	2
Other creditors	**1,484**	3,203	**3,062**	3,740
	1,200	4,360	**2,776**	4,830

22. Accruals and Deferred Income	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Administrative and operating costs	**2,795**	2,433	**2,628**	2,296
Interest relating to derivative financial instruments	**336**	170	**336**	170
	3,131	2,603	**2,964**	2,466

The prior year amounts have been adjusted to conform to the current year's presentation by including MPPI provisions in note 23.

23. Provisions for Liabilities and Charges	Group and Society FSCS £000	MPPI £000	KYC £000	Total £000
At 1 April 2019	138	91	-	**229**
Charged/(credited) to income and expenditure account	(138)	251	850	**963**
Utilised	-	(284)	(2)	**(286)**
At 31 March 2020	-	58	848	**906**

Financial Services Compensation Scheme
The Group held provisions for the additional levies of the FSCS which were charged to support its historical actions arising from the global financial crisis. During the year ended 31 March 2020 the scheme confirmed that it would make no further levies for this matter. Accordingly the Group released its remaining provisions. The annual levy of the scheme is included in administrative expenses.

Past sale of payment protection insurances in connection with mortgages (MPPI)
The provision was established in response to claims in relation to historic sales of mortgage payment protection insurance. A provision of £91,000 was brought forward at 1 April 2019. In response to an increase in claim activity in the period prior to the FCA deadline an additional £251,000 was provided. The Group has processed all claims received and made offers of settlement to all eligible customers. The residual provision of £58,000 represents the best estimate of offers yet to be accepted and related costs.

Historic KYC deficiencies
During the year a provison of £850,000 was established for the estimated cost of remediating historic KYC deficiences in the Society's business current account portfolio. At 31 March 2020 £848,000 remained.

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

	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Contracted but not provided for	**454**	187	**454**	187
(c) Memorandum items				
Irrevocable mortgage commitments	**10,027**	10,358	**10,027**	10,358

The Group also has undrawn customer overdraft facilities of £8,500,000 at 31 March 2020.

25. 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 the income statement as part of administrative expenses in the year ended 31 March 2020 was £1,010,000 (2019 - £763,000).

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 2020 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 2020.

The most recent full actuarial valuation was as at 26 August 2018 and showed a deficit of £6,478,000.

In respect of the deficit in the Plan, the Society agreed to make annual payments of £2,346,000 for the next three years. The first of these payments was made in August 2019.

Key assumptions used:		**Valuation at**
	2020 %	2019 %
Rate of increase in pensions in payment	**1.95 - 2.50**	2.30 - 3.10
Discount rate	**2.20**	2.30
Inflation assumptions - RPI	**2.50**	3.20
- CPI	**1.60**	2.20

Mortality assumptions:

Post-retirement mortality is based on 95% of the 2019 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:	**2020**	2019
Retiring today:		
Males	**86.6**	86.6
Females	**88.8**	88.6
Retiring in 20 years:		
Males	**88.0**	88.0
Females	**90.4**	90.2

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 in respect of payments under the Scheme's recovery plan and in 2019 the augmentations which resulted in the service cost charges.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:	**2020 £000**	2019 £000
Present value of defined benefit obligations	**(69,375)**	(71,292)
Fair value of scheme assets	**55,432**	53,370
Liability recognised in the balance sheet	**(13,943)**	(17,922)
Movements in the present value of defined benefit obligations were as follows:		
At 1 April	**71,292**	72,116
Interest cost	**1,625**	1,819
Service cost	**-**	284
Benefits paid	**(1,312)**	(4,323)
Actuarial (gain)/loss	**(2,230)**	1,396
At 31 March	**69,375**	71,292

Movements in the fair value of scheme assets were as follows:		
At 1 April	**53,370**	56,004
Actuarial (loss)/gain	**(214)**	289
Expected return on assets	**1,242**	1,400
Contributions from employers	**2,521**	153
Benefits paid	**(1,312)**	(4,323)
Expenses paid	**(175)**	(153)
At 31 March	**55,432**	53,370
The analysis of the scheme assets at the balance sheet date was as follows:		
Growth assets	**31,097**	38,106
Diversified credit	**8,189**	4,995
Liability driven investments (LDI)	**14,044**	8,202
Cash	**397**	243
Other assets	**1,705**	1,824
	55,432	53,370

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.

In January 2020 as a result of growth in the value of its investments the scheme reached a de-risking point in its journey plan. It sold a proportion of its growth assets and invested in an increased level of credit and LDI investments. The change is reflected in the scheme assets analysis at 31 March 2020.

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

a) Administrative expenses

Service cost	**-**	284

The service cost in 2020 includes £nil (2019 - £180,000) in respect of Guaranteed Minimum Pension (GMP) equalisation. Other service costs in the prior year arose as a result of an augmentation of the retirement benefits of two former executive directors, Mr. Parr and Mr. Kidd.

The operating charge of £nil (2019 - £284,000), plus the Group's contributions to the defined contribution schemes of £1,010,000 (2019 - £763,000) and life assurance premiums of £35,000 (2019 - £73,000), comprise the Group's other pension costs total of £1,045,000 (2019 - £1,120,000) shown in note 8.

The Society also paid administrative expenses of the scheme totalling £175,000 (2019 - £153,000). This cost is included within administrative expenses shown in note 7.

b) Pension finance charge

Expected return on pension scheme assets	**1,242**	1,400
Interest on pension scheme liabilities	**(1,625)**	(1,819)
Net charge	**(383)**	(419)
c) Statement of Comprehensive Income		
Actual return less expected return on pension scheme assets	**(214)**	289
Actuarial gain/(loss) on defined benefit obligation	**2,230**	(1,396)
Actuarial gain/(loss)	**2,016**	(1,107)
Movement in deferred taxation relating to pension scheme	**(25)**	188
Actuarial gain/(loss) recognised in the Statement of Comprehensive Income	**1,991**	(919)

d) Movement in the deficit in the scheme during the year	**2020 £000**	2019 £000
Deficit in scheme at beginning of year	**(17,922)**	(16,112)
Movement in year:		
Service cost	**-**	(284)
Contributions net of expenses paid	**2,346**	-
Pension finance charge	**(383)**	(419)
Actuarial gain/(loss)	**2,016**	(1,107)
Deficit in scheme at end of year	**(13,943)**	(17,922)

History of experience gains and losses	**2020**	2019	2018	2017	2016
Actual return less expected return on pension scheme assets (£000)	**(214)**	289	(598)	3,362	(3,976)
Percentage of opening scheme assets	**0.4**	0.5	1.1	6.5	7.7
Actuarial (loss)/gain on defined benefit obligation (£000)	**2,230**	(1,396)	4,185	(13,458)	932
Percentage of opening scheme liabilities	**3.1**	1.9	5.5	22.0	1.5

Note: all figures in the table above are on the FRS 102 basis.

26. 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 controlling the operations of the business.

It is Group policy to ensure that sufficient liquid assets are available at all times 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 Group's 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 tool used to control liquidity.

The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows but with due regard given to the Group's ability to access contingent funding from the Bank of England, for which the Group maintains a pool of prepositioned but unencumbered assets.

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.

At 31 March 2020:	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
Swap contracts	(915)	(1,303)	(2,201)	(8,622)
At 31 March 2019:				
Swap contracts	(522)	(720)	(805)	(4,248)

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.

At 31 March 2020:	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	Derivative fair value and non interest bearing £000	Total £000
Assets							
Cash in hand and balances with the Bank of England	389,700	-	-	-	-	6	389,706
Loans and advances to credit institutions	18,699	27,781	2,000	13,680	-	90	62,250
Debt securities	-	-	5,000	-	-	36	5,036
Derivative financial instruments	-	-	-	-	-	40	40
Loans and advances to customers							
Loans fully secured on residential property and land	10,919	20,659	68,658	394,831	1,653,792	7,472	2,156,331
Other loans	1,315	147	1,357	22,865	-	(219)	25,465
Liabilities							
Shares	1,368,898	371,391	185,061	71,699		3,233	2,000,282
Derivative financial instruments	-	-	-	-	-	13,391	13,391
Amounts owed to credit institutions	-	13,000	55,500	230,000	-	439	298,939
Amounts owed to other customers	74,375	40,998	21,570	650	-	203	137,796
At 31 March 2019:							
Assets							
Cash in hand and balances with the Bank of England	269,965	-	-	-	-	58	270,023
Loans and advances to credit institutions	15,705	43,932	65,500	2,730	-	279	128,146
Debt securities	-	64,000	-	-	-	182	64,182
Derivative financial instruments	-	-	-	-	-	1,367	1,367
Loans and advances to customers							
Loans fully secured on residential property and land	1,791	19,699	60,558	387,408	1,594,720	(2,225)	2,061,951
Other loans	1,563	106	1,214	21,622	-	(91)	24,414
Liabilities							
Shares	1,432,368	224,158	219,835	53,053	-	3,818	1,933,232
Derivative financial instruments	-	-	-	-	-	3,905	3,905
Amounts owed to credit institutions	-	1,000	4,000	290,000	-	425	295,425
Amounts owed to other customers	81,899	34,451	17,080	397	-	168	133,995

Included within Other loans are balances of £24,369,000 (2019 - £22,942,000) relating to loans and advances to customers of Borderway Finance Limited.

27. 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 and the matching of naturally offsetting instruments. There has been no change to the way that interest rate risk is managed during the year.

The Group only uses derivatives for risk management purposes, principally the management of interest rate risk, and does not run a trading book. 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 and fair value of the derivatives have been included in a separate column.

At 31 March 2020:	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	Derivative fair value and non interest bearing £000	Total £000
Assets						
Liquid assets	449,860	7,000	-	-	132	456,992
Derivative financial instruments	-	-	-	-	40	40
Loans and advances to customers	1,004,281	55,526	129,089	985,428	7,472	2,181,796
Tangible fixed assets	-	-	-	-	12,103	12,103
Other assets	-	-	-	-	12,607	12,607
Total assets	1,454,141	62,526	129,089	985,428	32,354	2,663,538
Liabilities						
Shares	1,845,025	34,234	55,043	62,642	3,338	2,000,282
Derivative financial instruments	-	-	-	-	13,391	13,391
Amounts owed to credit institutions and other customers	367,867	67,488	527	316	537	436,735
Other liabilities, pension liability, accruals and deferred income	-	-	-	-	19,180	19,180
Reserves	-	-	-	-	193,950	193,950
Total liabilities	2,212,892	101,722	55,570	62,958	230,396	2,663,538
Net assets / (liabilities)	(758,751)	(39,196)	73,519	922,470	(198,042)	-
Derivative instruments	1,218,850	(57,950)	(122,700)	(1,038,200)	-	-
Interest rate sensitivity gap	460,099	(97,146)	(49,181)	(115,730)	(198,042)	-
Cumulative gap	460,099	362,953	313,772	198,042	-	-
At 31 March 2019:						
Assets						
Liquid assets	371,330	83,500	7,000	-	521	462,351
Derivative financial instruments	-	-	-	-	1,367	1,367
Loans and advances to customers	1,100,568	86,873	146,543	754,697	(2,316)	2,086,365
Tangible fixed assets	-	-	-	-	13,127	13,127
Other assets	-	-	-	-	13,594	13,594
Total assets	1,471,898	170,373	153,543	754,697	26,293	2,576,804
Liabilities						
Shares	1,773,635	47,683	54,877	53,111	3,926	1,933,232
Derivative financial instruments	-	-	-	-	3,905	3,905
Amounts owed to credit institutions and other customers	416,016	12,148	476	320	460	429,420
Other liabilities, pension liability, accruals and deferred income	-	-	-	-	25,114	25,114
Reserves	-	-	-	-	185,133	185,133
Total liabilities	2,189,651	59,831	55,353	53,431	218,538	2,576,804
Net assets/(liabilities)	(717,753)	110,542	98,190	701,266	(192,245)	-
Derivative instruments	886,050	(63,650)	(69,350)	(753,050)	-	-
Interest rate sensitivity gap	168,297	46,892	28,840	(51,784)	(192,245)	-
Cumulative gap	168,297	215,189	244,029	192,245	-	-

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 profit and equity reserves.

	Group and Society +200bps 2020 £000	Group and Society +200bps 2019 £000	**Group and Society -200bps 2020 £000**	Group and Society -200bps 2019 £000
Impact on equity reserves	3,276	940	**(3,276)**	(940)

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.

28. Wholesale Credit Risk

The Society holds various liquid investments, including central bank deposits, in order to satisfy operational demand, earn interest and to meet current and future liquidity 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 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 2020 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. 97% (2019 - 70%) 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 2020:

	Group and Society	
	2020 %	2019 %
Aa3-A3	**7**	11
Sovereign exposure to the UK	**90**	59
Other	**3**	30
	100	100

All wholesale exposures are to UK financial institutions. The largest exposure to a single institution other than the UK Government was £30.7 million (2019 - £46.2 million).

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

	Group 2020 £000	Group 2019 £000	**Society 2020 £000**	Society 2019 £000
Cash in hand and balances with the Bank of England	**389,706**	270,023	**389,706**	270,023
Loans and advances to credit institutions	**62,250**	128,146	**62,250**	128,146
Debt securities	**5,036**	64,182	**5,036**	64,182
Total wholesale credit risk	**456,992**	462,351	**456,992**	462,351

Credit risk also arises from the Group's derivatives. 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 IDSA 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. At 31 March 2020 the Group had no open repurchase transactions.

29. 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**	
	2020 £000	2019 £000
Loans fully secured on residential property	**1,969,528**	1,898,274
Loans fully secured on land	**179,331**	165,902
Other loans	**25,684**	24,505
Total gross exposure (contractual amounts)	**2,174,543**	2,088,681
Impairment and hedging adjustments	**9,293**	350
EIR adjustment	**(2,040)**	(2,666)
Total net exposure	**2,181,796**	2,086,365

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 closely monitors 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	**2020 %**	2019 %
North West	**55**	56
Scotland	**11**	11
London	**7**	8
South East	**8**	8
South West	**8**	8
Yorkshire and Humberside	**3**	2
East of England	**2**	2
North East	**2**	2
West Midlands	**1**	1
East Midlands	**1**	1
Wales	**2**	1
	100	100

Loan to value distribution:

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

<70%	**75**	77
70%-80%	**14**	12
80%-90%	**10**	10
>90%	**1**	1
	100	100

The overall indexed loan to value of the residential portfolio is 45% (2019 - 44%).

	Group and Society		Group and Society	
Payment due status	**2020 £000**	**2020 %**	2019 £000	2019 %
Not impaired:				
Neither past due nor impaired	**1,942,399**	**99**	1,884,549	99
Past due up to 3 months but not impaired	**24,880**	**1**	11,463	1
Impaired:				
Past due 3 to 6 months	**1,416**	**-**	1,121	-
Past due 6 to 12 months	**181**	**-**	398	-
Past due more than 12 months	**652**	**-**	743	-
Possessions	**-**	**-**	-	-
	1,969,528	**100**	1,898,274	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.

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. In March 2020, the UK entered lockdown as a result of the coronavirus pandemic. The Government asked the Group and other financial service providers to provide payment holidays to its mortgage customers and a series of other measures for those customers with other forms of loans. The primary forbearance offered was a 3 month mortgage holiday and in line with Government and regulatory requests the Group provided this to all customers who requested it, without conducting its usual assessment of a customer's specific circumstances. As a result, the impact of forbearance offered as part of Covid-19 may not be directly comparable in credit risk impact to that provided historically, reflecting both the impact of other Government grants and support and the temporary nature of the arrangement. No loans granted payment holidays in March 2020 are treated as impaired at the balance sheet date. The Group had no customers with payment holidays prior to the Covid-19 pandemic.

At 31 March 2020:	Payment holiday £000	Interest only concession £000	Arrears capitalised £000	Transfer to interest only £000	Total forbearance £000
Neither past due nor impaired	185,190	1,110	282	2,086	188,668
Past due up to 3 months	-	624	-	-	624
Past due more than 3 months	-	421	-	-	421
Total loans and advances	185,190	2,155	282	2,086	189,713
At 31 March 2019:					
Neither past due nor impaired	-	1,748	161	-	1,909
Past due up to 3 months	-	428	113	-	541
Past due more than 3 months	-	777	-	-	777
Total loans and advances	-	2,953	274	-	3,227

The prior year comparatives have been conformed to the current year presentation.

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 and reflecting the Group's focus on tourism related sectors, the impact of Covid-19 on customer cash flows is likely to be greater. Loans fully secured on land are split by industry type as follows:

	Group and Society	
Industry type	**2020 %**	2019 %
Leisure and hotel	**78**	75
Commercial investment and industrial units	**14**	18
Retail	**2**	2
Others, including mixed use	**6**	5
	100	100
Unindexed loan to value distribution		
<70%	**93**	94
70%-80%	**4**	3
80%-90%	**2**	1
>90%	**1**	2
	100	100

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

	Group and Society		Group and Society	
Payment due status	**2020 £000**	**2020 %**	2019 £000	2019 %
Not impaired:				
Neither past due nor impaired	**165,852**	**92**	163,066	98
Past due up to 3 months but not impaired	**2,177**	**1**	1,465	1
Impaired:				
Past due 3 to 6 months	**926**	**1**	950	1
Past due 6 to 12 months	**10,376**	**6**	348	-
Past due more than 12 months	**-**	**-**	73	-
	179,331	**100**	165,902	100

NOTES TO THE ACCOUNTS

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses. £10.4m of loans past due 6 to 12 months relate to linked connections. The Group has appointed administrators to recover funds from the borrower through sale of the underlying collateral security.

Forbearance strategies.

The Group utilises a variety of strategies to support its commercial borrowers, particularly those in hospitality and tourism which have seasonal trading patterns. In doing this it ensures that customers are treated fairly while deploying strategies to minimise credit risk.

In March 2020, the UK entered lockdown as a result of the coronavirus pandemic. The Government asked the Group and other financial service providers to provide payment holidays to its mortgage customers and a series of other measures for those customers with other forms of loans. The primary forbearance offered was a 3-month mortgage holiday and in line with Government and regulatory requests the Group provided this to all customers who requested it, without conducting its usual assessment of a customer's specific circumstances. As a result, the impact of forbearance offered as part of Covid-19 may not be directly comparable in credit risk impact to that provided historically, reflecting both the impact of other Government grants and support and the temporary nature of the arrangement.

No loans granted payment holidays in March 2020 are treated as impaired at the balance sheet date.

The table below indicates the account balances that have been subject to forbearance measures during the year to 31 March 2020.

	Payment Holiday	Payment Concessions including Interest Only	Arrears Capitalised	Transfer to Interest Only	Total Forbearance
As at 31 March 2020:	£ 000	£ 000	£ 000	£ 000	£ 000
Neither past due nor impaired	95,815	264	249	4,318	100,646
Past due up to 3 months	2,029	-	-	-	2,029
Past due more than 3 months	-	-	-	-	-
Total loans and advances	97,844	264	249	4,318	102,675
As at 31 March 2019:					
Neither past due nor impaired	-	5,698	-	-	5,698
Past due up to 3 months	-	914	-	-	914
Past due more than 3 months	-	264	-	-	264
	-	6,876	-	-	6,876

30. 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 2020			Group 2019		
	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	**1,282,050**	**-**	**(13,362)**	1,134,600	1,358	(3,886)
Interest rate swaps not designated as hedges	**19,900**	**40**	**(29)**	18,300	9	(19)
Total derivatives held for hedging	**1,301,950**	**40**	**(13,391)**	1,152,900	1,367	(3,905)

	Society 2020			Society 2019		
	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	**1,282,050**	**-**	**(13,362)**	1,134,600	1,358	(3,886)

The following table shows the notional principal and credit risk weighted amounts and their residual maturity.

	Group 2020		Group 2019	
	Notional principal amount £000	**Credit risk weighted amount £000**	Notional principal amount £000	Credit risk weighted amount £000
Interest rate swaps:				
Under one year	**259,250**	**45**	355,850	162
Between one and five years	**1,042,700**	**2,419**	797,050	2,323
	1,301,950	**2,464**	1,152,900	2,485

	Society 2020		Society 2019	
	Notional principal amount £000	**Credit risk weighted amount £000**	Notional principal amount £000	Credit risk weighted amount £000
Interest rate swaps:				
Under one year	**257,050**	**45**	355,850	160
Between one and five years	**1,025,000**	**2,378**	778,750	2,262
	1,282,050	**2,423**	1,134,600	2,422

31. 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 in the balance sheet, fair values have been calculated for other financial instruments by discounting cash flows at prevailing interest rates.

	Group and Society	
At 31 March 2020:	**Carrying Value £000**	**Fair Value £000**
Financial assets:		
Loans and advances to customers		
Loans fully secured on residential	1,966,924	1,998,332
Loans fully secured on land	177,169	178,085
Financial liabilities:		
Shares	1,999,904	2,001,745

	Group and Society	
At 31 March 2019:	Carrying Value £000	Fair Value £000
Financial assets:		
Loans and advances to customers		
Loans fully secured on residential property	1,895,086	1,898,876
Loans fully secured on land	164,726	163,948
Financial liabilities:		
Shares	1,933,094	1,932,328

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, due to their short term nature.
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.

The carrying value of loans and advances to customers and shares are recognised at amortised costs 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.

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair value of derivatives is calculated using discounted cash flow models. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties. The above are Level 2 assets, as defined in FRS 102. In addition, the 'investment in equity shares' which is shown in the balance sheet at fair value (see note 32) 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 2020:	Financial assets/ liabilities at fair value through Income Statement £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	-	-	389,706	-	-	389,706
Loans and advances to credit institutions	-	-	62,250	-	-	62,250
Debt securities	-	5,036	-	-	-	5,036
Derivative financial instruments	40	-	-	-	-	40
Loans and advances to customers						
Loans fully secured on residential property	12,238	-	1,966,924	-	-	1,979,162
Loans fully secured on land	-	-	177,169	-	-	177,169
Other loans	-	-	25,465	-	-	25,465
Investment in equity shares	-	5,960	-	-	-	5,960
Non-financial assets	-	-	-	-	18,750	18,750
Total assets	**12,278**	**10,996**	**2,621,514**	-	**18,750**	**2,663,538**
Financial Liabilities:						
Shares	411	-	-	1,999,871	-	2,000,282
Derivative financial instruments	13,391	-	-	-	-	13,391
Amounts owed to credit institutions	-	-	-	298,939	-	298,939
Amounts owed to other customers	-	-	-	137,796	-	137,796
Non-financial liabilities	-	-	-	-	19,180	19,180
General and other reserves	-	-	-	193,950	-	193,950
Total reserves and liabilities	**13,802**	**-**	**-**	**2,630,556**	**19,180**	**2,663,538**

At 31 March 2019:						
Financial Assets:						
Cash and balances with the Bank of England	-	-	270,023	-	-	270,023
Loans and advances to credit institutions	-	-	128,146	-	-	128,146
Debt securities	-	64,182	-	-	-	64,182
Derivative financial instruments	1,367	-	-	-	-	1,367
Loans and advances to customers						
Loans fully secured on residential property	2,139	-	1,895,086	-	-	1,897,225
Loans fully secured on land	-	-	164,726	-	-	164,726
Other loans	-	-	24,414	-	-	24,414
Investment in equity shares	-	5,497	-	-	-	5,497
Non-financial assets	-	-	-	-	21,224	21,224
Total assets	**3,506**	**69,679**	**2,482,395**	-	**21,224**	**2,576,804**
Financial Liabilities:						
Shares	138	-	-	1,933,094	-	1,933,232
Derivative financial instruments	3,905	-	-	-	-	3,905
Amounts owed to credit institutions	-	-	-	295,425	-	295,425
Amounts owed to other customers	-	-	-	133,995	-	133,995
Non-financial liabilities	-	-	-		25,114	25,114
General and other reserves	-	-	-	185,133	-	185,133
Total reserves and liabilities	**4,043**	**-**	**-**	**2,547,647**	**25,114**	**2,576,804**

32. Investment in Equity Shares

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

The Visa Inc. preference shares were received as part of the consideration for the sale of the Society's share in Visa Europe in June 2016. At 31 March 2020 the preference shares have been recognised at a fair value of £5.960,000 (2019 - £5.497,000). The gain for the year has been recognised in the available for sale reserve, net of deferred tax.

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 relating to the setting of interchange fees).

In addition, the Society received deferred cash consideration of £429,000 (2019 - £nil) as envisaged in the original sale agreement. No further consideration is due or expected.

33. Related Parties

Transactions with directors
In the normal course of business, directors and their close family members, transacted with the Group and Society. The year end balances of transactions with directors, and their close family members, are as follows:

Group - 2020

	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members £000
Loans and advances to customers	2	1,285

Group - 2019

	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members £000
Loans and advances to customers	1	643

None of the loans to directors are impaired or have any arrears.

Under the Society rules, all directors are required to hold a savings balance of at least £1,000. These are held on normal commercial terms and were a balance of £356,000 at 31 March 2020 (2019 - £401,000).

Defined Benefit Pension Scheme
The Group operates a closed defined benefit pension scheme which constitutes a related party. Details of this pension scheme and of transactions which took place during the year are shown in note 25.

34. Country by Country Reporting

The Capital Requirements Regulations require the Group to disclose the information below as part of 'County by Country Reporting'.

- Nature of activities and geographical location: The principal activities of the Group are set out in the Director's Report. The Group operates entirely in the UK and so no further Country by Country information has been presented.
- Average number of employees: information is disclosed in note 8.
- Turnover is equivalent to operating income items disclosed in the Group Statement of Income, comprising net interest receivable, fees and commissions receivable and payable and other operating (charge)/ income.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Statement of Income.
- Corporation tax paid: as disclosed in the Group Cash Flow Statement.
- Public subsidies received: none received.

35. Subsequent Events

The outbreak of Covid-19 and its initial impact on the global and UK economies and the Cumberland had occurred at the balance sheet date. Our business had been impacted operationally and our key judgements have been made based on the facts and circumstances known at that time. The length and severity of the pandemic and its impact on the Society are constantly being re-assessed. It is not practical to measure the full impacts of all events that have resulted from the Covid-19 pandemic, as these cannot be reliably measured, however:

The most significant financial impacts of the Covid-19 crisis on the Group are expected to be in respect of significantly reduced demand for the Group's mortgage products while the UK Government restricts movements, and on the level of impairment provisioning required. Contraction of the lending portfolio is forecast for the initial part of the year reflecting restrictions on home moving and free movement.

The incremental impact on impairments over and above those made at 31 March 2020 is not yet clear though charges are likely to remain elevated, and the sensitivity analysis in note 2 indicates the potential magnitude of this increase in the event of material changes to loan book performance or economic factors.

Since 31 March 2020 the Group has continued to support its customers through forbearance. The level of forbearance at 30 April 2020 prepared on the same basis as disclosed on page 12 is as follows:

No. of Cases (% of book)	30 April 2020	31 March 2020	29 February 2020	31 March 2019
FSRP (All)	2,227 (12%)	1,267 (7%)	11 (0%)	13 (0%)
FSRP (Owner Occupied)	1,391 (9%)	706 (4%)	5 (0%)	3 (0%)
FSRP (BTL & HL)	836 (37%)	561 (24%)	6 (0%)	10 (0%)
FSOL	389 (63%)	278 (45%)	18 (3%)	19 (3%)

36. Capital Structure

The Group's policy is to maintain a strong capital base to maintain member and market confidence and sustain its future development. The Internal Capital Adequacy Assessment Process (ICAAP) assesses the Society's capital adequacy and determines the levels of capital required going forward to support the current and future risks to the business. The board monitors the Group's actual and projected capital position through its quarterly reporting to ensure that it is maintained at a level above its Individual Capital Guidance (ICG) as determined by the PRA.

The Total Capital Requirement required by the regulator as at 31 March 2020 was £113.1 million (unaudited). The Group has maintained capital in excess of that required by the regulator throughout the year and in doing so, has complied with the requirements included within the EU Capital Requirements Directive IV (Basel III).

In managing the Group's capital against regulatory requirements, the board monitors:

- Lending and business decisions – the use of strict underwriting criteria establishes whether mortgage, current account overdraft, vehicle finance and secured personal loan applications fit within its appetite for credit risk;
- Pricing – pricing models are utilised for all mortgage product launches;
- Concentration risk – product design takes into account the overall mix of products to ensure that exposure to market risk is within permitted parameters;
- Counterparty risk – wholesale lending is only carried out with approved counterparties in line with the Group's lending criteria and limits, which are monitored daily to ensure that the Society remains within its risk appetite.

Regular stress tests ensure the Group maintains sufficient capital for possible future events.

There have been no material changes in the Group's management of capital during the year.

Under Basel III Pillar 3 the Group is required to publish further information regarding its capital position and exposures, and the Group's Pillar 3 disclosures are available on www.cumberland.co.uk.

1. Statutory Percentages

	31 March 2020 %	Statutory Limit %
Lending Limit	**10.13**	25
Funding Limit	**17.93**	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 2020 %	Group 31 March 2019 %
As percentage of shares and borrowings:		
Gross capital	**7.96**	7.84
Free capital	**7.52**	7.35
Liquid assets	**18.75**	19.57
Profit for the financial year as a percentage of mean total assets	**0.25**	0.45
Management expenses as a percentage of mean total assets	**1.22**	1.06

	Society 31 March 2020 %	Society 31 March 2019 %
Management expenses as a percentage of mean total assets	**1.14**	0.96

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, depreciation, impairment and profit on sale of tangible fixed assets.

3. Information Relating to the Directors as at 31 March 2020

Name	Occupation	Date of Appointment	Other Directorships (excluding dormant companies)
DIRECTORS			
J. Hooper (Member of the Australian Institute of Directors)	Company Director/Advisor	20.11.15	Sarhon Homes Limited Sarhon Developments Limited John Hooper Consulting Limited VTB Capital Limited VTB Capital Holdings Limited Together Money Personal Finance Limited Stubbers Adventure Centre Limited Stubbers Trading Limited
A. J. Johnston, BA, FCA	Chartered Accountant	15.02.11	Future Money Limited The Langham Partnership (UK and Ireland)
J. Arnold, FCMA, FGMA	Management Consultant	16.03.18	Jackie at Eastwood Limited
E. R. Gunn, FCIBS	Retired Bank Executive	09.11.16	Nil
M. K. Hulme, MPhil	Company Director	03.09.15	Nil
M. J. Stanger, FCA	Chartered Accountant	01.06.18	Gibbons Wealth Management Limited Gibbons Properties Limited Carleton Properties (Cumbria) Limited
P. D. Moore, MBA, Certified Bank Director (ROI)	Chief Executive Officer	01.04.18	Borderway Finance Limited Cumberland Estate Agents Limited Cumberland Holdings Limited Cumberland Property Services Limited Cumberland Homes Limited
R. B. Ellison (CA, MA Hons)	Chief Financial Officer	22.05.19	Cumberland Estate Agents Limited Cumberland Holdings Limited Cumberland Property Services Limited Cumberland Homes Limited Steady Badger Limited

Mr P. D. Moore is employed under a contract terminable by the Society on twelve months' notice or by the individual on six months' notice. Mr P. D. Moore's contract was signed on 30 January 2018.

Mr R.B. Ellison is employed under a contract terminable by the Society on nine months' notice or by the individual on six months' notice. Mr R.B. Ellison's contract was signed on 29 January 2019.

Correspondence to the directors jointly or individually should be addressed 'Private and Confidential' and c/o Deloitte LLP, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2DB.

OTHER INFORMATION

GLOSSARY

AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
BFL	Borderway Finance Limited
BP(S)	Basis Point(s)
BTL	Buy To Let
CBS	Cumberland Building Society
CCF	Cumbria Community Foundation
CCyB	Countercyclical Capital Buffer
CEAL	Cumberland Estate Agents Limited
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CFSL	Cumberland Financial Services Limited
FCA	Financial Conduct Authority
FLS	Funding For Lending Scheme
FSCS	Financial Services Compensation Scheme
FSOL	Mortgages Fully Secured On Land
FSRP	Mortgages Fully Secured On Residential Property
HL	Holiday Let
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Index Long-Term Repo
IMT	Incident Management Team
KYC	Know Your Customer
LCP	Liquidity Contingency Plan
LDI	Liability Driven Investment
MBO	Management Buy Out
MI	Management Information
MPPI	Mortgage Payment Protection Insurance
NGC	Nomination and Governance Committee
NIM	Net Interest Margin
NPS	Net Promoter Score
PARC	People, Remuneration and Culture Committee
PRA	Prudential Regulation Authority
RAG	Red, Amber, Green
SLT	Senior Leadership Team
SMCR	Senior Managers & Certification Regime
SMF	Sterling Monetary Framework
TCR	Total Capital Requirement
TFS	Term Funding Scheme
TFSME	Term Funding Scheme with additional incentives for SMEs

CALCULATION OF THE GROUP'S KPIs

FEEFO RATING

The Feefo rating is the average score received, out of 5, from customers who review the Group's service on the feedback platform Feefo.

ENGAGEMENT SCORE

The Engagement Score is based on the responses of our People to the b-heard survey provided by Best Companies and represents the level of employee engagement across a range of workplace factors and commitment to delivering the Group's objectives.

GROUP PROFIT BEFORE TAX

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

GROUP PROFIT BEFORE TAX AS A % OF MEAN TOTAL ASSETS

This ratio shows the Group's profit before 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. It allows the board to understand the relationship between profitability and the size of the balance sheet.

COMMON EQUITY TIER 1 CAPITAL RATIO

Common Equity Tier 1 (CET 1) is the highest form of regulatory capital available and is a measure of financial strength and an entity's ability to absorb future operational losses if and when they arise, and its ability to support future balance sheet growth. In the case of the Group CET1 capital primarily comprises internally generated capital from retained profits. An adjustment is made to deduct intangible assets. CET 1 capital is fully loss absorbing. This ratio, which under regulatory rules incorporates profits that have been both earned and verified, is expressed as a percentage of the Group's total Risk Weighted Assets.

NET INTEREST MARGIN

This ratio takes the interest received from all financial instruments (principally loans, but including liquid assets), minus the interest paid on financial liabilities (principally members with share accounts, but also deposits by our business customers and market counterparties) as a percentage of average financial assets. It reflects the margin earned by the Group.

COST / INCOME RATIO

This ratio shows operating costs (administrative expenses and depreciation) expressed as a percentage of total income, being the sum of net interest income, fees and commissions receivable, other operating income and fees and commissions payable. This ratio measures how much the Group spends to earn each £1 of income.

GROWTH IN LOANS AND ADVANCES TO CUSTOMERS

This shows the net change in the Group and Society lending books – principally the mortgage books but also vehicle finance and overdrafts.

GROSS LENDING DURING THE YEAR

This figure shows the amount lent by the Group prior to repayments, redemptions and other movements.

GROUP OPERATING PROFIT

Group Operating profit is a non-statutory alternative performance measure. It is Group profit before tax, having excluded the impact of hedge accounting, provisions and other gains and losses determined by management not to reflect the Group's underlying performance.

INFLOW OF FUNDS FROM CUSTOMERS

This reflects the net movement of funds in and out of the Society's savings and current account products. It excludes capitalised interest.

HQLA RATIO

The HQLA Ratio expresses the Society's high quantity liquid assets (cash in hand, balances with the Bank of England), as a percentage of shares, deposits and liabilities. A prudent level of liquidity is always held by the Group to support its ongoing operations. Liquidity reduces the Group's net interest margin and so the board ensures that the level of liquidity does not rise to excessive levels.

Gold Trusted Service Award

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The Cumberland
Building Society