The Cumberland

Pillar 3 Disclosures

31 March 2021

Final dated 8th June 2021

Contents

1 Overview

1.1 Introduction

The European Union implemented the Basel II accord in 2007 through the Capital Requirements Directive (CRD), setting out a framework for capital adequacy for building societies and banks, governing the amount of capital they must hold in order to provide security for members, depositors, and shareholders.

From January 2014, the Basel III capital accord, which is being implemented by the EU via 'Capital Requirements Directive IV' (CRD 4) and the Capital Requirements Regulation (CRR), became effective.

Following the signing of the EU-UK withdrawal agreement, on 24th January 2020, the Brexit transition period ran until 31st December 2020 during which the UK continued to be subject to EU rules. From 1st January 2021, the Cumberland Building Society Group is regulated under the onshored CRR and associated onshore binding technical standards which were created by the European Union (Withdrawal) Act 2018 and a number of amending statutory instruments.

Summary of changes to prudential regulation that may impact The Cumberland

The table below covers future changes to prudential regulation which may impact the Cumberland. Given the end of the Brexit transition period, future regulatory requirements will be those implemented by the PRA as the supervisor for the group.

Area of development	Key changes	Source of changes / implementation date
Software Assets	Introduces concept of prudential amortisation for software assets. The amendment provides a benefit to the CET1 ratio exempting the prudential value of the software from the CET1 capital deduction requirements.	Published amendment in EU Official Journal on 22 December 2020. A statement from the PRA on 30 December 2020 described the intention to maintain an earlier position whereby all software assets continue to be fully deducted from CET1 capital – expected 1 January 2022.
Operational risk RWAs	Revision of business indicator as proxy for size of operational risk. Potential incorporation of bank-specific loss data into the calculation.	Finalisation of Basel IV(2). Expected implementation date – 1 January 2023.
Leverage ratio	Changes to the design and calibration of the framework with a focus on derivative exposures and margining. Binding leverage ratio at individual bank level.	CRR 2(1) amendment, not in flight as of time of report. Expected UK implementation date – 1 January 2022.

Area of Development	Key changes	Source of changes / implementation date
Net stable funding ratio (NSFR)	Information on required and available stable funding sources less than and greater than 1 year. Must hold stable funding to cover funding needs over 1 year horizon.	CRR 2(1) amendment, not in flight as of time of report. Expected UK implementation date - 1 January 2022.
SME supporting factor	Exposures < €2.5m will have a 0.7619 supporting factor. Exposures or part of exposure > €2.5m will have a 0.85 supporting factor.	CRR 2(1) amendment, not in flight as of time of report. Expected UK implementation date – 1 January 2022
Infrastructure supporting factor	Applies to exposures created specifically to finance or operate physical structures or facilities, systems and networks that provide or support essential public services. 0.75 supporting factor	CRR 2(1) amendment, not in flight as of time of report. Expected UK implementation date – 1 January 2022
Credit risk RWAs – Basel IV	More risk-sensitive approach to the application of risk weights calculation. Avoidance of mechanistic reliance on external ratings. Restriction in the scope of using internal models.	Finalisation of Basel IV(2). Expected implementation date – 1 January 2023.
Large exposure framework	Changes to the design and calibration of the capital base and large exposure limit. Changes to the exposure measure to incorporate SA-CCR.	CRR 2(1) amendment, not in flight as of time of report. Expected UK implementation date – 1 January 2022.

Area of Development	Key changes	Source of changes / implementation date
Counterparty credit risk RWAs	Introduction of new standardised approach (SA-CCR) with greater risk sensitivity and incorporation of margining into potential future exposure (PFE). Changes to the treatment of exposures to central counterparties.	CRR 2(1) amendment, not in flight as of time of report. Expected UK implementation date – 1 January 2022.
Credit valuation adjustment (CVA) risk RWAs.	Alignment of CVA risk charge with revised standardised market risk framework. Removal of modelled CVA risk methodology.	Finalisation of Basel IV(2). Expected implementation date – 1 January 2023.

Notes:

(1) CRR 2 refers to Regulation 2019/876 of the European Parliament and Council of 20 May amending the Capital Requirements Regulation. A joint statement from HM Treasury, PRA and FCA on 16 November stated that the implementation of those Basel 3 reforms which make up the UK equivalent to the outstanding elements of CRR 2 will have a start date of 1 January 2022.

(2) Finalisation of the Basel IV standards published by the Basel Committee on Banking Supervision (BCBS) on 7 December 2017. These standards will subsequently be brought into UK legislation via amendments to the onshored CRR or successor legislation.

In addition, the PRA is currently consulting on the implementation of Basel III measures not yet effective in the UK (CP 5/21), and this proposed changes to the Pillar 3 disclosures effective from 1 January 2022 – this would become mandatory for the Society's 2022 Pillar 3 disclosures report.

1.2 Overview of Basel III

In the UK the Society's regulator, the Prudential Regulation Authority (PRA), is responsible for the implementation of the CRD, which consists of three main elements, known as 'Pillars':

Pillar 1	Minimum capital requirements, using defined formulae.
Pillar 2	The Internal Capital Adequacy Assessment Process (ICAAP) undertaken by the Society, and the Supervisory Review and Evaluation Process (SREP) undertaken by the PRA, which assess whether additional capital should be held for those risks not covered under Pillar 1.
Pillar 3	Disclosure of key information on capital, risk exposures and risk management processes.

1.3 Basis of preparation

This document has been prepared to meet the disclosure requirements of CRD IV as presented in Part Eight (Articles 431 to 455) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, which was adopted into UK national law in 2020. These requirements are usually referred to simply as "Pillar 3".

The Group has prepared the templates specified by the CRR and associated regulations except where they do not apply, and in these instances a note has been included giving the reasons. This applies to the disclosure requirements around IFRS9 and around securitisation, discussed below. In each table included in this document the Group has completed the rows and columns which apply to its business and has omitted any rows or columns which would otherwise be blank.

The disclosure requirements in this document apply to Cumberland Building Society and it's subsidiary, Borderway Finance Limited.

The other subsidiaries of the Society, which are consolidated for financial statement purposes only, are Cumberland Financial Services Limited, Cumberland Property Services Limited and Cumberland Homes Limited.

There are no current or foreseen material practical or legal impediments to the transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries. All figures in tables are in thousands of pounds, unless stated otherwise.

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) and International Accounting Standard 39 (IAS 39). The Society has not yet adopted IFRS 9 and so the disclosures required under Article 473 of the CRR have not been prepared.

The Society does not participate in securitisation activity, either as originator, facilitator, or investor. As a result, it does not calculate risk weighted assets in accordance with Part 3, Title 2 Chapter 5 of the CRR, or calculate its own funds requirements under Articles 337 or 228 of the CRR, and the disclosures required under Article 449 of the CRR have not been prepared.

Pillar 3 disclosures are prepared annually to 31 March and are published on the Society's website at the same time as the Annual Report and Accounts.

1.4 Key regulatory metrics

The key regulatory metrics for the Group are as follows.

		2021	2020
CET1 capital	Page 19	£196.7m	£193.9m
CET1 capital - %	Note 1	19.5%*	19.0%*
Total Regulatory capital	Page 19	£198.4m	£195.5m
Total Risk Weighted Assets	Page 20	£965.5m	£986.5m
Leverage exposure	Page 34	£2,730m	£2,713m
Leverage ratio	Page 34	7.20%	7.15%
Liquidity Coverage Ratio - %	Page 35	236%	227%

*This ratio excludes the profit for the year ended 31 March 2021 and so aligns with the COREP returns. Once the profit is verified the ratio will rise to 20.37% (2020: 19.65%)

Note 1 – Total Tier 1 capital and CET1 capital are the same values.

1.5 Verification

The Pillar 3 disclosures are subject to the same level of internal review and internal controls as the information provided for financial reporting.

Where appropriate the Pillar 3 disclosures are reconciled to and conform with the externally audited information in the Annual Financial Statements.

The information is prepared and checked by line 1 with oversight and challenged by lines 2 and 3 as appropriate.

The Pillar 3 Disclosures document is reviewed by the Audit Committee for onward recommendation and approved by the Board alongside the Annual Report and Accounts.

2 Overview of Risk Management

2.1 Risk appetite

The overall Risk Appetite is as follows

The Cumberland will only pursue a strategy that drives towards its vision, is consistent with the Society's values and does not exceed stated risk appetite and minimum required standards.

The Cumberland is a prudent business that ensures compliance with all applicable laws and regulations and maintains a robust control environment delivered through a consistently applied Risk Management Framework (RMF).

The chosen strategy must be resilient enough to withstand severe but plausible stresses and allow the business to recover and minimise the detrimental impacts from unforeseen shocks.

The Risk Appetite is managed through a comprehensive Risk Appetite Framework and is reported to every Board Risk Committee (BRC) with a summarised view presented to Board in the months when the BRC does not sit. All the agreed measures are owned by individual members of the Senior Leadership Team (SLT) with limits and triggers agreed by Board.

The Society has elected to omit disclosing key ratios and figures relating to its risk appetite, as they are proprietary information as per CRR article 432.

2.2 Risk Management framework

The Society applies a consistent approach to Risk Management through its RMF.

The Society uses the best practice three lines of Defence approach, ensuring that risks are managed in the areas they are best understood (i.e., the business). A second line of defence Risk team ensures consistency through the use of frameworks, tools and policies and provides independent oversight to the Board through risk reporting and the outputs and findings from the combined assurance plan. The third line of defence, the internal audit function, provides independent assurance over all elements of the Society and helps ensure appropriate risk capabilities and approaches.

The Key Risk Frameworks component of the RMF details how risk influences and is part of the overall strategy development cycle for the Society.

A policy Framework is in place that determines the approach for setting minimum standards, with a Strategic Risk Policy detailing the minimum requirements for strategy setting and strategic considerations. This is complemented by a Risk Appetite Framework that determines the risk limits set by Board to act as guiderails under which the SLT can deliver the strategy in a sustainable manner consistent with the values and working towards the overall vision and purpose.

In accordance with the requirements of Article 435 in Part Eight of the CRR the Society's SLT are satisfied that the risk arrangements in place at the Society are adequate with regard to the Society's profile and strategy.

3 Principal Risks

The principal risks faced by the Society and the procedures put in place to manage these are described below.

3.1 Credit Risk

The Society is primarily exposed to credit risk in respect of either mortgage customers or Treasury counterparties being unable to meet their obligations as they become due. Credit risk also arises in the operations of Borderway Finance Limited, the Group's vehicle finance business, and in relation to current account overdrafts.

3.1.1 Loans fully secured on residential property

The Credit Risk Policy, Lending Criteria and Lending Limits document the Society's approach to and appetite for residential lending credit risk. Policy is reviewed annually, or on a more frequent basis if there are changes to the operating environment. Lending Criteria are updated more frequently and are approved through the Credit Risk and Board Risk Committees. Lending mandates are strictly controlled, and applications, where criteria dictate, are reviewed by a specialist residential mortgage underwriting team. Applications outside the highest level in individual mandate are considered by the Credit Risk Committee.

The Society's principal focus in lending secured on residential property, is on owner occupier lending via its branch network and National Lending Team on a direct basis. In addition, however, since 2012-13 the Society has accepted introduced residential mortgage business, almost all located outside of the branch operating area, from a number of brokers.

As a result of its long-established approach, the Society's owner occupier residential lending exhibits a strong concentration within its branch operating area of Cumbria, Dumfries & Galloway, north Lancashire, and west Northumberland. This is monitored by the BRC each quarter, with a detailed assessment being produced on an annual basis and included as an appendix in the Society's ICAAP. Research has shown that customers value the 'local' nature of the Society and its branch network, and the Society's detailed knowledge of its operating area, when combined with its direct approach to residential lending, is regarded as a strength in ensuring the quality of its lending. This is strongly reflected in the Society's arrears performance when compared with national statistics. Overall, the Society regards this concentration in a positive manner, as a focus and a demonstration of the strength of its regional franchise.

The Society has increased its lending in the Holiday Let and Buy to let markets during the last six years, which in addition to the introduced business channel referred to above, has reduced the geographical concentration within its mortgage book. Buy to let lending to corporate bodies and professional landlords is managed by the specialist Cumberland Business team. All Buy to Let and Holiday Let lending is restricted to a maximum loan to value ratio of 75%.

3.1.2 Loans fully secured on land

The Credit Risk Policy, Lending Criteria and Lending Limits document the Society's approach to, and appetite for, commercial lending credit risk, covering as well as loans fully secured on land, Holiday and Buy to Let lending managed by the Cumberland Business team.

Policy is reviewed annually, or on a more frequent basis if there are changes to the operating environment. Lending Criteria are updated more frequently and are approved through Credit Risk and Board Risk Committees. The Society's specialist commercial lending managers produce detailed appraisals of each application, and all applications are considered by either a specialist Commercial Underwriter or the Credit Risk Committee.

Whilst there is a concentration of commercial lending within the Society's branch operating area, principally with respect to tourism in the Lake District, this is less pronounced than for owner occupier residential lending, and the Board monitors the geographical and sectoral compositions of the loan book that is fully secured on land.

3.1.3 Treasury

The Assets & Liabilities Committee (ALCO) is responsible for recommending credit limits on Treasury counterparties for approval by the Board, and these are set out in the Financial Risk Management Policy (FRMP) and reviewed annually or more frequently if appropriate. The list of counterparties consists of those which, on first inclusion, meet or exceed minimum credit rating agency rating; exposure limits are reconsidered following any change to the counterparty's credit rating. Credit exposure limits for building societies (rated and unrated) are reviewed annually following receipt of annual results. Information on rated counterparties is reviewed in detail by the Committee when it believes that this is appropriate. The permitted credit limit for counterparties includes where appropriate exposure in respect of the replacement cost of derivative financial instruments.

3.2 Financial Risk

3.2.1 Interest Rate Risk in the Banking Book (IRRBB)

IRRBB reflects the risk of fluctuations in interest rates and changes in the value of derivative contracts (interest rate swaps) impacting upon the Group's earnings and capital. ALCO assists management and the Board in managing the various elements of IRRBB. Interest rate risk is managed through matching assets and liabilities on the balance sheet with similar interest rate characteristics and by effecting interest rate swaps with external counterparties. The interest rate risk on fixed rate savings and mortgages is reviewed daily in Treasury, with hedging action taken as appropriate, within parameters defined in the FRMP.

Monthly, the balance sheet is stress tested to calculate the potential impacts on the Society's Economic Value and Net Interest Income in a variety of prescribed scenarios; the results are reported to ALCO and the Board.

3.2.2 Liquidity Risk

Liquidity risk is the risk that the Society will be unable to meet its financial commitments when they fall due. ALCO assists the Society's management and the Board in managing this risk. Responsibility for the daily management of liquidity risk, including the monitoring of both retail and wholesale funding, lies with the Treasurer, within the framework prescribed by the FRMP. Monthly, the balance sheet is stress tested to confirm that the Group can withstand the extreme cash outflows likely to be experienced during either a firm-specific or marketwide liquidity shock. The liquidity stress testing regime is reviewed annually as part of the Internal Liquidity Adequacy Assessment Process (ILAAP) to ensure that all liquidity risk drivers (including those specified by the PRA) are considered. The ILAAP is an assessment of the Society's exposure to liquidity risk through to its planning horizon.

The Society's savings and current account balances are higher than its mortgage balances reflecting a high level of deposit inflow during the current year and excluding a reducing amount of Term Funding Scheme (TFS) funding, it has a relatively low level of wholesale funding compared to many of its peers. Its deposits to loans ratio (the ratio of deposits from retail and SME customers to mortgage lending) was 106.1% at 31 March 2021. Of its £144 million in wholesale funding, £130 million was sourced through the Bank of England and £14 million comprised unsecured deposits derived from financial markets. Consequently, the Society's dependence upon the financial markets for funding is currently relatively limited.

3.3 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error, external events or the underperformance or failure of third-party suppliers. The Operational Risk Policy sets out the Group's approach to the management of operational risk, with the Third-Party Relationship Policy covering the approach to the management of third-party risk.

Whilst line management is responsible for identifying and managing operational risks, this is carried out using an agreed framework and methodology and with the assistance of the Risk function, with quarterly reporting to the Risk Management Committee (RMC) and the BRC.

Various other Board-approved policies, e.g., the Group Information Security Policy, Financial Crime Policy and Data Protection Policy Statement, reinforce the Group Operational Risk Policy in specific areas.

The Society maintains appropriate insurance cover which is reviewed on at least an annual basis.

The Group's operational risk capital charge is calculated using the 'basic indicator approach'.

3.4 Conduct and Regulatory Risk

Conduct and regulatory risks arise from the Group's conduct in its relationship with members and concerns the risk of failing to treat members fairly with resulting detriment to those members. Conduct and regulatory risk is considered by the RMC on a quarterly basis by reviewing the Society's performance in this area, covering specific issues that have arisen and relevant management information as well as horizon scanning to ensure the requirements of changing regulation are captured. The RMC reports to the BRC, which in turn reports to the Board.

3.5 Strategic Risk

The Society's Board of Directors is responsible for the management of its strategic risk.

Strategic risk is 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.

For a mutual building society, this covers the risks of failing to meet the requirements of its members in relation to their needs for financial services, of failing to retain them, and of failing to attract new members. It also necessitates balancing the interests of the two principal sets of existing members, borrowers, and savers, in relation to each other, and in relation to new members, so far as is possible given the trends in the wider market. Each quarter, the RMC, BRC and the Board consider formally, as an agenda item, the Society's key strategic risks which include horizon scanning for regulation and other sources of change.

3.6 Pension Obligation Risk

The Society operates a defined benefit scheme (the Cumberland Building Society Pension and Assurance Scheme), together with three defined contribution schemes.

Pension liability risk attaches to the defined benefit scheme, in respect of a series of risks, including the potentially volatile course of the financial markets, the level of inflation and the effects of increasing life expectancy of scheme members. The scheme was closed to new members in 2000 and to future accrual at 31 March 2015.

Following a stress test of the assumptions relating to the scheme, the Society holds an additional amount of capital under Pillar 2 in recognition of this risk.

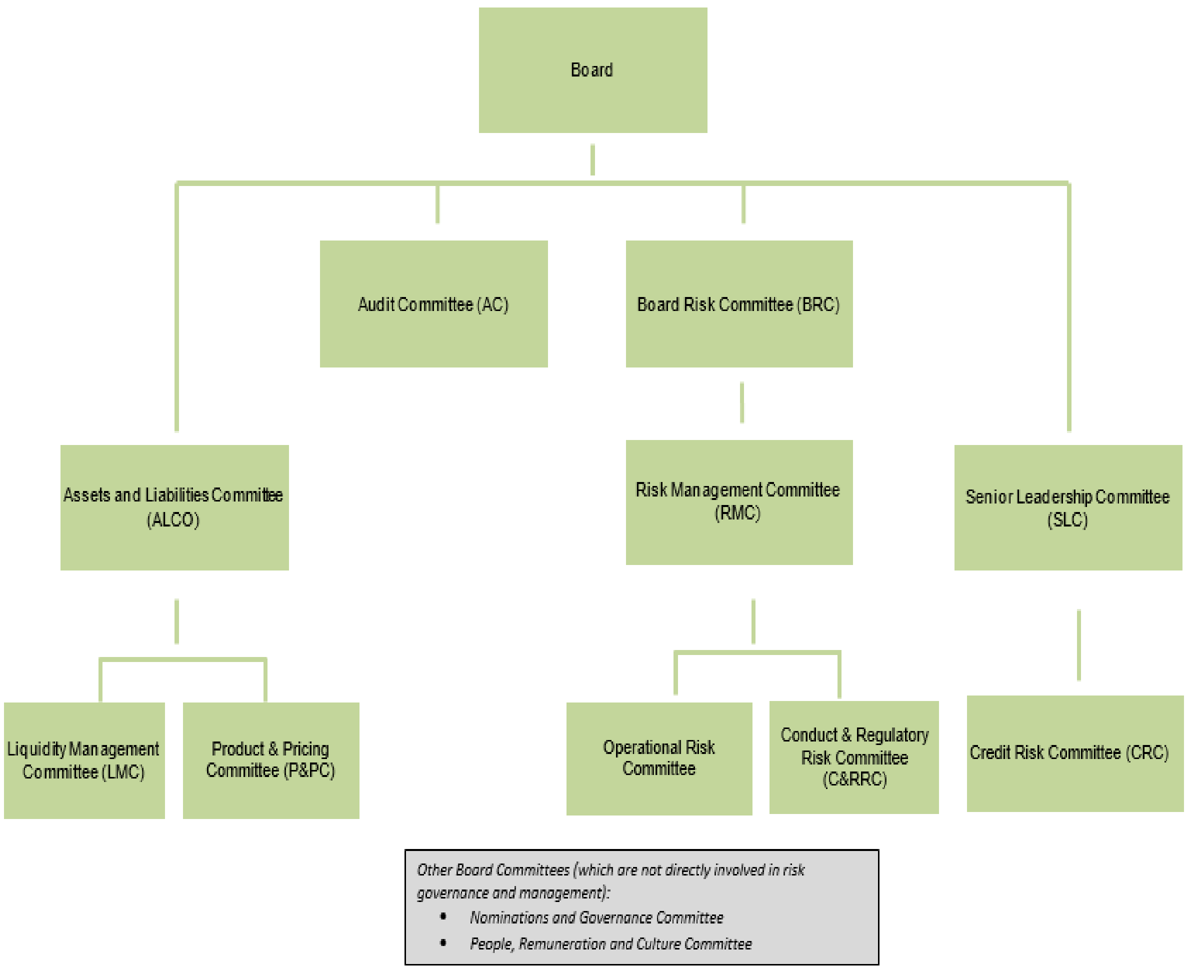
4 Risk Governance and Management

4.1 Risk Governance Structure

The Board is responsible for ensuring that effective systems and controls are in place for risk management. Governance is maintained through delegation of authority from the Board, down through the risk management hierarchy, supported by a committee-based structure designed to ensure risk appetites, policies, procedures, controls, and reporting are fully aligned with regulation, law, corporate governance, and industry good practice.

The Board is ultimately responsible for setting the Society's risk appetite, approving all key risk policies, and ensuring that an effective risk management framework (RMF) and Policy framework is in place to deliver minimum standards and an effective system of controls for risk management.

To that end the Society's committee structure (shown below) is designed to provide oversight, challenge, and assurance across the full extent of the Society's principal risk categories (credit risk, financial risk, operational risk, conduct and regulatory risk, pension obligation risk and strategic risk). Where relevant, issues are raised and discussed at an appropriate level, including, if appropriate, at the Board.



4.2 Audit Committee (AC)

The AC is a Committee of the Board whose responsibilities include:

- Monitoring the integrity of the Group's financial reporting.
- Reporting to the Board on the appropriateness of the Group's accounting policies.
- Advising the Board on whether the Committee believes the Annual Report and Accounts taken as a whole is fair, balanced, and understandable and provides the necessary information for the Group's Members to assess the group's performance, business model and strategy.
- Oversight of the Group's system of internal control, including the work performed by the Internal Audit function.
- Monitoring the relationship between management and the external auditor.
- Monitoring the external auditor's adherence to the professional ethical standards expected of audit firms; and
- Overseeing the Group's whistleblowing arrangements.

The Committee consists of three non-executive directors and meets at least five times a year. The CEO, CFO, the Head of Internal Audit, the CRO and a representative from the external auditors also attend Committee meetings by invitation to assist in its deliberations.

The Committee chair provides a report plus the AC minutes at the following Board meeting.

Through this Committee, the Internal Audit function provides independent assurance to the Board on the effectiveness of the system of internal control.

4.3 Board Risk Committee (BRC)

The BRC's remit includes all subsidiaries and all principal risk categories. The BRC reports to the Board and will escalate any matter to the Board it deems appropriate. The Committee's primary responsibilities are:

- To advise the Board on setting the Society's overall risk appetite and risk strategy.
- To oversee the development and operation of the Society's Risk Management Framework.
- To review and provide oversight of the effectiveness of the Group's compliance arrangements.
- To provide oversight and challenge across the Group's principal risks and the controls in place to mitigate those risks.
- To provide oversight of the Group's risk management arrangements to ensure that there is an appropriate risk culture and capability in place throughout the Society.
- To review, challenge and recommend for approval to the Board the Society's key risk documents on at least an annual basis; and
- To monitor compliance with Board approved risk appetite statements and limits to ensure the Society is not exposed to excessive risk.

The Committee meets at least four times a year and comprises of three non-executive directors. The CEO, CFO, CRO and the Head of Internal Audit also attend Committee meetings by invitation to assist in its deliberations.

The Committee receives reports and management information from the Risk function and the RMC in order to monitor overall risk exposures against risk appetite and take account of current, emerging, and potential risks.

The Committee chair provides a report plus the BRC minutes at the following Board meeting.

4.4 Other Committees

4.4.1 Assets and Liabilities Committee (ALCO)

The ALCO provides oversight across the Society's exposures to financial risk including:

- Capital Risk;
- Liquidity risk;
- Funding risk;
- Interest rate risk in the Banking Book (IRRBB) and;
- Wholesale credit risk.

The Committee meets twelve times a year to consider the above risks faced by the Society, along with balance sheet management and treasury controls, systems and policies, policy implementation, policy compliance and regulatory compliance. The Committee reviews a wide range of information relating to liquidity and funding exposures, profiles and limits and will recommend changes to policy and procedure to the Board as appropriate. Minutes of the ALCO meetings and Treasurer's report and the Committee chair's report are provided to the following Board Meeting.

Membership of ALCO includes the CEO, CFO (who chairs the meeting), CRO, CCO, Head of Product, Treasurer and Balance Sheet Manager. Attendees include the Deputy Head of Treasury, the ALM Manager and the Head of Internal Audit, with other Executives and Managers attending when appropriate.

ALCO is assisted in its operation by two sub committees, the Liquidity Management Committee (LMC) and the Product and Pricing Committee (P&PC).

The LMC consists of the Treasurer, Deputy Head of Treasury, Head of Finance, Head of Retail Distribution and Product Development Manager and it meets monthly to review the Society's liquidity position against regulatory and policy requirements. The LMC considers forward-looking liquidity risk information and sets the short-term operational requirements for managing liquidity risk. Minutes of the LMC meetings are provided to ALCO.

The P&PC is accountable for approving and prioritising pricing, or re-pricing for existing products, considering the level of risk attaching to the product and the competitor environment. In addition, it is accountable for undertaking periodic structured reviews of the prevailing product suite and approving new product investment to ensure consistency with Board strategy, with referral of the new product specification to Change Authority for manufacture.

ALCO does not oversee Pension risk although this is reviewed annually as part of the ICAAP approval process.

4.4.2 Risk Management Committee (RMC)

This management Committee meets quarterly and reviews key information covering retail credit risk, operational risk, conduct and regulatory risk and strategic risk; the RMC reports to the BRC.

Credit Risk arising from retail and commercial lending The RMC reviews the composition of the mortgage book against statutory and internal limits, arrears, and possessions performance, underwriting and any emerging trends. The RMC also reviews MI on the vehicle finance and overdraft book of the Group.

Operational Risk The RMC reviews an oversight assessment of the main operational risk categories, key risk and control performance, operational loss information, third party supplier performance and significant risk incident dashboards from management.

Conduct and Regulatory Risk The RMC provides oversight of conduct risk across the business; reviews and challenges conduct risk management information, ensures management undertakes root cause analysis of conduct risk failings and applies appropriate mitigating actions. The Committee also considers forthcoming regulatory changes that may have implications for the Society.

Strategic Risk The RMC reviews the Strategic Risk Register in order to assess the status of the significant risks to the achievement of strategic objectives within the Corporate Plan. The Committee considers whether any significant risks have changed since the previous quarter and whether any mitigating actions are required or whether risk appetite in any area needs to be reviewed. The progress and suitability of the mitigating actions are also challenged by Risk.

The RMC is assisted in its operation by two sub committees, the Operational Risk Committee (ORC) and the Conduct and Regulatory Risk Committee (CRRC).

The ORC is responsible for providing oversight and challenge to the Society's operational risk management, ensuring risk appetite is appropriate, adhered to and that the significant risks to the organisation are identified, assessed, managed, monitored and reported appropriately. The ORC meets on a monthly basis, providing reports on its oversight to the RMC quarterly.

The CRRC is responsible for providing assessment, oversight and challenge to the Society's Conduct and Regulatory risk management arrangements, ensuring that risk appetite is appropriate and adhered to and that the key risks to the organisation are identified, assessed, managed, monitored and reported. This includes the the aim of ensuring that its customers do not suffer unfair outcomes and are treated fairly and in compliance with, FCA, PRA rules and other regulations. The CRRC meets monthly with the exception of those months where there is an RMC.

4.4.3 Senior Leadership Committee (SLC)

The SLC is responsible for advising and supporting the CEO in their leadership of the Society and accordingly it Implements the Board agreed Corporate Plan and Board agreed Strategy, in accordance with the Society's Vision, Purpose & Values. It ensures that the Society's risk management and controls are appropriate for the Society's operations and are effective with resourcing appropriate to customer needs, existing levels of service provision and future expected demands.

The SLC meets 11 times per year and its members are the CEO, CFO, CRO, CCO, Chief Operating Officer (COO), Chief Transformation Officer (CTO – from June 2021), and the Chief People Officer (CPO).

The SLC is is assisted in its operation by the Credit Risk Committee (CRC)

The CRC meets monthly (at least 10 times per year) to review performance of the Society's lending portfolios and any recommendations for changes to policy and/or lending criteria. Additional adhoc meetings are convened on a regular basis in month to provide support to the Head of Underwriting for decisions on higher value residential or commercial mortgage applications that are outside their personal mandate, delegated by Board. The Committee receives, reviews and challenges detailed credit MI at its formal monthly meeting.

4.5 Three Lines of Defence

The Society's RMF applies the three lines of defence model, which is recognised as an industry standard for risk management.

First Line Risk management is the responsibility of all management and colleagues. Management has a responsibility to identify risks to the business, understand how those risks might impact each business area and establish effective controls or mitigating activities. Management also has a responsibility to comply with risk policies and the RMF.

Second Line The Risk function conducts oversight of first-line activities to provide assurance that these are being effected within the risk appetite approved by the Board and to ensure that risks which cross departmental boundaries are fully considered. Risk designs and develops the Society's RMF and monitors adherence to this framework; this includes regulatory compliance. The CRO reports directly to the Chairman of the BRC although he is managed by the CEO for day-to-day activities.

Third Line The Group's Internal Audit function is responsible for independently reviewing the effectiveness of the Society's approach to risk management. This includes providing assurance that processes, procedures, and policies have been correctly set in relation to risk.

The three lines of defence model is summarised in the following table:

1st Line (Line Management)	2nd Line (Risk Management)	3rd Line (Internal Audit)
• Ownership of day-to-day risk management. • Compliance with relevant regulation and legislation. • Identifying, managing, and mitigating risks faced by the Society. • Defining and operating controls and limits. • Assessing key risk indicators and market conditions. • Producing management information and reports on risks.	• Facilitate the design and development of the overall risk management framework and associated policies. • Oversight, monitoring and reporting of key risks. • Oversight, monitoring and reporting against risk appetite. • Monitoring business as usual adherence to framework. • Monitoring and reporting on regulatory compliance. • Monitoring and reporting on significant risks.	• Independent testing and verification of efficacy of Group's business model, controls, policies, processes, and business line compliance. • Assurance that the risk management framework is functioning as designed.

Where considered necessary, the Group uses external specialists to support its Risk and Internal Audit functions through 'co-sourcing' in specific areas.

4.6 Risk Measurement and Reporting

The provision and reporting of comprehensive risk data are essential in allowing management and the Board to understand the Society's risks and how they are changing, and to assess risk on a forward-looking basis. A broad range of management information and risk data is used to identify, assess, monitor, manage and report on risk.

Risk Appetite reporting provides accurate and timely information to the Board to help ensure that the Society does not deliver its strategy outside of the agreed risk parameters. As triggers are reached the Board will discuss the suitability of the current strategy and whether additional risk mitigants are required.

An Asset and Liability management information system and associated models are used within Treasury to manage, model and measure key risks including liquidity risk, funding risk and interest rate risk on the current and projected balance sheet. Exposures against trigger points and policy limits are provided to ALCO and reported to the next Board meeting.

A forward looking three-year financial plan is produced to measure the impact of current performance, future plans and liquidity and funding assumptions on future profit and loss, balance sheet, capital resource requirements and key financial ratios. The financial plan is approved by the Board and the results of the business are compared, reported to, and discussed by the Board.

A comprehensive set of limits and trigger points is in place in relation to lending limits. Exposures against the limits and triggers points are reported to the BRC every quarter to measure performance against appetite and to consider the likely future trajectory of exposures against limits.

Risk performance data relating to operational risk incidents and losses is reported every quarter to the RMC and BRC in order to measure performance against appetite. This information also allows management and the Board to evaluate whether controls are working effectively. Conduct and regulatory risk reporting also flows through RMC to BRC and the Board.

4.7 Stress Testing

The Society maintains a Stress Testing Policy which sets out the overall approach, assumptions, rationale, minimum standards, roles and responsibilities, reporting and quality assurance applied to the Society's Stress Testing and Scenario Analysis.

The Policy covers the Society's stress testing methodologies in relation to:

- Credit Risk – Residential Mortgages (including Buy to Let and Holiday Let)
- Credit Risk – Commercial mortgages - Fully Secured on Land (FSOL).
- Capital Risk
- Liquidity Risk
- Interest Rate Risk in the Banking Book (IRRBB)
- Operational Risk
- Pension Obligation Risk

The results of these stress tests feed into the ICAAP, ILAAP, Recovery Plan and the corporate planning processes and inform the Society's risk appetite statements and measures.

Residential and Commercial mortgage stress tests are undertaken periodically to model the impact on the index-linked values of the properties in mortgage to the Society falling by agreed percentages as well as an assumed loss crystallisation rate. Within the residential mortgage stress test, buy to let and holiday let portfolios are separately identified.

The stress testing programme assesses how planned changes to the Group's balance sheet might affect its credit risk profile, particularly the potential effects of a fall in property values and losses in the lending portfolio over the Group's planning horizon.

Specific additional stress tests are run where deemed appropriate, for example in relation to geography, sector, or employer. Management also produces stress tests on the forward projections contained within the Corporate Plan.

In risk management terms, the results of the mortgage stress tests inform the Society's capital position, allow management and the Board to evaluate if risk appetite is set appropriately and feed into the corporate planning process.

Liquidity stress tests are undertaken and reported regularly to ALCO and the Board. These stress tests are designed to highlight any shortfalls in the Society's liquidity holdings over a range of time horizons. Each of the tests incorporates assumptions for the run-off rates of retail and wholesale funding.

Reverse liquidity stress testing assumes an increasing rate of outflow to further test resilience and identify areas of concern within the liquidity maturity profile.

The liquidity stress tests allow management and the Board to assess the impact of adverse scenarios upon liquidity and funding levels and are used in determining policy and contingency planning. The results of the tests are also used to further inform the Society's risk appetite, the framework of policy limits applied to Treasury positions and set the context for the risk assessments and contingency liquidity and funding plans within the ILAAP.

The purpose of the Society's IRRBB stress testing is to ensure that the impact of changes in interest rates on its earnings and economic value is understood, measured, and controlled.

The IRRBB stress tests also ensure that the Society has sufficient capital to cover potential losses arising from changes in interest rates. Interest rate risk scenarios are run monthly to model and evaluate the impact of a range of negative but credible changes in individual rate bases (including, for example, Base Rate, SONIA, and Libor) on net interest income. During the year this has included the possibility of a negative UK base rate.

Pension obligation stress testing is undertaken annually by the Scheme Actuary and makes assumptions about discount rates, mortality rates, asset values and cash commutation. The testing includes but is not limited to PRA prescribed scenarios.

A range of operational risk scenarios are created for the ICAAP covering a broad range of risks, with the potential financial impacts of these being assessed.

In May 2021, the Group's Board approved a climate Risk Management Framework and it will begin the process of, overtime, incorporating climate risk into the stress testing.

4.8 Risk Mitigation

The Society uses a number of strategies and processes to manage, hedge and mitigate risks arising from its business model.

In relation to residential mortgage credit risk the basic form of mitigation is to undertake a thorough assessment of the borrowers' ability to service the proposed mortgage at the initial pay rate and at a stressed rate and to examine the credit worthiness of the applicant. All mortgage lending is supported by an appropriate form of valuation using either an independent firm of valuers, an indexed valuation for further advances or an Automated Valuation Model, which can be used on some lower risk cases as defined within Lending Policy. Borrowers are subject to mortgage conditions that impose obligations on both parties but provide the Society with rights to enforce its security should it need to.

For commercial lending credit risk, a full assessment of the ability to service the proposed mortgage is undertaken and security is taken over the commercial property, along with as appropriate, collateral such as other property, a debenture over the company assets or other warranties. Commercial valuation firms are used to provide the Society with a valuation of the commercial premises. Standard commercial mortgage conditions, which impose obligations on both parties but provide the Society with rights to enforce its security should it need to, are supplemented by specific conditions prepared by external solicitors, where appropriate.

Treasury credit risk is mitigated by prudent counterparty limits and monitoring external credit ratings and the financial performance of unrated building societies.

Liquidity risk is mitigated by careful monitoring of the liquidity position by the Treasurer, and by the holding of a minimum level of unencumbered pre-positioned collateral with the Bank of England and through relevant information provided to the LMC and ALCO.

Operational, conduct and regulatory risks are mitigated through well-defined and documented policies and procedures and thorough staff training. Risk and control registers are used to identify and capture significant risk and key controls and these are reviewed on an ongoing basis and in the light of experience. Risk performance is monitored quarterly and risk incident reports are submitted to the RMC and BRC on a quarterly basis. The risk function meets with senior managers on a regular basis to review incidents and discuss the control environment.

The Society is exposed to interest rate risks through offering fixed rate mortgage and savings products. Where possible, fixed rate mortgages and savings are matched against each other. Where this is not possible, the Society uses reserve hedging and derivatives (interest rate swaps) to offset the interest rate risks arising from these products. The Society's hedging exposures are monitored daily in the Treasury department. The effectiveness of the Society's hedging approach is assessed monthly through calculating the full impact of an interest rate stress; the results of this are presented to ALCO and the Board.

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 (CSA) 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.

The Society monitors the continuing effectiveness of hedges and mitigants in a number of ways. Treasury positions are monitored on a daily and monthly basis, weekly dashboard sent to the Board and responsible senior management and exposures are reported to ALCO and Board on a monthly basis.

Treasury strategy is reviewed regularly, and this review will look at activities and developments in the last quarter and review what may be on the horizon in order to determine whether any changes are required to risk mitigation. The FRMP and counterparty financial strength are reviewed at least annually.

Strategic and business risk is mitigated through the identification, assessment, and management and reporting of risks to the Society's objectives within the Corporate Plan. A Strategic Risk Register is maintained and reviewed by the RMC, BRC and Board.

5 Capital Resources

Total capital resources

The capital resources of the Group at 31 March are set out below.

	2021 £'000	2020 £'000
Tier 1 Capital		
General reserves	194,015	191,083
Available for sale reserves	2,765	2,867
Prudential amortisation – Software assets	(116)	-
Common Equity Tier 1 (CET1) Capital and Total Tier 1 Capital	**196,664**	193,950
Tier 2 Capital		
Allowance for collective impairment	1,749	1,593
Total Tier 2 Capital	**1,749**	1,593
Total Capital	**198,413**	195,543

These figures are, apart from the prudential amortisation of software assets, as shown in the Group's Balance Sheet, Statement of Changes in Members' Interest, and note 13 Provisions for bad and doubtful debts, in the Annual Report and Accounts to 31 March 2021. No reconciliation to the balance sheet is required.

There is no regulatory CET1 or Tier 2 capital in the form of capital instruments issued by the Group. For this reason, the 'Capital main features' template and 'full terms and conditions' disclosures required by EU Regulation 1423/2013 have not been prepared.

The capital flows in the year to **31 March 2021** are set out below.

	£'000
CET1 capital at 31 March 2020	**193,950**
Profit for the year to 31 March 2021 after taxation	8,414
Other comprehensive income / (expense) and deductions	
Gain on available for sale investment securities	10
Loss on equity share investment	(136)
Actuarial loss on retirement benefit obligations	(6,768)
Deferred tax relating to movements through OCI	1,310
Prudential amortisation – software assets	(116)
CET1 capital at 31 March 2021	**196,664**
Tier 2 capital at 31 March 2020	**1,593**
Increase in collective impairment	156
Tier 2 capital at 31 March 2021	**1,749**
Total capital at 31 March 2021	**198,413**

6 Capital Adequacy

6.1 Minimum capital requirement

The Group's capital requirement under Pillar 1 is based on 8% of its Risk Weighted Assets (RWA) for each of the applicable standardised credit risk exposure classes. Risk weightings are those applicable to the standardised approach. The following tables show the Group's exposures, the risk weighted assets in relation to each, and the capital required at 8.0%, at 31 March 2021 and 2020.

31 March 2021 - £'000 **Asset Class**	Exposures on Balance Sheet	Risk Weighted Assets	Capital Requirement @ 8%
Sovereigns and their central banks	437,449	-	-
Banks	33,724	8,623	690
Covered bonds	7,082	708	57
Residential property (FSRP)	1,996,218	681,986	54,559
Commercial real estate (FSOL)	160,103	121,731	9,738
Other loans	21,573	16,334	1,307
Past-due loans	16,508	16,698	1,336
Other assets	23,977	25,520	2,042
Equity - Visa Inc. preference shares	5,824	5,824	466
Credit valuation adjustment (CVA)	-	2,189	175
Counterparty credit risk	-	3,294	264
Total credit risk - standardised	**2,702,458**	**882,907**	**70,634**
Operational risk	-	82,630	6,610
Total	**2,702,458**	**965,537**	**77,244**

31 March 2020 - £'000 **Asset Class**	Exposures on Balance sheet	Risk Weighted Assets	Capital Requirement at 8%
Sovereigns and their central banks	393,987	-	-
Banks	63,005	14,119	1,129
Residential property (FSRP)	1,967,279	688,548	55,084
Commercial real estate (FSOL)	168,029	131,063	10,485
Other loans	25,538	19,410	1,553
Past-due loans	13,697	15,614	1,249
Other assets	26,043	26,043	2,083
Equity - Visa Inc. preference shares	5,960	5,960	477
Credit valuation adjustment (CVA)	-	1,133	91
Counterparty credit risk	-	2,611	209
Total credit risk - standardised	**2,663,538**	**904,501**	72,360
Operational risk	-	81,960	6,557
Total	**2,663,538**	**986,461**	78,917

Lending figures in the tables above may be reconciled to those in note 12 of the Annual Report & Accounts for the year to 31 March as follows.

31 March 2021 - £'000	FSRP £'000	FSOL £'000	Other £'000
Exposures for risk weighting purposes	1,996,218	160,103	21,573
Past-due loans	5,279	11,154	75
Provisions	(868)	(2,447)	(208)
Fair value adjustments	6,018	-	-
EIR adjustment	(1,937)	-	-
Financial statement exposure	**2,004,710**	**168,810**	**21,440**

31 March 2020 - £'000	FSRP £'000	FSOL £'000	Other £'000
Exposures for risk weighting purposes	1,967,279	168,029	25,538
Past-due loans	2,249	11,302	146
Provisions	(564)	(2162)	(219)
Fair value adjustments	12,238	-	-
EIR adjustment	(2040)	-	-
Financial statement exposure	**1,979,162**	**177,169**	**25,465**

The average risk weightings by asset class in the year are shown in the table below. The figures shown are the arithmetic means for the five quarters ended 31 March 2020 to 31 March 2021 inclusive.

Average RWAs **Asset Class**	2021 £'000	2020 £'000
Sovereigns and their central banks	-	-
Banks	10,710	43,733
Covered bonds	284	-
Residential property (FSRP)	685,806	673,806
Commercial real estate (FSOL)	129,196	131,227
Other loans	17,624	19,123
Past-due loans	16,026	9,652
Other assets	28,267	23,467
Equity - Visa Inc. preference shares	6,696	6,263
Credit valuation adjustment	1,262	1,093
Counterparty credit risk	2,631	2,689
Total credit risk - standardised	898,502	911,053
Operational risk	82,038	80,414
Total	**980,540**	**991,467**

6.2 Capital Adequacy

The table below shows the Group's Pillar 1 capital requirement for each key risk area under the standardised approach, expressed as **8%** of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes, at 31 March 2021. The table also shows the Group's capital resources, as set out in section 5, together with the excess over the minimum capital requirement.

	2021 £'000	2020 £'000
Credit Risk		
Loans and advances to customers	66,940	68,371
Wholesale lending	747	1,129
Other items	2,947	2,860
Total credit risk	**70,634**	72,360
Operational risk	6,610	6,557
Minimum capital requirement	**77,244**	78,917
Pillar 2A capital requirement	24,755	34,141
Total Pillar 1 and Pillar 2A	**101,999**	113,058
Capital resources	**198,413**	195,543
Excess of own funds over Pillar 1 and Pillar 2A requirement	**96,414**	82,485

6.3 Capital Buffers

Basel III requires the use of common equity capital buffers to ensure that a firm has sufficient loss absorbing capital that provides a financial cushion against difficulties that might arise in times of stress. The Society is now required to hold sufficient Common Equity Tier 1 capital to meet the buffers described below.

The **Capital Conservation Buffer** (CCoB) is a requirement for all banks to build up an additional loss-absorbing capital cushion to improve their resilience to stresses.

The CCoB was phased in over the three years to 1 January 2019 and is now at its final level of 2.5% of risk weighted assets.

The Macro-prudential **Countercyclical buffer** (CCyB) is set by the Bank of England's Financial Policy Committee (FPC) within a range of 0% to 2.5%. This buffer is to ensure financial institutions build up capital in favourable conditions to provide a cushion and compensate for procyclical effects. The CCyB may be varied by the regulator over time, to a maximum of 2.5% of risk weighted assets.

In its December 2020 Financial stability Report('FSR'), the FPC updated its guidance on the path for the CCyB rate. It now expects this rate to remain at 0% until at least the last quarter of 2021 meaning that any subsequent increase is not expected to take effect until the last quarter of 2022 at the earliest given the 12-month implementation lag.

The rate set for the CCyB may vary from country to country. All of the Group's credit risk exposures are UK-based, and the Group is required to hold capital of 0.0% against all of its risk weighted assets. The institution specific CCyB at 31 March 2021 is as follows:

	2021	2020
Total risk exposure amount £000	965,537	986,461
Institution-specific CCyB	0%	0%
Institution-specific countercyclical buffer requirement £000	**-**	-

The CCoB and the CCyB collectively form the CRD IV buffer.

The Group also holds a specific **PRA Supervisory buffer**, which is reduced by the CRD IV Buffer, where applicable, to ensure no duplication in capital requirements.

The Group is required to meet at least 56% of its Total Capital Requirement (TCR) by Common Equity Tier 1 in excess of the buffers noted above and a maximum of 25% may be met by Tier 2 capital. The Group has met this requirement through the year ended 31 March 2021.

7 Credit Risk

General qualitative information about credit risk

7.1 Business Model and Credit Risk

The Society is exposed to credit risk in respect of:

- Lending fully secured on residential property (owner occupier, buy to let and holiday let)
- Lending fully secured on land
- Vehicle finance and unsecured personal lending
- Overdraft lending
- Treasury counterparties

Risk appetite statements have been set for each of the above sub-categories of credit risk. The Society's overall risk objective is to manage and control credit risk within defined exposures.

i) Lending fully secured on residential property

As a Building Society the Society must maintain a minimum of 75% of its business assets fully secured on residential property and a minimum of 65% on prime residential owner-occupied assets. These, and other detailed lending limits and triggers are set by the Board based on the Society's risk appetite and objectives for residential lending. Management monitors these limits and reports them to the Credit Committee on a monthly basis.

The Society's approach is to make lending decisions which are sound, sustainable and take into account the borrower's willingness and ability to repay the amount borrowed. All cases are individually underwritten using credit reference data and a number of sources of evidence regarding the status of the borrower; the Society does not use automated credit scoring systems. A detailed Credit Risk and Lending Criteria sets out the Society's lending criteria for different types of owner occupied and buy to let lending for those with no more than 3 mortgaged properties, along with the necessary evidence requirements and minimum level of approval required if a policy exception is sought. Policy criteria cover items such as income, security type, income and expenditure profile, credit history, acceptable security types, tenure, and LTV. Specific criteria for types of lending include interest only and Buy to Let. Within policy there are criteria that cover responsible lending.

The criteria for holiday let lending, and for buy to let lending to corporate bodies and professional landlords, are also covered in the Credit Risk Policy and Lending Criteria, which is discussed in the next section.

ii) Lending fully secured on land

The Society has detailed lending limits for commercial lending, and these are set by the Board based on the Society's risk appetite and objectives for commercial lending. Management monitors a detailed set of limits and triggers relating to Commercial Lending and reports them to the Credit Risk Committee on a monthly basis.

The Credit Risk policy and Lending Criteria also covers loans fully secured on land and as stated in the section above, holiday let lending, buy to let lending to corporate bodies and professional landlords, and residential development lending, which are all managed by the specialist team of lending managers in the Cumberland Business department.

The Society ceased to offer new residential development lending in the year end 31 March 2020.

The Society's approach is to make lending decisions which are sound, sustainable and take into account the borrower's willingness and ability to repay the amount borrowed.

For loans fully secured on land, in addition to the full assessment, a risk grading system is utilised that takes into account a number of criteria relating to the business itself such as financial performance and its ability to support the level of borrowing, the sector it is in and how the sector is performing and the skills and experience of those running the business. The system provides a risk score for the application, which is utilised as part of the decision-making process.

The Society has specific lending criteria for the loans covered by the Credit policy and Lending Criteria, which include acceptable security, sector and borrower types and LTV limits.

iii) Vehicle Finance Lending

The Society has a vehicle finance subsidiary, Borderway Finance Limited (BFL), which has its own Lending Policy Statement. BFL's approach is to make lending decisions which are sound, sustainable and take into account the customer's willingness and ability to repay the amount borrowed. Every application is considered for affordability and an income and expenditure assessment is completed for all unsecured loan applications. Decisions are made on an individual basis by experienced underwriting staff.

Lending criteria cover items such as income, credit history, vehicle type, vehicle age and valuation and maximum loan term. Performance against the limits in BFL's lending policy is reported to BFL's Board on a quarterly basis and to the Society's Board in the event of any issues against limits.

iv) Overdraft Lending

The Society will provide personal and business customers with overdrafts on their accounts, subject to full underwriting of the request. In most cases, personal customers requesting an overdraft will be interviewed by a trained member of staff to establish the reason for the overdraft request and how and when the overdraft will be repaid. A mandate structure exists for the approval of overdrafts. Overdraft criteria include current credit history, account performance, funding profile and length of relationship. Requests are subject to a full assessment process, which generates a credit score.

Business current account overdrafts are offered on a secured and unsecured basis. Applications are assessed against a mixture of criteria that cover the individual customer(s) and the business, including the length of relationship with the business customer or entity, account performance, current credit history, recent financial information, and the existence of tangible background assets. A mandate structure exists for the approval of overdrafts. Account performance is monitored and reviewed by management quarterly.

(v) Wholesale Credit Risk

Wholesale credit risk is the risk of wholesale counterparties failing to meet their obligations to the Society. The Society's wholesale counterparties are primarily banks and building societies and exposures to them are experienced through treasury investments, safe custody arrangements, repurchase agreements and derivative transactions.

Wholesale investments are generally unsecured and give rise to a senior unsecured exposure to the financial institution. The Society conducts its own credit risk analysis to support investment decisions with unrated building societies. This analysis takes account of their asset base, gross capital ratio, reserves, subordinated liabilities, subscribed capital and most recent and last 3 years' average profit and, where appropriate, the credit rating.

Criteria for exposure to banks include their minimum short-term credit rating, whether the bank is a globally systemic important bank (G-SIB), and the country of the bank and the condition of the country's economy.

Risk weights for Treasury exposures to institutions are based on external credit assessments provided by Moody's, which is recognised by the PRA as an eligible external credit assessment institution. Moody's credit assessments have been used for this purpose throughout the year.

Exposure limits to banks and building societies are based on an assessment of the above criteria. Limits are set for each institution and exposure against the limits is monitored daily by Treasury and reported to ALCO.

(vi) Summary of credit risk exposures

The Group's credit risk exposures at 31 March 2021 and 31 March 2020 are as follows.

Credit risk exposures	2021 £'000	2020 £'000
Cash in hand and balances with the Bank of England	437,449	393,987
Wholesale lending	40,806	63,005
Loans and advances secured on immovable property	2,172,754	2,148,859
Other loans	21,648	25,684
Total credit risk	**2,672,657**	2,631,535

During 2019-2020, the Society conducted a reassessment of its wholesale lending portfolio in preparation for a move to the extended approach to Treasury management in 2020-21 as well as utilising maturing investments to repay TFS funding. In addition, the Society updated the primary liquidity metric to High Quality Liquid Assets (HQLA) resulting in a greater level of deposits with the Bank of England, which carry no credit risk and are accessible on demand. In 2020-21, the Group began the purchase of covered bonds as part of its HQLA.

The maturity profile of these exposures is shown in note 26 to the Annual Report and Accounts.

7.2 Credit Risk Management

Primary responsibility for credit risk management and control rests with first line management under the Head of Credit Underwriting. There is also an Underwriting section within Customer Services department which covers lower-level mandates, Senior level underwriters, including where relevant Commercial Underwriters assess loans fully secured on land, holiday let and larger and more complex case, as well as business overdraft requests. Where policy requires, mortgage cases will be authorised by the Credit Committee. Overdraft requests can be approved within Cumberland Business up to a defined limit. Senior management in BFL underwrite vehicle loans, the Current Account Services Team underwrite current account overdraft applications referred from branches (against defined criteria), and the Treasurer monitors the position with respect to the credit risk of treasury counterparties. In all cases, first line management is responsible for managing and controlling credit risk in line with the policies, procedures, controls, and delegated authorities that have been ultimately agreed by the Board.

The Risk function provides independent oversight of mortgage credit risk by undertaking structured sampling of a number of cases each month, plus periodic reviews of tranches of mortgage lending or of specific parts of the mortgage book. The risk function also undertakes compliance reviews of mortgage lending, which includes some sampling of cases. Sampling of BFL loans is undertaken by the risk function on a monthly basis.

There is independent first line "back office" oversight of front office Treasury activities and compliance with the FRMP and the Risk function provides independent second line oversight of the "back office".

Mortgage arrears and current account overdraft management and collections activity is all handled within the first line.

The Risk function, which includes compliance, liaises on a regular basis with Internal Audit in order to ensure that there is adequate oversight and assurance around credit risk activities. Internal Audit provides assurance that credit risk procedures and controls are implemented effectively within the management line through its programme of audit work and this process will involve testing of controls and some sampling of cases.

The above oversight and assurance work ensures there is regular dialogue between the first, second and third lines of defence regarding credit risk and credit risk management.

7.3 Credit Risk Reporting

In order to achieve effective management and control, detailed management information is produced that allows the SLT to monitor performance and report to the BRC and Board where risk profile is nearing the risk appetite trigger points.

Performance of the mortgage book against key limits is reviewed by the relevant SLT member each month. Residential mortgage arrears performance is reviewed monthly by the relevant SLT member and quarterly by the BRC. Commercial mortgage arrears are reported to the BRC.

On a monthly basis a comprehensive schedule of exposures against lending limits for both residential and commercial mortgages is considered by the Credit Risk Committee. The results of quarterly commercial, residential and Borderway Finance credit risk review work by Risk is reported to the RMC and BRC.

The BFL Lending Policy requires performance against lending limits to be reported to the BFL Board on a quarterly basis and to the Society's Board in the event of any issues against limits.

Information on the performance of the overdraft book is reported to the responsible executive on a monthly basis and to the BRC on a six-monthly basis.

In relation to Treasury credit risk a detailed breakdown of wholesale credit exposures is reported to ALCO and Board. ALCO will also review any changes in the credit rating of counterparties and the financial strength of unrated building societies in order to determine if any changes to exposure limits are required.

The range of credit risk reporting provided to individual executives, RMC, BRC and the Board is designed to ensure that credit risk and exposure is fully considered in order to ensure that the credit risk profile remains within appetite and that any emerging issues are identified so that appropriate action can be taken.

Changes in stock of defaulted loans and debt securities

No debt securities were in default at any point during the year ended 31 March 2021. The table below relates purely to defaulted loans.

Changes in defaulted loans and securities	£'000
Defaulted loans at end of the previous reporting period	11,853[1]
Loans that have defaulted since the last reporting period	14,398
Returned to non-defaulted status	(4,653)
Other changes	(5,090)
Defaulted loans at end of the reporting period	**16,508**

The defauted loans at 31 March is made up of £16.433m (mortgage assets) and £0.075m (Other loans).

Movements in individual and collective provisions during the year are shown in note 13 of the Annual Report and Accounts.

Due to the low level of defaulted loans (less than 0.75% of the total loan books) and provisions (less than 0.161%) further analysis of these balances by sector has not been provided on the grounds of materiality.

Additional disclosures related to the credit quality of assets

This section provides additional information on the quality of the Society's mortgage assets.

Qualitative Disclosures

'Past due' exposures are defined as being at least 90 days in arrears and are regarded as being in default.

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

Throughout the year and at the year end, individual assessments are made of all loans and advances on properties which are in possession or in arrears by three months or more. Individual provision is made against those loans and advances which are considered to be impaired. In considering the individual provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale, the anticipated realisation costs, and the amount recoverable under mortgage indemnity policies. It is recognised that not all accounts in arrears will result in possession and a factor is applied 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.

[1] The prior year's disclosure has been conformed to the current year's presentation and to fully align with the regulatory definition of default.

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

All past due exposures as defined above are regarded as being impaired. Information on provisions for bad and doubtful debts is contained in note 13 to the Annual Report and Accounts.

The residual maturity of loan exposures is provided in note 26 of the Annual Report and Accounts, although clearly in respect of mortgages, they are usually repaid well before their contractual maturity.

Information on credit risk on loans and advances to customers is provided in note 29 of the Annual Report and Accounts including the level of forbearance granted which at 31 March 2021 incorporates the forbearance granted to support borrowers in line with government and regulatory directive in the face of the Coronavirus pandemic.

Restructured exposures are defined as those loans where there has been a restructuring that may result in a diminished financial obligation on the part of the borrower caused by material forgiveness, or postponement, of principal or interest by the Society. The Society has no such exposures.

Quantitative Disclosures

(a) Loans Fully Secured on Residential Property – geographical analysis

All figures in £000s	Performing	90 days past due	Total	**%**
North West	1,082,580	1,292	1,083,872	54.15%
Scotland	223,110	141	223,251	11.15%
South West	172,483	588	173,071	8.65%
South East	161,978	-	161,978	8.09%
London	141,217	-	141,217	7.06%
Yorkshire & Humberside	50,443	139	50,582	2.53%
East of England	39,018	-	39,018	1.95%
North East	32,867	814	33,681	1.68%
Wales	34,123	1,221	35,344	1.77%
West Midlands	32,844	1,084	33,928	1.70%
East Midlands	25,555		25,555	1.28%
Total	**1,996,218**	**5,279**	**2,001,497**	**100.00%**
% performing / not performing	**99.74%**	**0.26%**	**100.00%**	

(b) Loans Fully Secured on Land – geographical analysis

All figures in £000s	Performing	90 days past due	Total	**%**
North West	76,125	7,044	83,169	48.56%
South West	24,285	1,349	25,634	14.97%
Yorkshire & Humberside	16,001	-	16,001	9.34%
South East	12,173	1,029	13,202	7.71%
Scotland	10,496	626	11,122	6.49%
Wales	5,868	573	6,441	3.76%
West Midlands	6,338	-	6,338	3.70%
North East	2,806	220	3,026	1.77%
East Midlands	2,589	-	2,589	1.51%
East of England	3,393	-	3,393	1.98%
London	29	313	342	0.20%
Total	160,103	11,154	171,257	100.00%
% performing / not performing	93.49%	6.51%	100.00%	

(c) Loans fully secured on land – by sector and geography

All figures in £000s	Branch operating area	York/Y'shire Dales	S/SW England	Other UK	Total	%
Guesthouses	43,111	7,218	12,595	20,185	83,109	48.53%
Hotels	18,093	2,793	3,262	11,068	35,216	20.56%
Investment Properties	6,600	1,901	3,249	4,137	15,887	9.28%
Public Houses/ Restaurants	4,451	511	630	1,121	6,713	3.92%
Retail outlets	2,551	524	314	195	3,584	2.09%
Professionals' premises	392	-	80	-	472	0.28%
Others	7,826	3,055	5,504	9,891	26,276	15.34%%
Total	83,024	16,002	25,634	46,597	171,257	100.00%
	48.48%	9.34%	14.97%	27.21%	100.00%	

Note: the above table uses a different geographical split than the previous table, based on the Society's branch operating area, the two areas with the next highest amounts of lending, and then the rest of the UK.

(d) Ageing analysis of past-due accounts

All figures in £000s	Loans FSRP	Loans FSOL	Total
3 to 6 months	1,465	2,869	4,334
6 to 9 months	854	2,667	3,521
9 to 12 months	390	1,942	2,332
Over 12 months	2,570	3,676	6,246
Total	**5,279**	**11,154**	**16,433**

Qualitative disclosures on banks’ use of external credit ratings under the standardised approach for credit risk

The Society’s uses published credit ratings in its determination of the credit quality of its rated wholesale counterparties; this supports its assessment of the creditworthiness of its unsecured exposures. In order to diversify its HQLA portfolio and enhance yield, the Society invests in covered bonds which are eligible as Level 1 HQLA as defined in the LCR Delegated Act; in these cases, the Society considers both the credit rating of the issue and the credit quality of the collateral in the cover pool.

At 31 March 2021, the Society had no exposures subject to the Issuer versus issues assessment described in the Basel Framework.

The Standard mapping published in the CRR (EU 575/2013) is used to map the alphanumeric scale of the published ratings onto the relevant risk buckets.

8 Counterparty Credit Risk

Qualitative disclosure related to counterparty credit risk

The Society uses derivative instruments to hedge its exposure to interest rate risk. Counterparty credit risk includes the risk that the derivatives counterparty will default on the transaction.

The Society has processes and procedures in place to clear its derivatives through the London Clearing House (LCH). However, LCH is not currently able to clear the amortising Sonia swaps which the Society historically used to manage its interest rate risks. Consequently, of its £1.3 billion swaps portfolio, only £283 million were cleared as at 31 March 2021. This is an area which the Society is continuing to improve and is clearing all new swaps through LCH.

All of the Society’s derivative transactions are governed by agreements based on documentation provided by ISDA. Each of the ISDA agreements is supported by a CSA. The CSAs govern the process of mitigating any credit risk that may result from the derivatives. This includes the frequency and method of valuing any credit risk exposure and the movement of margin collateral between the Society and the counterparty.

Wrong way risk occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Specific wrong way credit risk can occur where transactions are collateralised by related party securities. General wrong way credit risk can arise where the credit quality of the counterparty may be correlated with a macroeconomic factor which affects the value of derivative transactions, such as the impact of interest rate movements on derivatives or on securities held as collateral. The CSAs mitigate wrong way risk by ensuring that exposures on derivatives are regularly re-valued and are collateralised with cash.

The movement of collateral defined in the CSAs is based entirely on the market value of the swaps and does not include a factor for the Society’s, or the counterparty’s creditworthiness so a change in creditworthiness would not result in a change in the amount of collateral held. In any case, as the Society is an unrated institution, it is not subject to a potential ratings downgrade.

The Group does not use credit derivatives and so the disclosures required under Article 439 of the CRR have not been prepared.

The two tables following give details of the capital charges associated with Treasury instruments counterparty credit risk.

Analysis of counterparty credit risk (CCR) by approach

All figures in £000s	Replacement cost	Potential future exposure	EAD post-CRM	RWA
SA-CCR (for derivatives)	4,564	7,520	12,084	3,294

Credit valuation adjustment (CVA) capital charge

All Figures in £000s	EAD post-CRM	RWA
All portfolios subject to the Standardised CVA capital charge	12,084	2,189
Total subject to the CVA capital charge	12,084	2,189

The following table shows the total exposure and impact of netting specifically for derivatives.The mark to market values include accrued interest so will not reconcile to the clean fair values disclosed in the Annual Reporting and Accounts.

All figures in £000s	31-Mar-21	31-Mar-20
Swaps with positive MTM values	3,260	1,128
Swaps with negative MTM values	(9,899)	(13,758)
Variation Margin (VM) Collateral Posted	9,480	13,680
Collateral Held	-	-
Net Credit Exposure	**2,841**	**1,050**

At 31 March 21, the Society held an overall £8.4m exposure to LCH, which included £6.0m of posted collateral along wtih the £2.4m gain in the Mark to Market (MTM) values of cleared derivative (which are reflected in the balance sheet values of derivatives). This comprised an Initial Margin (IM) collateral requirement of £5.8m giving an overall collateral surplus of £2.6m with LCH.

The breakdown of the credit ratings of the Group's Treasury exposures at 31 March is as follows. The Group's nominated Moody's credit ratings correspond to the credit steps as below.

Credit quality step	Moody's ratings	2021 £'000	2020 £'000
Sovereign		431,457	379,511
1	Aaa to Aa3	7,082	7,946
2	A1 to A3	19,674	34,417
3	Baa1 to Baa3	-	5,060
4	Ba1 to Ba3	-	-
5	B1 to B3	-	-
London Clearing House (LCH)		6,044	-
Unrated		8,006	15,582
Total		472,263	442,516
Cash		5,992	14,476
Total on balance sheet		478,255	456,992

Sovereign exposures include £5.712m (2020 - £4.281m) of cash ratio deposits which are not available for the Group's day to day operations and are included in Loans and Advances to Credit Institutions in the balance sheet.

9 Operational Risk

There are three approaches for Operational Risk:

- **Basic Indicator Approach (BIA)**

A low-risk sensitivity approach which calculates the capital requirement as a percentage of average net interest and non-interest income.

- **Standardised Approach (TSA)**

A medium risk sensitivity approach where the capital requirement is derived from regulatory prescribed factors applied to the three-year average income from various business lines.

- **Advanced Measurement Approach (AMA)**

A high-risk sensitivity approach where, following PRA approval, the capital requirement is determined through the use of an internal operational risk measurement model.

The Group calculates its operational risk capital requirement using the BIA.

At 31 March 2021, the risk weighted assets relating to operational risk were £82.63 million, based on the mean of its net income for the last three years.

10 Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is the current or prospective risk to both the earnings and economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments including gap risk, basis risk and option risk.

For the Group, this risk arises as a result of:

- Offering fixed rate mortgages and savings products to customers;
- Options embedded in retail products, which allow customers flexibility in the rates at which they pay down their mortgage principal;
- Hedging fixed rate exposures to LIBOR and/or SONIA on the assumption that changes in LIBOR and SONIA will reflect changes in the Society's funding costs; and
- The mismatch of the Group's assets over its liabilities.

The Society manages its IRRBB exposures to ensure that they lie within the risk appetite framework approved by the Board. Repricing risk gap analysis, which categorises the Society's assets and liabilities by the term until they next reprice, is used to measure the Society's Economic Value (EV) and Net Interest Income (NII) exposures to repricing risk. The monthly results are reported to ALCO and the Board.

Day to day management of IRRBB is conducted in Treasury using weekly repricing gap analysis and volumes of new applications by product maturity.

Where possible, IRRBB is managed through matching fixed rate mortgages against fixed rate savings with similar maturity characteristics. Where this cannot be achieved, exposed positions are hedged using free reserves or interest rate derivatives.

The analysis of IRRBB takes account of scheduled payments on fixed rate mortgages as well as unscheduled overpayments and early redemptions (referred to as prepayments) on mortgages and early withdrawals from fixed rate investments. At least quarterly, the average prepayments (for mortgages) and early withdrawals (for investments) are measured over the previous year and the results applied on a forward-looking basis. The analysis assumes that customers' future prepayment and early withdrawal patterns will reflect recent performance. An amortisation profile is applied to mortgage hedges to take account of repayments and the expected level of prepayments.

At 31 March 2021 and during the year ended 31 March 2021, The Group did not apply behavioural characteristics to non-maturity deposits, regulatory approval to adopt this approach for the Group's current account portfolio was received shortly after year end and will be used as part of IRRBB management next year.

The output of the interest rate risk gap analysis is stressed to determine the potential impact of a +/- 200 bps parallel movement at all points on the yield curve on the Society's interest rate risk to Economic Value and Net Interest Income. The results of this analysis conducted on 31 March 2021 show, for the Group.

	+200 bps	-200 bps
Impact on Economic Value	(£2.38m)	£2.64m
Impact on Net Interest Income	£2.16m	(£2.16m)

11 Leverage Ratio

Basel III introduced a non-risk based leverage ratio to complement the risk based capital requirements. The ratio shows tier 1 capital as a proportion of on-and-off balance sheet assets. The ratio does not apply risk-weighted factors to assets but acts as a primary constraint to building a firm's asset size to a level which is excessive in proportion to its capital base; the minimum level is 3.0%, and as shown in the table below, the Society is well in excess of this requirement.

Leverage Ratio (£000)	31-Mar-21	31-Mar-20
Exposure		
Total assets per Group's Balance Sheet statement	2,702,458	2,663,538
Adjustment for Derivative Financial Instruments	8,918	6,470
Off Balance Sheet Exposures		
Mortgage Pipeline	18,085	41,739
BFL Pipeline	110	145
Undrawn Overdrafts	883	848
Total Exposure	2,730,454	2,712,740
Total Tier 1 Capital	196,664	193,950
Leverage Ratio	7.20%	7.15%

During the year the leverage ratio increased to 7.20% (2020: 7.15%). This increase was primarily due to the growth in Tier 1 capital (up by 1.4% in the year) which outpaced the increase in total exposure. The latter increased by 0.7% in the year. The Board is confident that the Society will continue to maintain leverage significantly above the minimum requirement of 3.0%.

The Group's leverage ratio has been significantly higher than the minimum level for several years. The off-balance sheet exposures remain relatively stable, and the Group has control over the two key elements, being the level of the mortgage pipeline (where the CCF was updated to more accurately reflect the exposure length during the year) and the use of derivatives. Derivatives are used only for risk management purposes – principally the management of interest rate risk – and the Group does not have a trading book.

12 Liquidity Coverage Ratio (LCR)

Summary details on liquidity risk are presented on page 9. The Society uses a suite of measures to monitor and manage liquidity and funding risks, the principal measure being the LCR. The following table shows the breakdown of the components of the LCR and have been calculated as a simple average of the three month end observations preceding each quarter end.

Average figures for quarter ending	30-Jun-20	30-Sep-20	31-Dec-20	31-Mar-21
HQLA Buffer £000	402,532	412,269	387,464	423,684
Total Net Cash Outflows £000	153,697	168,687	181,319	179,788
Liquidity Coverage Ratio	262%	244%	214%	236%

The change in the LCR over the past 12 months reflects the strong level of inflow from customer deposits offset by repayments of wholesale exposures primarily to the Central bank.

13 Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio was introduced under the CRR. Under the NSFR a stability weighting is applied to all balance sheet assets and liabilities. For assets this reflects the Society's ability to liquefy those assets if required; cash earns a stability factor of 0%, as it is immediately liquefiable, whereas encumbered mortgages earn a stability factor of up to 85%. For liabilities, this reflects their utility as a funding source; stable retail deposits, which are a good funding source, earn a stability factor of 95% whereas unsecured wholesale funding with a short maturity profile earns a stability factor of 0%.

The NSFR is the ratio of stability weighted liabilities (known as available stable funding) to stability-weighted assets (known as required stable funding) and is subject to a regulatory minimum of 100%.

The Society's NSFR at 31 March 2021 is compared with the NSFR at 31 March 2020 below:

31-Mar-21	31-Mar-20
144%	144%

14 Encumbrance

Encumbrance is defined as "pledging an asset or entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn."

The majority of the Group's encumbrance at 31 March 2021 relates to its access to market-wide facilities provided by the central bank, which are secured against non-cash collateral, principally mortgage assets. The use of these facilities encumbers the assets pledged as collateral for the duration of the use of the facility and the counterparties are given the first charge over the assets which are encumbered.

To secure this funding, the Group has entered into legal agreements where financial assets are pledged as collateral to reduce counterparty exposure to the Group. The counterparties are assigned primary legal charge over the agreed collateral assets in the unlikely event of a default.

The Group makes use of interest rate swaps to mitigate its exposure to interest rate risk. Against the Group's derivative liabilities cash collateral is pledged to counterparties in order to reduce their exposure to the Group; and similarly, cash collateral is received by the Group against its derivative assets to reduce the Group's exposure to those counterparties. The cash collateral pledged is considered to be encumbered as it is no longer under the legal ownership or control of the Group.

The movement of derivatives collateral is governed through the CSA agreements which the Group has in place with each of its derivatives counterparties. Collateral posted is measured against counterparty mark-to-market values and may not reflect the Society's internal valuation of its financial instruments.

The Group's encumbrance position at 31 March 2021 is shown in the following table.

Encumbered and Unencumbered Assets

£'000	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value amount of unencumbered assets
Total assets of the reporting institution	410,797	-	2,291,661	
Equity Instruments			5,824	5,824
Debt Securities		-	7,082	7,082
of which: issued by central governments		-	-	-
of which: covered bonds		-	7,082	7,082
Other Assets		-	2,278,755	

Other assets include loans and advances (including mortgages) and other balance sheet items not listed above.

The collateral received by the Group at 31 March 2021 is as follows:

Collateral Received

£'000	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	-	-
Other Assets	Nil	Nil

The Group's sources of encumbrance at 31 March 2021 are as follows.

Sources of Encumbrance

£'000	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	140,326	410,797

15 Remuneration Code Disclosures

15.1 Introduction

The Society's objective in setting remuneration policies is to ensure that they are in line with its business strategy, risk appetite and long-term objectives, and that remuneration is set at a level to retain and attract individuals of the calibre necessary to operate an organisation such as the Society.

The remuneration of the executive directors and other members of senior management is determined by the People Remuneration and Nominations Committee (PARC), which consists of its chair Jackie Arnold, Senior Independent Director, Michael Hulme and Kelli Fairbrother, Non-Executive Director. In addition, the Chief Executive Officer, Chief Financial Officer, Chief People Officer and Chief Risk Officer are standing attendees. The Committee met six times during the year ended 31 March 2021.

The terms of reference of the Committee are available on the Society's website, www.cumberland.co.uk and include the following as part of its mandate:

The People, Remuneration & Culture Committee (PARC) assists the Board with overseeing the Society's people, remuneration and culture matters.

The Society complies with the following principles of the Code:

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

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.

PARC believes that bonus schemes relating to financial and business performance are an appropriate part of a balanced remuneration package, and for the year ended 31 March 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

Variable remuneration schemes are determined and reviewed on an annual basis, are non-contractual and are usually paid shortly after the year end to which they are applicable, following oversight from PARC. No elements are guaranteed, and payment is at the absolute discretion of PARC.

15.2 Remuneration Code Staff

PARC has determined that as at 31 March 2021, the two Executive Directors, seven non-executive directors, four other members of the SLT and 10 others are designated as being Code staff in that they are 'material risk takers' and are thus subject to the FCA Remuneration Code and PRA Remuneration rules.

It is believed that other senior members of staff do not affect the risk profile of the firm in the way that the Code staff listed above do, as they report directly into them and are constrained in their actions by their operating mandates as defined in the Group's documented policies and procedures.

15.3 Executive directors

Further information on the mandate of PARC and its decision-making process in determining the remuneration policy for the executive directors, is contained in the Report on Directors' Remuneration within the Group's Annual Report and Accounts for the year ended 31 March 2021.

Aggregate information on the remuneration of the two executive directors who served during the year is given below. Fixed remuneration includes pension contributions made by the Society on behalf of the employees, pension replacement amounts (which may be made, depending upon their individual circumstances) and the value of taxable benefits:

Executive Directors	**£'000**
Fixed remuneration	585
Variable remuneration	99
Total	684

15.4 Other members of senior management and those involved in control functions

The PARC is also responsible for determining the terms and conditions of other staff designated as being subject to the Remuneration Code, after consultation with the Chief Executive.

Aggregate information on the remuneration of these 19 staff during the year to 31 March 2021 is given below

Other senior management	**£'000**
Fixed remuneration	3,296
Variable remuneration	224
Total	3,520

15.5 Non-executive directors

The remuneration of the eight non-executive directors who served during 2020-21 comprised only of fees and, other than that of the Chairman, these are reviewed and agreed annually by the Board.

The remuneration of the Society's Chairman is determined by the PARC; however, he is not a member and does not attend the Committee. The total remuneration of the non-executive directors during the year, all of which was fixed, was £322,000.

15.6 Aggregate Remuneration

Aggregate remuneration for the Group broken down by business area with subsidiaries separately disclosed is as follows:.

Aggregate remuneration	Fixed £'000	Variable £'000	Total £'000
Distribution, Product & Marketing	6,978	194	7,172
SLT & Internal Audit	1,740	161	1,901
Finance,Treasury, Legal & Procurement	1,772	30	1,802
Operations & IT	6,657	25	6,682
People & Culture	477	9	486
Risk	883	27	910
Subsidiaries	579	60	639
Total	19,086	506	19,592

15.7 Recruitment and Diversity

The Group recognises the benefits that a diverse workforce can bring and is committed to a culture that attracts and retains talented people to deliver outstanding performance. Appointments are made on merit and against objective criteria, whilst still giving consideration to diversity in respect of gender and other characteristics.

Further details on the Group's gender pay gap which is one element of diversity can be found at **www.cumberland.co.uk.**

15.8 Directors

A summary of the relevant experience of each of the executive and non-executive directors is given in the Annual Review booklet for the year ended 31 March 2021, which along with the Annual Report and Accounts is available at **www.cumberland.co.uk.**

Details of other directorships held by the executive and non-executive directors are shown in the Annual Business Statement in the Annual Report and Accounts.

The policy regarding recruitment and diversity for selection of Directors is outlined in the Annual Report and Accounts.

16 Conclusion

This Pillar 3 disclosure document, which was approved by the Board on 8th June 2021, has been prepared in accordance with the requirements of CRD IV disclosure requirements of Part Eight of Regulation (EU) No. 575/2013, as appropriate for a firm of the size and complexity of Cumberland Building Society, and the Society Board-approved "CRD Pillar 3 Disclosure Policy".

During the year ended 31 March 2021, the information received and reviewed by the Board and its committees provided assurance that the Society (Group) maintained an appropriate system of internal control and risk management and that there were no material breaches of controls or regulatory standards.

Contact

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Appendix – Glossary of abbreviations

AC	Audit Committee
ALCO	Assets & Liabilities Committee
BCBS	The Basel Committee on Banking Supervision
BFL	Borderway Finance Limited
BoE	Bank of England
BRC	Board Risk Committee
CCF	Credit Conversion Factor
CCoB	Capital Conservation Buffer
CCP	Clearing Counterparty
CCR	Counterparty Credit Risk
CCyB	Counter-cyclical (capital) Buffer
CCO	Chief Customer Officer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 (capital)
CFO	Chief Financial Officer
CFSL	Cumberland Financial Services Ltd
CPO	Chief People Officer
CRC	Credit Risk Committee
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CR–SA	Credit Risk Standardised Approach
CSA	Credit Support Annex
CVA	Credit Valuation Adjustment
ESMA	European Securities and Markets Association
EV	Economic Value
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FRMP	Financial Risk Management Policy
FSOL	Fully Secured on Land
FSRP	Fully Secured on Residential Property
FTE	Full Time Employee
GMRA	Global Master Repurchase Agreement
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Individual Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
LCR	Liquidity Coverage Ratio
LMC	Liquidity Management Committee
MTM	Mark-to-Market
NII	Net Interest Income
NIM	Net Interest Margin
NSFR	Net Stable Funding Ratio
OLAR	Overall Liquidity Adequacy Rule
OTC	Over the Counter
PARC	People Remuneration & Culture Committee
PRA	Prudential Regulation Authority
RMC	Risk Management Committee
RMF	Risk Management Framework
RWA	Risk Weighted Assets
SLT	Senior Leadership Team
SME	Small to Medium Enterprises
SREP	Supervisory Review and Evaluation Process
TCR	Total Capital Requirement
TFS	Term Funding Scheme
ToR	Terms of Reference
TFSME	Term funding scheme with additional incentives for SMEs