The Cumberland

# report AND accounts

YEAR ENDED
31 MARCH 2021

# OUR PERFORMANCE highlights

FEEFO PLATINUM SERVICE AWARD

4.8 OUT OF 5.0

CUSTOMER SATISFACTION*

The Times Money Mentor GOLD RIBBON in customer experience

HAPPIEST SAVINGS CUSTOMERS in the UK

Source : Fairer Finance

Helped more than 480 first-time buyers into a home of their own

SOLD

£10.5m Profit before tax*

NET PROMOTER SCORE

81

Source : Feefo

£343m

GROSS MORTGAGE LENDING*

Total assets £2.70bn

£194m

FUNDS INFLOW*

£198k

CHARITABLE DONATIONS

One of the Top 100 companies in the North West to work for

Source: Best Companies

OVER 33% OF SENIOR POSITIONS HELD BY WOMEN

* Those figures highlighted with an asterisk are a Group key performance indicator (KPI). For information on how these are calculated, please see page 135.

All information and data correct as at 31 March 2021


# content

## STRATEGIC REPORT



## CORPORATE GOVERNANCE REPORT

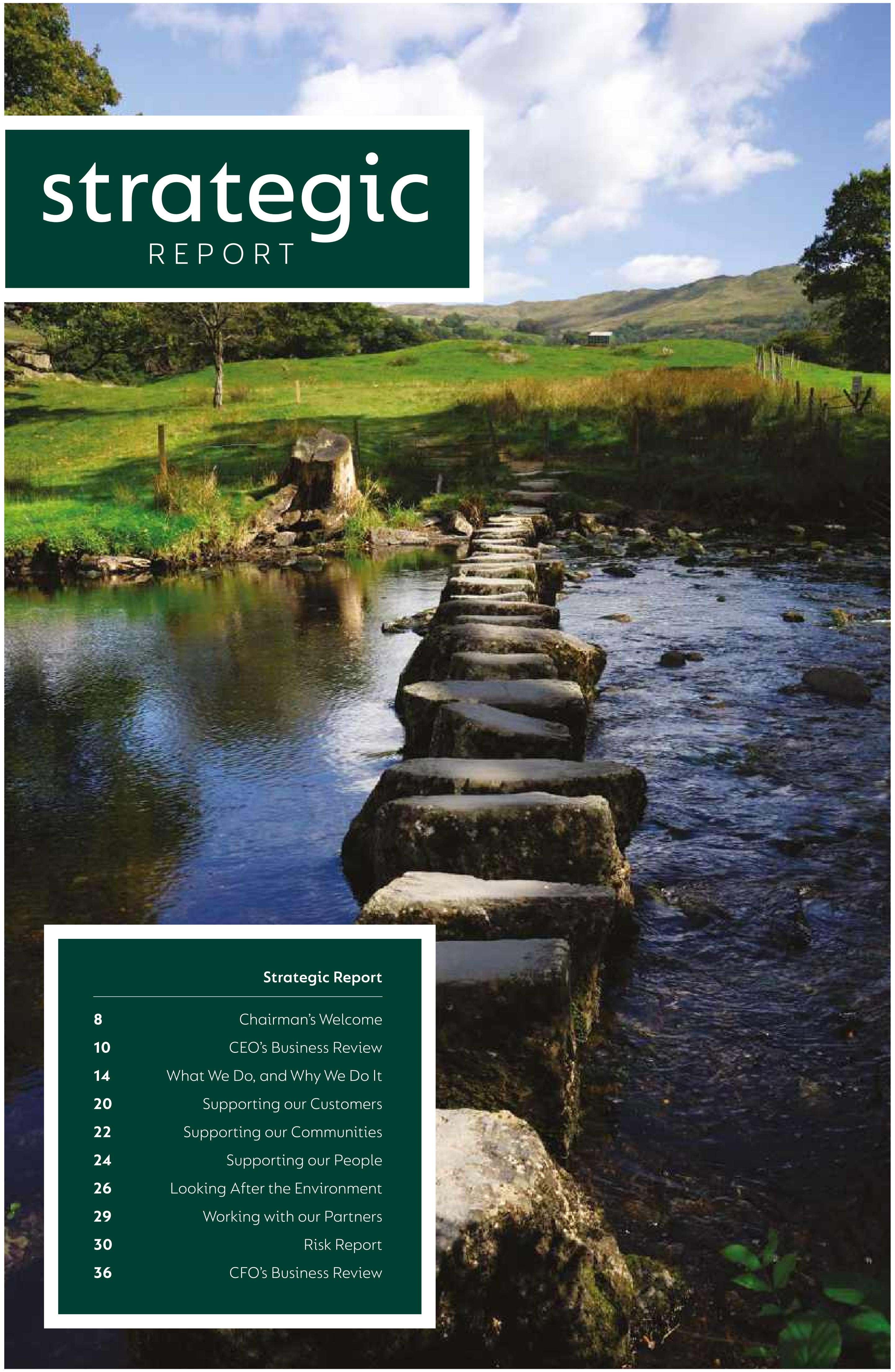


## FINANCIAL STATEMENTS



## OTHER INFORMATION

# strategic
REPORT



Strategic Report

# chairman's
## WELCOME


I am humbled by the resilience and dedication our loyal colleagues have shown over the past 12 months



**On behalf of the Board of Directors, I am delighted to present Cumberland Building Society's Annual Report and Accounts for the year ended 31 March 2021.**

This year will undoubtedly be remembered for Covid-19, its impact on our world and the unprecedented challenges it has created for all of us. I start this report, on behalf of everyone in our business, by expressing my sincerest condolences to our customers and colleagues who have lost family and friends during this time.

Undeniably, the past year has been like no other; who could ever have predicted or prepared for such a global pandemic? Thankfully, our business has been prudently managed over many years and we have been able to face the crisis from a robust position; our balance sheet and operating performance have been consistently strong, enabling us to support our customers, our communities and our people throughout the Covid-19 pandemic. And our ethos – to make a positive difference to our customers and our communities – truly manifested itself through our dedicated and hardworking colleagues.

Over the past year, we have been focused on meeting the needs of and supporting the financial resilience of all our customers – from those who have borrowed to buy their house, to those who operate hospitality businesses; we continued to provide new mortgages as pent-up demand and the stamp duty holiday incentive created a housing boom.

Ensuring the safety of our people and our customers has been paramount from day one. This inevitably resulted in some disruptions to our services during the year. However, thanks to the way our teams have managed the Covid-19 crisis, we were able to keep most branches open most of the time, and ensure call waiting times to our Customer Care team were minimised.

Operationally, we have achieved things many would have considered impossible 18 months ago. Thanks to the adaptability of our IT team, your Society has continued to run efficiently, with a vast majority of our non-branch based colleagues working from home for over a year.

While it is difficult to look to the future given the ongoing uncertainty surrounding Covid-19, one thing remains certain – your Society is in a strong position to continue to support its customers for many years to come. We remain committed to improving The Cumberland for the benefit of its members, and this will see us continue to invest in our digital infrastructure to better meet the needs and aspirations of our customers.

I am humbled by the resilience and dedication our loyal colleagues have shown over the past 12 months. It has reinforced our belief that we have a unique team of great people who are committed to doing the right thing. Collectively, they have gone to extraordinary efforts to support our customers while ensuring the health and safety of all.

**John Hooper**
**Chairman**
**8 June 2021**

# chief executive OFFICER'S BUSINESS REVIEW

**As I reflect upon the last year, it is impossible to look past the Covid-19 pandemic and the impact it has had on all our lives. The challenges brought by the crisis are some of the toughest our business has faced in its 171 years, and certainly the most difficult anyone currently at The Cumberland has ever experienced.**

And yet I look back at the year with immense pride. The Cumberland has customers, communities and people at its core. The past 12 months have truly demonstrated that we have a business anchored in its values and united behind its purpose. The vital role we play in our communities has been reinforced and our goal of making a positive difference reinvigorated. I have witnessed unparalleled levels of resilience, empathy and agility, and I'm proud to say that everyone in your Society has valiantly risen to the challenge.

As we move through what we hope will be the final stages of this pandemic, two simple principles remain at the heart of our business: to continue to protect the health and wellbeing of our customers and our people; and to provide the best level of customer experience possible.

Throughout the crisis, we have remained committed to maintaining the quality, security and availability of services, while keeping our people and customers safe. And we couldn't have delivered the uncompromising level of service we have, if it wasn't for the dedication of a brilliant team at The Cumberland.

**For this, I thank them all.**

As a result, our financial position remains strong, enabling us to continue delivering the exceptional customer service you expect of us, while moving ahead with our Cumberland 2025 journey to become a stronger, more sustainable business.

> The vital role we play in our communities has been reinforced and our goal of making a positive difference reinvigorated

## Brighter Together

### Supporting our customers

Throughout the Covid-19 pandemic, we have focused relentlessly on supporting our customers through an incredibly difficult time. Initiatives, including mortgage payment holidays, additional overdrafts and mortgage offer extensions, provided support for our customers, with over 2,000 residential mortgage borrowers taking a payment holiday, over 10% of all mortgage customers.

We also deferred and waived current account charges, including for our commercial customers, as well as supporting more than 1,000 of them with a payment holiday, accounting for over £250 million of mortgages across the hospitality, tourism and holiday let sectors.

While the initial shock of the crisis is behind us, we understand that the economic effects will be felt for some time to come, and many of our customers will face further financial difficulties. We will continue to do all we can to help and support our customers through the uncertainty ahead.

### Supporting our people

At the outset of the crisis, we recognised the difficulties that lay ahead for our people, not just from a work perspective, but also personally. Issues, such as home schooling and personal anxieties caused by caring for vulnerable family members, underlying health issues, worries around their own mental wellbeing and grieving the loss of family or friends, have unfortunately, impacted many in our team.

We took steps very early to keep our people safe. Even before the first lockdown came into effect, we made the decision to stop our teams coming into head office, unless absolutely necessary, and the vast majority of our head office team continue to work from home.

We introduced a flexible working day, so that our people could manage their work as well as home schooling or caring for relatives, and we undertook regular welfare calls with our teams to ensure they were coping with the situation and to identify any areas where further support might be needed.

As an essential service, our branch team continued to work throughout the pandemic, initially in the face of an uncertain threat. Again, we quickly took all measures possible to ensure their safety, with additional cleaning, screens and social distancing, and our teams operated in 'bubbles' to make every effort to contain any potential cases of the virus.

While everyone settled into a new way of working with determination and understanding, we do recognise the longer-term impacts on mental wellbeing and we also took steps to support the wellbeing of our people. You can read more about this on page 24.

FareShare received a donation of £19,000 after last year's AGM

AFTER LAST YEAR'S AGM WE DONATED

£19,000

TO LOCAL BRANCHES OF FARESHARE ON OUR MEMBERS' BEHALF

## Supporting our communities

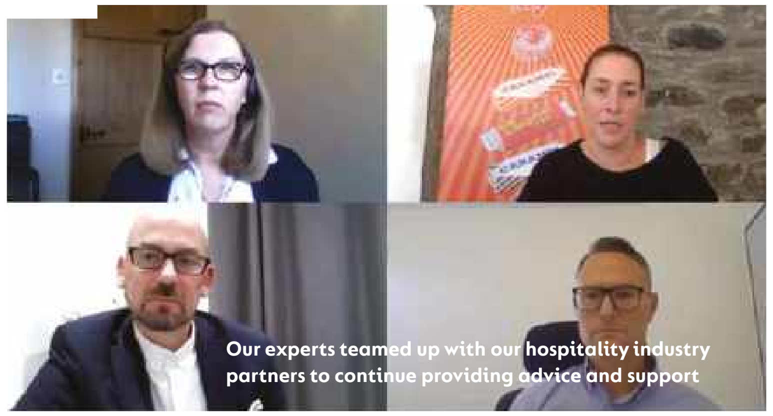
Throughout the crisis, we have remained committed to supporting our communities. Our Community Fund has continued to make donations to local good causes and charities, committing over £125,000 to organisations around our region.

Our 2020 Annual General Meeting took place behind closed doors as the first lockdown ended. Although the number of votes was understandably reduced, we were delighted to match the level of 2019's donation and provided £19,000 to local branches of FareShare on our members' behalf. The charity provides an invaluable service distributing surplus food to frontline organisations such as food banks – something that has sadly been much in demand this year.

Local branches of Mind and Support in Mind will benefit from our Pledge for Votes donation this year, and therefore, I ask that you please use your vote to support their valuable work.

Our partnerships with industry bodies, such as Cumbria Tourism and the Association of Scottish Self-Caterers, have been strengthened, as we unite in a bid to support our customers and this vital sector. This has manifested itself in shared webinars and panels, as we help bring together experts on particular issues we know our customers and communities are facing.

During the summer, our '100 Thank You's' campaign was launched to celebrate 100 people across the region, who symbolise the extraordinary response we've seen to the Covid-19 crisis. The entries really humbled us and showcased the way our local communities have risen to this challenge and the acts of kindness we continue to see in all walks of life. We hope this campaign will leave a lasting legacy, one that will always recognise and remember how our communities united and coped with this historic challenge. You can read more about this campaign at **brighterbanking.co.uk/100**.



Our experts teamed up with our hospitality industry partners to continue providing advice and support

Chirnside House Care Home, Lancaster, one of our 100 Thank Yous recipients



## Looking ahead

At the time of writing, the Covid-19 vaccination programme is well underway and there is most definitely a light at the end of the tunnel. However, the final stages of the pandemic will require careful management, as the full economic impact remains uncertain. We are in a strong and stable position to continue to weather this storm and meet the evolving needs of our customers, our communities and our people.

Our Cumberland 2025 journey, a programme of work we began in 2019 to make the Society fit for the future, continues, with 2021 marking the start of the third year of our transformation programme. 2021 will see us enter the biggest and most important phase of that programme - digitising the business. Despite the disruption caused by Covid-19 during this year, we were still able to progress preparatory work with the recruitment of the right expertise and capabilities. Now it is time for the detail and the intricacies that will see your Society begin the process of building a sustainable digital infrastructure – a strategic commitment that has already been in place for a couple of years, the importance of which the pandemic has truly brought to the fore. Not only will this digital strategy increase choice for our customers, enabling them to decide how they want to interact with us – online, by phone or in branch – it will also create a Society of the future, one that meets the needs and expectations of our customers, regardless of age or location.

## Hope for the future

Despite 2021 starting with a new national lockdown, I believe this year will be filled with hope and optimism. This, in turn, should unlock the chains that have been wrapped around the hospitality sector for the past 12 months, ensuring the pent-up demand can finally be released to the benefit of all.

## Thank you

I am immensely grateful to our people for the extraordinary efforts they've made, and continue to make, to support our customers and their colleagues throughout one of the most difficult years we have experienced. This is undoubtedly the most important 'thank you' I have expressed as CEO of The Cumberland.

We look forward with hope and optimism to the coming year and remain committed to delivering a brighter future for our customers, our communities and our people.

**Des Moore**
**Chief Executive Officer**
**8 June 2021**

"Our Cumberland 2025 journey continues, with 2021 marking the start of the third year of our transformation programme.

This year will also see us enter the biggest and most important phase of that programme – digitalising the business.

# what WE DO, AND why WE DO IT

As a customer-owned organisation, we exist entirely for your benefit. We work hard to provide you with long-term value by operating a financially robust business that offers competitive savings and mortgage products, exceptional customer service, and supports our shared communities and the wider environment.

## Our vision, purpose and strategic priorities

Our vision is to make banking brighter, and our purpose is to make a positive difference in the lives of our customers, our communities and our people.

To bring these to life, and as part of our journey towards 'Cumberland 2025' – our transformation programme to ensure our business remains strong and sustainable for current and future generations – we have developed five key strategic priorities, which guide our plans.

**Our key strategic priorities are to:**

**1. Create exceptional customer experiences** – we aim to offer the best customer service, not just in the financial services sector, but in any industry in the UK.

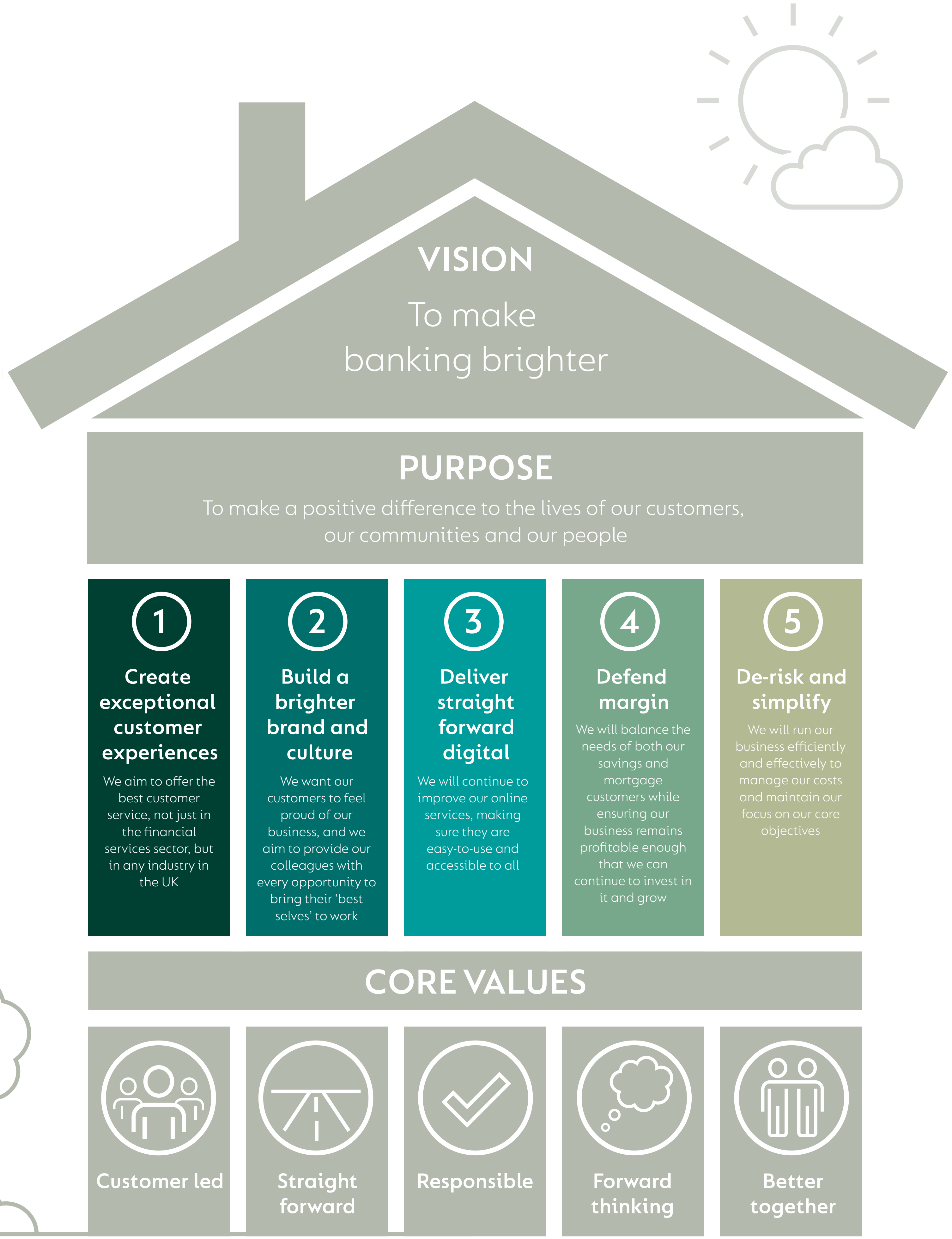
**2. Build a brighter brand and culture** – we want our customers to feel proud of our business, and we aim to provide our colleagues with every opportunity to bring their 'best selves' to work.

**3. Deliver straight forward digital** – we will continue to improve our online services, making sure they are easy-to-use and accessible to all.

**4. Defend margin** – we will balance the needs of both our savings and mortgage customers, while ensuring our business remains profitable enough that we can continue to invest in it and grow.

**5. De-risk and simplify** – we will run our business efficiently and effectively to manage our costs and maintain our focus on our core objectives.

Our 'house' (opposite) summarises our vision, purpose and strategic priorities, as well as our values. In fact, we use this model to set the objectives of all our colleagues, ensuring everyone's contribution is aligned to our strategic direction.



## The right thing is the brighter thing

Our business was founded 171 years ago by people who wanted to make a positive difference. This principle remains at the heart of who we are today. But times change and our impact now extends beyond helping people with their financial goals. We have a responsibility to be more. This means we need to work hard to develop and evolve our business so we can play our part in addressing the social and environmental challenges that we all face together. In this section, we'll explain what doing the right thing means to us.

## We're driven by our values

Our five core values underpin who we are and what we stand for. They form the basis of how we approach our business and they guide every decision we make. Our values are:

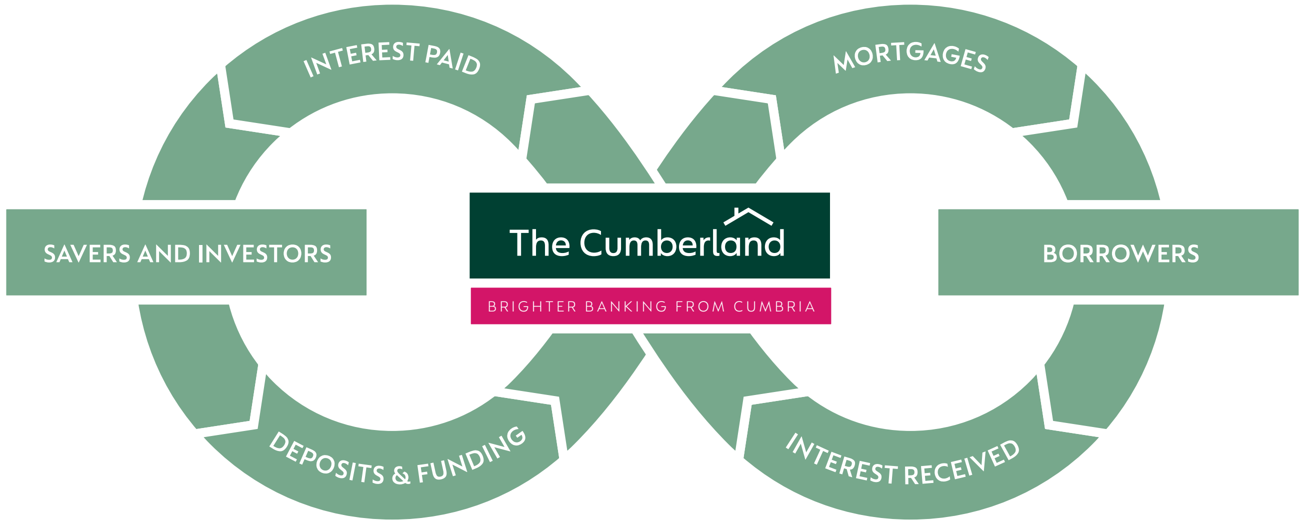

- **Customer led** – we put customers first in everything we do.
- **Straight forward** – we work hard to make things simpler.
- **Responsible** – we do the right thing.
- **Forward thinking** – we embrace new ideas to continually improve.
- **Better together** – we work as one team.

These values, which were developed by our colleagues themselves, ensure we do the right thing by our customers, communities and people, and help us to make a positive difference every day. We have embedded these values across our business, from the boardroom to the branches, sharing our culture with our colleagues and passing it on in everything we all do.

We're proud of the culture these values have helped create, but we're constantly looking for ways we can improve. We talk about our values regularly, from informal chats through to formal governance decisions, ensuring they're not just a sign on the wall or something we talk about once a year, but genuinely and consistently at the front of everyone's mind. We also benchmark each one of our colleagues' performance against the values as part of the ongoing appraisal process.

## We're owned by you

Building societies, like The Cumberland, are different to banks, because we are owned by our customers. We have no public or private shareholders expecting us to prioritise profits - our profits are invested back into the business for the benefit of our customers. As a result, we can make our business financially strong and socially responsible.




In practice, this means we can keep providing you with competitive long-term value on our products, while providing financial support to good causes in our local communities. We're also able to continue investing in building a sustainable business for current and future generations, creating employment and development opportunities for hundreds of people across our region. You can read more about what being customer-owned means on our website.

## We're all ears


One of our main goals is to provide an exceptional customer service. One of the ways we check this is to use the independent review platform, Feefo. They ask our customers to rate our service, and every single review we receive is published on both their and our website.

As a direct result of the feedback our customers have given them, Feefo have awarded us with the Platinum Trusted Service Award. This is only awarded to businesses who have achieved consistently high "Gold" ratings over at least three years.

As you'd imagine, we're delighted with this, but by no means are we resting on our laurels. We know we don't get things right all the time. If you feel we've got something wrong, please tell us. We'd love the chance to put it right. You can email us at **customerservice@cumberland.co.uk** and we'll do our best to sort things out.

## We're open and transparent

Being a customer of The Cumberland means you know your money is being used to help others like you achieve their own financial goals.

At its core, our business model is relatively simple. We use the savings our customers deposit with us to lend to people and businesses to buy property. The majority of our lending is to people in North West England and South West Scotland who are buying a home, but we also specialise in some areas of commercial lending like hospitality mortgages and holiday lets – sectors our region is particularly celebrated for.

We don't make direct investments in stocks and shares and we do not provide funding for fossil fuel projects or companies. Furthermore, we don't invest your money outside the UK.

We believe all businesses should pay their way and we strictly adhere to both the regulation and spirit of UK tax legislation. We want to play our part in the local and national economy and we don't think you would expect or accept anything less from us.

If you've got a question about any aspect of our business, please ask. We'll do our best to give you a straight answer. You can email us at **ihaveaquestion@cumberland.co.uk.**

## We treat people fairly

We ensure our products and services are fair. We will always try and help customers in financial difficulty. We will provide guidance and support and adopt a responsible approach to lending for anyone facing issues. Our charitable funding also supports financial education to help customers avoid financial problems.

We are a Living Wage employer and we base our employee reward schemes on performance against our values framework and on quality of service and good customer outcomes, rather than volume of sales. We are also signatories of the Women in Finance Charter, committing us to improve female representation across our business. The financial services sector has previously suffered from a lack of gender diversity, so we were delighted to achieve our current target of having women holding at least 33% of our Senior Leadership Team and Board positions during the year and this is a platform from which we hope to improve further.

We have a Diversity and Inclusion Working Group, that continue to review policies and procedures to identify any issues or barriers faced as a result of any protected characteristic.

We are proud that the hard work of our people and their commitment to doing the right thing has been recognised this past year by organisations that seek out and celebrate excellence in ethical and sustainable business practice.

Most recently, this includes being a finalist in the Best Ethical Financial Provider category at the 2021 British Bank Awards, as well as receiving an accolade from Ethical Consumer Magazine for providing one of the UK's most ethical current accounts.

We were delighted to finish the year with the news that Best Companies had awarded us a one-star accreditation after a survey of our colleagues, rating us among the best companies in the UK for workplace engagement and confirming The Cumberland to be a 'very good' place to work. We were also named as one of the Top 30 Financial Services firms in the UK as well as one of the Top 100 companies in the North West.

These accolades are the culmination of three years of work to make a positive difference to the culture and engagement across our business, something we believe is pivotal to ensuring our Cumberland 2025 journey is a success. We believe this is a significant and positive step for our business, but it has also given us the feedback we need to continue improving, with the goal of achieving two-star 'outstanding' accreditation within the next two years.

We know that 'ethical' can mean many things to many people. Our customers can be sure that operating every part of our business and the people that it touches, in line with our values, will always be our priority. It is, and always has been, what The Cumberland stands for.


**Tilly Lovett,
Customer Care team**

# SUPPORTING OUR customers

**Customer experience is at the heart of all we do and drives our business strategy, and in January 2020, we launched your Society's new brand proposition – Brighter Banking – our vision to stand apart in the financial services industry.**

Our Pow Street, Workington branch team

## Customer care throughout the Covid-19 pandemic

Two months after we launched this commitment, the UK went into lockdown and, since then, we have remained focused on two customer priorities: continuing the provision of essential services to the regions and customers we serve; and supporting all of our customers facing financial difficulties due to Covid-19. Our teams have worked tirelessly during this crisis to ensure we deliver these priorities.

Our Customer Care team have commendably handled a substantial increase in calls, particularly at the start of the crisis, as well as a five-fold increase in webchat enquiries. Understanding the anxieties and pressures faced by our customers over the past 12 months has required new skills, guidance and support for our teams. We have trained our Customer Care teams to handle those, sometimes challenging, calls and conversations with empathy, ensuring they felt adequately equipped to offer the best support and reassurance to our customers.

Recognising that many of our customers were shielding or considered vulnerable, and, as such, would likely be feeling isolated, lonely and worried, we also recruited more people into our Customer Care teams to enable calls and enquiries to be answered speedily, and for whatever duration of time the customer needed to speak to us.

## CASE STUDY

### Squirrel Lodge, Keswick

During the pandemic hundreds of businesses have found having The Cumberland's expertise on hand has been a big help.

One such business, Squirrel Lodge guest house in Keswick, only opened in spring 2019, so hadn't even managed a full calendar year before the pandemic struck.

Owner Ben Goodman, who runs the business with wife Fiona, said: **"We had to put our mortgage on hold for six months, and we wouldn't have coped without that, and once we were back up and running we went onto interest-only for another six months. The Cumberland have been very approachable, and it does feel like they're on your side."**

**"We were lucky enough to get support grants, but because we were a newly-opened business we didn't have any tax returns or couldn't show a profit we weren't entitled to the self-employed help."**

Despite the stop-start nature of their time in Keswick, last year Squirrel Lodge was named TripAdvisor's best guest house in the town. The pair are currently talking to The Cumberland about a mortgage on another property as they look to expand.

When restrictions are lifted fully, Mr Goodman is hoping for a similar summer to last year, which saw them fully booked right up until October.

**"I can't wait,"** he added. **"The bookings look like they're coming in nicely and we can hopefully have a busy end to the season."**

The Goodman family of Squirrel Lodge



# "We are incredibly proud of the way our teams have risen to the challenges

## Maintaining excellent customer service

Providing excellent customer service has never been more important, and we are proud to have been nationally recognised for both this and our support for customers during the Covid-19 pandemic.

Our teams across the business have continued to receive positive feedback from our customers for their warm and genuine support, with many customers relying on them to provide a friendly, easily accessible and local voice.

Their commitment to providing exceptional service has been recognised through the accolade of a Feefo Platinum Trusted Service Award and increasing Net Promoter Score (NPS) to 81, which is now one of the highest in the industry. The accolade from Feefo was a particular highlight of the year as this is entirely assessed on customer feedback. The financial services industry is not known for its transparency on review platforms and so the Platinum status, awarded to businesses that have achieved Gold awards for three consecutive years, was made even more special.

The year also saw us top The Times Money Mentor customer experience table. This independent survey of over 20,000 current account holders rated The Cumberland best.

We were also highly commended for our customer service and community involvement at the Mortgage Finance Gazette Awards in November. This commendation was in recognition of the actions we have taken to support our customers during the pandemic and for our continued commitment to making a positive difference in communities around the region. While we don't take these actions for the recognition, it certainly was a positive piece of news to be noticed for our work in this area.

We are incredibly proud of the way our teams have risen to the challenges of forbearance, home-working, flexible branch opening hours and dealing with customers who may be anxious about their financial situation to continue to deliver the customer experience we have become renowned for.

Platinum Trusted Service Award
2021 feefo

THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Bank Accounts
GOLD AWARD
Autumn 2020
Fairer Finance

SPRING 2021
Fairer Finance
HAPPIEST CUSTOMERS
Savings accounts

WINNER
Moneyfacts Awards 2020
Regional Lending Provider of the Year


**The BEEP Fund received a donation of £3,200 to purchase two portable ultrasound devices to help their team of rapid response volunteer doctors expand their lifesaving services.**

SUPPORTING OUR

# communities

## Community funding

It has been two years since we increased the amount we donate to charitable and community groups to 1.5% of net profits, placing us in the top two percent globally of the world's large businesses that donate at such a level. This has allowed us to make larger contributions to long term projects and to organisations promoting health and wellbeing, delivering on our purpose in a more meaningful way.

We have made £25,000 of this funding available to branch managers to distribute to good causes in their local area. We teamed up with Cumbria Community Foundation (CCF) to help us manage and administer the remaining funding, with a particular focus on helping people become better informed about their financial future.

OVER THE PAST 12 MONTHS, WE HAVE DONATED OVER

£198,000

TO GOOD CAUSES, SUPPORTING MORE THAN

55

DIFFERENT CHARITIES AND COMMUNITY PROJECTS.



**Dignity In Dementia.** We donated £60,000 to the charity Dignity in Dementia, enabling them to provide a much-needed telephone support service for families and carers of people living with dementia. This was a particularly important service given the impact of Covid-19 lockdowns on face-to-face support.
We also helped fund virtual training to Cumbria's 12 Mountain Rescue teams so that their members could feel more confident when called out to search for or help someone with dementia.

CASE STUDY

## Delivering social value

We are committed to delivering social value within our communities. Susan's Farm in Carlisle is one such example of our support. As well as supplying organic local produce, the farm provides hands-on learning opportunities to primary and secondary age children and those with special needs. The team also welcomes people with long term mental illness, ex-offenders and teenagers with behavioural problems.

When we first met Susan, and learned more about her plans for the farm, we were keen to help in the most practical and sustainable way possible. Hearing about her daily challenge of juggling a vast amount of practical and organisational tasks, we were able to offer a community grant of £45,000, split over three years, enabling Susan to employ a part-time administrative assistant and direct more of the farm's resources towards educational initiatives.

## Building relationships

We understand the importance of building strong, long-lasting relationships with our local communities. This has taken many different forms, including delivering financial wellbeing talks in schools and community groups, taking advantage of community days, working on community projects, delivering customer service training for volunteer organisations and 'creating' new dementia friends.

Whatever we do, our aim is always to connect and build reciprocal relationships in our local communities.

## Community days

We actively encourage our colleagues to give back to their local communities to help make a positive difference. It also helps us to understand the nuances of individual communities better, enabling us to tailor our approach to ensure an even better service to the people who need us.

Our people can claim a paid leave day each year to undertake voluntary community work, selecting a local cause or charity of their choice. In 2019/20, the uptake on these community days was excellent, with a 292% increase compared with 2018/19.

Covid-19 continues to have a huge impact on the hearts of our local communities so physical volunteering during the pandemic has been difficult. As such, our focus over the past 12 months has been on giving back in a safe and practical way, encouraging colleagues to share their skills in alternative ways. One of the organisations to benefit from such support was Carlisle Youth Zone, a charity that we are proud to be a Gold Patron of. Our Corporate and Social Responsibility Executive, Becky Towns, volunteered her time during the year to support the Mentoring Coordinator and Volunteer Champion, and our Senior Business Lending Manager, Grant Seaton, recently completed the virtual Lands End to John O'Groats "LeJog", an 874-mile running fundraiser.

## Recognising the contributions of our communities

During the lockdown, we launched a major campaign to highlight and showcase the positive differences our local heroes make in our communities.

As Des, our CEO mentions in his review, our '100 Thank Yous' campaign encouraged people to share stories about local heroes and recognise people going above and beyond to help out in their community. 100 of those nominated received special recognition for their part in Cumbria's extraordinary response to the Covid-19 crisis, ranging from the amazing efforts of NHS staff to examples of kindness and community spirit.

Each of the 100 people received a hand-made plaque designed and made by Cumbrian glass artist, Jo Vincent. This highly successful campaign was celebrated across regional press and radio. You can read all the stories of our 100 Thanks Yous winners at brighterbanking.co.uk/100.


**While the Covid-19 pandemic has affected almost all aspects of business operations, it has not altered our 'people' strategy. On the contrary, it has accelerated it.**

# SUPPORTING OUR people

Our purpose includes a commitment to make a positive difference to the lives of our people, and this has become acutely important during the pandemic. We have worked hard to ensure we have demonstrably and consistently made decisions putting our people and their safety first, and the response of our teams over the past 12 months is testament to this culture.

## Adapting to the pandemic

Our people have adapted incredibly well to the evolving and fast paced nature of Covid-19. From just a handful of people working from home pre-Covid-19 to now the vast majority working remotely, we have ensured our colleagues are fully equipped and set up to safely work from home.

## Supporting colleague's health and wellbeing

Supporting our colleague's wellbeing has been a priority, with a focus on keeping them safe, physically and mentally, wherever they are working. We recognised early in the pandemic that we did not have the relevant health and care expertise in house, so quickly made the decision to invest in a qualified occupational health consultant, working in partnership with our Health & Safety Officer and people managers, to make sure our people are safe. This learning extends throughout the business, with managers trained in how to identify and manage wellbeing issues.

> "We have continued to invest in new colleagues and have welcomed over 50 new people into the business over the past 12 months

VERY GOOD
TO WORK FOR
2021
cert.b.co.uk

This has also enabled the Society to build proactive working relationships with Public Health England and Environmental Health. This has allowed us to access the knowledge and skills of other healthcare professionals, who have supported our own team of mental health champions. As well as doing their day job, when needed, these volunteers support their colleagues, often in their spare time, and we are very proud of their efforts, particularly over the past year.

We are committed to engaging our people and communicating with them to ensure they understand the important role they play and their contribution to the business. Weekly communications have formed a critical part of signposting and engaging our colleagues, alongside creating a culture where people can get involved with more informal activities, such as quizzes and even a virtual pantomime, all of which have been important elements of our health and wellbeing strategy.

## Bringing onboard new colleagues

We remain focused on building the capability we need to drive your Society forward. This means ensuring we have the right people entering the business, with the right skillsets, while creating the right working environment that reflects our Brighter Banking culture.

We have welcomed over 50 new people into the business over the past 12 months. As a result, we have adapted our onboarding process – this is now delivered entirely remotely, with new starters coming together as a cohort. This provides a positive experience for our new people and helps to ensure they are fully integrated into the business.

This new way of working means that colleagues are able to work flexibly from any location, which has enabled us to hire employees with skills and experience we may not otherwise have been able to.

## Learning and Development

We have been ambitious in our Learning and Development strategy and, following a number of senior hires this year, we are now focused on our training and development programme, which will ensure we develop our people's capabilities from within.

At the start of the pandemic, we launched our new performance management programme, Brighter Performance, enabling staff to link their own performance in with the values and strategic aims of the Society.

We switched to remote learning opportunities to boost skills, with examples including "Building Trust Remotely" and "Resilience", and continued to support professional qualifications.

## Key learnings of the past year

Over the past year, our people have worked under very challenging conditions, and we are now reflecting on and learning from this with a view to building it into our culture in the future. Part of this means understanding that people might want to work differently and more flexibly.

Resilience has played a key role in our response to Covid-19. While we are reliant on the leadership of the Society, the pandemic has seen this take on a more shared approach, with people throughout the business taking ownership of morale.

Our ethos, of supporting and empowering our people to be themselves and authentic, has come across incredibly strongly this year. And we are a stronger and more united Society as a result.

As mentioned earlier, we were delighted to finish the year with the news that Best Companies had awarded us a one-star accreditation after a survey of our colleagues, rating us among the best companies in the UK for workplace engagement and confirming The Cumberland to be a 'very good' place to work. We believe this is a significant and positive step for our business, but it has also given us the feedback we need to continue improving, with the goal of achieving two-star 'outstanding' accreditation within the next two years.

LOOKING AFTER THE

# environment

Looking after the environment is a responsibility we all share and, at The Cumberland, we believe that every small change can make a difference.

We understand the impact we have on the environment and we are taking steps to ensure we are making changes. We recycle waste and use recycled products, whenever we can, in all of our branches and head office. We operate energy and water-saving methods and purchase Fair Trade products wherever feasible. We also responsibly dispose of all furniture and IT equipment, recycling wherever possible. Sometimes it's the little things that matter and so we are now in our second year of glass not plastic in all our head office milk supplies.

By helping to look after the planet we're working to look after our people and our customers – the circle of benefit keeps on widening as our efforts continue.

## Energy Efficiency

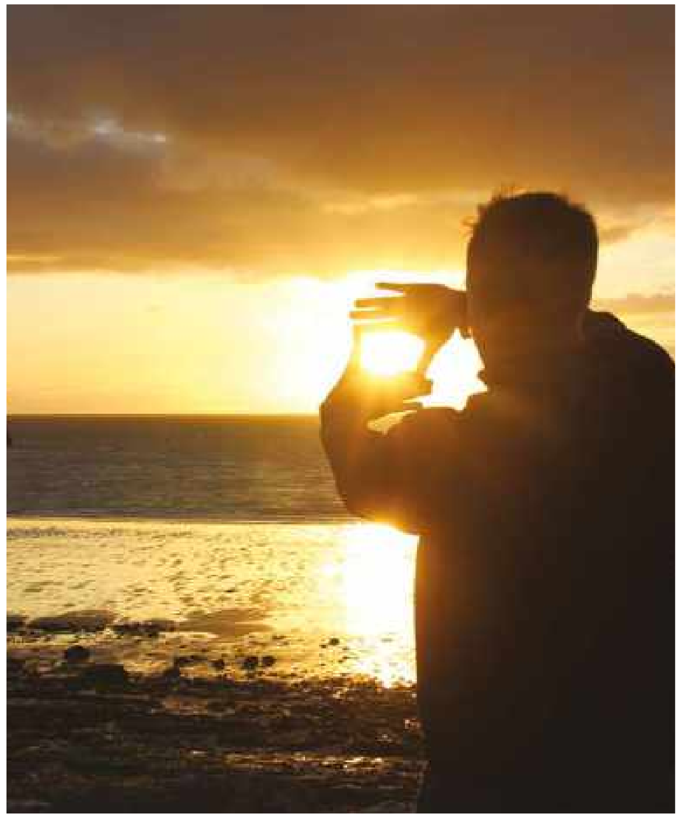
Despite the pandemic, during 2020/21 we undertook several actions to improve our energy efficiency and, in turn, our carbon footprint.

Energy efficient lighting has been installed in a number of our branches, and double glazing has been fitted in our Whitehaven and Dumfries branches to replace old units.

We continue to manage and reduce our environmental impact through ongoing energy conservation, recycling and waste reduction. These include:

- Ongoing monitoring of energy usage is undertaken on a monthly basis
- Ensuring all newly installed boilers, air conditioning and air ventilation systems are energy 'A' rated
- Using recycled paper in head office and all Branches
- Securely shredding and recycling all confidential paper
- Recycling of paper, plastics, cardboard, IT, electrical equipment and printer toners
- Ongoing monitoring of waste consumption
- Improving awareness of energy conservation, recycling and waste reduction among our colleagues
- Reducing the emissions from company cars and business travel wherever possible
- Providing audio and video conferencing facilities to minimise the amount of travelling to meetings
- Looking for ways to save energy during any upgrades and when we buy new equipment
- Reducing print volumes and energy consumption by the use of centralised printer/copier/scanner/fax units in all sites
- Ongoing lighting replacement with energy efficient 'A' rated or LED light bulbs
- Providing electric vehicle charging points in our head office car park

“We understand the impact we have on the environment and we are taking steps to ensure we are making changes.



We comply with the Energy Savings and Opportunities Scheme (‘ESOS’). ESOS is a UK government initiative, under an EU Directive, and requires us to identify and reduce our energy consumption. Our submission for the ESOS compliance requirements for the year ended 31 March 2021 is set out in the table below. We haven’t compared this to last year’s figures, because the reduction this would show, would be largely due to the shift to home working resulting from the pandemic. Whilst this is great, we felt it was important to be honest that we still have more to do on this important issue to reduce our emissions for the long term and that this will remain on our agenda in future years.

| SCOPE 1 - DIRECT EMISSIONS | Unit | Quantity | kWh | Carbon as $tCO_2e$ |
|---|---|---|---|---|
| Natural gas | kWh | | 448,596 | 91.4 |
| Natural gas, **Home Working** | kWh | 761.981 | 761.981 | 155.2 |
| Diesel - average biofuel | Miles | 1,039 | 1,105 | 0.3 |
| Petrol - average biofuel | Miles | 15,179 | 17,656 | 4.3 |
| **Total Scope 1** | | | **1,229,338** | **251.18** |
| **SCOPE 2 - INDIRECT EMISSIONS** | **Unit** | **Quantity** | **kWh** | **Carbon as $tCO_2e$** |
| Electricity - National Grid[b] | kWh | 434,961 | 434,961 | 101.4 |
| Electricity, National Grid, **Home Working** | kWh | 45,125 | 45,125 | 10.5 |
| **Total Scope 2** | | | **480,086** | **111.93** |
| **SCOPE 3 - INDIRECT EMISSIONS** | **Unit** | **Quantity** | **kWh** | **Carbon as $tCO_2e$** |
| Electricity – transmission & distribution | kWh | | 434,961 | 8.7 |
| Electricity – transmission & distribution, **Home Working** | kWh | | 45,125 | 0.9 |
| Employee car – Average Passenger car, **Diesel** | Miles | 14,474 | 15,391 | 3.9 |
| Employee car – Average Passenger car, **Petrol** | Miles | 19,268 | 22,413 | 5.4 |
| Employee car – Average Passenger car, **Unknown** | Miles | 55,543 | 61,794 | 15.3 |
| **Total Scope 3** | | | **579,684** | **34.28** |
| **Total – Scopes 1, 2, 3** | | | | **397.39** |
| **Total $tCO_2e$ per FTE, Scopes 1 & 2** | | | | **0.87** |
| **Total kWh per $m^2$, Scope 1 Gas** | | | | **67.16** |
| **Total kWh per $m^2$, Scope 2 Electricity** | | | | **36.04** |
| **Total $tCO_2e$ per £M gross turnover, Scopes 1, 2, 3** | | | | **8.28** |

Notes
2020-21 FTE = 416
Floor Space: 12,069$m^2$ for electricity calculation, 6,680$m^2$ for gas calculation
2020-21 Turnover GBP £43,830,000

# WORKING WITH OUR Partners

Our suppliers are critically important to the Society; they help us to deliver on our purpose of making a positive difference to our customers, communities and people.

We work with around 500 third party suppliers, who each provide a product or service that helps us to deliver value to our members. Wherever possible, we build long-standing relationships with local suppliers and key third parties.

We take pride in the role our suppliers play in helping us to operate effectively and we place great importance on how well they align with our ethos and culture. We believe in developing strategic, fully developed relationship for the benefit of all parties and we will always strive to work with suppliers who share our values, vision and high standards and who add value – whether that be financial or reputational – to your Society.

We work with around **500** third party suppliers who each provide a product or service that helps us to deliver value to our members.

We are committed to ensuring that our suppliers adhere to the highest standards of ethics and in compliance with relevant legislation and regulation. As such, they are required to demonstrate that they provide safe working conditions, treat workers with dignity and respect and act ethically and within the law in their use of labour.

Our 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 2021, the total amount owed to suppliers was equivalent to 35 days’ credit (2020: 18 days). During the year, we reviewed our processes for identifying and classifying trade creditors accruals to ensure we fully capture services as well as goods, which has resulted in an increase in creditor days. The increase year on year is primarily driven by the step up in spending on change resources in quarter four of 2020-21 and the terms that apply to the provision of such services.

Governance forms a critical part of your Society and maintaining transparent communication with industry and regulatory bodies is key to adhering to the highest standards and to ensuring the best possible outcomes for our members. Members of our Board and Senior Leadership Team liaise regularly with our regulators to help ensure we maintain full compliance across the many functions of our business, which are subject to oversight.

We recognise the responsibility we have to take a robust approach to slavery and human trafficking. As such, we have a Modern Slavery and Human Trafficking Statement, which outlines the Society’s approach to eliminating modern slavery within its wider supply chain.


# risk REPORT

Increasing level of risk

Decreasing level of risk

Stable level of risk

## Principal risks and uncertainties

2020 has been dominated by the Covid-19 pandemic, with our priority being ensuring the Society protected its colleagues, supported its customers and continued to operate safely. We have maintained continuity of key services throughout the year.

The ongoing impact of Covid-19, the lockdown, and the potential impact of Brexit trade arrangements on the UK economy create uncertainties, particularly in respect of credit risk. And this has led to an increase in this risk, with actions taken, and under regular review, to ensure we support customers in financial difficulty and lend responsibly in these difficult times.

As the Society has progressed its Cumberland 2025 plan, there has been a need to invest in its IT infrastructure, with significant levels of change delivered, underway and planned, requiring a focus on effective change management and an increased level of inherent risk due to the level of transformation.

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 way to control and mitigate these risks. The framework itself is owned, developed and 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 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 principal 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 included are consistent with the risks faced in the prior 12 months.

| Risk and impact | Mitigation | Movement in risk profile | Latest progress |
| --- | --- | --- | --- |
| **Operational Impacts of Covid-19**<br>The risk to members and the Society including the increasing challenges in supporting health and wellbeing while serving member needs effectively. | Our incident management processes were deployed in our initial response to the pandemic, with increased levels of governance and more frequent management meetings, communication and enhanced support to staff<br>Health and wellbeing processes. | | The risk profile remains stable as, despite the Society's effective handling of the immediate impacts on our staff, customers and operations, the long term impact is still uncertain.<br>Over the past 12 months, the Society has:<br>stayed open, serving members throughout;<br>• enhanced the arrears management function to provide support for customers in financial difficulty;<br>• implemented streamlined forbearance approaches, including payment holidays, helping members manage their finances;<br>• shielded our vulnerable colleagues;<br>• supported additional sick leave for isolating colleagues;<br>• increased the number of colleagues able to work from home; and<br>• implemented social distancing in branches and head office. |
| **Brexit Impacts**<br>The risk that the economic, political or regulatory changes from Brexit detriment the Society. | The Society does not trade outside the UK and is not reliant on EU employees, so the direct impact of Brexit is limited.<br>The key risk of Brexit is the second order impacts on the UK economy and our customers with this general economic risk managed through our scenario planning and stress testing. | | The risk profile is stable as although the Government signed a UK-EU Trade and Cooperation agreement on 30 December 2020, thereby reducing uncertainty in the ongoing trading relationship with our largest external market, there remains significant downside risks to the UK economy, and signs of disruption to trade are emerging.<br>Over the past 12 months, the Society has:<br>• monitored the developing legal and regulatory changes which may be required as a result of the exit from the EU. |
| **Credit Risk**<br>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.<br>This risk is impacted by unemployment rates, changes in house values and interest rates.<br>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 has taken the UK into recession with the speed of recovery uncertain. | Overall lending standards are controlled by a Board level policy.<br>Lending criteria are agreed at formal credit committees, chaired by the Head of Credit Management and attended by SLT members.<br>All lending is fully manually underwritten, checked for affordability, suitability and that the lending is responsible.<br>All high value or complex lending is approved by specialist underwriters.<br>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. | | The risk outlook is worsening due to the impacts of the Covid-19 pandemic, lockdown and Brexit on likely arrears and forbearance requirements, with further deterioration expected with the ending of government support schemes in June to September and anticipated rises in unemployment thereafter.<br>Over the past 12 months, the Society has:<br>• recruited additional people to manage Credit Risk across all key products;<br>• continued to develop insight and internal and external leading indicators to enable more informed decision making;<br>• developed reporting to meet additional regulatory requirements in respect of Covid-19 impacts specifically regarding arrears and forbearance;<br>• rebuilt and refined its operational processes to manage arrears and provide forbearance and other forms of support to members; and<br>• reviewed lending criteria to reflect changes in credit risk as a result of Covid-19 and lockdown impacts on the economy and The Cumberland's lending book. |

| Risk and impact | Mitigation | Movement in risk profile | Latest progress |
|---|---|---|---|
| **Operational Risk**<br>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.<br>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.<br>Risk teams in the business follow agreed processes to identify, measure, manage and mitigate risk.<br>These teams also report any incidents or policy or regulatory breaches.<br>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 has increased. Historic issues have been identified and investment in remediation has been prioritised. This includes identification of the need for additional investment in our technology platforms.<br>The Covid-19 pandemic remains a risk to the Society's resourcing and service availability. However, the programme to deliver agile working delivered successfully and the close and continuous management of resourcing has meant no critical services have been impacted.<br>The Society is in the process of rolling out an operational risk management system, which will deliver enhancements to the management of operational risk and deepen capability for risk profiling.<br>Over the past 12 months, the Society has:<br>• invested in specialist roles to enhance the capability for managing Technology, Change, Information Security and Financial Crime risks;<br>• strengthened change management processes;<br>• enhanced our First Line Risk teams, with additional specialist risk managers embedded across business teams to strengthen first line of defence risk management practices; and<br>• introduced focussed oversight and governance through the introduction of an Operational Risk Committee, which supports the executive Risk Management Committee in managing this risk. |
| **Strategic Risk**<br>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.<br>The acceptable levels of risk that can be taken when delivering the strategy clearly stated in risk appetite.<br>Outcomes against risk appetite and triggers are presented monthly to Board. | ⇄ | Risk profile is stable as despite the worsening macro-economic outlook the Society continues to deliver against its strategy although some delay has been experienced as a result of the impacts of the Covid-19 pandemic.<br>Over the past 12 months, the Society has:<br>• continued to build key aspects of the business to be able to deliver strategic change;<br>• adapted the business operating model to manage the impacts of the pandemic;<br>• engaged a third party to assist in assessing the future impacts of climate change and supporting The Cumberland to become a more sustainable business; and<br>• simplified the operations of the Group through a programme of process review and improvement. |
| **Regulatory Risk**<br>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 or voluntary codes of practice potentially leading to unfair outcomes for customers and/or regulatory sanction and/or reputational risks materialising. | Minimum standards are maintained through the Regulatory Risk Policy.<br>Business areas in the Society follow agreed processes and standards for managing compliance.<br>Horizon scanning gives a clear view of upcoming regulatory requirements.<br>This is all supported by agreed standards for proactively managing contact with the regulators. | ↓ | The outlook for this risk has improved, as a number of historic issues have been closed or remediated.<br>Over the past 12 months, the Society has:<br>• pro-actively managed any challenges with meeting regulatory requirements with the regulator, particularly, in respect of responding to the regulatory requirements introduced in response to Covid-19; and<br>• strengthened links between regulatory horizon scanning and change to ensure that there is a clear line of sight from new regulatory requirements through to implementation. |



| Risk and impact | Mitigation | Movement in risk profile | Latest progress |
|---|---|---|---|
| **Conduct Risk**<br>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.<br>Looks at all areas of potential customer detriment and tests whether any detriment is occurring.<br>Issues identified are put right for customers affected.<br>Comprehensive set of MI flags areas to investigate.<br>Detailed product governance framework ensures that any new products are developed to minimise the likelihood of customer detriment. | ↓ | The outlook for this risk has improved 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.<br>Over the past 12 months, the Society has:<br>• established a Conduct & Regulatory Risk Oversight Committee to provide further detailed consideration of Conduct Risk; and<br>• ensured that the customer has been at the core of its Covid-19 response. |
| **Liquidity Risk**<br>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).<br>Liquidity levels stress tested to ensure sufficient liquidity available to meet requirements through a severe stress.<br>Daily dashboard gives full overview of liquidity levels.<br>Liquidity Management Committee ensures future lending volumes and funding availability is considered in managing liquidity levels.<br>The ILAAP sets our risk appetite and helps ensure appropriate levels of liquidity are maintained at all times.<br>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 has improved with some improvements in the approach to forecasting and managing liquidity requirements.<br>Over the past 12 months, the Society has:<br>• refreshed and improved its ILAAP with enhanced analysis and insight;<br>• repaid some of its TFS funding reflecting strong liquidity position and received approval to draw funds from the TFSME Scheme;<br>• achieved approval to move to the 'Extended Approach' to treasury management from the PRA, which allows the Society to access additional funding sources and increase the levels of fixed rate lending;<br>• enhanced stress tests based on real world data;<br>• improved forecasting of future liquidity requirements; and<br>• seen increased levels of liquidity as savings volumes strengthen. |
| **Capital Risk**<br>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.<br>The ICAAP helps ensure appropriate levels of capital are maintained at all times and allows the Society to effectively test and set the risk appetite. | ↓ | Risk profile reducing due to the reduced levels of capital the regulator requires the Society to hold.<br>Over the past 12 months, the Society has:<br>• further enhanced its approach to its ICAAP and updated its indicator frameworks as part of an update to the recovery plan; and<br>• grown the level of available capital through profitable operation. |
| **Interest Rate Risk**<br>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.<br>A financial risk management framework and policy details all the processes and limits for managing interest rate risk.<br>Stress tests are applied as part of the ICAAP.<br>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. The prospect of a negative interest rate remains a concern, and should this occur, would have significant short term impact on the Society requiring significant internal change and impacting on its profitability.<br>Over the past 12 months, the Society has:<br>• refreshed the Financial Risk Management Policy to further clarify the limits and the processes to deliver to those limits; and<br>• achieved approval to move to the 'Extended Approach' for treasury management from the PRA.<br>This has allowed the Society to:<br>• increase the range of treasury instruments and operations used;<br>• improve its capability to measure and hedge interest rate risk and structural risk across the whole balance sheet rather than just hedging individual transactions. |

| Risk and impact | Mitigation | Movement in risk profile | Latest progress |
|---|---|---|---|
| **Pension Risk**<br>The risk that the value of assets in the Society's defined benefit pension scheme alongside additional contributions are insufficient 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.<br>The approach is stress tested against standard requirements set out by the PRA.<br>Capital is held to ensure there are sufficient funds to cover severe but plausible changes to pension asset values or liabilities.<br>The scheme has an agreed journey plan that will de-risk the scheme's investments when certain triggers are met. | ↑ | The outlook for this risk is increasing due to the deficit increasing year on year, despite mitigating actions.<br>Over the past 12 months, the Society has completed the transfer of actuarial, investment and administration services to ISIO, having outsourced trustee and governance services to Entrust in January 2020.<br>During the same period, the scheme has gradually de-risked some of its exposure from growth funds into credit funds and Liability Driven Investments (LDI) and this activity is expected to continue.<br>Despite these improvements in risk management and a further deficit reduction contribution of £2.3m, the scheme's deficit has widened by almost £5m year on year driven by an expectation of higher inflation in the UK, coupled with a prolonged low interest rate environment. |

# Our financial performance was robust

**The Cumberland delivered a robust financial performance in a unique and challenging year. Your Society grew despite the disruption to mortgage lending of the various lockdowns across the UK and we were able to continue lending throughout the year. You trusted us with your savings and deposits grew faster than for some time.**

We continued to invest in our people and our processes, while necessarily diverting energy and resources to protecting our people and you, our members, and facilitating the new remote working world that has characterised so many of our lives. Our performance was substantially better than budget, and guided in last year's annual report, reflecting both better business conditions than feared and a slower ramp up of investment spend than forecast. Profit before tax rose to £10.5m (2020: £8.3m).


WELCOME TO YOUR
# chief financial
OFFICER'S REVIEW

“

2021's financial performance was robust



At an operating profit level, your Society saw a reduction to £9.2m (2020: £11.1m), as revenue was broadly flat, but our investments in people and processes continued, as we purposefully reshaped how The Cumberland delivers to you, our members.

**£2.2bn**
Mortgages

| | |
|---|---|
| 2021 | 2173m |
| 2020 | 2156m |
| 2019 | 2062m |
| 2018 | 2024m |

**£2.3bn**
Deposits

| | |
|---|---|
| 2021 | 2342m |
| 2020 | 2138m |
| 2019 | 2067m |
| 2018 | 1969m |

**1.61%**
Net Interest Margin

| | |
|---|---|
| 2021 | 1.61% |
| 2020 | 1.60% |
| 2019 | 1.61% |
| 2018 | 1.66% |

**£10.5m**
Profit before tax

| | |
|---|---|
| 2021 | 10.5m |
| 2020 | 8.3m |
| 2019 | 14.3m |
| 2018 | 21.4m |

**17.7%**
HQLA

| | |
|---|---|
| 2021 | 17.7% |
| 2020 | 16.0% |
| 2019 | 14.4% |
| 2018 | 14.3% |

**77.5%**
Cost to income ratio

| | |
|---|---|
| 2021 | 77.5% |
| 2020 | 71.8% |
| 2019 | 62.2% |
| 2018 | 54.0% |

**19.5%**
Common Equity Tier 1 ratio

| | |
|---|---|
| 2021 | 19.5% |
| 2020 | 19.0% |
| 2019 | 17.6% |
| 2018 | 16.0% |

## Key performance indicators

The Society monitors many aspects of financial and non-financial performance on a regular basis. The graphic above, and this section, focuses on those measures that are reported to and considered key to the business' financial success by the Board. A full list of the Group's KPIs and definitions can be found on page 135.

# Income statement

## Overview

This year, profits have risen despite the challenges of the pandemic and the lowest base rate environment in the UK's history. A robust revenue performance, combined with an unwind of some of the fair value charges taken over the last two years and the absence of any further one off costs from legacy matters, more than offset the planned increase in operating expenses.

**A summarised Income Statement is set out below.**

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Interest receivable | 54,433 | 66,937 |
| Interest payable | (11,679) | (25,316) |
| **Net interest income** | 42,754 | 41,621 |
| Other income or charges | 1,076 | 2,213 |
| **Total operating income** | 43,830 | 43,834 |
| Management expenses | (33,971) | (31,478) |
| Provision for bad and doubtful debt | (678) | (1,252) |
| **Operating profit** (before hedge accounting, other provisions and one off items) | 9,181 | 11,104 |
| Other provisions and charges | (172) | (1,917) |
| Gain on Visa shares | - | 429 |
| Loss on disposal of CEAL | - | (289) |
| Gains/(losses) on derivatives and hedge accounting | 1,464 | (987) |
| **Profit before tax** | 10,473 | 8,340 |
| Tax | (2,059) | (1,779) |
| **Profit for the year** | 8,414 | 6,561 |

## Net interest income

Net interest income has increased to £42.8m (2020: £41.6m). The growth in the net interest figure obscures a dramatic reduction in the level of both interest income and interest expense, as the Society passed on the impacts of the Bank of England's historic move to a 0.1% base rate to its borrowers in full. Where borrowers had locked in fixed rates, the Society saw a significant increase in the cost of the derivatives that manage this risk, reducing income further, as through the swap the Society receives a variable rate of interest, which reflected the decline in base rate and captured the expectation that rates will be lower for longer. On the liability side, the Society reduced its rates, but chose not to pass on the full impact of the base rate reduction, where it felt that returns on accounts would become too low to support member saving. Nevertheless, savers desire for instant access to a large amount of their funds and the benefit of last year's savings rate rationalisation were sufficient to see modest growth in Net Interest Income (NII) broadly in line with the growth in assets. Further detail is captured in the Net Interest Margin (NIM) section below and in our balance sheet review.

## Net interest margin

NIM has increased by 1 basis point year on year to 1.61%. During the year, there was some volatility as we worked to provide good value to customers while protecting margin. The initial part of the year saw strong downward pressure on mortgage pricing in core owner occupier business lines across all loan-to-value (LTV) bands as deals agreed during 2020 completed and the impact of the pandemic stalled new business. Further pressure came from the legacy swaps, for the reasons described earlier, alongside a necessary temporary withdrawal from the 95% LTV market in light of the extreme economic uncertainty. Thereafter, asset pricing rose as demand outstripped supply and other lenders withdrew from many aspects of the market. On the liability side, we continued to offer competitive rates, but both the mix of deposits (current account and instant access) and price reductions to control volume meant our cost of funds has been on a downward trajectory during the second half of the year.

| | 2021 £m | 2020 £m |
|---|---|---|
| Net interest income | 42.8 | 41.6 |
| Average financial assets | 2,658 | 2,594 |
| | % | % |
| Net interest margin | 1.61 | 1.60 |

Maintaining margin is a key strategic aim, which will remain a focus in 2021-22. Pressure will come from renewed asset pricing compression and the Covid-19 related stalling of demand from our commercial customers, who focus on hospitality and tourism, until normal market conditions return later in the year.

## Derivatives and hedge accounting

The Society uses derivative financial instruments solely to manage interest rate risk arising from its mortgage and savings.

During 2021, there has been considerable market volatility impacting swap valuations. Both LIBOR and SONIA reacted to the base rate change and captured the possibility of a further move into negative territory, as the UK faced the possibility of a 'no deal' Brexit and the surging pandemic, before recovery in the last three months of the year, as the vaccine programme gained momentum. Whilst the Society's derivative financial instruments have remained effective in economically hedging risks as they were designed to do, hedge accounting does not remove all volatility. As a result, gains of £1.5m were recognised in the year in part reflecting the unwind of the significantly larger charges of the last two years (2020: £987k charge; 2019 £1.8m charge). This year's movement also included a gain on derivatives, used to economically hedge the mortgage pipeline, of over £800k.

These movements represent timing differences and are expected to reverse over the remaining life of the derivatives and do not reflect the economic reality of the hedge. As explained in the NII analysis, the Group's income from mortgages has been reduced by the lowering in variable rate income received from the hedging derivatives and this is expected to continue for the next couple of years.

During the year, the Society received permission from the PRA to implement the extended approach to treasury management and this will allow a reduction in the absolute level of derivatives required over time as reserves are utilised to help hedge the economic risks that arise from fixed rate mortgage lending.

## Management expenses

Our substantial investment in the Society and its strategy continued as we deliver on our commitment to make the business safe, sound, compliant and ultimately sustainable. This is seen in both our people and administrative costs, which rose. During the year, we adapted our business to the path of the pandemic and this impacted costs positively. As a result, while both salaries and expenses rose year on year, they were lower than forecast. We spent money on new items such as PPE and laptops and related equipment for all our people working remotely. We saw postage and other communication costs (telephone and video conferencing) rise. This was more than offset by reductions in items such as travel, external training and printing and resulted in a lower net expense level than planned. While year on year salaries and staff numbers rose as we brought in new skills and invested in our people through initiatives such as six Sigma training, the ramp up in IT investment was delayed, only beginning to climb demonstrably in the final quarter.

The Society's major change programmes extend over our three year strategic planning horizon into financial year 2025/2026 and we expect to support an elevated and growing level of investment over this multi-year period. The action we have taken to ensure that change execution risks are appropriately mitigated during the pandemic period means that activity in some areas has been rescheduled into next year, resulting in only modestly rising change and investment costs compared to last year.

Further information regarding management expenses is included in note 7 to the accounts.

## Arrears and impairment charge

The strong credit performance of the Society's loan books was maintained in 2021 and the benefits of our long term commitment to prudent and responsible lending was demonstrated. Our rigorous underwriting processes ensure that loans are affordable and our loans continue to be subject to manual underwriting by specialist teams, rather than relying on automated credit scoring. This allowed us to rapidly adjust our lending criteria and appetite, as the pandemic and first lockdown occurred, without withdrawing from the market. We have been able to work through customers' circumstances and lend where this has been the responsible thing to do and we have continued to provide mortgages, overdrafts and vehicle finance throughout the pandemic.

The Cumberland reacted quickly to meet regulatory requirements as they evolved, and we rapidly provided payment holidays through internet and telephone channels. At no point in the pandemic did customers face long queues to speak to our branch or contact team colleagues and we are proud to have been able to meet our members' needs for support in the face of an unpredictable and economically destructive pandemic.

In the initial part of the year, our levels of forbearance grew sharply, before the vast majority of customers exited payment holidays. As the UK entered its third period of lockdown in January, we once again worked hard, this time often with bespoke forbearance to meet the needs of those who had already exhausted the 6 month term of the FCA's payment holiday initiative. The level of customers in forbearance measures at 31 March 2021 are:

| No. of cases (% of book) | 31 March 2021 | 31 March 2020 | 29 February 2020 |
|---|---|---|---|
| **FSRP (All)** | 233 (1%) | 1267 (7%) | 11 (0%) |
| **FSRP (Owner Occupied)** | 165 (1%) | 706 (4%) | 5 (0%) |
| **FSRP (BTL and HL)** | 68 (3%) | 561 (24%) | 6 (0%) |
| **FSOL** | 43 (7%) | 278 (45%) | 18 (3%) |

From November 2020, we began to see a small, but definite, increase in the level of customers in arrears, as the repeated waves of lockdowns on business and holiday let borrowers created challenging trading conditions, and prolonged furlough and unemployment affected some borrowers.

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

| Accounts in arrears (≥ 90 DPD) as % of loan book | 31 March 2021 | 31 March 2020 |
|---|---|---|
| **FSRP** | 0.18% | 0.08% |
| **FSOL** | 4.30% | 0.80% |

In the 2020 accounts, we discussed the impact of a single large connection on our FSOL arrears. During the year, we worked with the administrators of the linked companies and the majority of the exposure was repaid from the sale of collateral. The smaller of the exposures has been almost fully repaid and is expected to result in a loss of a modest level of accrued interest due, but no capital. The larger and better secured exposure has also reduced at 31 March 2021 to £1.1m. This reduction in risk, and the related provisions, has been offset by the raising of new specific provisions on a number of commercial borrowers who have been unable to trade during the pandemic.

The income statement charge for bad and doubtful debts was £678k (2020: £1,252k). More information on forbearance, arrears, provisioning and impairment is included in notes 13 and 29 to the annual report and accounts.

## Other provisions and charges

We raised no new provision for liabilities in 2021 and no significant new exposures arose. We continue to provide for the largest of the matters discussed in 2020. A modest loss on our investment properties of £144k (2020: £445k) was recognised.

## Subsidiary Companies

The Group's financial statements incorporate the assets, liabilities and results of a small, and reducing, number of subsidiaries, as we deliver on our commitment to simplify our business as part of the Cumberland 2025 strategy. The only operationally significant subsidiary is Borderway Finance Limited (BFL). BFL, our motor finance business, contributed a profit before tax of £453k (2020: £549k) to the Group's reported results. BFL faced difficult trading conditions with many of its car dealership clients forced to close for long periods during the year. In addition, a risk appetite based decision was made not to offer other types of unsecured lending at the onset of the pandemic, and this business line has been closed to new business throughout the year. Customers who could do so have taken the opportunity to pay down loans and the balance sheet reduced to £21.0m (2020: £24.4m). New vehicle lending volumes recovered in the later part of the year. Credit quality has been robust. Pleasingly, the level of arrears has remained subdued and the vast majority of customers, who utilised forbearance, have returned to scheduled payments.

After a modest extension of transitional service arrangements to support its new owners during the first lockdown (through to July 2020), Cumberland Estate Agents Limited, our former estate agency subsidiary, whose business was sold in November 2019, has ceased all operations. We also took the decision in December 2020 to close Cumberland Financial Services Limited, our IFA. The subsidiary ceased operations prior to the year end.

# Balance Sheet

## Overview

Loans and advances to customers and liquidity have grown during the year by £20m[1] and £21m respectively. Customer deposit growth significantly outstripped asset growth, allowing early paydown of Bank of England funding and a reduction to deminimus levels in other wholesale funding.

**A summarised Balance Sheet is set out below:**

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Assets** | | |
| Loans and advances to customers | 2,194,960 | 2,181,796 |
| Liquidity | 478,255 | 456,992 |
| Other | 29,243 | 24,750 |
| **Total assets** | 2,702,458 | 2,663,538 |
| | | |
| **Liabilities** | | |
| Retail funding | 2,341,686 | 2,138,078 |
| Wholesale funding | 130,034 | 298,939 |
| Other | 33,958 | 32,571 |
| **Total liabilities** | 2,505,678 | 2,469,588 |
| | | |
| **Equity** | | |
| **Profit for the year** | 8,414 | 6,561 |
| General reserve | 185,601 | 184,522 |
| Available for sale reserve | 2,765 | 2,867 |
| **Total equity** | 196,780 | 193,950 |
| **Total liabilities and equity** | 2,702,458 | 2,663,538 |

## Loans and advances to customers

The Cumberland's lending strategy remains consistent, but the year's performance is best understood in the light of the Covid-19 pandemic. Our high quality owner occupied book grew throughout the year. However, growth was modest, particulary in the initial quarter, as the pipeline of business stalled. When the lockdown lengthened the timelines from offer to completion and, for a time, surveys ceased. Strong levels of retention throughout the year supported a stable growth trajectory.

Our holiday let and buy to let portfolios were broadly flat, as growth in holiday let demand was offset by a reduction in buy to let business. Holiday lets, in particular, saw a trend of high demand but slow completion. Our FSOL lending, which is focused on the hospitality and tourism sectors, reduced slightly to £171m (2020: £179m), as we recovered £9m of defaulted exposures, new lending was limited and businesses took advantage of payment holidays and capitalisation.

We advanced £343m of mortgages (2020: £411m) and mortgage balances grew by £24m[1] (2020: £85m).

## Liquidity

On-balance sheet liquid assets rose to £478m (2020: £457m), as we maintained a prudent buffer given the uncertain economic backdrop and members deposited a high level of new funds. 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 remained strong, growing to 17.7% (2020: 16.0%).

The Liquidity Coverage Ratio (LCR), which is the primary regulatory measure, continued to be very strong at 236% (2020: 227%), considerably above the minimum regulatory requirement.

Liquid assets are principally held in deposits at the Bank of England. During the second half of the year, we began the process of diversifying a small portion of our liquid assets away from the Bank of England reserve account into covered bonds. These deposits, which will largely replace funds that we historically held in unsecured deposits with other UK based financial institutions, are secured by the cashflows of the underlying mortgage assets as well as the guarantee of the issuers, but offer a small increase in the available yield. At 31 March 2021, included in liquid assets are £7.1m of assets held at fair value through other comprehensive income (FVOCI).

## Retail funding

The Society continues to be well funded by its retail depositors, the great majority of whom are located in its branch operating area. We saw a net inflow of funds of £194m (2020: £44m), which saw our total retail funding rise to £2,342m (2020: £2,138m), growth of 9.5%. As a result, our deposit to loans ratio rose to well over 100% and all new lending was fully funded by new deposits.

The growth in saving and current accounts in 2021 was more than four times that seen in 2020, and was substantially higher than expected reflecting the impact of Covid-19 on many members finances as discretionary spending reduced. After the initial surge in deposits in the first lockdown, we have seen sustained and broadly consistent month on month growth, which reflects well on the quality of our products and service and the competitive interest rates we pay. Our retention of fixed rate term deposits that passed through a maturity date was well over 90%, validating our long term commitment to support savers.

Our strong retail funding performance allowed us to repay £160m of Bank of England funding.

## Wholesale funding

We use wholesale funding to make our funding mix more diverse. This reduces risk, and our use of the Bank of England's sterling monetary framework facilities provides additional tenor and flexibility, and supports overall cost of funding in this historically unusual rate environment, all of which benefits members.

As a result of the strong retail inflows we saw, we allowed all 6 month ILTR funding to mature and the outstanding balance of funding under the Term Funding Scheme (TFS) was paid down by £100m to £130m. The Society has been accepted into the Bank of England's Term Funds for SME (TFSME) scheme, which provides four year term funding, and we plan to refinance the residual TFS through this means in the second half of next year. There is the opportunity to draw significantly more funds than our current outstanding TFS and we plan to judiciously increase our use of this funding source to support planned growth in our lending.

## 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 maintained our gross capital ratio (gross capital expressed as a percentage of total shares and deposits) at 7.96% (2020: 7.96%). This gives us a very strong base to support the business, as we accelerate investment levels markedly, as we move towards Cumberland 2025. Our current level of surplus will also allow us to grow our level of lending, even as profits are very largely invested in 2022 and beyond.

The Society's regulatory capital position at 31 March 2021 is summarised below. Our CET 1 ratio strengthened further to 19.5% (2020: 19.0%). If 2021's earned profit is included, this ratio improves to 20.4%.

| | March 2021 | March 2020 |
|---|---|---|
| **Capital resources:** | £m | £m |
| Common Equity Tier 1 (CET 1) capital | 196.7 | 193.9 |
| Total capital | 198.4 | 195.5 |
| Risk weighted assets | 965.5 | 986.5 |
| | | |
| **Capital and leverage ratios:** | % | % |
| Common Equity Tier 1 (CET 1) ratio | 19.5 | 19.0 |
| UK leverage ratio | 7.20 | 7.15 |

The Prudential Regulation Authority (PRA) provides the Society with a Total Capital Requirement (TCR). This sets the minimum capital which the Society must hold under Pillar 1 and Pillar 2A requirements and is driven by both balance sheet growth and risk factors determined by the PRA. The Society comfortably meets this requirement using CET 1 capital alone. The Group's TCR at 31 March 2021 was £129.6m.

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.

**Richard Ellison**
**Chief Financial Officer**
**8 June 2021**

1 Gross exposure excluding hedge accounting adjustments.

# 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 30 to 34. Last year's assessment was made in the unique circumstances created by the initial Covid-19 outbreak. We now have over a year's experience of operating in the unusual trading conditions that Covid-19 has created and our confidence has grown as our business model has shown its resilience and our responses have proved effective. While uncertainty remains elevated, versus other historic periods, it has, in the directors' opinion, reduced year on year and we have sought to reflect this in our extended analysis below.

## Longer term prospects

The Group's business model and strategic priorities are set out on pages 14 to 18. 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 2021, 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 reflected on another year of change delivery and a strong financial performance, while recognising that the path of the pandemic necessarily saw reprioritisations in some areas. 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, is 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 considered and approved The Cumberland's three year budget at the end of March 2021 and has incorporated that analysis in its assessment of viability.

## Assessment period for viability

The directors have considered the viability of the Group and Society over a three year period to 31 March 2024. 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 Covid-19 pandemic, extended lockdown 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 remains fraught, as a result of the ongoing restrictions on economic activity and significant government responses, which have changed the path of the economy as a whole but are likely to unwind in the year ahead; 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 into negative territory 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 three year period assume a continuation of the low interest rate environment that commenced in March 2020 and that has reduced yields on almost all assets.

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 2021. The current year has seen more customers ask for and receive forbearance than has ever been the case historically. While the vast majority have subsequently exited forbearance, returning to loan payments, we continue to support many customers though the ongoing lockdown and restrictions on trade. The level of loss crystalised has remained very low, but it is not realistic to expect this to continue and it is reflected in both provision coverage and our forecast impairment charges.

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 August 2020 and concluded that the Society maintains sufficient capital resources to meet regulatory requirements under the central planning scenario and also, with management actions, under the modelled economic stress scenarios. The Society's surplus of capital over regulatory requirements, in the central scenario, modestly increased over the three year period assessed and, since that time, the Society has exceeded its financial forecasts growing its available capital surplus. The Society considered the economic conditions which existed at 31 March 2021 and concluded that the stress testing remained appropriate.

The stress tests applied were in line with, or more severe than, Bank of England scenarios and were performed on the baseline financial plans, which had already incorporated the reductions to UK base rates, and other market interest rates as well as the impact of the pandemic on new business levels and types, coupled with heightened levels of impairment losses. The stress testing included consideration of negative interest rates and examined 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 PRA, working with the Bank of England, has adjusted how it assesses capital buffer requirements in light of the desire to ultimately increase the level of Countercyclical capital buffer to 2%. This has reduced the absolute capital requirement of the Society and they offset this by a smaller increase in the level of Pillar 2B capital, which is available for use in a stress. This has further increased the Group's available capital surplus. The current year's post tax profits are also available as capital, shortly after the date of approval of these accounts.

The ILAAP, which addresses the Group's funding and liquidity, was last updated in November 2020 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 continued inflow of customer funding and the extension of the TFSME scheme by the Bank of England.

The Group has seen strong inflows from its retail customers in the current year and has seen this trend continue into the early part of the new financial year. The Cumberland is an active member of the Sterling Monetary Framework (SMF) but due to the current level of retail inflows has allowed all of its ILTR drawings to mature, enhancing its available unencumbered assets.

During the year ended 31 March 2021, the Group continued the repayment of Bank of England funding from the financial crisis. It repaid £100m of outstanding 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 four year funding. This facility has been extended and will remain open until October 2021 and our updated funding plan, approved by the Board on 4 May 2021, shows that we will take advantage of this stable, long term funding in the second half of the next financial year.

We will also replace all of the remaining legacy TFS (that we have not repaid earlier, in line with our plans) removing this outflow from our 2022 forecasts and markedly extending the tenor and stability of this funding source.

Liquidity stress testing, incorporating each of the relevant principal risks on pages 30 to 34, 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.

During March 2020, the Society transitioned the vast majority of head office colleagues to home working in line with government guidelines. These colleagues have continued to work from home locations through the whole of the financial year having been provided with updated IT and communications equipment and tools. We also moved early to protect the viability of branch services and wellbeing of our staff and have continued to provide services from our branch network, while improving safety for colleagues and customers. In the third UK wide lockdown, we further segmented our pools of colleagues to reduce transmission and where necessary have temporarily closed branches before successfully reopening. This form of flexible and agile operation has become a new normal. 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. This leaves the directors satisfied that the business can continue to operate safely and soundly even in the unique circumstances it continues to find itself.

At the date of this report, and after over a year of working within a pandemic impacted operating environment, the Group has not identified any current or emerging supplier issues that would impact its assessment of the Group's own viability.

Early in the pandemic period, the Group put in place a formal logging and capture horizon scanning process for all regulatory and industry body pronouncements and this has been maintained throughout the period.

Lucinda Inglis,
business lending support team



### 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.

> “The Society has continued to offer its services to both existing and new customers via branch, phone and internet channels

The Group has periodically reassessed both its own critical services, in light of the pandemic, and its supplier base.

The Group is in standardised quarterly contact with the PRA, its primary regulator, to discuss the path of the pandemic and its impact, a reduction from the biweekly contact that was standard and in place earlier in the year. It has also returned to a normalised level of communication with the FCA.

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 30 to 34, includes ongoing monitoring and reporting of emerging risks and scenario analysis, enabling further enhancements to the control environment to adapt to these risks. The Group has assessed the impact of the UK's departure from the EU and has made the adjustments to our services that this has made necessary.

## Conclusion

Based on the above assessments, and having considered each of the principal risks and uncertainties discussed on pages 30 to 34, 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 over the last year 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 Group's going concern statement is included on page 87.



# outlook

The outlook for the UK economy is highly uncertain. In the immediate term, the impact of the pandemic on all of our lives and the economy is dramatic and has resulted in a major recession, despite the extraordinary levels of support by government. The shape of the recession is likely to differ to those experienced in recent history because of the sustained government support and the two track economy that has emerged with some businesses thriving and others forced to shut. This will develop as the UK faces into a more complex and burdensome trading relationship with Europe which will create a drag on many sectors. This makes prediction fraught. There is an expectation that interest rates will remain at their historic lows for a sustained period with rises perhaps pushed outside of our current planning horizon.

As outlined in the Chief Financial Officer's Review, the Society's profitability is expected to reduce over the coming three years, as it comes under increasing market pressure and competition, as it absorbs the impact of Covid-19 on the economy through its business, mortgage and overdraft customers, and as it strategically invests in its future towards Cumberland 2025.

Nevertheless, The Cumberland 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
8 June 2021

# CORPORATE GOVERNANCE HIGHLIGHTS OF 2020/21

Improved gender diversity by welcoming two new female non-executive directors.

Enhanced board engagement during Covid-19 pandemic.

Strong external Board Effectiveness Review.

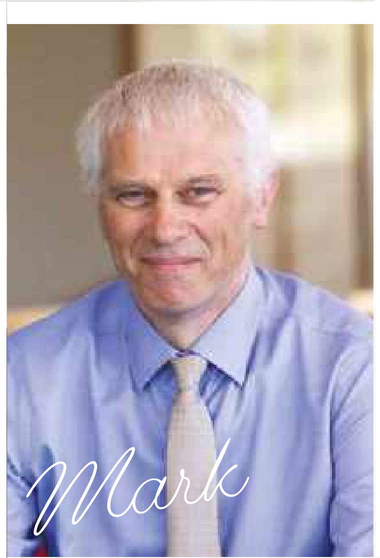
Focus on People, Remuneration and Culture.



# CORPORATE governance REPORT

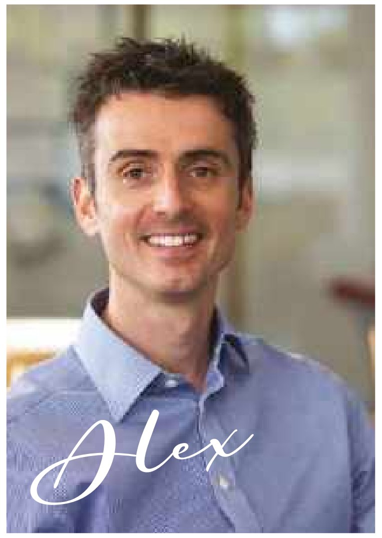
Corporate Governance Report

# OUR senior team










## The Society's Board of Directors is responsible for the governance of the Society

### Chairman's Welcome

Dear Member,

Welcome to the Corporate Governance Report for 2020/21. This year, as ever, my Board and I remain committed to the highest standards of corporate governance. Although the Society, as a mutual organisation, is not required to comply with the principles in the UK Corporate Governance Code 2018 (the 'Code'), we nevertheless have regard to the Code, along with other legislation and guidance, when establishing and reviewing corporate governance arrangements. This report explains how the Society does that and the table on pages 136-138 sets out the principles of the Code and where in this report you can find how the Society addresses them.

During my second year as Chairman, I have been delighted to welcome Vicky Bruce and Kelli Fairbrother to the Board, which allows us to benefit from their valuable expertise and experience and has improved both the gender and cognitive diversity of the Board. Once our new members had joined, it was possible for Alan Johnston, formerly our Vice Chairman, to stand down after reaching his maximum permitted term and I thank Alan for his valuable contribution to the Board and the Society during his 9 years' dedicated service.

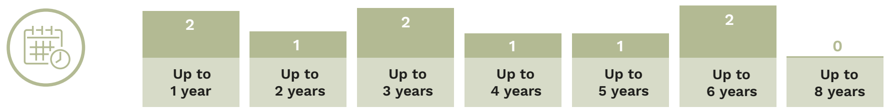
The Board also underwent a Board Effectiveness Review carried out by an independent third party, which provided an external perspective on our Board and governance arrangements. I was pleased that the report was overwhelmingly positive about the Board's effectiveness, particularly its strategic input, constructive culture and engagement through the Covid-19 pandemic. As always, there is room to improve, and we are working on an action plan to enhance certain areas, beginning with a focus on our People, Remuneration and Culture Committee.

**John Hooper, Chairman, 8 June 2021**

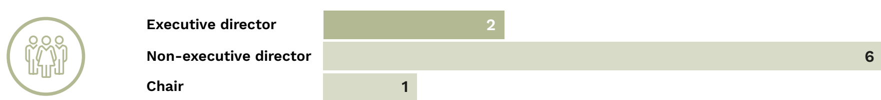
### Gender split


### Longevity of Board members (years with the Society since 2013)*

*as at 31 March 2021




### Executive and non-executive director split




### Committee membership

| | NGC | BRC | Audit | PARC |
|---|---|---|---|---|
| **John Hooper** | Chair | | | |
| **Michael Hulme** | Member | | Member | Member |
| **Kelli Fairbrother** | Member | | | Member |
| **Vicky Bruce** | Member | Member | | |
| **Eric Gunn** | Member | Chair | | |
| **Jackie Arnold** | Member | | Member | Chair |
| **Mark Stanger** | Member | Member | Chair | |
| **Des Moore** | Member | | | |
| **Richard Ellison** | Member | | | |

# MEET THE BOARD OF directors

The Board is comprised of 7 non-executive and 2 executive directors. All of the non-executive directors are considered to be independent under the Code; the Chairman was considered independent on appointment.

The Chairman is responsible for leading the Board and ensuring it acts effectively. The Chairman must be a different individual to the CEO and there must be a clear division of responsibilities between the two roles. 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 November 2020 Board Effectiveness Review found the Board operates a positive, friendly, constructive culture that encourages transparency and facilitates straight talking; the way non executive directors and executive directors operate within the Board environment is in line with best practices for a unitary board; and the relationship between the Board and the executive team is effective, transparent and productive.

Nomination and Governance Committee

Board Risk Committee

Audit Committee

People, Remuneration and Culture Committee



## John Hooper
Board Chairman and Nomination and Governance Chair

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

### Skills and experience

John has spent over 35 years working in banking and financial services. He is currently a non-executive director on the board of several financial institutions. Prior to this, John was an executive director at National Australia Bank Europe Limited and Clydesdale Bank PLC. He previously held a number of senior positions at National Australia Bank, and was a member of its Executive Committee.

### 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

## Michael Hulme
Senior Independent Director

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

### Skills and experience

Michael has over 20 years' experience in research based consultancy examining the current and future 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 material external positions

None

### 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

## Kelli Fairbrother
Non-Executive Director

**Non-Executive Director and PARC Member since September 2020 (independent)**

### Skills and experience

Kelli has over 20 years of experience in consumer and technology businesses. She is co-founder and CEO of technology startup Xigxag, and former Chief Operating Officer for Gelato. A Harvard Business School MBA graduate and former US Army Captain, Kelli previously led the German market entry for the Premier Inn and Costa brands at Whitbread Hotels and Restaurants.

### Current material external positions

Co-Founder and CEO, Xigxag Limited

### Previous positions include

Chief Operating Officer, Gelato

Business Development and Commercial Director, Whitbread Hotels and Restaurants

Group Head of Strategy, Whitbread Plc

**Non-Executive Director and BRC Member since September 2020 (independent)**

### Skills and experience

Vicky has more than 25 years' international financial services experience, most recently as a Managing Director with Deutsche Bank Wealth Management. She has extensive global experience in change, risk and regulation with UK board experience in financial services and not-for-profit sectors.

### Current material external positions

Non-Executive Trustee, Hope and Homes for Children

Non-Executive Trustee, Agitos Foundation

Consultant, International Paralympic Committee

### Previous positions include

Global COO for Institutional Wealth Partners, Deutsche Bank Wealth Management

Global Head of Regulatory Change, Deutsche Bank Wealth Management

Executive Director, DB UK Bank Ltd

Head of Change Management, Coutts

## Vicky Bruce
Non-Executive Director

## Mark Stanger
Audit Chair

**Non-Executive Director since June 2018 (independent), Audit Committee Chair since July 2020**

### Skills and experience

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

### Current material 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

## Eric Gunn
Board Risk Chair

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

### Skills and experience

Eric has almost 40 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 material external positions

None

### Previous positions include

Chief Risk Officer, Clydesdale Bank PLC

**Chief Executive Officer and Executive Director since April 2018**

### Skills and experience

Des is an accomplished senior leader in Financial Services in the UK and Ireland, with over 30 years' experience in retail and commercial banking. Before joining the Society, Des spent 5 years as Managing Director of AIB (NI), the trading division of AIB (UK) plc's Northern Ireland operations. He led the restructure and turnaround of that bank 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, AIB (NI)

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

## Des Moore
Chief Executive Officer

**Non-Executive Director since March 2018, PARC Chair since May 2019, Audit Committee Member since September 2020 (independent)**

### 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 material external positions

Professor of Practice, University of Cumbria

Leader in Residence, Lancaster University

### 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

Pro-vice Chancellor, University of Cumbria

## Jackie Arnold MBE
People, Remuneration and Culture Chair

## Richard Ellison
Chief Financial Officer

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

### 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 successfully enhanced our Treasury function allowing greater sophistication in risk management and uplifted the skills and capability in core finance to ensure the Cumberland 2025 strategy is financially underpinned. He took accountability for our Governance, Legal and Procurement function in April 2020.

### Current material external positions

Non-Executive Director, Kingdom Bank Limited

### 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

MEET THE SENIOR
# leadership
TEAM

Our Senior Leadership Team is headed by Des Moore, CEO, who we introduced as a member of our Board. Des is responsible for managing the Society and delivering the strategy within the framework agreed by the Board, advised by his Senior Leadership Team.

Richard Ellison, who we also introduced as a member of our Board, is our CFO and a member of the Senior Leadership Team.

The remaining members of the Senior Leadership Team are introduced on the following pages. During the year, the Board also approved the creation of a new Senior Leadership Team role, Chief Transformation Officer. That role will be filled by Alex Windle when a new Chief Customer Officer has been appointed.

## John Hunt
Chief Risk Officer (CRO)

**Chief Risk Officer since December 2020**

The CRO is responsible for overseeing risk management 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. John 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.

### Skills and experience

John is a qualified accountant, with experience across risk, including credit risk, compliance and as a CRO covering retail and commercial lending and other banking products. He was previously CRO at Together Personal Finance and held senior risk roles at Nationwide Building Society, GMAC and Capital One.

### Current material external positions

None

### Previous positions include

CRO, Oodle Car Finance

CRO, Together Personal Finance

Director of Compliance Advisory – Nationwide Building Society

## Jill Johnston
Chief People Officer (CPO)

**Chief People Officer since March 2019**

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, reward, wellbeing and safety, team maturity, inclusion and diversity.

### Skills and experience

Jill has a Marketing degree, is CIPD qualified and has 25 years' experience leading HR teams for organisations including the Guardian Media Group and Border Television plc. She also has experience of successfully running her own HR consultancy business.

### Current material external positions

Non-Executive Director, University of Cumbria

Women in Finance Board , Deputy Chair for Building Society and Credit Union Sectors

### Previous positions include

HR Director, GMG Radio

## Susanne Parry
Chief Operating Officer (COO)

**Chief Operating Officer since March 2019**

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.

### Skills and experience

Susanne has over 25 years' experience in Financial Services with a degree in Banking & Finance (LIBF) and a MSc in Leadership & Management. Having spent her career with The Cumberland, she has extensive experience working across the business in both branches and head office, leading teams of all sizes, from our smaller branches to our largest teams in Operations, Change and Technology.

### Current material external positions

Trustee, University of Cumbria Students' Union Board

### Previous positions include

None

## Alex Windle
Chief Customer Officer (CCO)

**Chief Customer Officer since March 2019**

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 and Marketing.

### Skills and experience

Alex joined The Cumberland in May 2016, bringing a wealth of strategy, marketing and commercial experience from senior level roles at BP, LG Electronics and Vodafone both in the UK and internationally.

### Current material external positions

None

### Previous positions include

Global Product and Offer Director, British Petroleum PLC

Marketing Director UK, British Petroleum PLC

Head of Marketing UK and Ireland, LG Electronics

# HOW THE board WORKS

## Leadership & Purpose

**The Board has established a purpose, values and strategy for the Society as set out in the Strategic Report on pages 14 to 18. The Board oversees management's delivery of the strategy within this framework, measuring the SLT against key performance metrics across a range of strategic, financial, customer, operational, risk and conduct, and people measures.**

The Board meets at least ten times each year to fulfil its function. Under normal circumstances, the non-executive directors meet without the executive directors present on a regular basis. Set out below are details of the directors' attendance record at Board meetings during 2020/2021. Membership of and attendance at Board Committees are set out in the relevant Committee reports.

John Hooper
12/12

Michael Hulme
12/12

Eric Gunn
12/12

Mark Stanger
12/12

Jackie Arnold
12/12

Kelli Fairbrother
5/5 (appointed 29 September 2020)

Vicky Bruce
5/5 (appointed 29 September 2020)

Des Moore
12/12

Richard Ellison
12/12

Alan Johnston 5/5 (resigned 30 September 2020)

The Chairman ensures that directors receive accurate, timely and clear information to enable them to undertake their roles effectively. Established Board reporting formats provide the Board with information on the performance of each business area; these are proactively amended when new matters and themes emerge. The November 2020 Board Effectiveness Review found that Board and Committee packs had been "revolutionised" since the last review and that supporting papers were "clearly written and made their points well". Information is provided via a secretariat, headed by the Society's Secretary. The Secretary ensures that non-executive directors have access to resources, the advice and services of the Secretary and, if necessary, are able to take independent professional advice at the Society's expense.

Each year, one Board meeting includes an in-depth review of strategy. The Board also meets informally, as required, to provide support and challenge to management in the development of strategy before it is formally presented to the Board and to provide input to the agenda for the annual review of strategy. In March 2021, the Board conducted a comprehensive assessment of the Society's Cumberland 2025 strategy to ensure that it remained appropriate in the light of the changing assumptions identified through the first two years of work on the implementation of strategy and the Covid-19 pandemic. The Board confirmed that the strategy remained appropriate and the Society is now embarking on the next phase of transformation as outlined in the CEO's business review on Page 13.

The Board is assisted in its work by four Board Committees, which allow it to consider specific areas in more detail than would be possible within Board meetings:

BOARD

- Nomination and Governance Committee (NGC)
- Audit Committee (AC)
- Board Risk Committee (BRC)
- People, Remuneration and Culture Committee (PARC)

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, 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.

The November 2020 Board Effectiveness Review concluded that the Society's Board provides effective oversight and has a firm grip on the strategic direction of the Society.

## Stakeholder Engagement

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 2021, the Covid-19 pandemic is likely to mean physical participation in the AGM must be subject to some restrictions and we would encourage members instead to submit questions through other advertised channels rather than attend in person, including the online Q&A session ahead of the meeting. The intention is also to provide a live stream of the AGM where questions can be submitted and will be answered. The Chairman and the CEO are present at the AGM each year and are available to answer questions, along with other members of the Board, as appropriate.

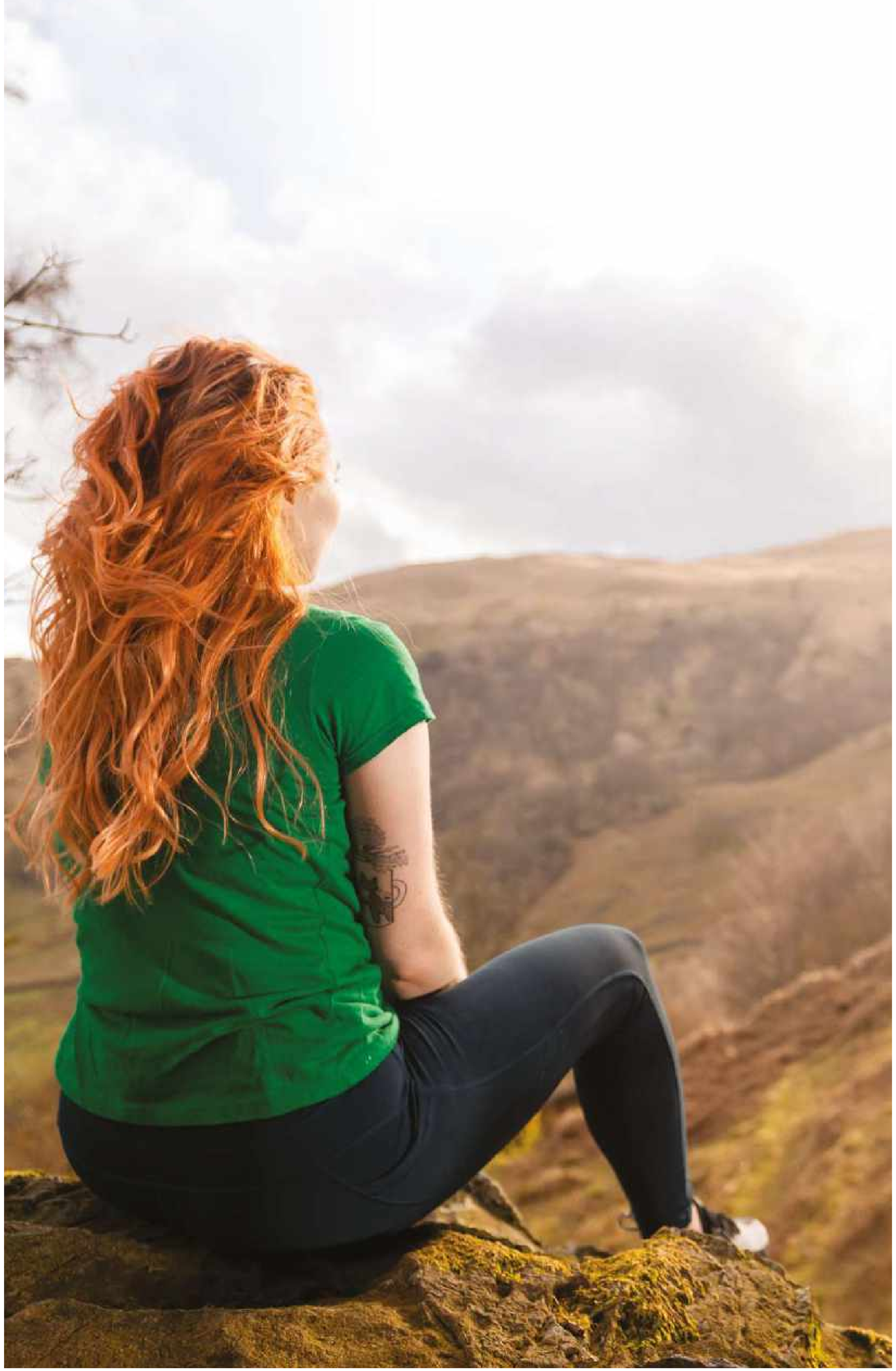
The Society continually strives to increase member engagement and harness the member perspective. The Society actively seeks customer engagement feedback through its partnership with Feefo, achieving the much sought-after Platinum Trusted Service Award. This award is given to businesses that have achieved Feefo's Gold standard for three consecutive years and recognises consistently exceptional customer service. In addition, 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.

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.

"The Board provides effective oversight

**Board Effectiveness Review (November 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 2021. 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 the committee

| | | |
|---|---|---|
| John Hooper (Chair) 9/9 | Michael Hulme 9/9 | Eric Gunn 9/9 |
| Mark Stanger 9/9 | Jackie Arnold 9/9 | Kelli Fairbrother 4/4 (appointed 29 September 2020) |
| Vicky Bruce 4/4 (appointed 29 September 2020) | Des Moore 9/9 | Richard Ellison 9/9 |

Alan Johnston 5/5 (resigned 30 September 2020)

## 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 55 to 57. 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 nine.

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 2020/2021, this formed part of the external Board Effectiveness Review carried out by an independent third party, Praesta. As part of the review, all directors and the Senior Leadership Team completed questionnaires and met with Praesta individually. The findings were reported back to the Board and an action plan was agreed to address any material matters identified, which will be monitored by the Committee. No matters relevant to Board composition were raised.

The Society also has a process to evaluate, at least annually, the performance and effectiveness of individual directors. The performance of all directors, both executive and non-executive, 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 2021.

In relation to diversity and inclusion, the Committee works closely with PARC, which oversees diversity and inclusion throughout the organisation (see Report of PARC on pages 80 to 85). Diversity and inclusion are core considerations in appointments and female only shortlists have been used to ensure we were able to meet our commitment under the Women in Finance Charter to have at least 33% of women at senior level by April 2021.

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 | 6/9 (67%) | 3/9 (33%) |
| Senior Leadership Team | 4/6 (67%) | 2/6 (33%) |
| Extended Leadership Team | 13/25 (52%) | 12/25 (48%) |

# Report on the year

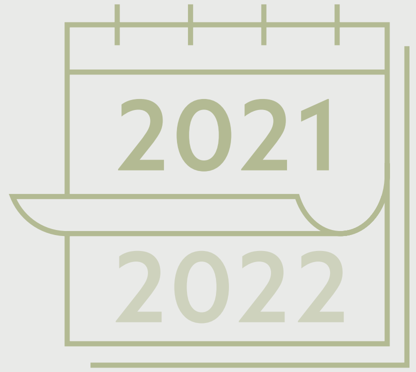
**NGC focussed on the following key areas during the year:**

| Areas of Focus | Committee's Response |
|---|---|
| **SMCR Compliance** | The Committee monitored the progress of applications and allocation of responsibilities under the Senior Manager & Certification Regime in relation to the reorganisation of the SLT; succession of Money Laundering Reporting Officer, Audit Committee Chair and CRO; appointment of additional non-executive directors, and subsidiary board changes. |
| **Audit Chair Succession** | The Committee oversaw the appointment following the AGM 2020 of Mark Stanger as Chair of Audit Committee, succeeding Alan Johnston. |
| **NED Recruitment** | The Committee oversaw the appointment with effect from 29 September 2020 and subsequent induction of two additional non-executive directors, Vicky Bruce and Kelli Fairbrother. |
| **CRO Succession** | The Committee oversaw the appointment with effect from 23 November 2020 of new CRO, John Hunt, succeeding Will O'Carroll. |
| **Board Effectiveness Review/Action Plan** | The Committee commissioned the external Board Effectiveness Review, received the report and agreed an action plan to address areas for development. |
| **Chief Transformation Officer** | The Committee oversaw the creation of a new Senior Leadership Team position of Chief Transformation Officer and the appointment of Alex Windle, currently the Chief Customer Officer, to that role. Alex's appointment is pending the recruitment of a new Chief Customer Officer. |



“ CBS's Board has a firm grip of the strategic direction of the Society

**Board Effectiveness Review (November 2020)**




# The year ahead

**NGC will focus on the following key areas during 2021/2022:**

| Areas of Focus | Committee's Response |
|---|---|
| **SMCR Compliance** | The Committee will continue to monitor the progress of outstanding applications under the Senior Manager & Certification Regime. |
| **NGC Terms Of Reference** | Upon conclusion of the review, led by PARC, of PARC's remit and ways of working, which will include a review of the allocation of responsibilities between PARC and the Committee, the Committee will review its terms of reference. |
| **Succession Planning** | The Committee will work with the Society's Chief People Officer to review the Society's arrangements for succession planning. |
| **Board Action Plan** | The Committee will monitor progress of other areas of development agreed as part of the action plan arising from the November 2020 Board Effectiveness Review. |
| **Chief Customer Officer Appointment** | The Committee will oversee the recruitment and appointment of a new Chief Customer Officer to replace Alex Windle, who will move to the newly created Chief Transformation Officer role. |

On behalf of the Nomination and Governance Committee

John Hooper

Chair

8 June 2021

# 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 2021.

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 Covid-19 pandemic (and the resulting increase in volume and complexity of operational and regulatory change). The Cumberland has faced into these challenges by working closely with regulators and the Building Societies Association and by benchmarking against best practice, to ensure that our responses have appropriately safeguarded both our employees' and our members' interests. In addition, despite the need to work remotely, continued progress has been made in investing in capability within the teams that build, manage and oversee the frameworks. This included the successful recruitment of a new Chief Risk Officer, and investment in specialist first line risk resources in our branch and operations teams.

I believe that, despite the challenges we continue to face with the Covid-19 global pandemic and the growing risk posed by cyber crime, 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 the committee

| Eric Gunn (Chair) | Mark Stanger | Vicky Bruce |
|---|---|---|
| 4/4 | 4/4 | 2/2 (appointed 29 September 2020) |

Alan Johnston 2/2 (resigned 30 September 2020)

## 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 56 to 57. The Committee is scheduled to meet four times a year 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 of 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. This year, the review was carried out as part of the external Board Effectiveness Review. 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.

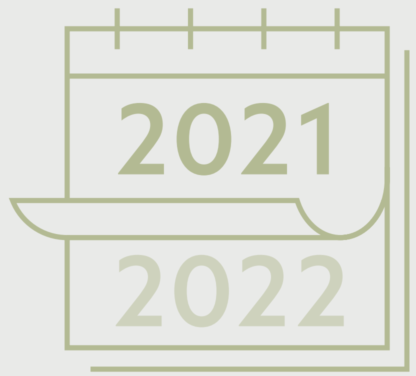
The Committee also delivers the following:

- oversight and challenge of the Society's significant risks and the controls in place to manage those risks;
- sign off of key policies such as the Lending and Operational Risk policies under delegated authority from the Board; and
- assistance to ALCO in the management of financial risks. ALCO reports to the Board at every meeting and is responsible for ensuring the Society has sufficient capital and liquidity (the ICAAP and the ILAAP) and oversees the Society's ability to withstand severe, but plausible, shocks through the establishment of an appropriate Recovery Plan. The Board Risk Committee receives results of credit risk stress testing and scenario analysis to ensure the corporate plan is within the Board's risk appetite in line with the Risk Management Framework.

# 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**<br>**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.<br>• Ensured any areas where we have fallen short are identified and put right for all affected members.<br>• Oversaw the changes implemented in response to the Covid-19 pandemic did not lead to unfair outcomes for customers. |
| **REGULATORY RISK**<br>**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.<br>• Oversaw the delivery of the operational and regulatory changes, in particular in respect of the Covid-19 pandemic, but also ensuring delivery of other changes required.<br>• Embedded the regulatory horizon scanning process and improved links into Change to ensure clear, effective and timely implementation of new regulatory requirements. |
| **STRATEGIC RISK**<br>**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.<br>• Engaged with a third party to understand the future impacts of climate change and support The Cumberland becoming a more sustainable business. |
| **CREDIT RISK**<br>**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, adapting to the uncertain environment of the Covid-19 pandemic.<br>• Supported the establishment of a dedicated arrears function to ensure members are supported in difficult times.<br>• Tracked portfolio performance by overseeing the development of detailed management information (MI) particularly in respect of arrears and forbearance. |
| **FINANCIAL RISK**<br>**The risk of the Society having inadequate earnings, cashflow or capital to meet current or future requirements and expectations.** | • Alongside ALCO, ensured the monitoring of financial performance and the capital and liquidity position of the Society.<br>• Oversaw adherence to policy and any breaches of key minimum standards. |
| **OPERATIONAL RISK**<br>**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.** | • Supported initial implementation and roll out of our new operational risk management system.<br>• Oversaw improved risk management processes and alignment with the growing maturity of the risk capability within the operational areas.<br>• Oversaw improved reporting on risk events and associated actions to improve the Society's control environment<br>• Supported the appointment of a new Money Laundering Reporting Officer and further enhancements in the financial crime preventation capability of the Society.<br>• Agreed and prioritised investment to improve operational resilience and ensure that regulatory requirements were being met. |




# The year ahead

During the year ahead, the Committee will continue to focus on ensuring the Society is supporting our members through the financial challenges of Covid-19. In addition, the potential for negative interest rates, and the resultant impact in terms of both financial and conduct risk for the Society and its members, will also be of focus. The Committee will oversee the delivery of the climate change risk framework and actions required to identify and respond appropriately to the financial risks, which climate change poses to the Society. The Committee will also oversee the delivery of the significant change programme being undertaken to improve the operational resilience of the Society and to deliver against our Cumberland 2025 strategy. 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
8 June 2021

# 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 2021.

The report explains details of the membership of the Committee, the work of the Committee during the year, our overview of the Internal Audit function and matters related to the engagement of the external auditor. In addition, we include in the report details of the significant accounting matters and judgements considered by the Committee, with details of how these have been addressed during the year.

As part of my role, I meet regularly with the Head of Internal Audit, the external auditor and the Chief Financial Officer and have a good working relationship with them all.

After conducting careful reviews, the Committee has advised the Board that, in its opinion, the Annual Report and Accounts are fair, balanced and understandable.

I set out in the following report details of the work the Committee has focussed on during the year.



# Who sits on the committee

**Mark Stanger (Chair)**
6/6

**Michael Hulme**
6/6

**Jackie Arnold**
3/3 (appointed 29 September 2020)

Alan Johnston 3/3 (resigned 30 September 2020)

# 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. Mark Stanger became Chair of the Committee in July 2020.

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. At least annually, the external auditors meet with the Committee without management present. 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.

Other non-executive directors attended meetings by invitation, whilst the Chief Executive Officer and Chief Financial Officer are standing attendees at meetings.

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

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 www.cumberland.co.uk) and reports to the Board on those matters after each meeting. In addition, the minutes of all meetings are presented to the Board. 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 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.

The Committee's effectiveness is reviewed annually, and this year, formed part of the external Board Effectiveness Review.

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 Covid-19 pandemic as at 31 March 2021), 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 2020/2021 by:

- overseeing the Society's systems of internal control, including the work undertaken by Internal Audit;
- 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;
- monitoring the performance of the external auditor; 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 2020/2021 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 Society'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:<br>i) ensuring our approach to hedge accounting under FRS 102 (IAS 39) remained consistent; and<br>ii) reviewing the method to account for the revenue from amortised cost financial instruments on an effective interest rate basis under FRS 102, which was unchanged.<br>Although not material to this year's financial results, the Committee also reviewed The Cumberland's first time disclosure of capitalised intangible assets and the attendant accounting policy. |
| **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 44 to 48 and the Board's Going Concern Statement on page 87. |
| **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, 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.<br>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 2021. It noted that management had updated its modelling approach for loans fully secured on residential properties in a manner that significantly increased the granularity of the calculation performed. It also evaluated management's approach to overlays, in light of the ongoing impact of the Covid-19 pandemic. This reflected the fact that the significant government support of both retail customers and businesses, both in terms of forbearance and direct support such as furlough and rates relief, means that the losses incurred are judged to not yet fully reflect the likely impact of the pandemic once schemes are wound back.<br>It was also noted that the majority of customers, who had received forbearance at the end of last and the early part of this financial year, had returned to the good book and were making repayments.<br>It considered the fact that, within this generally positive trend, there was a rising level of arrears amongst customers who had exhausted the "all customer" forbearance opportunities (provided for in regulation) and who required tailored support. While many of these customers are impacted directly by lockdown (and with further support are likely to recover), losses will emerge and timescales may be elongated until recovery. The Committee considered the impact this would have on provision levels.<br>The Committee challenged management's application of judgement in overlaying worsening of both security realisation rates and HPI trends in light of the requirements of FRS 102 (IAS 39), as well as the specific provision judgements required on the small, but growing, number of defaulted facilities and concluded that, despite the difficulty in fairly estimating losses at 31 March 2021, management had calculated a suitable best estimate and made no adjustment to the provision proposed. |

| Significant Estimates and Judgements | Committee's Response |
|---|---|
| **Impairment of Investment Properties and Buildings within Fixed Assets** | In 2020, the Society 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. During 2021, a number of these properties were sold with a modest further loss of £11k. One further impairment charge of £64k was recognised within fixed assets.<br><br>The Committee noted that the Group had obtained independent, external valuations to support the values of investment properties recognised at 31 March 2021, which saw a charge of £133k to the income statement. It supported management's decision to include this matter in the critical accounting estimates and judgments note, on the basis that uncertainty around the value of the buildings remains due to the prolonged Covid-19 pandemic, and the potential for further reduction in rental yield and property values in future periods. |

> The way NEDs and EDs operate within the Board environment is in line with best practices for a unitary board
>
> **Board Effectiveness Review (November 2020)**



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.<br><br>The Committee noted Internal Audit's response to the broader challenges being faced by the Society as a direct consequence of the Covid-19 pandemic. The Committee agreed to Internal Audit proactively adjusting its assurance programme to monitor and test that critical controls identified by management (including financial, treasury and customer servicing controls) continued to operate during this challenging period and that this was an appropriate response. Furthermore, where processes and controls had to be adjusted due to the changing circumstances, Internal Audit factored this into its work programme. In the later part of the year, Internal Audit returned to a more typical programme of work. Supported by the work of Internal Audit and the opinion of the Head of Internal Audit, the Committee concluded there had been no significant deficiencies which warrant specific mentioning within the Annual Report and Accounts. |
| **Financial and Treasury Controls** | The Committee supported Internal Audit in its introduction of data analytics as part of its assurance programme and noted the benefits of its use during a review of regulatory returns. It also considered internal control matters raised by the external auditor and management's response. |
| **IT and Operational Resilience** | The Committee noted the successful way the new technology toolkit, for the significant proportion of staff now working remotely, was rolled out as The Cumberland proactively responded to the Covid-19 pandemic.<br><br>Data confidentiality and the resilience of service provisions to customers are key elements within the Society's overall control framework. The Committee noted Internal Audit's report as to how The Cumberland managed data confidentiality given the new working arrangements in place post March 2020 lockdown. |
| **Conduct** | The Committee noted Internal Audit's report on complaint handling, acknowledging the developments and improvements required to be undertaken by management. |

## 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 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 the department's response to maintaining effective assurance arrangements in the face of the Covid-19 pandemic, operational resilience and data confidentiality; particularly as The Cumberland adjusted its operating model following the March 2020 lockdown. 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. A private session with the Head of Internal Audit is held either before or after each scheduled committee meeting.

## External audit

Deloitte acted as the Society's external audit firm throughout the 2020/2021 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 The Cumberland's statutory auditor for the 2020/2021 financial year. This is Stephen Williams' second and final year as The Cumberland's statutory auditor, reflecting the fact that he had previously performed a quality review role on the Group's audits. In January 2021, the Committee concluded that Deloitte are best placed to ensure a timely and consistent approach to financial presentation of results that are true and fair and, due to the current climate, there is no wish to tender the audit in the short term. Therefore, it fully supported the continuation of Deloitte as the external auditor and recommended that action to the Board.

The Committee will oversee the transition to a new statutory auditor with the selection of a new engagement leader already completed via a process overseen by the Committee. Deloitte's report can be found on pages 92 to 100.

## 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 2020/2021, overall audit materiality was set by Deloitte at £787k (2019/2020: £775k).

## 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

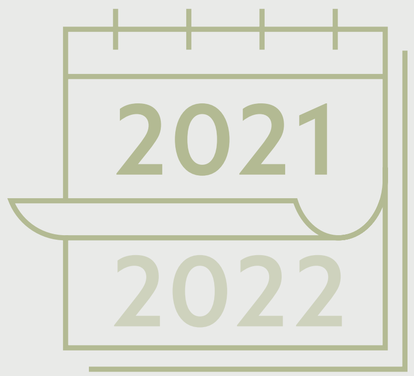
The Committee reviewed Deloitte's year end report for the 2020/2021 financial year and its statutory opinion in respect of the year. The Committee also reviewed Deloitte's planning report and interim updates on its work.

## Audit and non-audit fees

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 2020/2021 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 2021 were solely for audit services and totalled £129k (2019/2020: £123k). The total fees are set out in note 7 to the financial statements.

## 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 2021/2022, 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
Mark Stanger
Chair
8 June 2021

# 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 2021. 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 has regard to the principles of the Code.



## Who sits on the committee

| Jackie Arnold (Chair) | Michael Hulme | Kelli Fairbrother |
|---|---|---|
| 6/6 | 6/6 | 3/3 (appointed 29 September 2020) |

Alan Johnston 3/3 (resigned 30 September 2020)

## 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 55 to 56. 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. This year, the review was carried out as part of the external Board Effectiveness Review. 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.

# Report on the year

**PARC focussed on the following key areas during the year:**

| Areas of Focus | Committee's Response |
|---|---|
| **Engagement** | The Committee reviewed how the Board engaged with the Society's people and decided it remained appropriate for the Chair of PARC to remain as the designated Board member responsible for workforce engagement and the Society's whistleblowing champion, and considered ways to increase Board engagement with the Society's people.<br><br>The Committee oversaw the Society's support of its people through the pandemic, including agile work enablement (people resourcing, "Brighter Working" toolkits and IT packs, and branch collaboration tools), Covid-19 health and safety risk assessments and approach, wellbeing, mental health and resilience, as well as regular communications, strategic cascades and other collaborative initiatives.<br><br>The Committee considered the results of regular Pulse Surveys and the annual Best Companies Survey, to assess how the engagement of Society's people was impacted and developed during the pandemic, and saw a significant improvement over the period despite the challenging circumstances.<br><br>The Committee oversaw the introduction of "Brighter Performance", a new appraisal process to improve development and engagement at the Society, and noted the measures management had implemented to improve personal development opportunities for colleagues at the Society. |
| **Remuneration** | The Committee reviewed the Society's Remuneration Policy to ensure that it remained compliant with the PRA and FCA Remuneration Codes, the Code and other relevant legislation.<br><br>The Committee considered and recommended to the Board the terms of the Senior Management Incentive Scheme for 2020/21 to ensure it rewarded delivery of strategic objectives and aligned with the Society's values.<br><br>The Committee considered, and recommended to the Board, management's proposals on a Society wide pay increase for 2021/22 and an all employee bonus in recognition of colleagues' efforts during the pandemic.<br><br>The Committee supported the Society's decision to provide employment to all employees throughout the pandemic, including enhanced sick pay and support for shielding.<br><br>The Committee considered the CEO Expenses Policy; a review of compliance found no issues.<br><br>The Committee considered progress against the Women In Finance commitment and Gender Pay Gap, including the addition of key diversity metrics in the balanced scorecard to drive the Society's ongoing focus on and commitment to diversity and inclusion. |
| **Governance** | The Committee took part in the external Board Effectiveness Review, which suggested some areas for the Committee to consider. As a result, the Committee started work to review its remit and ways of working, a project which will continue in the year ahead. |



# 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 executive directors is determined by PARC.

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 2021, 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.

Executive directors in office at 31 March 2021 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 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, are disclosed on the next page.

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

" The Board has engaged well with the executive during the Covid-19 epidemic, participating in decisions that needed to be taken quickly, supporting action to keep the Society's show on the road and making changes to its own ways of working

**Board Effectiveness Review (November 2020)**

## Directors' Remuneration

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Total directors' remuneration** | **1,006** | 946 |
| **Non-executive directors' remuneration** | | |
| John Hooper (appointed as Chairman 16 July 2019) | **68** | 63 |
| Trevor Hebdon (resigned 16 July 2019) | **-** | 22 |
| Alan Johnston (Chair of the Audit Committee and Vice-Chairman) (resigned 30 Sept 2020) | **27** | 53 |
| Eric Gunn (Chair of the Board Risk Committee) | **47** | 46 |
| Jackie Arnold (Chair of the People, Remuneration and Culture Committee) | **46** | 44 |
| Michael Hulme | **44** | 47 |
| Mark Stanger (Chair of Audit Committee since July 2020) | **49** | 44 |
| Victoria Bruce (29 Sept 2020) | **21** | – |
| Kelli Fairbrother (29 Sept 2020) | **20** | – |
| | **322** | 319 |

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

| **Executive directors' remuneration 2021** | Salary £000 | Bonus £000 | Pension Contributions £000 | Pension Replacement Amounts £000 | Other Allowances £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Des Moore** | **263** | **53** | **–** | **37** | **12** | **365** |
| **Richard Ellison** | **230** | **46** | **31** | **–** | **12** | **319** |
| | **493** | **99** | **31** | **37** | **24** | **684** |

| 2020 | | | | | | |
|---|---|---|---|---|---|---|
| Des Moore | 258 | 52 | – | 36 | 12 | 358 |
| Richard Ellison (appointed 22 May 2019) | 194 | 39 | 26 | – | 10 | 269 |
| | 452 | 91 | 26 | 36 | 22 | 627 |

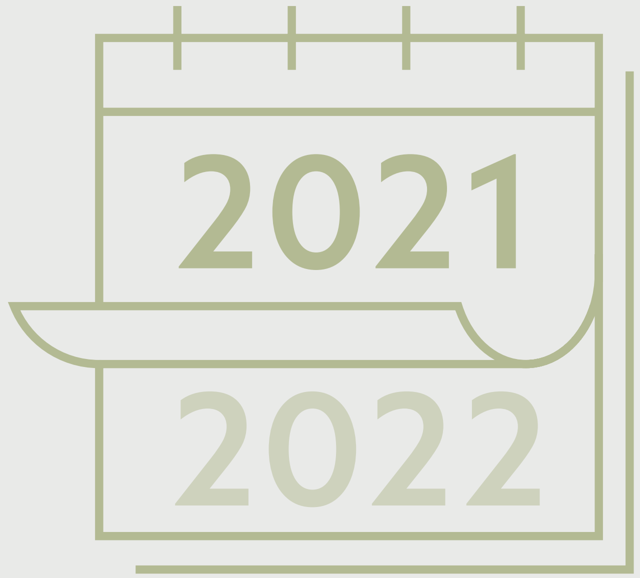
Richard Ellison was employed as Chief Financial Officer on 29 April 2019 and joined the Board on 22 May 2019 after receipt of regulatory approval. The remuneration figures are stated from the date of his appointment to the Board.

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.

" The Board operates a positive, friendly, constructive culture that encourages transparency and facilitates straight talking

**Board Effectiveness Review (November 2020)**






# The year ahead

**PARC will focus on the following key areas during 2021/2022:**

| Areas of Focus | Committee's Response |
|---|---|
| **PARC Review** | The Committee wil review its remit and ways of working, which will include a review of the allocation of responsibilities between PARC and NGC. |
| **Diversity & Inclusion** | The Committee will oversee the development of an action plan to continue to address diversity and inclusion. |
| **People Strategy** | The Committee will ensure alignment of the Society's people strategy with the overarching Cumberland 2025 strategy. |
| **Future of Work** | The Committee will oversee the implementation of the post pandemic ways of working for the Society to harness the benefits of changes for our colleagues and customers. |

On behalf of the People, Remuneration and Culture Committee
Jackie Arnold
Chair
8 June 2021

# 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 7.

## Directors

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

| | |
|---|---|
| **John Hooper** | Chairman |
| **Michael Hulme** | Senior Independent Director |
| **Eric Gunn** | |
| **Mark Stanger** | |
| **Jackie Arnold** | |
| **Vicky Bruce** | Appointed: 29 Sep 2020 |
| **Kelli Fairbrother** | Appointed: 29 Sep 2020 |
| **Alan Johnston** | Vice Chair<br>Resigned: 30 Sep 2020 |
| **Des Moore** | Chief Executive Officer |
| **Richard Ellison** | Chief Financial Officer |

Further information on all of the directors in office as at 31 March 2021 is provided in the directors' biographies on pages 55 to 57, and their attendance at the Board and Board Committees is set out in the corporate governance and Committee reports on pages 60 to 85.

All directors will submit themselves for election or 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 2021, two directors (or persons connected to them) had mortgage loans granted in the ordinary course of business, amounting to £1.015m (2020: two directors, £1.285m). 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 2021, there were 19 accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £6,246k, and the amount of arrears was £771.1k, which represents 0.04% 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 31 March 2021, forbearance measures had been agreed for 233 residential mortgages with a total balance of £37.2m (2020: 1,267 accounts, balances of £189.7m). 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 30 to 34 and are discussed in more detail in notes 26 to 30 of the financial statements.

## Creditor payment policy

Please see page 29 of the Strategic Report.

## Charitable and political donations

During the year, charitable donations of £198k were made to a number of organisations within our operating area. No contributions were made for political purposes.



> The Board and executive are populated by right-minded people who collaborate constructively in pursuit of their shared endeavor

**Board Effectiveness Review (November 2020)**

## Engagement with stakeholders

Please see pages 20 to 25 of the Strategic Report.

## Environmental impact and energy efficiency

Please see pages 26 to 28 of the Strategic Report.

## Events since the year end

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

## Going concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future, having taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. 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 44 to 48.

## 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
8 June 2021

### 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.

- 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.

# STATEMENT OF DIRECTORS' responsibilities

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

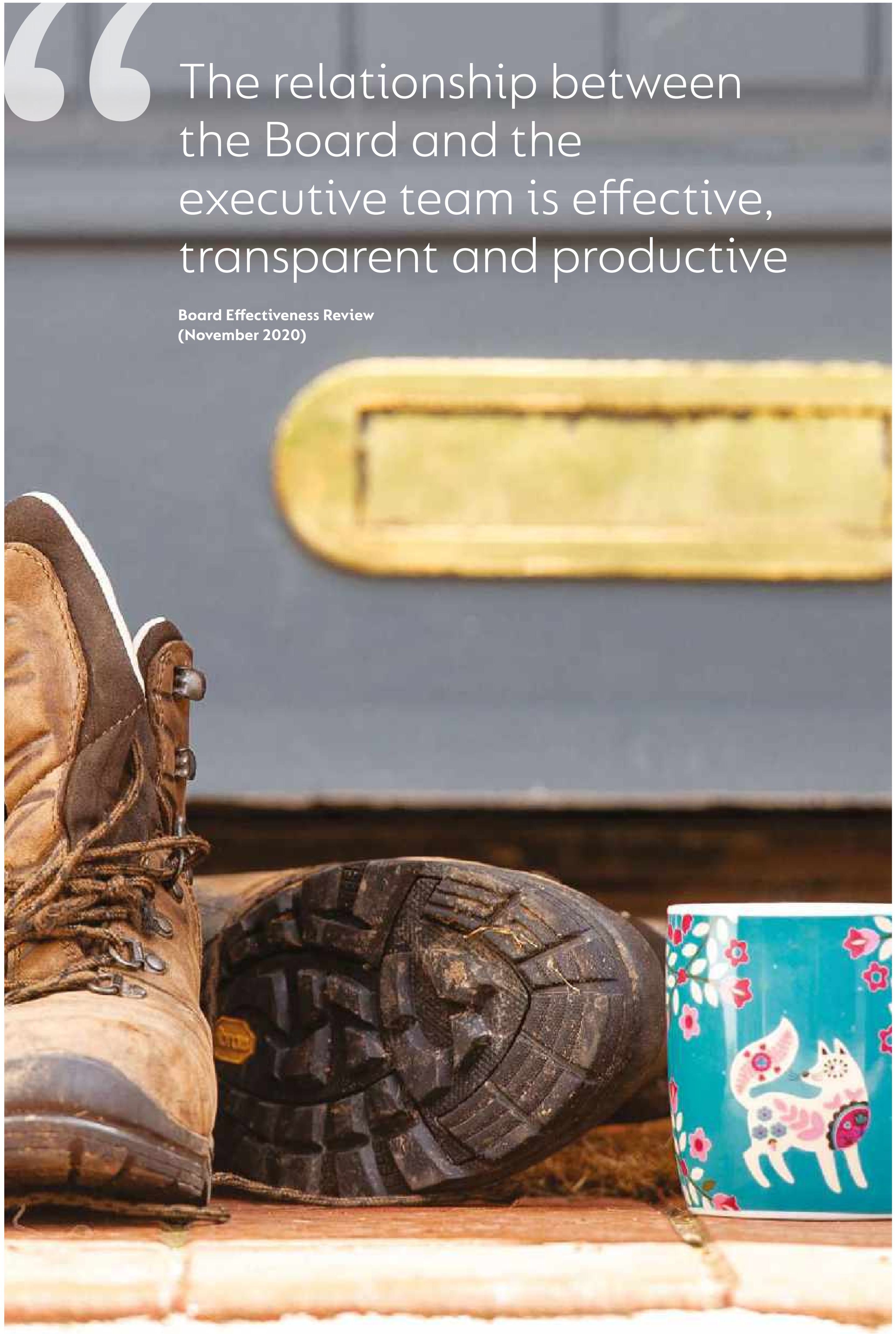
### Directors' responsibilities for accounting records and internal control

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.



"The relationship between the Board and the executive team is effective, transparent and productive

**Board Effectiveness Review (November 2020)**

Financial statements




# financial STATEMENTS

# Independent Auditor's Report to the members of Cumberland Building Society

## Report on the audit of the financial statements

### 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 2021 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' interest;
- the consolidated cash flow statement; and
- the related notes 1 to 35.

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".

### 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:

- Loan loss provisioning;
- Effective interest rate ("EIR") accounting; and
- Hedge accounting.

Within this report, key audit matters are identified as follows:

Similar level of risk compared to the prior year

**Materiality**

The materiality that we used for the Group and Society financial statements was £787k (2020: £775k) and £771k (2020: £760k) respectively, which was determined on the basis 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 executed at lower levels of materiality applicable to each individual entity. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

**Significant changes in our approach**

In the prior year, in response to the rapid spread of Covid-19, we identified a key audit matter relating to the Group's and Society's ability to continue to adopt the going concern basis of accounting over a period of at least twelve months from the date of approval of the financial statements. As at the date of approval of the current period financial statements, the level of uncertainty relating to the Covid-19 pandemic has diminished and as such we no longer consider this to be a key audit matter.

### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of the relevant controls around management's going concern assessment;
- assessing management's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- assessing the Group and Society's compliance with regulation including capital and liquidity requirements;
- assessing the assumptions, such as cash flows, capital and liquidity, used in the forecasts prepared by management;
- assessing the historical accuracy of forecasts prepared by management;
- involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts, including the stress testing and reverse stress testing performed by management; and
- assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### 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 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 £2,000m (2020: £1,967m) of loans and advances fully secured on residential property and £171m (2020: £179m) of loans and advances fully secured on commercial property and land. As at 31 March 2021, the Group held incurred loss provisions of £0.9m (2020: £0.6m) against loans fully secured on residential property and £2.4m (2020: £2.2m) against loans fully secured on land in relation to the incurred losses 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 caused by 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 have considered the most significant areas of judgement within the Group's loan loss provisioning methodology to be:

- The impact of the Covid-19 driven economic downturn on the collective provisioning methodologies adopted or assumptions used for both portfolios including the extent to which government support measures and other temporary customer support measures the Group put in place may have artificially suppressed arrears and defaults during the year;
- 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.

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 pages 107-108 with detail about the associated critical accounting estimates on pages 108-109.

#### 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 and obtained an understanding of the controls around 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.

With support from internal credit risk specialists, we challenged the methodologies and 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 and its effect on the broader macro-economic environment, we challenged management with regards to the extent to which government support measures and other temporary customer support measures the Group put in place has artifically supressed arrears and defaults during the year, meaning that the use of previously observed default rates may not be reflective of the underlying risk within the portfolio at 31 March 2021.

With support from internal economic specialists as appropriate, we also challenged the macro-economic forecasts used by management to assess future changes in the valuation of collateral with reference to external forecasts and other third party sources.

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 these exposures are secured, with reference to the specialist's own market knowledge and other relevant forecast information.

#### 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.

### 5.2 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 £1.9m (2020: £2.0m).

There is a level of judgement surrounding the key assumptions applied in determining the EIR adjustment which involves modelling future 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 108.

#### 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 obtained an understanding of the controls around management's review of the EIR calculation including their assessment that it is materially appropriate not to specifically include ERCs in the EIR calculation, and instead recognise them on a receipts basis. In conjunction with our internal IT specialists, we also tested 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.

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.

With support from internal modelling specialists, our procedures also included creating an independent expectation of the behavioural lives used in the EIR model using the Group's historically observed data.

#### Key observations

Based on the work performed, we concluded that the assumptions used in the revenue recognition model which support the EIR asset are reasonable. We concur with management's assessment that the impact of the exclusion of ERCs within the EIR model is not a material matter.

### 5.3. 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 items at 31 March 2021 was an asset of £6.0m (2020: asset of £12.2m).

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 items and the fair value of derivatives are detailed within notes 12, 20 and 30. The Group's associated accounting policies are detailed on pages 106-107.

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

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

We worked with financial instrument specialists 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 2021.

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.

We concurred with management's judgement that the macro-hedge relationship has also remained effective throughout the period, and therefore the hedge relationships continue to be eligible under IAS 39 criteria for hedge accounting.

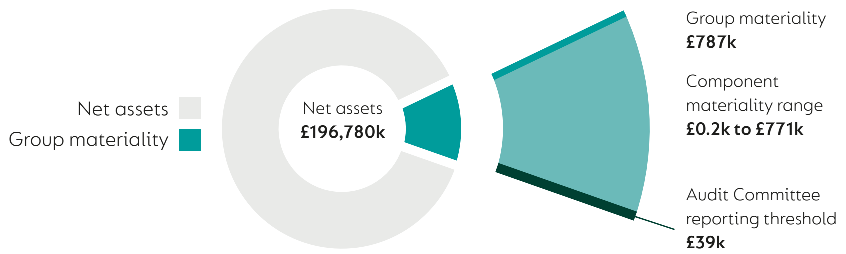
## 6. Our application of materiality

### 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 knowledgeable 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** | £787k (2020: £775k) | £771k (2020: £760k) |
| **Basis for determining materiality** | 0.4% of net assets (2020: 0.4% of net assets) | 0.4% of net assets (2020: 0.4% of net assets) |
| **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. | |




### 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 financial statements | Society financial statements |
|---|---|---|
| **Performance materiality** | 70% (2020: 70%) of Group materiality | 70% (2020: 70%) of Society materiality |
| **Basis and rationale for determining performance materiality** | In determining performance materiality, we considered the following factors:<br>• The impact of Covid-19 on the control environment;<br>• The quality of the control environment and that we were able to rely on controls for a number of business cycles; and<br>• The low number of prior year uncorrected and corrected misstatements and the likelihood of error 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 (2020: £39k), 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 material subsidiaries. This provided 100% coverage of revenue, profit before tax and net assets of the Group, executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £771k to £0.2k (2020: £760k to £3k).

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

We took a controls reliance strategy over the following business cycles:

- Residential and commercial mortgage lending (loans and advances to customers); and
- Savings and current accounts (shares held by individuals).

We obtain an understanding of these business cycles on an annual basis and undertake a rotational approach to testing the relevant controls over a three year rotational cycle. In the current year, we tested the relevant controls related to the savings and current accounts process. With regards to the residential and commercial mortgage lending process, we updated our understanding of each relevant control and identified no changes in the controls that would affect the audit evidence obtained in previous audit periods. We therefore used the audit evidence obtained in previous audit periods to assess their operating effectiveness.

*Our approach in relation to the Group's IT systems*

We planned to rely on the IT controls associated with the Group's IT systems which support both the residential and commercial lending and the savings and current accounts business cycles. This includes the Group's core banking system which supports both business cycles.

Together with IT specialists, we tested the general IT controls related to these systems and were able to rely on the IT controls as planned. We also tested the relevant automated controls associated with the business cycles noted in the preceding section and were able to rely on these controls as originally planned.

## 8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 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, internal audit 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 relevant internal specialists, including tax, valuations, pensions, IT, economic, credit risk, real estate and industry 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, effective interest rate accounting 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 frameworks 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 Society Act 1986 for the Society and the UK Companies Act for the subsidiaries; and
- 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 regulations set by the Prudential Regulation 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, effective interest rate accounting 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 and the Audit Committee 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 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 & 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. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 34 to the financial statements for the financial year ended 31 March 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

## 14. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 87;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 44-48;
- the directors' statement on fair, balanced and understandable set out on page 74;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 30;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 77; and
- the section describing the work of the Audit Committee set out on pages 72-79.

## 15. Matters on which we are required to report by exception

### 15.1. 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.

## 16. Other matters which we are required to address

### 16.1. 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 13 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 March 2015 to 31 March 2021.

### 16.2. 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).

## 17. 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
08 June 2021

# Group and Society Income Statements

For the year ended 31 March 2021

| | Notes | Group 2021 £000 | Group 2020 Continuing operations £000 | Group 2020 Discontinued operations £000 | Group 2020 Total £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|---|---|---|
| Interest receivable and similar income | 3 | **54,433** | 66,937 | – | 66,937 | **52,888** | 65,205 |
| Interest payable and similar charges | 4 | **(11,679)** | (25,316) | – | (25,316) | **(11,679)** | (25,316) |
| Net interest receivable | | **42,754** | 41,621 | – | 41,621 | **41,209** | 39,889 |
| Fair value gains/(losses) on financial instruments | 6 | **1,464** | (987) | – | (987) | **1,540** | (1,008) |
| Pension finance charge | 25 | **(281)** | (383) | – | (383) | **(281)** | (383) |
| Fees and commissions receivable | | **949** | 1,284 | 922 | 2,206 | **800** | 1,092 |
| Fees and commissions payable | | **(2,037)** | (2,565) | – | (2,565) | **(1,752)** | (2,242) |
| Other operating income | | **2,445** | 2,955 | – | 2,955 | **2,439** | 2,948 |
| Deferred consideration received on equity share investment | 32 | **–** | 429 | – | 429 | **–** | 429 |
| **Total Income** | | **45,294** | 42,354 | 922 | 43,276 | **43,955** | 40,725 |
| Administrative expenses | 7 | **(32,075)** | (28,555) | (1,088) | (29,643) | **(31,203)** | (27,715) |
| Depreciation, impairment and profit on sale of tangible fixed assets | | **(1,944)** | (2,285) | (59) | (2,344) | **(1,917)** | (2,254) |
| Loss on revaluation and disposal of investment properties | 17 | **(144)** | (445) | – | (445) | **(133)** | (385) |
| Provisions for bad and doubtful debts | 13 | **(678)** | (1,243) | (9) | (1,252) | **(622)** | (1,095) |
| Provisions for liabilities and charges | 23 | **20** | (963) | – | (963) | **20** | (963) |
| Write off of amounts owed by and investments in subsidiaries | 14 | **–** | – | – | – | **–** | (150) |
| **Profit on ordinary activities before tax** | | **10,473** | 8,863 | (234) | 8,629 | **10,100** | 8,163 |
| Loss on disposal of operations | 5 | **–** | – | (289) | (289) | **–** | – |
| Tax on profit | 9 | **(2,059)** | (1,867) | 88 | (1,779) | **(1,966)** | (1,765) |
| **Profit for the financial year** | | **8,414** | 6,996 | (435) | 6,561 | **8,134** | 6,398 |

# Statements of Comprehensive Income

For the year ended 31 March 2021

| | Notes | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|---|
| Profit for the financial year | | **8,414** | 6,561 | **8,134** | 6,398 |
| **Items that may subsequently be reclassified to income and expenditure:** | | | | | |
| Available for sale debt securities gain/(loss) | 11 | **10** | (61) | **10** | (61) |
| Movement in deferred tax relating to debt securities | | **(2)** | 12 | **(2)** | 12 |
| (Loss)/gain on equity share investment | 32 | **(136)** | 463 | **(136)** | 463 |
| Movement in deferred tax relating to equity share investment | | **26** | (149) | **26** | (149) |
| **Items that may not subsequently be reclassified to income and expenditure:** | | | | | |
| Actuarial (loss)/gain on retirement benefit obligations | 25 | **(6,768)** | 2,016 | **(6,768)** | 2,016 |
| Movement in deferred tax relating to retirement benefit obligations | | **1,286** | (25) | **1,286** | (25) |
| **Total comprehensive income for the year** | | **2,830** | 8,817 | **2,550** | 8,654 |

The notes on pages 105 to 129 form part of these accounts.

# Group and Society Balance Sheets

As at 31 March 2021

| Assets | Notes | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | 10 | 431,737 | 389,706 | 431,737 | 389,706 |
| Loans and advances to credit institutions | 26 | 39,436 | 62,250 | 39,436 | 62,250 |
| Debt securities | 11 | 7,082 | 5,036 | 7,082 | 5,036 |
| | | 478,255 | 456,992 | 478,255 | 456,992 |
| Derivative financial instruments | 30 | 3,166 | 40 | 3,154 | - |
| Loans and advances to customers | 12 | | | | |
| Loans fully secured on residential property | | 2,004,710 | 1,979,162 | 2,004,710 | 1,979,162 |
| Other loans | | 190,250 | 202,634 | 169,399 | 178,396 |
| | | 2,194,960 | 2,181,796 | 2,174,109 | 2,157,558 |
| Investments in subsidiary undertakings | 14 | - | - | 19,061 | 22,615 |
| Investment in equity shares | 32 | 5,824 | 5,960 | 5,824 | 5,960 |
| Intangible assets | 15 | 581 | - | 581 | - |
| Tangible fixed assets | 16 | 12,117 | 12,103 | 12,067 | 12,030 |
| Investment properties | 17 | 1,952 | 2,175 | 1,952 | 2,060 |
| Other assets | 18 | 3,462 | 2,699 | 3,532 | 2,721 |
| Prepayments and accrued income | | 2,141 | 1,773 | 1,827 | 1,383 |
| Total Assets | | 2,702,458 | 2,663,538 | 2,700,362 | 2,661,319 |
| **Liabilities** | | | | | |
| Shares | 20 | 2,194,563 | 2,000,282 | 2,194,563 | 2,000,282 |
| Derivative financial instruments | 30 | 9,008 | 13,391 | 8,931 | 13,362 |
| Amounts owed to credit institutions | 26 | 130,034 | 298,939 | 130,034 | 298,939 |
| Amounts owed to other customers | 26 | 147,123 | 137,796 | 147,792 | 137,926 |
| Other liabilities | 21 | 972 | 1,200 | 2,467 | 2,776 |
| Accruals and deferred income | 22 | 4,482 | 3,131 | 4,308 | 2,964 |
| Provisions for liabilities and charges | 23 | 850 | 906 | 850 | 906 |
| Pension liability | 25 | 18,646 | 13,943 | 18,646 | 13,943 |
| Total liabilities | | 2,505,678 | 2,469,588 | 2,507,591 | 2,471,098 |
| Total equity attributable to members | | 196,780 | 193,950 | 192,771 | 190,221 |
| Total Equity and Liabilities | | 2,702,458 | 2,663,538 | 2,700,362 | 2,661,319 |

The notes on pages 105 to 129 form part of these accounts.

These accounts were approved by the Board of Directors on 8 June 2021
J. Hooper, Chairman
M. Stanger, 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 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 |
| Profit for the year | 8,414 | - | 8,414 |
| Other comprehensive income | (5,482) | (102) | (5,584) |
| Total comprehensive income for the year | 2,932 | (102) | 2,830 |
| **Balance at 31 March 2021** | 194,015 | 2,765 | 196,780 |

| Society | General Reserve £000 | Sale Reserve £000 | Total Equity Attributable to Members £000 |
|---|---|---|---|
| **Balance at 1 April 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 |
| Profit for the year | 8,134 | - | 8,134 |
| Other comprehensive income | (5,482) | (102) | (5,584) |
| Total comprehensive income for the year | 2,652 | (102) | 2,550 |
| **Balance at 31 March 2021** | 190,006 | 2,765 | 192,771 |

# Consolidated Cash Flow Statement

For the year ended 31 March 2021

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | **10,473** | 8,340 |
| *Adjustments for:* | | |
| Loss on disposal of operations | **–** | 289 |
| Depreciation, impairment and profit on sale of tangible fixed assets | **1,944** | 2,344 |
| Loss on revaluation and disposal of investment properties | **144** | 445 |
| Changes in fair values of derivatives | **(1,464)** | 987 |
| Provisions for bad and doubtful debts | **678** | 1,252 |
| Provisions for liabilities and charges | **(56)** | 677 |
| Pension finance charge and service cost | **281** | 383 |
| Other non-cash movements | **(103)** | 10 |
| **Cash generated from operations** | **11,897** | 14,727 |
| **Movements in operating assets and liabilities** | | |
| Loans and advances to customers | **(19,962)** | (86,488) |
| Shares | **194,456** | 66,777 |
| Loans and advances to credit institutions and other liquid assets | **14,309** | 68,890 |
| Amounts owed to credit institutions and other customers | **(159,578)** | 7,315 |
| Prepayments and accrued income | **(331)** | (232) |
| Other assets | **(1)** | 40 |
| Accruals and deferred income | **1,351** | 362 |
| Other liabilities | **(371)** | (1,720) |
| Payment into defined benefit pension scheme | **(2,346)** | (2,346) |
| Taxation paid | **(1,367)** | (3,100) |
| **Net cash flows from operating activities** | **38,057** | 64,225 |
| **Cash flows from investing activities** | | |
| Purchase of debt securities | **(7,073)** | (25,000) |
| Maturity of debt securities | **5,000** | 84,000 |
| Payments to dispose of discontinued operations | **–** | (227) |
| Purchase of intangible fixed assets | **(581)** | – |
| Purchase of tangible fixed assets | **(2,048)** | (1,491) |
| Sale of tangible fixed assets | **67** | 170 |
| Sale of investment property | **104** | 1,000 |
| **Net cash flows from investing activities** | **(4,531)** | 58,452 |
| **Net increase in cash and cash equivalents** | **33,526** | 122,677 |
| Cash and cash equivalents at beginning of year | **408,405** | 285,728 |
| **Cash and cash equivalents at end of year** | **441,931** | 408,405 |
| **Represented by:** | | |
| Cash and balances with the Bank of England | **431,737** | 389,706 |
| Loans and advances to credit institutions repayable on demand | **10,194** | 18,699 |
| | **441,931** | 408,405 |



# 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 2021. 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 at least a 12 month period commencing on the date these accounts were signed. 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 44-48.

### 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.

### Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised if it is probable that future economic benefits attributable to the asset will flow from it and can be measured reliably. During the year, the Society commenced its strategic investment in technological functionality and purchased software licences and IT development services which qualify for recognition as intangible assets. The Society also recognised as intangible assets directly attributable internal development costs which are considered to meet the intangible assets criteria. Examples of such development costs include software licence costs, external contractor development costs and professional services. Costs associated with maintaining computer software programmes, research costs and development costs that do not meet the criteria for recognition as intangible assets are recognised as an expense as incurred.

Intangible assets are recognised at initial cost less accumulated amortisation. Amortisation of intangible assets commences when they are ready for their intended use and is charged to the income statement on a straight line basis over the useful economic life of the asset, usually deemed to be between three and five years.

Intangible assets are reviewed annually for indications of impairment, which includes the judgement as to whether it is probable that future economic benefits will be realised from the asset and whether the value in use of the asset is in excess of the carrying value. Any impairment in the value of these assets is recognised immediately in the income statement

### 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.



Notes to the Accounts

**vii) Interest rate benchmark reform**

Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. LIBOR will not be published after 31 December 2021 and firms are expected to transition to an alternative risk-free rate.

**The Society's exposure to LIBOR**

The Society has a single loan exposure to LIBOR in which it is not the principal agent, the Society will be directed by the issuing party in changing its contractual arrangements.

In August 2019 the Society ceased entering into LIBOR linked derivatives and has limited exposures which fully mature by 2024. The Society has signed up to the ISDA protocol, which acts as a backstop for those remaining derivative contracts still linked to LIBOR by the end of 2021.

The Society does not have exposures to interbank offer rates other than LIBOR.

The table below summarises the remaining exposure to LIBOR linked financial instruments.

| | Maturing in | Nominal £m* | Hedged item |
|---|---|---|---|
| Fair value (FV) mortgage hedges | 2021 | 157.9 | Fixed rate financial assets |
| | 2022 | 186.2 | |
| | 2023 | 120.8 | |
| | 2024 | 94.8 | |
| Fair value (FV) bond hedges | 2021 | 12.0 | Fixed rate financial liabilities |
| | 2022 | 21.0 | |

** The Society historically entered amortising swap arrangements; the nominals listed are the amortised balances of the remaining contracts.*

**Changes in accounting policies relating to the interest benchmark reform**

The benchmark change could have significant impacts on the treatment and measurement of financial instruments and hedge accounting under IFRS 9 or IAS 39. The Society reports under IAS 39. The IASB has issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform. The amendments have been released in two phases.

Phase 1 is mandatory for accounting periods starting on or after 1 January 2020 and Phase 2 is mandatory for accounting periods starting on or after 1 January 2021.

The Society has adopted phase 1 for the year ended 31 March 2021 and plans to report its position including phase 2 in its next set of reported results.

**Phase 1 reliefs**

Both IAS 39 and IFRS 9 require a forward-looking prospective assessment to apply hedge accounting. Under the relief, the Society assumes that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform.

IBOR reform might cause a hedge to fall outside the 80–125% hedge effectiveness range required under IAS 39. The relief provides an exception to the retrospective effectiveness test, such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside of this required 80–125% range.

As the Society plans to adopt the fall back which is currently judged to be economically equivalent phase 2 should be relevant in the next reported results. This will apply to those historic maturing contracts as they unwind over coming years.

**Phase 2 reliefs**

Both IAS 39 and IFRS 9 require hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Hedge documentation is amended to reflect the changes. Any changes in the fair value of the hedging instrument or the hedged risk are recognised immediately in the income statement.

Where applicable, the Society will make use of the practical expedient available to account for changes in contractual cash flows that are a direct consequence of the interest rate reform by updating the effective interest rate of the relevant product. The Society expects the fall-back rate to be economically equivalent to the LIBOR rate it replaces.

**Provisions for Bad and Doubtful Debts**

The Group applies the measurement criteria of IAS 39. 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 in notes 13 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 2021 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 during the year 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 its best estimate of the pandemic's impact in its modelling by way of adjustment to its expected loss and probability of default (PD) and probability of possession given default assumptions.

If the Group assumed an increase or decrease in loss given default (LGD) of 15% across its book for loans subject to collective impairment, holding all other assumptions constant, the following movement in provision would be seen resulting in an income statement impact:

| Impact of increase/decrease in LGD | +15% £000 | -15% £000 |
|---|---|---|
| FSOL | 129 | (129) |
| FSRP | 647 | (647) |
| Total charge/(credit) | 776 | (776) |

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

| Impact of increase/decrease in PD | +15% £000 | -15% £000 |
|---|---|---|
| FSOL | 129 | (129) |
| FSRP | 84 | (84) |
| Total charge/(credit) | 213 | (213) |

**Investment Properties**

The Group holds £1,952,000 of investment properties at the balance sheet date, having recognised an impairment of £133,000 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 2021, the assumptions used were based on market conditions and transactions prior to that point, incorporating the rental agreements with the Group's existing tenants. In March 2021, the UK was in its third lockdown and while transactions have taken place during the year reducing the level of uncertainty versus that at 31 March 2020 the pathway out of lockdown and the impact of economic reopening of the high street is uncertain. This 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 at 31st March 2021. If rentals were to reduce by 5% from those incorporated in current valuations, absent other factors, the Group's property value could reduce by £185,000.

Notes to the Accounts

# Notes to the Accounts

| 3. Interest Receivable and Similar Income | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| On loans fully secured on residential property | 51,876 | 55,962 | 51,876 | 55,892 |
| On other loans | 9,054 | 9,465 | 7,413 | 7,773 |
| On debt securities | | | | |
| Interest and other income | 34 | 289 | 34 | 289 |
| On other liquid assets | | | | |
| Interest and other income | 438 | 3,306 | 438 | 3,306 |
| Net expense on derivative financial instruments | (6,969) | (2,085) | (6,873) | (2,055) |
| **Total interest receivable** | 54,433 | 66,937 | 52,888 | 65,205 |

All income is derived from operations within the UK.

| 4. Interest Payable and Similar Charges | | | | |
|---|---|---|---|---|
| On shares held by individuals | 11,188 | 22,037 | 11,188 | 22,037 |
| On deposits and other borrowings | 772 | 3,421 | 772 | 3,421 |
| Net income on derivative financial instruments | (281) | (142) | (281) | (142) |
| **Total interest payable** | 11,679 | 25,316 | 11,679 | 25,316 |

## 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 on 5th November 2019 and 51 employees joined the new business. During the year ended 31 March 2020 the operation of Cumberland Estate Agents Limited contributed pre-tax losses of £234,000. 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 2020 statutory results of Cumberland Estate Agents Limited incorporate commission received from the Society for introduction of mortgage customers. The revenue was eliminated on consolidation in the results of the Group prior to disposal. In 2021 the sole activity of Cumberland Estate Agents Limited was the provision of services to Graeme MacLeod Property Ltd under transitional service agreements which ceased on 31 July 2020. In March 2021 Cumberland Financial Services Limited ceased operations. Its operations are immaterial to the Group and no further disclosure is provided.

| 6. Fair Value Gains/(Losses) on Financial Instruments | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Change in fair value derivatives in designated fair value hedge accounting relationships | 6,672 | (10,834) | 6,672 | (10,834) |
| Change in fair value derivatives not in designated fair value hedge accounting relationships | 837 | 21 | 913 | – |
| Adjustment to hedged items in designated fair value hedge accounting relationships | (6,045) | 9,826 | (6,045) | 9,826 |
| | 1,464 | (987) | 1,540 | (1,008) |

The Group only use derivatives to manage interest rate risk. Accordingly the fair value accounting gain/(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 which includes derivatives used to hedge the mortgage pipeline. During the year ended 31 March 2020 the Group ceased the purchase of LIBOR derivatives and all new hedges are with SONIA derivatives.

| 7. Administrative Expenses | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Staff costs (note 8) | 21,127 | 17,699 | 20,434 | 16430 |
| The analysis of the auditor's remuneration is as follows: | | | | |
| Fees payable to the Group's auditor for the audit of the annual accounts | 129 | 123 | 111 | 99 |
| Other Services: | | | | |
| Other assurance services | – | – | – | – |
| Other expenses | 10,819 | 11,821 | 10,658 | 11,186 |
| | 32,075 | 29,643 | 31,203 | 27,715 |

Group and Society other administrative expenses include £1,281,000 of project based expenditure (2020 - £2,380,000) directly relating to strategic change.



# Notes to the Accounts

## 8. Staff Numbers and Costs

| The average number of persons employed during the year (including executive directors) was as follows: | Full time 2021 | Full time 2020 | Part time 2021 | Part time 2020 |
|---|---|---|---|---|
| Society's principal office | 241 | 195 | 86 | 70 |
| Society's branches | 106 | 108 | 113 | 103 |
| Subsidiaries | 12 | 27 | 6 | 11 |
| | 359 | 330 | 205 | 184 |

| The aggregate costs of these persons were as follows: | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Wages and salaries | 18,291 | 15,302 | 17,712 | 14,208 |
| Social security costs | 1,535 | 1,352 | 1,481 | 1,247 |
| Other pension costs (note 25) | 1,301 | 1,045 | 1,241 | 975 |
| | 21,127 | 17,699 | 20,434 | 16,430 |

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 treatment also applies to the executive directors' remuneration disclosures in the People, Remuneration and Culture Committee Report.

| 9. Taxation | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| **(a) Analysis of charge in year:** | | | | |
| Current tax | | | | |
| Corporation tax at 19% | 1,463 | 1,643 | 1,389 | 1,642 |
| Under provision of corporation tax in prior years | 48 | 16 | 30 | 18 |
| Total current tax | 1,511 | 1,659 | 1,419 | 1,660 |
| Deferred tax at 19% | | | | |
| Origination and reversal of timing differences (note 19) | 548 | 120 | 547 | 105 |
| Tax on profit on ordinary activities | 2,059 | 1,779 | 1,966 | 1,765 |
| Total deferred tax relating to items of other comprehensive income | (1,310) | 162 | (1,310) | 162 |

**(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 | 10,473 | 8,340 | 10,100 | 8,163 |
| Tax on profit on ordinary activities at UK standard rate of 19% | 1,990 | 1,585 | 1,919 | 1,551 |
| Effects of: | | | | |
| Expenses not deductible for tax purposes | 21 | 178 | 17 | 196 |
| Under provision of corporation tax in prior years | 48 | 16 | 30 | 18 |
| Total tax charge for year | 2,059 | 1,779 | 1,966 | 1,765 |

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 and 31 March 2021 are valued at a rate of 19%. On 3 March 2021 the Chancellor announced an increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023). This will increase the Group's tax charge in future years but as the increase has not been substantively enacted at the date of these accounts, deferred tax assets and liabilities have not been revalued. If the change had been substantively enacted, the Group's deferred tax asset would have increased by £1,007,000 with a corresponding reduction in the deferred tax charge.

| 10. Cash in Hand and Balances with the Bank of England | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Cash in hand | 5,992 | 14,476 | 5,992 | 14,476 |
| Balances with the Bank of England | 425,745 | 375,230 | 425,745 | 375,230 |
| **Included in cash and cash equivalents** | 431,737 | 389,706 | 431,737 | 389,706 |

Balances with the Bank of England do not include cash ratio deposits of £5.71 million (2020 - £4.28 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 2021 £000 | Group 2020 £000 |
|---|---|---|
| Cash in hand and balances with the Bank of England (as above) | 431,737 | 389,706 |
| Loans and advances to credit institutions | 10,194 | 18,699 |
| | 441,931 | 408,405 |

| 11. Debt Securities | Group and Society 2021 £000 | Group and Society 2020 £000 |
|---|---|---|
| Debt securities | | |
| Covered bonds | 7,082 | – |
| Certificates of deposit | – | 5,036 |
| | 7,082 | 5,036 |

Debt securities are held as available for sale assets and carried at their fair value with movements reported through other comprehensive income. In the year ended 31 March 2021 the Group diversified its holdings of debt securities by acquiring covered bonds issued by other rated UK based financial institutions.

Movements in available for sale debt securities are summarised as follows:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| At 1 April | 5,036 | 64,182 |
| Additions | 7,073 | 25,000 |
| Maturities | (5,000) | (84,000) |
| Gains/(losses) from changes in fair value | 10 | (61) |
| Decrease in accrued interest | (37) | (85) |
| At 31 March | 7,082 | 5,036 |

The remaining maturity of debt securities are noted in note 26.

| 12. Loans and Advances to Customers | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Loans and advances to customers comprise: | | | | |
| Loans fully secured on residential property before EIR adjustment | 2,001,497 | 1,969,528 | 2,001,497 | 1,969,528 |
| Effective interest rate adjustment | (1,937) | (2,040) | (1,937) | (2,040) |
| Loans fully secured on residential property | 1,999,560 | 1,967,488 | 1,999,560 | 1,967,488 |
| Other loans | | | | |
| Loans fully secured on land | 171,257 | 179,331 | 171,257 | 179,331 |
| Other loans | 21,648 | 25,684 | 658 | 1,315 |
| Fair value adjustment for hedge risk | 6,018 | 12,238 | 6,018 | 12,238 |
| | 2,198,483 | 2,184,741 | 2,177,493 | 2,160,372 |
| Less: Provisions for bad and doubtful debts (note 13) | (3,523) | (2,945) | (3,384) | (2,814) |
| | 2,194,960 | 2,181,796 | 2,174,109 | 2,157,558 |

Other loans include £0.658 million (2020 - £1.315 million) of overdraft lending to the Society's current account customers. Other loans of the Group also include £20.990 million (2020 - £24.369 million) of loans and advances to customers of Borderway Finance Limited.

As at 31 March 2021 £395.3 million (2020 - £472.5 million) of loans fully secured on residential property had been pledged as collateral to the Bank of England under the Term Funding Scheme.

The effective interest rate adjustment of £1.937 million (2020 - £2.040 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.



Notes to the Accounts

Society 2021

| 13. Provisions for Bad and Doubtful Debts | Loans fully secured on residential property £000 | Loans fully secured on land £000 | Other loans £000 | Total £000 |
|---|---|---|---|---|
| **At 1 April 2020** | | | | |
| Collective impairment | 525 | 899 | 60 | 1,484 |
| Individual impairment | 39 | 1,263 | 28 | 1,330 |
| | 564 | 2,162 | 88 | 2,814 |
| **Income and expenditure account** | | | | |
| Charge/(release) for the year | | | | |
| Collective impairment | 343 | (186) | – | 157 |
| Individual impairment | (40) | 509 | (4) | 465 |
| | 303 | 323 | (4) | 622 |
| **Amount written off during the year** | | | | |
| Individual impairment | 1 | (38) | (15) | (52) |
| | 1 | (38) | (15) | (52) |
| **At 31 March 2021** | | | | |
| Collective impairment | 868 | 713 | 60 | 1,641 |
| Individual impairment | – | 1,734 | 9 | 1,743 |
| | 868 | 2,447 | 69 | 3,384 |

**Group provisions for bad and doubtful debts**
The table above relates to the Society.
Borderway Finance Limited had individual impairment provisions of £31,000 at 31 March 2021 and £108,000 of collective provisions, and a charge in the year of £59,000. Cumberland Estate Agents Limited recovered £3,000 of previously written off bad debt.

During the year the Society has worked with its customers to ensure that they are supported as the pandemic and attendant lockdowns have disrupted trade and employment. The Group offered customers up to six months of payment holiday on request. Thereafter the Group continues to support its customers where necessary through individually agreed arrangements and concessions. The vast majority of customers who availed themselves of payment holiday forbearance chose to capitalise their arrears and have subsequently returned to the contractual repayment terms of their loans. Others have cleared all amounts deferred. Some customers, however, have begun to build up further arrears and fallen into default. The Group continues to support its customers working with them through this period of financial difficulty. The payment status of the Group's loans at 31 March 2021 and the current level of active forbearance by type are disclosed in note 29. The Group has accounted for this through its loan loss models, specific provisions and supporting overlays, all of which have been subject to further development and updated during the year.

Society 2020

| | Loans fully secured on residential property £000 | Loans fully secured on land £000 | Other loans £000 | 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.

| 14. Investments in Subsidiary Undertakings | Society Shares £000 | Loans £000 | Total £000 |
|---|---|---|---|
| Cost less impairment at 1 April 2020 | 870 | 21,745 | 22,615 |
| Advances | – | 541 | 541 |
| Repayments | – | (4,095) | (4,095) |
| Cost less impairment at 31 March 2021 | 870 | 18,191 | 19,061 |
| Cost 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 |

**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 | 02332657 | Independent Financial Adviser |
| Cumberland Homes Limited | 02564021 | Development Company |
| Cumberland Property Services Limited | 02564416 | Property Company |
| Cumberland Financial Planning Limited | 02564425 | Dormant |

During the year ended 31 March 2021 the Group ceased the provision of individual financial advice, a service which was provided through Cumberland Financial Services Limited. As a result at 31 March 2021 only Borderway Finance Limited is actively trading. The other subsidiaries will be wound up in due course after the completion of all necessary procedures supporting the ongoing simplification of the Group's business model as part of Cumberland 2025.

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 ceased in July 2020. An intercompany balance of £68,000 owed by Cumberland Homes 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. A further intercompany balance within other debtors and owed by Cumberland Estate Agents Limited of £82,000 was written off on the same date.

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

| 15. Intangible Assets (Group and Society) | Externally acquired £000 | Internally developed £000 | Total £000 |
|---|---|---|---|
| Cost | | | |
| At 1 April 2020 | – | – | – |
| Additions | 485 | 96 | 581 |
| Disposals | – | – | – |
| At 31 March 2021 | 485 | 96 | 581 |
| Amortisation | | | |
| At 1 April 2020 | – | – | – |
| Charge for year | – | – | – |
| At 31 March 2021 | – | – | – |
| Net book value | | | |
| At 31 March 2021 | 485 | 96 | 581 |
| At 31 March 2020 | – | – | – |

The Group expects to capitalise a growing amount of internally generated intangible assets as it moves into the delivery phase of its technology change as part of Cumberland 2025. During 2021 the Group commenced capitalisation of work that met the definition of an intangible asset under FRS 102. This included software licences, IT development costs and certain staff costs. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once the asset is brought into use. No capitalised intangibles were in use at the end of 2021. The useful life of such assets is determined to be five years for new core systems and three years for system enhancements.



Notes to the Accounts

| 16. Tangible Fixed Assets (Group) | Freehold Land and Buildings £000 | Equipment, Fixtures and Fittings and Vehicles £000 | Total £000 |
|---|---|---|---|
| Cost | | | |
| At 1 April 2020 | 15,650 | 13,667 | 29,317 |
| Additions | 311 | 1,737 | 2,048 |
| Transfer to investment property | (25) | – | (25) |
| Disposals | – | (195) | (195) |
| At 31 March 2021 | 15,936 | 15,209 | 31,145 |
| Depreciation | | | |
| At 1 April 2020 | 7,888 | 9,326 | 17,214 |
| Charge for year | 260 | 1,636 | 1,896 |
| Impairment | 64 | – | 64 |
| Disposals | – | (146) | (146) |
| At 31 March 2021 | 8,212 | 10,816 | 19,028 |
| Net book value | | | |
| At 31 March 2021 | 7,724 | 4,393 | 12,117 |
| At 31 March 2020 | 7,762 | 4,341 | 12,103 |

| Tangible Fixed Assets (Society) | | | |
|---|---|---|---|
| Cost | | | |
| At 1 April 2020 | 15,289 | 13,841 | 29,130 |
| Additions | 311 | 1,721 | 2,032 |
| Transfer to investment property | (25) | – | (25) |
| Disposals | – | (167) | (167) |
| At 31 March 2021 | 15,575 | 15,395 | 30,970 |
| Depreciation | | | |
| At 1 April 2020 | 7,527 | 9,573 | 17,100 |
| Charge for year | 260 | 1,606 | 1,866 |
| Impairment | 64 | – | 64 |
| Disposals | – | (127) | (127) |
| At 31 March 2021 | 7,851 | 11,052 | 18,903 |
| Net book value | | | |
| At 31 March 2021 | 7,724 | 4,343 | 12,067 |
| At 31 March 2020 | 7,762 | 4,268 | 12,030 |

The net book value of land and buildings occupied by the Group for its own activities at 31 March 2021 was £7,543,000 (Society £7,543,000) (2020 - Group £7,576,000, Society £7,576,000).

The Group recognised an impairment of £nil (2020 - £275,000) on its branch property attached to its former head office location.
In 2021 the Group recognised an impairment of £64,000 on a property above one of its other branches which was subsequently transferred to investment property (note 17) as it is separately saleable.

Disposals of fixed assets are predominantly sale of returned staff vehicles and a gain on sale of £16,000 was made (2020: £18,000).

## 17. Investment Properties

| | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| At 1 April | 2,175 | 3,620 | 2,060 | 2,445 |
| Additions | – | – | – | – |
| Transfer from tangible fixed assets | 25 | – | 25 | – |
| Disposals | (115) | (1,000) | – | – |
| Revaluation | (133) | (445) | (133) | (385) |
| At 31 March | 1,952 | 2,175 | 1,952 | 2,060 |

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 2021. 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 and in 2021 completed the sale of all land previously held for development and all property not held by the Society, resulting in a loss on disposal of £11,000.

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

| | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Cost | 2,994 | 3,204 | 2,994 | 2,969 |
| Depreciation | (1,571) | (1,541) | (1,571) | (1,541) |
| | 1,423 | 1,663 | 1,423 | 1,428 |

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

| | Group and Society 2021 £000 | Group and Society 2020 £000 |
|---|---|---|
| Within one year | 122 | 150 |
| In the second to fifth years inclusive | 266 | 303 |
| After five years | 13 | 24 |
| | 401 | 477 |

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 2021 amounted to £8,000 (2020 - £30,000).

## 18. Other Assets

| | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Deferred taxation asset (note 19) | 3,421 | 2,659 | 3,409 | 2,646 |
| Other | 41 | 40 | 123 | 75 |
| | 3,462 | 2,699 | 3,532 | 2,721 |

## 19. Deferred Taxation

| | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| At 1 April | 2,659 | 2,941 | 2,646 | 2,913 |
| Charge to the income and expenditure account (note 9) | (548) | (120) | (547) | (105) |
| Credit/(charge) to other comprehensive income | 1,310 | (162) | 1,310 | (162) |
| **At 31 March** | 3,421 | 2,659 | 3,409 | 2,646 |
| Deferred tax assets and liabilities are attributable to the following items: | | | | |
| Difference between accumulated depreciation and amortisation and capital allowances | 142 | 144 | 132 | 136 |
| Deficit reduction contributions | 223 | 334 | 223 | 334 |
| Pension scheme | 3,543 | 2,649 | 3,543 | 2,649 |
| Investment in equity shares | (645) | (671) | (645) | (671) |
| Debt securities | (4) | (2) | (4) | (2) |
| Differences arising from transition to FRS 102 | 162 | 205 | 160 | 200 |
| | 3,421 | 2,659 | 3,409 | 2,646 |

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.



Notes to the Accounts

## 20. Shares

| | Group and Society 2021 £000 | Group and Society 2020 £000 |
|---|---|---|
| Held by individuals | 2,194,306 | 1,999,864 |
| Other | 21 | 7 |
| Fair value adjustment for hedged risk | 236 | 411 |
| | 2,194,563 | 2,000,282 |

## 21. Other Liabilities

| | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Other liabilities falling due within one year: | | | | |
| Corporation tax | (142) | (285) | (112) | (287) |
| Income tax | 1 | 1 | 1 | 1 |
| Other creditors | 1,113 | 1,484 | 2,578 | 3,062 |
| | 972 | 1,200 | 2,467 | 2,776 |

## 22. Accruals and Deferred Income

| | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Administrative and operating costs | 3,530 | 2,795 | 3,356 | 2,628 |
| Interest relating to derivative financial instruments | 952 | 336 | 952 | 336 |
| | 4,482 | 3,131 | 4,308 | 2,964 |

## 23. Provisions for Liabilities and Charges

| | Group and Society 2021 £000 | Group and Society 2020 £000 |
|---|---|---|
| At 1 April | 906 | 229 |
| (Release)/charge to income and expenditure account | (20) | 963 |
| Utilised | (36) | (286) |
| At 31 March | 850 | 906 |

**Historic KYC deficiencies**
During the year ended 31 March 2020 a provision was established for the estimated cost of remediating historic KYC deficiencies in the Society's business current account portfolio. At 31 March 2021 £850,000 was provided for this matter (2020: £848,000).

## 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 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Contracted but not provided for | 32 | 454 | 32 | 454 |
| (c) Memorandum items | | | | |
| Irrevocable mortgage commitments | 7,924 | 10,027 | 7,924 | 10,027 |

The Group also has undrawn customer overdraft facilities £8,600,000 at 31 March 2021 (2020 - £8,500,000).

## 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 staff costs in the year ended 31 March 2021 was £1,183,000 (2020 - £1,010,000).

**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 2021 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 2021.

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 and the second in August 2020. Other than payments under the scheme's recovery plan and the meeting of the scheme's administrative expenses, the Group has not contributed to the scheme.

| Key assumptions used: | Valuation at 2021 % | 2020 % |
|---|---|---|
| Rate of increase in pensions in payment | **2.20-3.10** | 1.95-2.50 |
| Discount rate | **2.00** | 2.20 |
| Inflation assumptions – RPI | **3.20** | 2.50 |
| – CPI | **2.30** | 1.60 |

**Mortality assumptions:**
Post-retirement mortality is based on 95% of the S2PXA tables, with projected improvements based on CMI 2020 with a long-term trend of 1.25% p.a., a smoothing parameter of 7.0, an initial addition of 0.25% and a w2020 parameter of 0%. No allowance is made for pre-retirement mortality.

| The number of years' life expectancy, retiring at 62, is as follows: | 2021 | 2020 |
|---|---|---|
| Retiring today: | | |
| Males | **87.1** | 86.6 |
| Females | **89.2** | 88.8 |
| Retiring in 20 years: | | |
| Males | **88.5** | 88.0 |
| Females | **90.7** | 90.4 |

| The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows: | 2021 £000 | 2020 £000 |
|---|---|---|
| Present value of defined benefit obligations | **(77,045)** | (69,375) |
| Fair value of scheme assets | **58,399** | 55,432 |
| Liability recognised in the balance sheet | **(18,646)** | (13,943) |
| **Movements in the present value of defined benefit obligations were as follows:** | | |
| At 1 April | **69,375** | 71,292 |
| Interest cost | **1,504** | 1,625 |
| Service cost | **–** | – |
| Benefits paid | **(1,995)** | (1,312) |
| Actuarial loss/(gain) | **8,161** | (2,230) |
| At 31 March | **77,045** | 69,375 |





| Movements in the fair value of scheme assets were as follows: | | |
|---|---|---|
| At 1 April | **55,432** | 53,370 |
| Actuarial gain/(loss) | **1,393** | (214) |
| Expected return on assets | **1,223** | 1,242 |
| Contributions from employers | **2,369** | 2,521 |
| Benefits paid | **(1,995)** | (1,312) |
| Expenses paid | **(23)** | (175) |
| At 31 March | **58,399** | 55,432 |
| **The analysis of the scheme assets at the balance sheet date was as follows:** | | |
| Growth assets | **30,416** | 31,097 |
| Diversified credit | **12,406** | 8,189 |
| Liability driven investments (LDI) | **13,013** | 14,044 |
| Cash | **1,124** | 397 |
| Other assets | **1,440** | 1,705 |
| | **58,399** | 55,432 |

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

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

**a) Administrative expenses**

| | | |
|---|---|---|
| Service cost | **–** | – |

The operating charge of £nil (2020 - £nil), plus the Group's contributions to the defined contribution schemes of £1,183,000 (2020 - £1,010,000) and life assurance premiums of £118,000 (2020 - £35,000), comprise the Group's other pension costs total of £1,301,000 (2020 - £1,045,000) shown in note 8.

The Society reimbursed the scheme for expenses paid in the current year totalling £23,000 (2020 - £175,000). Since the closure of the trustee bank account on 9 October 2020, the Society has directly paid administrative expenses of the scheme totalling £145,000. These costs are included within administrative expenses shown in note 7.

| **b) Pension finance charge** | | |
|---|---|---|
| Expected return on pension scheme assets | **1,223** | 1,242 |
| Interest on pension scheme liabilities | **(1,504)** | (1,625) |
| Net charge | **(281)** | (383) |
| **c) Statement of Comprehensive Income** | | |
| Actual return less expected return on pension scheme assets | **1,393** | (214) |
| Actuarial (loss)/gain on defined benefit obligation | **(8,161)** | 2,230 |
| Actuarial (loss)/gain | **(6,768)** | 2,016 |
| Movement in deferred taxation relating to pension scheme | **1,286** | (25) |
| Actuarial (loss)/gain recognised in the Statement of Comprehensive Income | **(5,482)** | 1,991 |

| d) Movement in the deficit in the scheme during the year | 2021 £000 | 2020 £000 |
|---|---|---|
| Deficit in scheme at beginning of year | **(13,943)** | (17,922) |
| Movement in year: | | |
| Service cost | **–** | – |
| Contributions net of expenses paid | **2,346** | 2,346 |
| Pension finance charge | **(281)** | (383) |
| Actuarial (loss)/gain | **(6,768)** | 2,016 |
| Deficit in scheme at end of year | **(18,646)** | (13,943) |

| History of experience gains and losses | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Actual return less expected return on pension scheme assets (£000) | **1,393** | (214) | 289 | (598) | 3,362 |
| Percentage of opening scheme assets | **2.5** | 0.4 | 0.5 | 1.1 | 6.5 |
| Actuarial (loss)/gain on defined benefit obligation (£000) | **(8,161)** | 2,230 | (1,396) | 4,185 | (13,458) |
| Percentage of opening scheme liabilities | **11.8** | 3.1 | 1.9 | 5.5 | 22.0 |

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. During the year ended 31 March 2021 the Group introduced covered bonds into its High Quality Liquid Assets portfolio and will seek to increase its holdings moderately over time. The Group has also reduced its holdings of uncollateralised deposits with other financial institutions.

**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.

| At 31 March 2021: | 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 | **(2,400)** | **2,148** | **(1,526)** | **(5,632)** |
| **At 31 March 2020:** | | | | |
| Swap contracts | (915) | (1,303) | (2,201) | (8,622) |

**Maturity profile of financial instruments**

The table below analyses the Group's financial 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 2021: | 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 | **431,721** | **–** | **–** | **–** | **–** | **16** | **431,737** |
| Loans and advances to credit institutions | **10,194** | **5,712** | **8,000** | **15,524** | **–** | **6** | **39,436** |
| Debt Securities | **–** | **–** | **–** | **7,082** | **–** | **–** | **7,082** |
| Derivative financial instruments | **–** | **–** | **–** | **–** | **–** | **3,166** | **3,166** |
| Loans and advances to customers | | | | | | | |
| Loans fully secured on residential property and land | **2,397** | **20,942** | **64,201** | **409,039** | **1,676,175** | **766** | **2,173,520** |
| Other loans | **658** | **168** | **1,181** | **19,641** | **–** | **(208)** | **21,440** |
| **Liabilities** | | | | | | | |
| Shares | **1,568,882** | **377,922** | **185,483** | **60,297** | **–** | **1,979** | **2,194,563** |
| Derivative financial instruments | **–** | **–** | **–** | **–** | **–** | **9,008** | **9,008** |
| Amounts owed to credit institutions | **–** | **–** | **130,000** | **–** | **–** | **34** | **130,034** |
| Amounts owed to other customers | **86,846** | **45,033** | **14,751** | **439** | **–** | **54** | **147,123** |
| **At 31 March 2020:** | | | | | | | |
| **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 |

Included within other loans are balances of £20,990,000 (2020 - £24,369,000) relating to loans and advances to customers of Borderway Finance Limited.



Notes to the Accounts

## 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. During the year the Group has enhanced its interest rate risk management through commencing the process of allocating its free reserves over a 63 month profile.

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 table does not capture the use of reserves hedging discussed above.

| At 31 March 2021: | 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 | **470,250** | **4,005** | **4,000** | **–** | **–** | **478,255** |
| Derivative financial instruments | **–** | **–** | **–** | **–** | **3,166** | **3,166** |
| Loans and advances to customers | **943,570** | **95,346** | **186,410** | **969,634** | **–** | **2,194,960** |
| Intangible assets | **–** | **–** | **–** | **–** | **581** | **581** |
| Tangible fixed assets | **–** | **–** | **–** | **–** | **12,117** | **12,117** |
| Other assets | **–** | **–** | **–** | **–** | **13,379** | **13,379** |
| **Total assets** | **1,413,820** | **99,351** | **190,410** | **969,634** | **29,243** | **2,702,458** |
| **Liabilities** | | | | | | |
| Shares | **2,034,236** | **49,362** | **61,417** | **49,548** | **–** | **2,194,563** |
| Derivative financial instruments | **–** | **–** | **–** | **–** | **9,008** | **9,008** |
| Amounts owed to credit institutions and other customers | **273,656** | **500** | **3,001** | **–** | **–** | **277,157** |
| Other liabilities, pension liability, accruals and deferred income | **–** | **–** | **–** | **–** | **24,950** | **24,950** |
| Reserves | **–** | **–** | **–** | **–** | **196,780** | **196,780** |
| **Total liabilities** | **2,307,892** | **49,862** | **64,418** | **49,548** | **230,738** | **2,702,458** |
| Net assets / (liabilities) | **(894,072)** | **49,489** | **125,992** | **920,086** | **(201,495)** | **–** |
| Derivative instruments | **1,145,350** | **(73,850)** | **(165,150)** | **(906,350)** | **–** | **–** |
| Interest rate sensitivity gap | **251,278** | **(24,361)** | **(39,158)** | **13,736** | **(201,495)** | **–** |
| Cumulative gap | **251,278** | **226,917** | **187,759** | **201,495** | **–** | **–** |
| **At 31 March 2020:** | | | | | | |
| **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 | – | – |

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 2021 £000** | Group and Society +200bps 2020 £000 | **Group and Society -200bps 2021 £000** | Group and Society -200bps 2020 £000 |
|---|---|---|---|---|
| Impact on equity reserves | **(2,384)** | (3,276) | **2,642** | 3,276 |

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, SONIA 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. The UK base rate is at its lowest ever historical level (0.1%) and there has been some consideration of negative interest rates by the Bank of England. The impact of a negative base rate can not be understood from the standard 200bp parallel shift above because of the inherent floor in retail liabilities as it is difficult to envisage depositors paying to store their funds. As a result the impact would differ from that illustrated as the full change could not or may not be passed on to retail depositors.

## 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 other than to commence the acquisition of covered bonds under appropriate limits.

At 31 March 2021 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% (2020 - 97%) 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 2021:

| | **Group and Society** | |
|---|---|---|
| | **2021 %** | 2020 % |
| Aaa | **1** | – |
| Aa3-A3 | **4** | 7 |
| Sovereign exposure to the UK | **92** | 90 |
| Other | **3** | 3 |
| | **100** | 100 |

All wholesale exposures are to UK financial institutions. The largest exposure to a single institution other than the UK government was £10.8 million (2020 - £30.7 million).

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

| | **Group 2021 £000** | Group 2020 £000 | **Society 2021 £000** | Society 2020 £000 |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | **431,737** | 389,706 | **431,737** | 389,706 |
| Loans and advances to credit institutions | **39,436** | 62,250 | **39,436** | 62,250 |
| Debt securities | **7,082** | 5,036 | **7,082** | 5,036 |
| **Total wholesale credit risk** | **478,255** | 456,992 | **478,255** | 456,992 |

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 ISDA and GMRA counterparties. These provide the legal basis for measuring the extent of any credit risk exposures and govern how cash is moved as collateral between the Group and the counterparty to offset these exposures, which arise as a result of movements in interest rates. At 31 March 2021 the Group had no open repurchase transactions (2020 - nil).



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## 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** | |
|---|---|---|
| | **2021 £000** | 2020 £000 |
| Loans fully secured on residential property | **2,001,497** | 1,969,528 |
| Loans fully secured on land | **171,257** | 179,331 |
| Other loans | **21,648** | 25,684 |
| Total gross exposure (contractual amounts) | **2,194,402** | 2,174,543 |
| Impairment and hedging adjustments | **2,495** | 9,293 |
| EIR adjustment | **(1,937)** | (2,040) |
| **Total net exposure** | **2,194,960** | 2,181,796 |

**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.

Loans fully secured on residential property are split by geographical distribution as follows:

| | **Group and Society** | |
|---|---|---|
| **Geographical distribution** | **2021 %** | 2020 % |
| North West | **54** | 55 |
| Scotland | **11** | 11 |
| London | **7** | 7 |
| South East | **8** | 8 |
| South West | **8** | 8 |
| Yorkshire and Humberside | **3** | 3 |
| East of England | **2** | 2 |
| North East | **2** | 2 |
| West Midlands | **2** | 1 |
| East Midlands | **1** | 1 |
| Wales | **2** | 2 |
| | **100** | 100 |

**Loan to value distribution:**

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

| | | |
|---|---|---|
| <70% | **78** | 75 |
| 70%-80% | **13** | 14 |
| 80%-90% | **8** | 10 |
| >90% | **1** | 1 |
| | **100** | 100 |

The overall indexed loan-to-value of the residential portfolio is 43% (2020 - 45%).
The following table provides further information on the Group's loans fully secured on residential property by payment due status. The balances exclude the effective interest rate adjustment and fair value adjustment for hedge risk and impairment losses.

| | **Group and Society** | | Group and Society | |
|---|---|---|---|---|
| **Payment due status** | **2021 £000** | **2021 %** | 2020 £000 | 2020 % |
| **Not impaired:** | | | | |
| Neither past due nor impaired | **1,978,572** | **99** | 1,942,399 | 99 |
| Past due up to 3 months but not impaired | **17,646** | **1** | 24,880 | 1 |
| **Impaired:** | | | | |
| Past due 3 to 6 months | **1,465** | **–** | 1,416 | – |
| Past due 6 to 12 months | **1,244** | **–** | 181 | – |
| Past due more than 12 months | **2,570** | **–** | 652 | – |
| Possessions | **–** | **–** | – | – |
| | **2,001,497** | **100** | 1,969,528 | 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 its first lockdown as a result of the Covid-19 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. A second, up to 3 month mortgage holiday was also made available resulting in a total of 6 months forbearance being available to all customers on request in this way up to and including 31 March 2021. As a result, the impact of forbearance offered as part of Covid-19 is not 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 arrangements. The vast majority of customers have returned to normal repayment. Those customers who have required further bespoke support have been offered this and are reported under the relevant concession type below. The Group had no customers with payment holidays prior to the Covid-19 pandemic. The table shows those customers who had forbearance during the year to 31 March 2021 unless they solely had government mandated payment holidays and subsequently returned to contracted payments.

| At 31 March 2021: | Payment holiday £000 | Payment concessions including interest only £000 | Arrears capitalised £000 | Transfer to interest only £000 | Total forbearance £000 |
|---|---|---|---|---|---|
| Neither past due nor impaired | **20,832** | **5,715** | **1,782** | **54** | **28,383** |
| Past due up to 3 months | **1,582** | **2,884** | **116** | **–** | **4,582** |
| Past due more than 3 months | **742** | **3,472** | **–** | **–** | **4,214** |
| **Total loans and advances** | **23,156** | **12,071** | **1,898** | **54** | **37,179** |
| **At 31 March 2020:** | | | | | |
| 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 |

**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** | **2021 %** | 2020 % |
| Leisure and hotel | **84** | 78 |
| Commercial investment and industrial units | **9** | 14 |
| Retail | **2** | 2 |
| Others, including mixed use | **5** | 6 |
| | **100** | 100 |
| **Unindexed loan to value distribution** | | |
| <70% | **93** | 93 |
| 70%-80% | **4** | 4 |
| 80%-90% | **2** | 2 |
| >90% | **1** | 1 |
| | **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** | **2021 £000** | **2021 %** | 2020 £000 | 2020 % |
| **Not impaired:** | | | | |
| Neither past due nor impaired | **147,742** | **86** | 165,852 | 92 |
| Past due up to 3 months but not impaired | **12,361** | **7** | 2,177 | 1 |
| **Impaired:** | | | | |
| Past due 3 to 6 months | **2,869** | **2** | 926 | 1 |
| Past due 6 to 12 months | **4,609** | **3** | 10,376 | 6 |
| Past due more than 12 months | **3,676** | **2** | – | – |
| | **171,257** | **100** | 179,331 | 100 |

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses. At 31 March 2020 £10.4m of loans past due 6 to 12 months related to linked connections. The Group appointed administrators to recover funds from the borrower through sale of thee underlying collateral security. At 31 March 2021 this exposure which is now disclosed as past due more than 12 months had reduced to £1.6m.



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**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 Covid-19 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. A second, up to 3 month mortgage holiday was also made available resulting in a total of 6 months forbearance being available to all customers on request in this way up to and including 31 March 2021.

As a result, the impact of forbearance offered as part of Covid-19 is not 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 arrangements. The majority of customers have returned to normal repayment. Those customers who have required further bespoke support have been offered this and are reported under the relevant concession type below. The Group's book is focused on hospitality and tourism and so in many cases businesses have been closed repeatedly over the financial year and have required bespoke support. The table below indicates the account balances that have been subject to forbearance measures during the year to 31 March 2021, unless they only received Covid-19 related payment holidays and have subsequently had no further forbearance. Only those who still have such forbearance are disclosed.

| At 31 March 2021: | Payment holiday £000 | Payment concessions including interest only £000 | Arrears capitalised £000 | Transfer to interest only £000 | Total forbearance £000 |
|---|---|---|---|---|---|
| Neither past due nor impaired | **4,727** | **5,256** | **–** | **–** | **9,983** |
| Past due up to 3 months | **459** | **6,119** | **–** | **–** | **6,578** |
| Past due more than 3 months | **–** | **4,652** | **–** | **–** | **4,652** |
| **Total loans and advances** | **5,186** | **16,027** | **–** | **–** | **21,213** |
| **At 31 March 2020:** | | | | | |
| 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 |

## 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 2021 | | | Group 2020 | | |
|---|---|---|---|---|---|---|
| | **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 | **1,138,500** | **2,140** | **(8,830)** | 1,282,050 | – | (13,362) |
| Interest rate swaps not designated as hedges | **155,600** | **1,026** | **(178)** | 19,900 | 40 | (29) |
| **Total derivatives held for hedging** | **1,294,100** | **3,166** | **(9,008)** | 1,301,950 | 40 | (13,391) |

| | Society 2021 | | | Society 2020 | | |
|---|---|---|---|---|---|---|
| | **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 | **1,138,500** | **2,140** | **(8,830)** | 1,282,050 | – | (13,362) |
| Interest rate swaps not designated as hedges | **137,350** | **1,014** | **(101)** | – | – | – |
| **Total derivatives held for hedging** | **1,275,850** | **3,154** | **(8,931)** | 1,282,050 | – | (13,362) |

The following table shows the notional principal of derivatives and their residual maturity.

| | Group 2021 £000 | Group 2020 £000 | Society 2021 £000 | Society 2020 £000 |
|---|---|---|---|---|
| Interest rate swaps | | | | |
| Under one year | **289,750** | 259,250 | **284,950** | 257,050 |
| Between one and five years | **1,004,350** | 1,042,700 | **990,900** | 1,025,000 |
| | **1,294,100** | 1,301,950 | **1,275,850** | 1,282,050 |

## 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 2021:** | **Carrying Value £000** | **Fair Value £000** |
| **Financial assets:** | | |
| Loans and advances to customers | | |
| Loans fully secured on residential property | **1,998,692** | **2,028,575** |
| Loans fully secured on land | **168,810** | **170,434** |
| **Financial liabilities:** | | |
| Shares | **2,194,327** | **2,194,866** |

| | 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 property | 1,966,924 | 1,998,332 |
| Loans fully secured on land | 177,169 | 178,085 |
| **Financial liabilities:** | | |
| Shares | 1,999,904 | 2,001,745 |

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 cost 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) includes Series A preference shares which are a Level 2 asset and Series B preference shares which are a Level 3 asset, as its valuation includes certain assumptions which are deemed to be unobservable.



Notes to the Accounts

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 2021:** | **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 | – | – | **431,737** | – | – | **431,737** |
| Loans and advances to credit institutions | – | – | **39,436** | – | – | **39,436** |
| Debt securities | – | **7,082** | – | – | – | **7,082** |
| Derivative financial instruments | **3,166** | – | – | – | – | **3,166** |
| Loans and advances to customers | | | | | | |
| Loans fully secured on residential property | **6,018** | – | **1,998,692** | – | – | **2,004,710** |
| Loans fully secured on land | – | – | **168,810** | – | – | **168,810** |
| Other loans | – | – | **21,440** | – | – | **21,440** |
| Investment in equity share | – | **5,824** | – | – | – | **5,824** |
| Non-financial assets | – | – | – | – | **20,253** | **20,253** |
| **Total assets** | **9,184** | **12,906** | **2,660,115** | – | **20,253** | **2,702,458** |
| **Financial liabilities:** | | | | | | |
| Shares | **236** | – | – | **2,194,327** | – | **2,194,563** |
| Derivative financial instruments | **9,008** | – | – | – | – | **9,008** |
| Amounts owed to credit institutions | – | – | – | **130,034** | – | **130,034** |
| Amounts owed to other customers | – | – | – | **147,123** | – | **147,123** |
| Non-financial liabilities | – | – | – | – | **24,950** | **24,950** |
| General and other reserves | – | – | – | **196,780** | – | **196,780** |
| **Total reserves and liabilities** | **9,244** | – | – | **2,668,264** | **24,950** | **2,702,458** |

| **At 31 March 2020:** | | | | | | |
|---|---|---|---|---|---|---|
| **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 share | – | 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 |

## 32. Investment in Equity Shares

The investment in equity shares is in respect of Visa Inc. preference shares. These were originally received as part of the consideration for the sale of the Society's share in Visa Europe in June 2016. At 31 March 2021 the preference shares have been recognised at a fair value of £5,824,000 (2020 - £5,960,000). The loss for the year has been recognised in the available for sale reserve, net of deferred tax.

Series A preference shares were received on partial conversion of Series B preference shares in September 2020. The £3,234,000 fair value of the Series A shares is derived from the share price of Common A shares and the conversion factor.

Series B preference shares are convertible into Visa Inc. common stock or its equivalent at a future date, subject to potential litigation losses that may be incurred by Visa Europe. The £2,590,000 fair value (2020 - £5,960,000) of Series B preference shares at 31 March 2021 is derived from the share price of Common A shares by way of a conversion factor (which reduced upon the partial conversion in September 2020) discounted for illiquidity/lack of marketability and contingent litigation risks.

The Society received deferred cash consideration of £nil (2020 - £429,000) 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 – 2021** | |
|---|---|---|
| | **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** | **1,015** |

| | 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 |

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 £385,029 at 31 March 2021 (2020 - £356,000).

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 'Country by Country Reporting'.

- Nature of activities and geographical location: The principal activities of the Group are set out in the Directors' Report. The Group operates entirely in the UK and so no further Country to 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 Income Statement, 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 Income Statement.
- Corporation tax paid: as disclosed in the Consolidated Cash Flow Statement.
- Public subsidies received: none received.



Notes to the Accounts

## 35. 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 2021 was £129.6 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 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.

# Annual Business Statement

For the year ended 31 March 2021

## 1. Statutory Percentages

| | 31 March 2021 % | Statutory Limit % |
|---|---|---|
| Lending Limit | **9.40** | 25 |
| Funding Limit | **11.24** | 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 2021 % | Group 31 March 2020 % |
|---|---|---|
| As percentage of shares and borrowings: | | |
| Gross capital | **7.96** | 7.96 |
| Free capital | **7.51** | 7.52 |
| Liquid assets | **19.35** | 18.75 |
| Profit for the financial year as a percentage of mean total assets | **0.31** | 0.25 |
| Management expenses as a percentage of mean total assets | **1.27** | 1.22 |
| | **Society 31 March 2021 %** | Society 31 March 2020 % |
| Management expenses as a percentage of mean total assets | **1.24** | 1.14 |

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 and intangible 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. |



# Annual Business Statement

For the year ended 31 March 2021

## 3. Information Relating to the Directors as at 31 March 2021

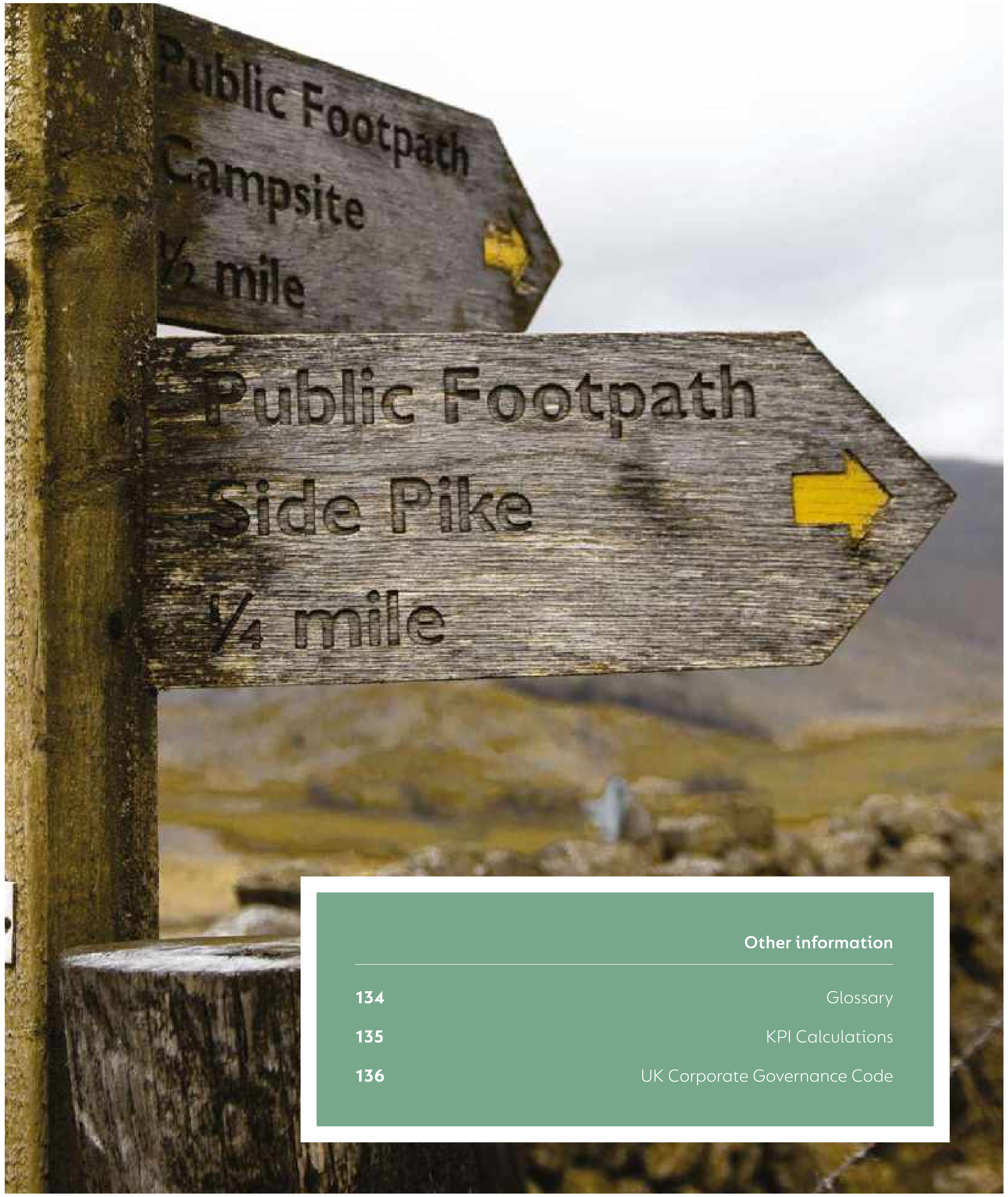
| Name | Occupation | Date of appointment | Other Directorships (excluding dormant companies) |
|---|---|---|---|
| **DIRECTORS** | | | |
| J. Hooper (Member of the Australian Institute of Directors) | Company Director/Advisor | 20.11.15 | Sarhon Homes Limited<br>Sarhon Developments Limited<br>John Hooper Consulting Limited<br>VTB Capital PLC<br>VTB Capital Holdings Limited<br>Together Personal Finance Limited<br>Blemain Finance Limited<br>Spot Finance Limited<br>Stubbers Adventure Centre<br>Stubbers Training Limited |
| J. Arnold, MBE, FCMA, FGMA | Management Consultant | 19.03.18 | Jackie at Eastwood Limited<br>Rosegate Ventures Limited (Secretary) |
| 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<br>Gibbons Properties Limited<br>Carleton Properties (Cumbria) Limited |
| P. D. Moore, MBA, Certified Bank Director (ROI) | Chief Executive Officer | 01.04.18 | Borderway Finance Limited<br>Cumberland Estate Agents Limited<br>Cumberland Holdings Limited<br>Cumberland Property Services Limited<br>Cumberland Homes Limited<br>Cumberland Financial Planning Limited |
| R. B. Ellison, CA, MA Hons | Chief Financial Officer | 22.05.19 | Kingdom Bank Limited<br>Cumberland Estate Agents Limited<br>Cumberland Holdings Limited<br>Cumberland Property Services Limited<br>Cumberland Homes Limited<br>Cumberland Financial Planning Limited |
| V. J. Bruce | Company Director | 29.09.20 | Hope and Homes for Children (Non-Executive Trustee)<br>Agitos Foundation (Non-Executive Trustee) |
| K. M. Fairbrother | Company Director | 29.09.20 | Xigxag 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




**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 |
| **CRO** | Chief Risk Officer |
| **FCA** | Financial Conduct Authority |
| **FSCS** | Financial Services Compensation Scheme |
| **FSOL** | Mortgages Fully Secured on Land |
| **FSRP** | Mortgages Fully Secured on Residential Property |
| **HL** | Holiday Let |
| **HQLA** | High Quality Liquid Assets |
| **ICAAP** | Internal Capital Adequacy Assessment Process |
| **IFA** | Independent Financial Advisor |
| **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 |
| **LTV** | Loan to Value |
| **Management expenses** | Administrative expenses, depreciation and impairment and profit on sale of tangible fixed assets as adjusted by items excluded from operating profit |
| **MBO** | Management Buy Out |
| **MI** | Management Information |
| **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 |
| **SME** | Small and Medium Enterprise |
| **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 as shown in the statutory Income Statement.

## 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. A reconciliation between Group operating profit and statutory profit before tax is included on page 38.

## 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 Group's high quality liquid assets (cash in hand, reserve account balance and certain highly-liquid securities) as a percentage of shares, deposits and other funding liabilities. The Board ensures that the Group maintains a prudent level of liquidity at all times to support its ongoing operations while seeking to avoid excessive liquidity holdings which would cause an unnecessary drag on net interest margin.

# UK Corporate Governance Code

**The Code is issued by the Financial Reporting Council and a copy can be obtained at frc.org.uk. Where the Code refers to 'company' and 'shareholder', for our purposes, you should read 'Society' and 'member'. The Board believes that throughout the year, the Society has had regard to the principles of the Code (in line with the Building Societies Association guidance of July 2018) in establishing and reviewing their corporate governance arrangements as required by PRA Supervisory Statement 19/15 (paragraph 2.17), and has complied with the Code save for the limited aspects explained below.**

| | | Where to read more on how The Cumberland has complied | Pages |
|---|---|---|---|
| **Board leadership and company 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. | Strategic Report<br>How the Board Works | 7-49<br>60-63 |
| | **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. | Strategic Report<br>How the Board Works | 7-49<br>60-63 |
| | **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. | Our Performance Highlights<br>Strategic Report – KPIs<br>Principal Risks and Uncertainties<br>Board Risk Committee Report<br>Audit Committee Report | 2-3<br>37<br>30-34<br>68-71<br>72-79 |
| | **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. | Supporting our Stakeholders<br>Stakeholder Engagement | 20-29<br>62 |
| | **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. | Supporting our People<br>Stakeholder Engagement<br>PARC Report | 24-25<br>62<br>80-85 |
| **Division of 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. | Meet the Board of Directors<br>How the Board Works<br>Nomination and Governance Committee Report | 54<br>60-63<br>64-67 |
| **Division of responsibilities** | **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. | Meet the Board of Directors | 54-57 |
| | **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. | Meet the Board of Directors<br>Attendance Charts | 54-57<br>60, 65, 69, 73, 81 |
| | **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. | How the Board Works | 60-63 |
| **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.<br><br>**Compliance Explanation:** The Nomination and Governance Committee Report explains the importance of diversity and inclusion to the Society and the Board and the progress made in the spirit of the principles; however, the Society's appointments process and approach to succession planning do not yet articulate directly how they support developing a diverse pipeline and Society's policy on diversity and inclusion (and its objectives) is not yet directly linked to the Society's strategy. | Nomination and Governance Committee Report | 64-67 |
| | **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. | Meet the Board of Directors<br>Board Committee Reports | 54-57<br>64-85 |
| | **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. | How the Board Works | 60-63 |

# UK Corporate Governance Code

| | | Where to read more on how The Cumberland has complied | Pages |
|---|---|---|---|
| **Audit, risk and internal control** | **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. | Audit Committee Report | 72-79 |
| | **N.** The Board should present a fair, balanced and understandable assessment of the company's position and prospects. | What We Do and Why We Do It<br>CFO's Business Review<br>Viability Statement<br>Outlook<br>Audit Committee Report | 14-18<br>36-43<br>44-48<br>49<br>72-79 |
| | **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. | Principal Risks and Uncertainties<br>Board Risk Committee Report<br>Audit Committee Report | 30-34<br>68-71<br>72-79 |
| **Remuneration** | **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. | PARC Report | 80-85 |
| | **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.<br><br>**Compliance explanation:** The Society did not plan and has not engaged in a two-way engagement with employees on executive remuneration during the year. In the directors' view, such engagement has appropriately focussed on wellbeing during the Covid-19 pandemic. | PARC Report | 80-85 |
| | **R.** Directors should exercise independent judgment and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. | PARC Report | 80-85 |



Platinum Trusted Service Award

2021 feefo

The Cumberland

Cumberland Building Society

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**cumberland.co.uk**

BRIGHTER BANKING FROM CUMBRIA