

## CUMBERLAND BUILDING SOCIETY

AGM – 20 JULY 2021

ONLINE Q&A – 6 JULY 2021

### BOARD RESPONSES TO QUESTIONS FROM MEMBERS

*Questions covered at the AGM.*

*Questions covered during the Q&A.*

#### 1. Board Composition and Diversity

*“What are the reasons for appointing new non-executive directors as proposed, particularly non-UK citizens? Generally, I would expect our directors to have the necessary expertise to run the Society or to have that expertise in our employees. If they need additional advice, I would expect the board to hire appropriate consultants as needed.”*

In recent years, Trevor Hebdon, who was the Society’s Chairman, and Alan Johnston, who was the Society’s Vice Chairman, retired from the Board because they had reached the maximum 9 years, which Directors are permitted to be on the Board by the Corporate Governance Code. We needed to replace them to ensure the Board had the right experience and skills to develop the Society’s strategy as it transforms into a sustainable business for the future and to ensure the Board and its Committees could continue to provide proper oversight of that process and the Society’s normal business activities. The Board followed a rigorous process to identify the skills required to support the Society’s Cumberland 2025 strategy and then conducted a broad search to find the best talent to meet those requirements. Our new appointments, Vicky Bruce and Kelli Fairbrother, bring considerable valuable expertise and experience to the Board and have improved both the gender and cognitive diversity of the Board as we go through this period of strategic change.

*“It is good to see more female directors on the Board. What else is being done to increase diversity of the Board?”*

We are committed to equality and diversity, but we acknowledge that there is always more that we can do.

We are a signatory to the Women in Finance Charter, and in the last year we met our commitment to having at least 33% of senior roles (including board positions) filled by women by April 2021. In September 2020, we recruited two new female non-executive directors, using female-only shortlists to help ensure we were able to meet our commitment. At present, over one third of our Senior Leadership Team and Extended Leadership Team are women. The figures as at 31 March 2021 are:

	<b>Male</b>	<b>Female</b>
Board	6/9 (67%)	3/9 (33%)
Senior Leadership Team	4/6 (67%)	2/6 (33%)
Extended Leadership Team	13/25 (52%)	12/25 (48%)

In terms of ethnic and professional diversity, the Society strives to recruit from these backgrounds where possible, whilst ensuring compliance with the corporate governance code in recruiting members with the necessary skills and expertise in finance and banking.

You can find more details of our commitment and efforts to increase diversity in the Nomination and Governance Committee and the People, Remuneration and Culture Committee reports in the Annual Report and Accounts, available on our website.

## 2. Directors' Remuneration

*“Is the pay ratio between a typical staff member and the Chief Executive appropriate?”*

The People, Remuneration and Culture Committee reviews remuneration at all levels of the business and approves the bonus structure for executive directors. We must pay a rate that is reflective of the market to ensure we recruit the appropriate people, and in order to effectively run the business for the maximum benefit of our members. You can find more details of our commitment to fair and appropriate remuneration for all people in the People, Remuneration and Culture Committee report in the Annual Report and Accounts, available on our website.

The increase in basic remuneration for directors in 2020-21 was limited to the cost of living increase of 2%, which was also awarded to all permanent employees. For non-executive directors, who are paid fees, these increased by the same amount. Some non-executive directors have had changes made to their level of responsibility and attendance on committees and, therefore, their remuneration has increased to reflect that. The figures from 2019-20 and 2020-21 are, therefore, not directly comparable.

All people in our business usually have the opportunity to receive a discretionary bonus. This is linked to achievement of their objectives, which are set as part of their annual appraisal. Those people who exceed their objectives are awarded a discretionary bonus in addition to any annual cost of living increase in their basic remuneration. However, in this year, all our people who had been with us for the full year, and had done so much to support the Society and its customers throughout the pandemic, instead received a bonus in recognition of their work in this unique and challenging year.

### 3. Financial Performance

*“When do you expect to be able to increase savings rates again?”*

Interest rates are set by our Product and Pricing Committee, and are affected by the risks associated with lending, what our competitors are doing, and changes to the Bank of England base rate. As you will know, Bank of England base rate has been at a historic low of 0.1% since 19 March 2020, in order to support the economy through the Covid-19 pandemic. At the moment, we can't say when circumstances will allow us to change interest rates but, there is an expectation that interest rates will remain at their historic lows for a sustained period with rises perhaps pushed outside of our current planning horizon. However, as a mutual organisation, we are acutely aware of the need to balance the needs of our saving and borrowing members and to pay a fair rate of interest on our savings products, but we do need to maintain a viable and sustainable business for the future.

### 4. Society Services

*“What improvements are you making to your online banking systems?”*

*“I need to have access to my savings account online but do not wish to have a current account. Has the Society considered making online banking available to customers without a current account?”*

Delivering straight forward digital is one of our five strategic priorities and has been for a number of years. This year, we are starting to build that sustainable digital infrastructure which is the biggest and most important phase of our transformation programme. The pandemic has truly brought importance of this brought to the fore. Not only will this digital strategy increase choice for our customers, enabling them to decide how they want to interact with us – online, by phone or in branch – it will also create a Society of the future, one that meets the needs and expectations of our customers, regardless of age or location.

Our digital infrastructure will include a new digital savings platform. This will allow our customers with savings accounts to access online banking, and to open their own savings accounts online. We will eventually make our mortgage process digital too. We will keep members updated as we refine our ideas and start to build the technology.

*“How is the Cumberland supporting those customers experiencing financial difficulties during the pandemic?”*

Throughout the Covid-19 pandemic, we have focused relentlessly on supporting our customers through an incredibly difficult time. Initiatives, including mortgage payment holidays, additional overdrafts and mortgage offer extensions, provided support for

our customers, with over 2,000 residential mortgage borrowers taking a payment holiday, over 10% of all mortgage customers.

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

Customer experience is at the heart of all we do, so it is important to us that our customers can still get the service and support that they need, particularly during these difficult times.

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

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

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

*“Given the excellent service that I receive from The Cumberland I was disappointed that I had to go elsewhere to obtain a credit card. Would The Cumberland consider offering a credit card in the future?”*

*“Would the Society consider offering credit cards in the future?”*

Credit cards are not part of our strategy, which is to focus on our core mortgage and savings products and introducing sustainable digital channels for those products. While we understand that some of our customers may want to open a credit card account with us, we have to focus on improving and updating what we offer for our existing products for the moment.

*“Will the Society allow customers to access their Cumberland accounts via the Post Office?”*

It’s important to us that we do the right thing for our customers, and we put customers first in everything we do. We aim to keep branches open in places where we’re the last bank in town, so people in the local area can still access personal and business accounts in person.

During the Covid-19 pandemic we had to make the difficult decision to reduce branch opening hours and temporarily close some of our branches, to keep our people and our customers safe. When we did this, we gave customers as much notice as we could, and even personally made contact with any customers we felt may need some special arrangements or considered may be vulnerable. We made sure that the ATMs in closed branches continued to be kept in service so our customers could still access their cash, and have offered our customers telephone appointments throughout the pandemic so we can continue to meeting their needs.

We don’t have any plans to permanently close any of our branches at present, but we don’t know what the future of banking will look like once the pandemic is over. We are closely monitoring how people are adapting their use of our branch network to help make sure we have branches open in the right places at the right times. We know that our members would want us to spend their money wisely, and we aim to make sure that we get the right balance between being available for our customers and making difficult financial decisions.

Ideas like having a mobile branch or Post Office access are not things that we have considered in the recent past, but they will definitely be fed into the review of how the use patterns at our branches have changed.

*“Will the Society consider offering charity accounts at some point again in the near future?”*

The Society provides a huge amount of support for charities in its operating area. Over recent years, the regulator’s requirements in respect of opening new charity accounts have become more stringent, particularly in relation to money laundering and identification. In light of this, we have had to stop opening new charity accounts for the moment, while we work out how to meet regulator’s requirements in an effective and efficient way, but we will revisit this decision on this once we have a clearer view on what would be required in the longer term.

*“I am associated with three Business Current Accounts (BCA) with the Society and a Commercial Mortgage. I am aware that the Society are currently declining to open new BCA's for partnerships, individuals and more concerningly 'Community Accounts'. This concerns me as to the future with BCA's with the Society. Can the Society give me an assurance they still want our business and that we do not need*

to be looking elsewhere for day to day business banking? Can the Society give reassurance that they remain in the BCA market?"

The Society continues to open current accounts for small businesses, self employed individuals and partnerships. We have paused opening charity and society accounts due to the complexity of money laundering requirements.

*"What are you doing to avoid further IT issues along the lines of the one you faced last week?"*

We experienced an intermittent technical problem in our payment systems between Friday 25th and Monday 28th June which temporarily affected the availability of our ATMs, our internet and mobile banking systems, and meant some card payments were being declined.

Our IT teams worked through the night of Monday 28th to resolve these issues and our systems are now all working normally. If any of our customers are still experiencing issues with our mobile app, we would ask them to contact our customer care team directly on 01228 403141.

We sincerely apologise for the inconvenience this may have caused.

## **5. People**

*"What are The Cumberland's plans for "supporting our communities" through the Kickstart Scheme to employ young people and the creation of other good quality employment for those living in and committed to the operating area?"*

The Board believes that the Cumberland plays a key role in providing quality employment opportunities in Cumbria and our wider operating area, particularly for young people. We have been ambitious in our Learning and Development strategy and, following a number of senior hires this year, we are now focused on our training and development programme, which will ensure we develop our people's capabilities from within and give our people the opportunity to develop their career with us. We have a number of apprentices working in various areas of the business and our first cohort of apprentices has recently started a Management and Leadership Apprenticeship at the Society.

## **6. Supporting Communities**

*"How does the Society choose which charities it supports?"*

We donate 1.5% of our net profits to charitable and community groups, placing us in the top 2% of large organisation globally for the level of charitable giving.

This year we donated a total of £198,000 to various charities. £100,000 was donated via our Community Fund, which seeks to provide local good causes and charities,

with a further £24,000 distributed by our branches. The fund provides grants for charitable organisations, in particular those aligned with our purpose, to make a positive difference to the lives of our customers, communities and people in our operating area.

We also donated £55,000 to three of the region's hospices, (Eden Valley Hospice, Hospice at Home Carlisle and North Lakeland, and Hospice at Home West Cumbria) on behalf of our Hospice Affinity Account savers.

Every year we donate £1 for every AGM vote that we receive to a nominated charity, and in 2020-21 we donated £19,000 to local branches of FareShare on our members' behalf. Our Pledge for Votes donation following the 2021 AGM will benefit local branches of Mind and Support in Mind Scotland. These charities are both aligned with our purpose, and have been particularly relevant to people in our operating area during the pandemic. In 2021, we also took members views via a poll at the AGM.

*“What is the Cumberland able to do (if not already doing) to increase the supply of homes for local people? Can the Cumberland actively pursue supporting schemes to provide RENTED accommodation to ensure such housing remains available as rented and does not end up as housing for sale, much of which will be beyond the pocket of local people because of the effect of the second home/holiday let situation in Cumbria?”*

The Cumberland's 2025 strategy is to focus on our core strengths of mortgages and savings to enable people within its operating area to secure homes, by providing savings products to help them save for a deposit and competitive mortgage products to allow them to buy a home. The Society has considered whether it should support the provision of local housing in other ways, but the Board doesn't believe it would be responsible to do this, as we may not have the right expertise to fully understand the risks involved which could put the security of the Society at risk and would not be fair to our membership as a whole.

## **7. Governance**

*“In light of recent accounting scandals in other sectors of the UK economy, what is the Society's policy is on reappointment/change of auditors?”*

The integrity and impartiality of our external auditors is one of the key considerations for the Board. In order to minimise risk, we follow the UK Corporate Governance Code. This requires that we retain the same auditors for no longer than a 20 year period, and undertake a re-tendering process after 10 years. Additionally, regulation requires that our statutory auditor, who is responsible for oversight and certification of the audit, is rotated internally. Next year, Stephen Williams will be replaced in that

role, with the Audit Committee overseeing the transition, further strengthening the independence of our external auditors.

You can find more details of the Board's policies on the retention of external statutory auditors in the Audit Committee report, in the Annual Report and Accounts, available on our website.