Annual Report and Accounts

year ended 31 March 2019

The Cumberland
Building Society

2018/19 HIGHLIGHTS

gross **mortgage** lending **£385m**

total **assets** **£2.6bn**

profit after tax **£11.4m**

funds inflow **£100.5m**

charitable donations **£104k**

customer satisfaction **4.8/5**

Annual Report and Accounts

year ended 31 March 2019

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CHAIRMAN'S WELCOME

Your Board of Directors has pleasure in presenting The Cumberland Building Society's Annual Report and Accounts for the year ended 31 March 2019.

In this, my last year as your Chairman, I can report that the Cumberland – your Society – has continued to perform strongly during the year under review, notwithstanding the prolonged uncertainty around the UK's future relationship with the European Union and the subdued demand for mortgages in what has become a crowded and fiercely competitive market.

Not only has your Society delivered another solid financial and business performance, details of which you will find within the pages that follow - but we have also seen a number of important developments and early investments under the leadership of Des Moore, our Chief Executive Officer, who joined us on 1 April 2018.

Your Board oversaw three significant pieces of work during the year. In addition to there being an in depth strategic review of the business, we took a critical look at the way in which we care for the people who work for us and the effectiveness of our corporate governance arrangements. You can read more about these workstreams within the CEO's Business Review.

Moreover, and to ensure that we continue to meet the expectations of the Prudential Regulation Authority and the Financial Conduct Authority, there has been additional investment in our people to further strengthen our internal audit, risk and treasury functions.

In this, my Chairman's Welcome, I would also like to highlight a number of particular milestones which have been achieved over the last 12 months as far as our members, our people and our communities are concerned.

For our members, we continually strive to provide a first-class customer experience. In recognition of how well our products and services are received by our customers, The Cumberland achieved a Feefo score of 4.8/5 from our customers, and we were rewarded with a 'Gold Trusted Service' accolade from Feefo. Equally, we were very pleased to be presented with two national awards during the year, Mortgage Finance Gazette's 'Best Regional Building Society' and Moneyfacts' 'Regional Lending Provider of the Year'.

For all who work at The Cumberland, I was especially delighted to be part of the decision-making which saw the implementation of the real living wage, alongside the introduction of greater flexible working and enhanced family friendly policies. Also, your Board's signing up to the Women in Finance Charter was a positive commitment to further the promotion of women into senior management roles.

I warmly welcomed our decision to increase the level of giving to community funding programmes, which assist those less fortunate than ourselves in the communities in which we live and work. The Cumberland has committed to allocating 1.5% of its annual profit after tax to community funding, with the bulk of these monies to be managed and distributed on our behalf by the Cumbria Community Foundation.

There have been two new Board appointments since the previous year end. Mark Stanger, who joined us as a Non-Executive Director on 1 June 2018 and Richard Ellison, who was appointed as our Chief Financial Officer on 29 April 2019, following John Kidd's decision to leave the business after 24 years of service.

Mark Stanger is a Chartered Accountant from West Cumbria. Not only does Mark bring his current and very relevant accountancy/audit experience, knowledge and skills to our Board, but also his sound commercial judgement and his understanding of the economic and social challenges within our region.

Richard Ellison has a deep knowledge of the financial services sector and, up until recently, he was interim Finance Director at the Newcastle Building Society, prior to which he was Deputy Chief Financial Officer and Chief Data Officer of CYBG (Clydesdale and Yorkshire Banking Group) PLC. Richard also spent 14 years at PwC, latterly as a Director of the Banking and Capital Markets practice.

Having served nearly 10 years on your Society's Board, and in accordance with the requirements of good corporate governance of which I am a strong advocate, I will be stepping down at the conclusion of this year's AGM. It has been both an honour and a privilege to have been part of The Cumberland.

John Hooper, who has been a Non-Executive Director at the Society for over 3 years and Chair of our Board Risk Committee, will be succeeding me as your Chairman. John has a wealth of financial services experience, most recently gained during 18 years with National Australia Bank where, immediately prior to his retirement in 2014, he was Chief Operating Officer of Clydesdale and Yorkshire Banks.

As a result of the firm foundations which have been put in place and the prudent approach which has been adopted by your Board over many years, your Society is in a very strong financial position (profitable, well capitalised and with high levels of liquidity) and, together with our exceptional regional presence, our hugely supportive membership, our terrific team of committed people and our robust strategic plans for the future, I am confident that The Cumberland will continue to be a sustainable and successful business for many more years to come.

Trevor Hebdon
Chairman 4 June 2019

Chief Executive Officer's Business Review

I AM DELIGHTED TO REPORT THAT 2018/19 WAS A YEAR OF SIGNIFICANT DEVELOPMENT FOR THE CUMBERLAND AS IT CELEBRATED 169 YEARS OF UNBROKEN SERVICE TO OUR COMMUNITY.

As well as producing another strong set of financial results with a profit before tax of £14.3m, we completed a major strategic review of our business and redefined our Purpose, Vision and Core Values. We enhanced our People capability by improving working conditions, recruiting for additional skills and appointing a new Senior Leadership Team.

This year also saw improvements in risk and governance, capability and expertise alongside the introduction of some new committees to provide greater Board oversight and the continued embedding of our risk culture. To round things off, we are announcing a significantly increased level of contribution to our community funding programme.

STRATEGY

We took the opportunity to carry out a deep review of our existing business model during the past 12 months, in order to develop a clear strategic direction for the future, called "Cumberland 2025". As the name implies, this strategy identifies what we need to do to ensure that The Cumberland remains a sustainable and successful business to 2025 and beyond. We will be unveiling more details of this plan in the coming year.

The past five years have marked a period of strong and profitable growth, helped by the availability in the market of low cost funding from the Bank of England and by banks leaving the high streets of many of the towns in our region. However, as we look forward, we expect some uncertain market conditions ahead, in particular in the next three years:

1. a continued low interest environment and the possibility of recession (with both of these likely to be impacted by the outcome of Brexit);
2. increasing pressure on our levels of profit;
3. the rising expectations of our customers for digital services; and
4. increased regulatory expectations, which tend to consume most of our available change resources and require additional specialist skills in risk, credit, audit, treasury, strategy and distribution.

In responding to these challenges, we have firm foundations to build on: our strong regional franchise and brand continues to be valued by members as a local alternative to the mainstream banks. Our expertise in specialist lending drawn from experience in our local area allows us to attract business nationally, such as in the leisure, hospitality and tourism sector and in mortgages for customers in later life.

Nevertheless the Society does need to evolve if it is to be well positioned for the future. In particular, it needs to upgrade its digital services to respond to the needs of existing members and to ensure it attracts customers who do not wish to be served in branches. It also needs to develop greater flexibility allowing it to deliver new products and services more quickly, and be able to offer them to customers outside our region who we know from research find The Cumberland's brand appealing and who offer opportunity for us to grow.

Purpose, Vision and Core Values

As part of the strategic review, we have developed a new Purpose:

To make a positive difference to the lives of our Customers, our Communities and our People.

In the future, the Society will seek to excel in serving a more focused set of 3 customer and regional needs, which are considered to be enduring:

1. helping people secure a home;
2. helping people plan and save to achieve their goals; and
3. helping the local leisure and tourism sector grow, supporting the regional economy.

Our Vision has therefore been refined to reflect this:

To be a focused and agile mortgage and savings provider that our Customers, our Communities and our People are proud of.

The vision will be delivered in our new brand proposition of "Brighter Banking from Cumbria". A new set of Core Values has also been developed by our Values Working Group to better reflect the essence of The Cumberland and I am pleased to say the values have been adopted by the Society and are being brought to life every day by the actions of our People:

Our core values were launched across the business in 2018. We also introduced a recognition programme to celebrate the positive differences made when our values are put into practice.

Our Senior Leadership Team

Chief Operating Officer (COO)
Susanne Parry

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

Chief Financial Officer (CFO)
Richard Ellison

The CFO ensures sound financial management across CBS including capital, funding and liquidity. The CFO is responsible for planning, forecasting, financial reporting and ensuring the accuracy and timeliness of information provided to the PRA and other regulatory bodies. Richard provides leadership of the treasury, finance and prudential management functions. This role is an Executive Director and sits on the Board.

Chief Executive Officer (CEO)
Des Moore

The CEO is responsible for making major strategic decisions and setting the overarching goals of the Society and ensuring that they are met. He manages the overall operations and resources of the Society and is the main point of contact between the Board and the business. Des ensures the Purpose and the Core Values drive objectives. He is also the public face of CBS.

Chief People Officer (CPO)
Jill Johnston

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

Chief Customer Officer (CCO)
Alex Windle

The CCO takes oversight of the CBS Income Statement and creates the corporate strategy for business and personal customer acquisition, retention and customer experience. Alex will drive a comprehensive view of the customer at the heart of CBS activity and decision making and has responsibility for all existing distribution channels, including our branch network, national lending, brokers, Cumberland Business, CEAL, Borderway, CFSL and Marketing.

Chief Risk Officer (CRO)
Will O'Carroll

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

We opened a research hub on English Street Carlisle in October and November 2018 to help us understand more about what our customers want to see in our branches and what they think of our brand.

This does not mean we will leave behind our personal customer service, and our focus on building relationships via branch or telephone; it is about enhancing these and developing other ways for members to interact with us and is how our brand remains relevant to customers.

In order to achieve this, we will focus primarily on our core business of mortgages and savings, which will allow us to prioritise our investments to be able to better serve the customer needs of the future. We will also need our people to develop new skills, as well as attract new talent into the region.

As you can imagine, there will be significant cost incurred in helping us prepare prudently for the future and, over the past five years, the Society has been putting capital aside for this type of investment.

In the short term profitability will reduce as we invest. However, as a member owned organisation, we are confident that investing in our business, to ensure it remains sustainable and successful, is the right decision for our Customers, our Communities and our People.

OUR CUSTOMERS

Once again this year, we have been recognised as an exemplar in a number of customer areas, but what is particularly pleasing this year is the feedback we have received directly from our customers.

We now ask every customer to review our services and products, achieving an average score of 4.8/5, and received some fantastic comments about how our People have gone the extra mile.

Feefo, the company that helps us gather the reviews, rewarded us with the highest accolade - a Gold Trusted Service award, which recognises companies that 'excel beyond the norm'.

This award is one of a number we earned this year, including 'Best Regional Building Society' at the Mortgage Finance Gazette awards, and 'Regional Lending Provider of the Year' at the prestigious Moneyfacts awards.

We are also proud to say our current account customers have been named the happiest in the UK by Fairer Finance for the last three years.

Our research hub project in Carlisle last autumn gave over 600 customers a physical platform to give feedback on how you would like to see us shape our offering in future, and I would like to thank those who really embraced the concept and provided us with some valuable insights. This will help us shape the blueprint of how our branches will look and feel in future; a programme which is already underway.

We are also working on evolving the Cumberland brand to align it with our future strategy, bringing a fresh new look and feel. This will ensure our customers know what we stand for and the journey we are on.

OUR PEOPLE & CULTURE

We have made great strides in improving the lives of our own People this past year. We have recognised that our People really are our greatest asset and we have implemented a number of changes which will help achieve our goal – To make The Cumberland a great place to work.

We considered the whole employee experience, which has involved committing to paying the Real Living Wage as a minimum starting point for our People, and improving various benefits that underpin our values, such as absence payments and family friendly entitlements.

We are committed to making progress against the industry concern of Women in Finance. We have signed the Women in Finance Charter and have already made a significant shift by accelerating our women in senior leadership team roles

Little Lifers first aid training at Holme St Cuthbert School in Mawbray

from 19% to 33%. This is underpinned by ensuring we are exploring and implementing practices to support wider diversity and inclusion in the workplace, through the exploration of flexible working and refreshing our recruitment approach.

Enhancing capability becomes increasingly important and, in recognition of this, a new Senior Leadership Team is now in place that is reflective and supportive of our future strategy. You can read about the team in the graphic on page 6.

We have also successfully recruited a number of key roles across a number of functions. This ensures we have the capability to continue to operate as a sustainable and successful business, continuing to deliver high quality jobs to the region.

Celebrating and measuring success are also important to us. We have participated in our first Best Companies Employee Engagement Survey, achieving placing in the “one to watch” category. We have made an annual commitment to this survey. The results have informed the development of quarterly celebrations of employee achievements, more streamlined employee communication and a commitment to comprehensive development and support for our people managers. This will help us inform our innovative People and Culture strategy as we continue to “make The Cumberland a great place to work, a place where people feel valued and can produce their best work”.

OUR COMMUNITIES

As a local business, we genuinely want to make a positive difference to the lives of the communities we are part of.

We strive to do this by putting as much time and effort into supporting local organisations as possible, and encouraging our People to be at the heart of local communities. We don’t just issue a cheque and walk away; we proactively lead events and activities. This includes delivering financial education sessions to ensure the people we are supporting develop the skills and knowledge to help them to improve how they manage their day to day finances, and to make better financial decisions in the long term.

For example, there are a significant number of people impacted by dementia in our region; we wanted to help highlight the issues and raise awareness of the organisations that support the people and families affected. As part of this we joined local Dementia Action Alliance groups and we have a number of Dementia Friends in our teams who are a really crucial point of contact for someone living with dementia. In addition, we have a Dementia Champion in the business, which means we can deliver Dementia Information sessions not only to our own teams, but to businesses, schools and community groups. By holding these information sessions, it helps us move closer to our shared goal of creating dementia friendly communities across our region.

With all that in mind, this year we are making some positive changes to the level of existing community funding to help us

Players from the Cumberland FA’s Ability Counts league

New safety workwear for the Right2Work social enterprise in Kendal

Charlotte Owen and Andrew Gordon volunteering at Carlisle Youth Zone

Our head office baking extravaganza in aid of World Mental Health Day

really deliver on our purpose to make a genuinely positive difference. For many years we have contributed a fixed sum of £100,000 each year to support the great work of organisations from communities across our heartland. This has been done through a combination of Society donations and through the Cumberland Building Society Charitable Foundation (CBSCF), and I would like to take the opportunity to thank the outgoing trustees of the CBSCF for their support.

I am therefore pleased to say the Society is increasing its community funding to 1.5% of the previous year’s Group profit after tax and for 2019-20 this donation will be £171,000. This will allow each of our branch managers to access their own community fund, which will be used to provide small donations to distribute to good causes localised to individual branches. The remainder will be distributed by Cumbria Community Foundation (CCF) through a separate Society fund to support larger projects around our region and we are looking forward to working closely with them throughout the year.

But it does not stop there! When it comes to supporting our local communities, our teams love to get involved in charity fundraising and volunteer activities throughout the year. From organising a delicious bake sale to a spot of gardening at the local hospice, our People really do love making a difference and I wholeheartedly support their efforts.

SUMMARY

I hope you can get a flavour of how much has been achieved by our People over the past 12 months and that we have put in place some solid foundations for a bright and sustainable future in terms of a clear strategic direction, an experienced leadership team, motivated People and a robust financial plan. The coming year will, no doubt, reveal many challenges, but I am confident that we can continue to deliver strongly against our overarching purpose to make a positive difference to the lives of our Customers, our Communities and our People.

Des Moore
Chief Executive Officer
4 June 2019

People from across the business took part in the fundraising activities at Eden Valley Hospice’s Colour Run in 2018

KEY PERFORMANCE INDICATORS

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

	2019	2018
Customers		
Feefo Rating	4.8/5.0	N/A
People		
Colleague turnover (%)	13.5	20.1
Financial		
Group Profit After Tax (£ million)	11.4	17.5
Group Profit After Tax as a % of Mean Total Assets	0.45	0.73
Excluding hedge accounting:		
Group Profit After Tax (£ million)	12.89	15.49
Group Profit After Tax as a % of Mean Total Assets	0.51	0.65
Net Interest Margin (NIM) (%)	1.61	1.66
Cost / Income Ratio (%)	62.3	54.0
Common Equity Tier 1 Capital Ratio (%)	17.7	16.0
Growth in Loans and Advances to Customers (%)	1.87	7.33
Gross Lending During the Year (£ million) #	384.5	449.4
Inflow of Funds from Customers (£ million)	100.5	78.6
Liquidity ratio (%)	21.9	21.2

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

Key Performance Indicators (KPIs) are tools used by management and the Board to assess business performance and so can differ from company to company. The calculation of the Group's KPIs are explained in the other information section on page 56.

FINANCIAL PERFORMANCE

PROFITABILITY

This has been another good year for the Group. Our profit after tax was £11.4m and the constituent parts of the Group's operating and statutory results are summarised in the table below:

Group Income Statement	2019 £000	2018 £000
Net interest income	40,623	39,224
Other income and charges	2,836	3,221
Total operating income	**43,459**	**42,445**
Administrative expenses	(25,062)	(21,033)
Depreciation	(2,021)	(1,895)
Operating profit before provisions and hedge accounting	**16,376**	**19,517**
Provision for bad and doubtful debts	(64)	(77)
Other provisions and charges	(149)	(485)
Fair value gains and losses on hedge accounting	(1,842)	2,450
Profit for the year before taxation	14,321	21,405
Taxation	(2,920)	(3,871)
Profit for the year after taxation	11,401	17,534

Along with many other lenders, The Cumberland has benefited over the last three years from low cost funding opportunities from the Bank of England, and has been able to post enhanced profits. This period is coming to an end and, as discussed in the CEO's review, the Society has seen growing marketplace challenges including competitive pressure on margin. Alongside substantial investment in our business this has contributed to the reduction in profit after tax for the year.

The operating profit for the year of £16.4m (31 March 2018 £19.5m) reduced by £3.1m (16%) primarily driven by investment in capability. Administration expenses rose by £4.0m to £25.1m, with the additional spend focused on increasing capability in risk, credit, audit, treasury and distribution, as well as the strategy work to set our direction for the future. We have also made some important improvements to our People's benefits. The rise in costs was partially offset by an increase in net interest income of £1.4m reflecting growth in the balance sheet offset by ongoing pressure on margin.

Statutory profit before tax for the year was £14.3m, down year on year. The majority of the profit reduction relates to the movements in the valuations of the derivative financial instruments held by the Society for risk management purposes. The Society uses derivative financial instruments to manage its exposure to changes in interest rates which arise from fixed rate mortgage lending and fixed rate retail savings products. It is required to fair value these derivatives at the year end.

Fair values are driven by market expectations and can and do fluctuate over time leading to volatility in our results. As the Society's year end coincided with the proposed date of Brexit this volatility was pronounced and the swing in fair value year on year was £4.3m.

These gains or losses are only realised if the Society chooses to sell the derivatives before they reach maturity; otherwise the movements will reverse over the derivatives' remaining lives resulting in a zero net impact on profit over time. For this reason the Board focuses on operating profit which excludes fair value movements and, to the extent that they are significant, other one-off items in measuring operating performance.

LENDING

We have seen increasing levels of competition in our core lending markets over the last year, and we expect this to continue. Combined with the uncertainty surrounding the UK's exit from the EU, this put further downward pricing pressure on our net interest margin, which has fallen by 5 bps from 1.66% to 1.61%. Net interest income increased by £1.4m in the year, to £40.6m.

Notwithstanding the challenging mortgage market we have continued to grow our residential lending book which rose to £1.89 billion (2018: £1.87 billion), which included £358m of new lending.

Our commercial lending team had a successful year recording the highest level of approvals in the Group's history. At 31 March the commercial lending book had grown by 3.5% to £166m (2018: £160m).

ARREARS AND PROVISIONS

Our lending books remain of a very high quality, as reflected in our arrears figures. At 31 March 2019 only 0.1% of our residential mortgages were in arrears by 3 months or more, which is significantly below both the market and building societies average.

Prudent and responsible lending is a key part of the Society's approach, with rigorous underwriting processes ensuring that loans are affordable. All loans are subject to manual underwriting by a specialist team within our Head Office rather than automated credit scoring. The quality of The Cumberland's underwriting has been a long term success story; over the last 12 years, the Society's individual impairment charges for residential loans have averaged just £68,000 per year, which is a remarkable achievement over that period which of course, included the financial crisis and subsequent recession. Only five of our commercial mortgages were in arrears of three months or more at 31 March 2019. The Society had no properties in possession at the year end.

SUBSIDIARY COMPANIES

The Group's financial statements incorporate the assets, liabilities and results of its subsidiary companies, the largest of which are Borderway Finance Limited (BFL) and Cumberland Estate Agents Limited (CEAL). BFL, our motor finance business, reported a profit after tax of £538,000 (2018: £748,000) with its loan balances growing by 4.9% to £22.9m.

CEAL faced market headwinds including the impact of new business models in estate agency and, despite management efforts, returned to loss in 2019 (£194,000 after tax) after breaking even in 2018.

FUNDING AND LIQUIDITY

The Society continues to be strongly funded by its retail depositors, the great majority of whom are located within its branch operating area. We saw an inflow of funds of £101 million, a 28% uplift on the previous year. As a result all new lending was funded by deposit growth. We continue to see strong performance across a wide range of accounts, including both personal and business current accounts, and we achieved good retention levels on fixed rate savings which help provide stability to our funding base. Our performance reflects the Society's track record of providing good long term value.

Our strong retail deposit growth has enabled us to modestly reduce the level of wholesale funding.

The Society's overall liquidity remains strong at 21.9% of Shares, Deposits and Liabilities. We held a higher level of liquidity than normal going into the financial year end in anticipation of the original Brexit date of 29 March 2019; and we will continue to manage our liquidity prudently as the uncertainty around this moves forward.

CAPITAL

The Society holds capital to provide protection for members' deposits against losses from lending, and to protect the Society's continued operation through difficult periods. Our capital comes from retained profits, and our strong financial results have improved our gross capital ratio (gross capital expressed as a percentage of total shares and deposits) to 7.84%, up from 7.47% in 2018. This gives us a very strong base to support the business as we move towards Cumberland 2025.

The Group's Regulatory Common Equity Tier 1 (CET1) ratio strengthened to 17.7% at 31 March 2019 (2018: 16.0%). If 2019's earned profit was included this ratio improves to 18.9%.

The Group complied with the Total Capital Requirement (TCR) plus capital buffers, as notified by the Prudential Regulatory Authority, throughout 2019. The Group's TCR is communicated annually by the Regulator. The Group's TCR at 31 March 2019 was £93m (2018: £91m).

Further information on the Group's capital management can be found in the Pillar 3 disclosures on the Society's website - www.cumberland.co.uk.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

The principal risks facing the Group and the procedures put in place to manage them are described below. The principal risks facing the Group are consistent with those disclosed in the year ended 31 March 2018.

LIQUIDITY RISK

Liquidity risk is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. The Society's Board Assets and Liabilities Committee (BALCO), assists the Society's management and the Board to manage this risk. Responsibility for the daily management of the risk lies with the Treasurer, who reports directly to the Chief Financial Officer. Monthly, the balance sheet is stress tested to confirm that the Group can withstand normal and extreme cash outflows. The Financial Risk Management Policy and the Individual Liquidity Adequacy Assessment Process, both regularly reviewed by the BALCO and agreed by the Board, ensure that the daily activities of the treasury team are conducted within a prudent framework and in line with the requirements of the Prudential Regulation Authority. The Group's overall liquidity ratio rose during the year and is discussed on page 11.

MARKET RISK

The primary market risk faced by the Group is interest rate risk. This is the risk of fluctuations in interest rates and changes in the value of derivative contracts impacting the Group's earnings and capital. The BALCO assists management and the Board to manage this risk. The balance sheet is stress tested on a monthly basis to inform the BALCO of the effects on income or costs of interest rates rising or falling. The Treasurer utilises interest rate derivatives and naturally off-setting instruments (e.g. a 2 year fixed deposit or 2 year fixed rate mortgage) to manage the daily position within an approved framework in accordance with the Financial Risk Management Policy. A detailed analysis of the Group's interest rate sensitivity at 31 March 2019 and 2018 can be found in note 26 to the accounts.

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

CREDIT RISK

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

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

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

The Chief Risk Officer attends Residential and Commercial Lending Credit Committee meetings to provide independent oversight.

Details of the Group's credit risk exposures are disclosed in notes 27 and 28 to the accounts. There was no significant movement in the Group's portfolio, and residential mortgage arrears of 90 days or greater were consistently low at 0.1% of the portfolio (2018: 0.1%).

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

OPERATIONAL AND CONDUCT RISKS

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

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

Cyber risk, which is a form of operational risk, continues to be a particular focus for the Society. Management and the Board have taken this very seriously for many years and have committed significant resources, including further investments in the latest year, to ensure that both its business generally and our members' money and personal information in particular, are safe and secure. Whilst there can never be any guarantees in this respect as new threats emerge, everyone at the Society is highly conscious of the importance of this area and it is a key priority for the Board and senior management.

FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's objective is to minimise the impact of financial risk upon its performance. An explanation of the financial risks and the controls in place to manage them is given in notes 25 to 29 to the annual accounts.

The disclosures required under Pillar 3 of the Capital Requirements Directive IV and the Capital Requirements (Country by Country Reporting) Regulations 2013 are published concurrently with this Annual Report and Accounts on the Society's website, www.cumberland.co.uk.

GOING CONCERN AND VIABILITY STATEMENT

The Group's business activities and financial performance are set out earlier in this report, together with its principal risks and uncertainties, and further information on these is presented in notes 25 to 29 of the annual accounts.

The Board has robustly assessed the viability of the Group. Its work included reviewing, challenging and approving the corporate plan. The Chairman and Chief Executive statements both discuss the in-depth strategic review that underpins the Board approved corporate plan for the next three years. The Board's review included consideration of the Group's business model as well as forecast capital, funding, liquidity and profitability. The three year horizon used is considered appropriate as it aligns with the Group's usual forecasting and management reporting, allowing regular assessment of the Group's position and principal risks over the chosen time frame.

Having completed their assessment the Board is satisfied that the Group and Society have adequate resources to continue in business and meet their liabilities as they fall due through the period of assessment. Accordingly the financial statements of the Group and Society have been prepared on a going concern basis, with no material uncertainties that the going concern basis of accounting is appropriate.

OUTLOOK

The outlook for the UK economy remains uncertain, and this will continue until the relationship with the EU is settled, particularly with respect to the terms of trade. There is an expectation that interest rates will increase over time, without a so-called "hard Brexit", but the Bank of England has signalled that any such increases are likely to be made in a gradual manner and that, should the economy falter, they will become less likely.

As outlined in the Chief Executive Officer's Business Review, the Society's profitability is expected to reduce further over the coming three years as it comes under increasing market pressure and competition, and as it strategically invests in its future towards Cumberland 2025.

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

Approved on behalf of the Board of Directors

Trevor Hebdon
Chairman
4 June 2019

GOVERNANCE

CORPORATE GOVERNANCE REPORT

Cumberland Building Society is committed to good practice in corporate governance and this report explains how the Society has regard to the principles in the UK Corporate Governance Code 2018 (the 'Code') issued by the Financial Reporting Council.

Whilst the Society is not required to comply with the Code, as it is not a listed company, the Prudential Regulation Authority (PRA) requires the Society to have regard to the Code in establishing and reviewing corporate governance arrangements. The Society goes further and complies with Code as the Board believes good governance is important.

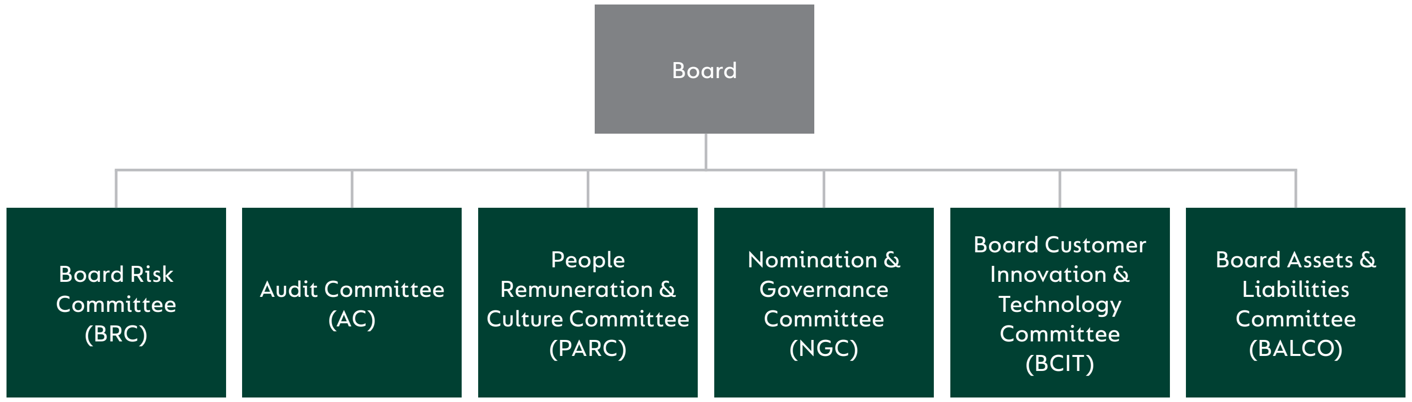
Indeed, governance best practice is a priority for the Society's Board. The Board commissioned a comprehensive governance review during 2018-19 to strengthen the Board's role in overseeing the delivery of the Society's revised strategy. The response to this review's findings is well progressed and the changes made are reflected in this report.

BOARD LEADERSHIP & COMPANY PURPOSE

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

The Society is led by an effective Board. The Board meets ten times each year; two of these meetings are strategic reviews. During 2018-19, the Board has additionally undertaken a comprehensive assessment of the basis on which the Society generates and preserves value over the long-term, and revised the Society's strategy accordingly.

The Board is assisted by six Board committees to consider specific areas in more detail than would be possible within Board meetings:



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

Audit Committee (AC) monitors internal controls, financial reporting and regulatory compliance, the activities of the internal audit function, the independence and objectivity of the external auditor and the effectiveness of the audit process, and oversees the Society's whistleblowing arrangements, enabling any concerns to be raised by employees in confidence. Its Chair, Alan Johnston, has recent and relevant financial experience. The Audit Committee's report can be found on page 18.

People, Remuneration & Culture Committee (PARC) assists the Board with overseeing the Society's people, remuneration and culture matters (see Principle E below for further information on the work of the committee). Details of the remuneration policy can be found in the Directors' Remuneration Report on page 21.

Nomination & Governance Committee (NGC) assists the Board in fulfilling its responsibilities in relation to Board and senior appointments, succession planning and corporate governance. The committee's remit was expanded following this year's governance review to include oversight of the Society's wider governance framework to ensure it remains effective, particularly during implementation of the Society's revised strategy.

Board Customer, Innovation & Technology Committee (BCIT) was established as a result of the recent governance review and supports the Board in overseeing the implementation of the Society's revised strategy and, in particular, the Society's enterprise-wide change portfolio. The committee also supports the Board and the Senior Leadership Team with work on innovation.

Board Assets & Liabilities Committee (BALCO). The recent governance review recommended greater Board oversight of financial risks and liquidity. As a result BALCO was established taking and building on the work of the previous Executive Assets & Liabilities Committee.

Each of the Board committees has Board approved terms of reference, which are published on the Society's website, www.cumberland.co.uk, or are available from the Society's Secretary on request. The Board receives recommendations from the committees within their terms of reference and the minutes of the committee meetings are reported to the Board.

Membership of each Board committee as at 31 March 2019 is set out below. Committee membership is designed to leverage Board members' expertise:

	Members	Attendees
Board Risk Committee	John Hooper (Chair) Eric Gunn Alan Johnston Mark Stanger	Chief Executive Officer Chief Financial Officer Chief Risk Officer Head of Internal Audit
Audit Committee	Alan Johnston (Chair) Michael Hulme Mark Stanger	Chief Executive Officer Chief Financial Officer Chief Risk Officer Head of Internal Audit External Auditor
People Remuneration & Culture Committee	Michael Hulme (Chair) Jackie Arnold Alan Johnston	Chief Executive Officer Chief Financial Officer Chief Risk Officer Chief People Officer
Nomination & Governance Committee	Trevor Hebdon (Chair) All Directors	Chief People Officer General Counsel & Secretary
Board Customer Innovation & Technology Committee	Michael Hulme (Chair) Jackie Arnold Eric Gunn Chief Executive Officer Chief Financial Officer	Chief Risk Officer Chief Operating Officer Chief Customer Officer
Board Assets & Liabilities Committee	Chief Financial Officer (Chair) Eric Gunn Mark Stanger Chief Executive Officer	Chief Risk Officer Chief Customer Officer Head of Treasury Head of Finance

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

As part of its strategic review, the Board has redefined the Society's purpose, values and strategy. More detail is set out in the CEO's Business Review beginning on page 4. The Board, through the Society's Internal Audit function, regularly reviews the Society's culture to ensure alignment with the Society's purpose, values and strategy.

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

Board reporting formats provide the Board with information on the performance of each area of the business. The Senior Leadership Team and a defined group of Senior Managers are measured against a balanced scorecard of key performance metrics including financial performance, strategic focus, governance and values. This is overlaid with an assessment of their approach to risk (further information on the Society's risk management framework is set out under Principle O below). During the year a major refresh of reporting to Board was completed.

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

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

Members are invited to attend the AGM, where they can ask questions and voice their opinions. All members of the Board are present at the AGM each year unless there are exceptional circumstances. The Chairs of the Board and of its committees are available to answer questions.

The Society enjoys some of the highest levels of member engagement in the sector and continually strives to increase engagement and harness the member perspective. The member perspective has been instrumental in shaping the Society's revised strategy. "Customer Led" has been adopted as one of the Society's core values underpinning the strategy and "Customer" is one of seven mandated factors, to which consideration must be given as part of all decisions made at Board and Board committees.

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

In the year, the Board expanded the remit of its Remuneration Committee to become the People, Remuneration & Culture Committee. Its remit now includes oversight of people matters at all levels of the organisation, and of the Society's culture, to ensure that the Society's operating model underpins the Society's strategy and that its people are adequately engaged and skilled to deliver it. The Chair of the People, Remuneration & Culture Committee is the designated non-executive director for workforce engagement; workforce engagement is facilitated by the Chief People Officer utilising a variety of forums.

DIVISION OF RESPONSIBILITIES

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

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

The Society's current Chair has been in post for longer than 9 years from his first appointment to the Board. However, the Board considered that it was appropriate for him to continue until the conclusion of the AGM 2019 to ensure continuity following the appointment of Mr Moore as CEO in April 2018 and effective succession planning, noting that he was an existing non-executive director on appointment as Chair. Succession arrangements are confirmed and he will be succeeded by John Hooper, who has significant senior financial services experience. The new Chair will be considered independent under the Code on appointment. A succession plan is also in place for consequential changes to Chairs of Board committees.

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

The Board is comprised of 7 non-executive and 2 executive directors. Except for Mr Hebdon (for the reasons given in Principle F above), all of the non-executive directors are considered to be independent under the Code. Mr Hulme is the Senior Independent Director and acts as a sounding board for the Chair and serves as an intermediary for the other directors and the members.

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

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

The directors who held office during 2018-19 and their attendance record at Board and Board committee meetings is set out below. The figure in brackets is the number of meetings that the Director was eligible to attend.

Director	Board	BRC[1]	AC[1]	PARC[1]	NGC	BCIT[2]	BALCO[2]
Trevor Hebdon	10 (12)	3 (3)		4 (5)	7 (8)		
Jackie Arnold	10 (12)			6 (6)	7 (8)	1 (1)	
Eric Gunn	12 (12)	3 (3)	2 (2)	5 (5)	8 (8)	1 (1)	2 (2)
John Hooper	11 (12)	3 (4)		4 (5)	7 (8)		
Michael Hulme	12 (12)		5 (5)	6 (6)	8 (8)	1 (1)	
Alan Johnston	11 (12)	4 (4)	5 (5)	6 (6)	7 (8)		
Mark Stanger[3]	9 (10)	1 (1)	3 (3)	3 (3)	7 (7)		2 (2)
Gill Gardner[4]	2 (2)	1 (1)		2 (2)	1 (1)		
Des Moore[5]	12 (12)	4 (4)			8 (8)	1 (1)	2 (2)
Chris McDonald[6]	0 (0)				0 (0)		
Peter Temple[7]	2 (2)				1 (1)		
John Kidd[8]	2 (4)				1 (3)		

Not a member of this committee

1. Committee membership and/or structure changed to the structure on page 14 on 1 January 2019. The table includes attendance at these committees and their predecessors to the extent they were Board level committees.
2. Commenced 1 January 2019.
3. Mr Stanger joined the Board on 1 June 2018.
4. Mrs Gardner retired from the Board on 2 July 2018.
5. Mr Moore joined the board on 1 April 2018.
6. Mr McDonald retired from the Board on 30 April 2018.
7. Mr Temple retired from the Board on 22 June 2018.
8. Mr Kidd retired from the Board on 11 December 2018, prior to which he was on an extended period of agreed absence.

Where directors have other significant commitments, these are set out in the information relating to directors on page 55.

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

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

Following its recent governance review, the Society has established a Secretariat, headed by the Society's Secretary. The Secretary ensures that non-executive directors have access to information and resources. The directors have access to the advice and services of the Secretary and, if necessary, are able to take independent professional advice at the Society's expense.

COMPOSITION SUCCESSION AND EVALUATION

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

The Board seeks to ensure planned and progressive refreshing of its membership. Directors are subject to election by members at the AGM following their appointment and seek re-election annually thereafter.

The Nomination & Governance Committee leads the process for board appointments and makes recommendations to the Board. This includes ensuring that the right mix of capabilities are held at Board level as enablers to the successful operation of the Board structure. This year much consideration has been given in terms of succession planning for the Board to ensure there is a pipeline to fill current and future requirements.

All appointments are subject to a rigorous selection process, where outside recruitment partners are used to ensure that clear criteria is identified and assessed. During the year the Committee used the services of Warren Partners and the Miles Partnership. This ensures that all directors are aligned against the fitness and propriety standards of the Prudential Regulation Authority and Financial Conduct Authority and that they have the capabilities and experience to discharge their responsibilities under the Senior Managers & Certification Regime.

Diversity and inclusion are core considerations in both the appointment and development of the Board. As part of our recruitment process, diverse shortlists are pursued to ensure we are able to bring as wide a range of diverse views as possible to our Board discussions. As an overarching commitment, the Society has signed up to the Women in Finance Charter and has set a target of having at least 33% of women at senior level (including Board positions) by April 2021. The Board is also mindful of the challenges that the Gender Pay Gap brings within the industry as a whole.

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

Information relating to directors is set out on page 55. This demonstrates that the Society's Board has a strong mix of skills and experience relevant to the Society and its strategy, strengthened in recent years by the addition of a number of directors with substantial financial services and other relevant experience. Committee membership was refreshed during the year in anticipation of the Chair stepping down in 2019.

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

The Board conducts an annual self-assessment exercise to review its effectiveness and highlight any areas which should be improved. This was most recently carried out in March 2019 and an action plan put in place to address any comments raised.

The Society has a process to evaluate, at least annually, the performance and effectiveness of individual directors, the Chair, the Board and Board committees. The performance of the CEO and non-executive directors is evaluated annually by the Chair. The Chair is evaluated by the Senior Independent Director, after consulting and obtaining the views of the other directors. The Board is of the view that all directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the AGM 2019. Those non-executive directors who have served at least six years on the Board are subject to a particularly rigorous performance evaluation in line with the Code's requirements.

AUDIT RISK & INTERNAL CONTROL

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

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

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

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

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

The Statement of Directors' Responsibilities on page 21 sets out the Board's responsibilities in relation to the preparation of the Group's Annual Report and Accounts. Business performance is reviewed in the Strategic Report and a statement that the Group's business is a going concern is included in the Directors' Report.

The Audit Committee has advised the Board that, in its opinion, the Annual Report and Accounts are fair, balanced and understandable. The primary areas of judgement considered by the committee in relation to these accounts are discussed in its report.

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

The Board has delegated day-to-day responsibility for managing the Society's risk management framework and systems of internal control to the Senior Leadership Team. The Head of Internal Audit, the Chief Risk Officer and the Group Compliance Manager provide independent assurance to the Board on the effectiveness of the systems of internal control and risk management through their reporting to, and attendance at, the Audit Committee and the Board Risk Committee respectively.

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

REMUNERATION

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

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

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

The remuneration policies for executive and non-executive directors are set out in the Directors' Remuneration Report on page 21. These policies explain the Society's application of the Code principles.

Trevor Hebdon
Chairman
4 June 2019

AUDIT COMMITTEE REPORT

The Audit Committee's 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 Society's Members to assess the Group's performance, business model and strategy;
- oversight of the Group's systems 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.

Membership of the committee consists of Alan Johnston, Chair, and two other non-executive directors, Michael Hulme and Mark Stanger. The Chief Executive Officer, Chief Financial Officer, the Head of Internal Audit and the Chief Risk Officer also attend by invitation to assist in the committee's deliberations. The Board is satisfied that the composition of the committee includes directors with recent, relevant financial experience to provide appropriate challenge to management.

A representative of the Group's External Auditors attends all meetings, but would not normally attend that part of any meeting where matters relating to the appointment, remuneration, effectiveness or dismissal of the External Auditors are discussed.

The committee meets at least five times a year. The committee holds one meeting per quarter to discuss regular business, plus an additional meeting in June in connection with the Group's Annual Report and Accounts.

FINANCIAL REPORTING

With respect to financial reporting, the committee's role is to review and assess with management and the External Auditor a range of issues relating to the financial statements. These cover the appropriateness of accounting policies and practices, disclosures, compliance with financial reporting standards and governance reporting requirements.

In preparing the financial statements, there are inevitably material areas in which significant judgements are necessary, and the committee considers these in detail. This year, these included:

- loan loss provisions, involving the review of judgements used in respect of individual and collective impairment provisions;
- revenue recognition, involving a review of the calculations of interest income and charges, and covering the timing of the recognition of fees receivable and payable under effective interest rate methodologies;
- hedge accounting, with a review of the systems and processes used for this and its impact upon the financial statements;
- the assumptions for, and outcome of, the calculation of the defined benefit pension scheme FRS 102 accounting valuation produced by the actuary; and
- going concern and viability; to review whether the going concern basis was appropriate for the accounts, and the viability statement made in the Strategic Report is robustly supported. This work involves consideration of both the Group's current financial position but also, its forecasts for the future.

The committee assessed whether the Annual Report and Accounts, when taken as a whole, are fair, balanced and understandable and provide sufficient information for members so that they can assess the Group's performance, strategy and business model. It concluded that they are, and recommended that the Board approve them.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board places a strong emphasis on ensuring that the Group has adequate and effective arrangements in place to manage risk. Management is responsible for establishing and maintaining adequate internal controls. The Group has a Risk Management Framework, the purpose of which is to provide a structured and disciplined approach to risk management throughout the Group, and to document the overarching structure that is in place to facilitate the identification, assessment, management and reporting of all material risks. The framework is designed to assist the Board in ensuring that the Group's performance remains within agreed risk appetites and that the strategic objectives of the Group are met in a sustainable and controlled way.

Business areas are responsible for ensuring that controls are designed and operating effectively to manage risks.

The Audit Committee considers reports from Internal Audit and management in respect of the design and effectiveness of the systems in place to manage risk.

WHISTLEBLOWING POLICY

The committee is responsible for reviewing and approving the Group's Whistleblowing Policy annually. The committee continues to be satisfied that the Group's Whistleblowing Policy remains appropriate and that the requisite arrangements are in place to enable colleagues, contractors and third party suppliers to raise concerns about possible improprieties on a confidential basis.

EXTERNAL AUDIT

The Audit Committee is responsible for the relationship with the Group's External Auditors, Deloitte LLP. This responsibility includes:

- the appointment, re-appointment, remuneration and terms of engagement of the External Auditors;
- consideration of the nature and scope of the work planned for the forthcoming year, and for gaining assurance that the External Auditors have the skills and resources to undertake the work and that independence is not compromised through relationships or business with the Group;
- assessing and giving due consideration to the results of External Audit's work,
- assessing the overall performance of the External Auditor; and
- annual consideration of policies regarding the engagement of the External Auditors to supply non audit services, and the employment of former employees of the External Auditor.

The External Auditors communicate their formal independence annually and appraise the Audit Committee of policies, processes and monitoring in place for maintaining their independence.

2018-19 represents Deloitte's fifth year as External Auditors, with David Heaton as Partner. In accordance with auditor rotation requirements David will stand down, and the process for appointing a new engagement partner will take place after the conclusion of the 2018-19 audit. In December 2018, the committee concluded that it fully supported the continuation of Deloitte as the Group's External Auditors.

External Audit meets annually with the Audit Committee without the presence of Group management.

The External Auditor undertook two non-audit assignments during the year.

ASSESSMENT OF INTERNAL CONTROLS

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Group's Internal Audit function, ensuring that professional standards are applied, and resource is adequate in terms of number, skills, knowledge, and standing to execute its responsibilities in an independent and objective manner. This review includes assessment of the Head of Internal Audit with respect to appointment, remuneration, performance evaluation and assessment of their objectivity and independence.

In order to preserve the independence of the Head of Internal Audit, the individual performing that role continues to have a dual reporting line to the CEO and Chair of the Audit Committee. The Audit Committee has held three private meetings with the Head of Internal Audit and one with Deloitte during the year. During the year, the committee reviewed the Internal Audit Charter.

The committee receives regular reports from the Head of Internal Audit setting out the:

- results of assurance activity;
- items of thematic interest which warrant the committee's attention;
- proposed changes to the audit plan;
- level of resource available; and
- progress of actions taken in respect of audit recommendations.

In addition to approving the Internal Audit plan and budget throughout the year, the committee reviewed and approved amendments to the Internal Audit plan and resources.

The Audit Committee considers the performance of Internal Audit on an annual basis, with performance measured against internal audit industry standards and best practice. As part of its work in 2018 the Committee supported an increase in the function's size and an uplift in the level of co-source support.

AUDIT COMMITTEE EFFECTIVENESS

The committee conducts an annual review of its own effectiveness, the results of which are reported to the Board. This process involves a collective review by members of the committee of its own procedures, resources available to the committee, the means by which the committee performs its role, a review of its relationship with the Board and arrangements for reporting to Members on the work of the committee.

OTHER MATTERS

Following each Audit Committee meeting, the Chair of the Audit Committee provides an update to the Group's Board on matters considered by the committee. In addition, the Board receives a summary of the minutes of meetings of the committee, which sets out the principal matters considered by the committee.

Alan Johnston
Chair
4 June 2019

DIRECTORS' REPORT

Information on the Group's strategy and its financial and business performance is provided within the Strategic Report on pages 2 to 13.

DIRECTORS

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

Trevor Hebdon	*Chairman*
Alan Johnston	*Vice-Chairman*
Michael Hulme	*Senior Independent Director*
Desmond Moore	*Chief Executive Officer* *Appointed: 1 April 2018*
Jackie Arnold	
Eric Gunn	
John Hooper	
Mark Stanger	*Appointed: 1 June 2018*
Chris McDonald	*Resigned: 30 April 2018*
Peter Temple	*Resigned: 22 June 2018*
Gill Gardner	*Resigned: 2 July 2018*
John Kidd	*Resigned: 11 December 2018*

Richard Ellison was appointed as Chief Financial Officer on 29 April 2019 and appointed to the Board on 4 June 2019.

Further information on all of the directors as at 31 March 2019 is provided in the Annual Business Statement on page 55, and their attendance at the Board and Board committees is set out in the Corporate Governance Report on page 16.

Mark Stanger and Richard Ellison will submit themselves for election, and all other directors will submit themselves for re-election, at the Annual General Meeting, with the exception of Trevor Hebdon, who will step down from the Board at that time. None of the directors had an interest in shares in, or debentures of, any subsidiary undertaking of the Society at any time during the financial year.

At 31 March 2019 one director or persons connected to them had mortgage loans granted in the ordinary course of business, amounting to £643,000 (2018: three directors, £882,000). A register is maintained at the Principal Office of the Society, containing details of loans, transactions and arrangements between the Society and its directors and connected persons; requisite particulars from it are available for inspection.

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

Directors and Officers insurance has been put in place by the Society.

MORTGAGE ARREARS AND FORBEARANCE

At 31 March 2019, there were six accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £743,000, and the amount of arrears was £75,000, which represents less than 0.01% of mortgage balances.

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty. Such measures include agreeing a temporary transfer to interest only payments, or a capitalisation of arrears, in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they are able. During the year, the Society undertook or continued forbearance measures for 28 residential mortgage accounts, of which 25 remained at 31 March 2019 and had total balances of £1.84 million (2018: 21 accounts, balances of £1.34 million). Where the Society considers that there is a possibility of a loss, a specific provision is made in accordance with the Society's policies, and the level of forbearance undertaken is also an element of the Society's collective provisioning methodology.

FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Society's objective is to minimise the impact of financial risk upon its performance. The financial risks facing the Society are summarised together with an overview of arrangements for managing risk in the Strategic Report on pages 12 to 13 and are discussed in more detail in notes 25 to 29 of the financial statements.

CREDITOR PAYMENT POLICY

The Group policy concerning the payment of trade creditors is to agree terms of payment, to ensure that suppliers fulfil their contractual obligations and to settle invoices for the provision of goods and services within the agreed payment terms. At 31 March 2019 the total amount owed to suppliers was equivalent to 11 days credit (2018: 5 days).

CHARITABLE AND POLITICAL DONATIONS

During the year, charitable donations of £104,000 were made to a number of organisations within our operating area, of which £25,000 was given to the Cumberland Building Society Charitable Foundation. No contributions were made for political purposes.

EVENTS SINCE THE YEAR END

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

GOING CONCERN

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

STATEMENT OF DISCLOSURE TO AUDITORS

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

AUDITOR

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

Approved on behalf of the Board of Directors

Trevor Hebdon
Chairman
4 June 2019

DIRECTORS' REMUNERATION REPORT

The purpose of this report is to provide information about the Group's policy for the remuneration of non-executive and executive directors and to give details of the process for determining the level of remuneration.

The remuneration of non-executive directors comprises only of fees and this is reviewed and agreed annually by the Board. The Chairman's remuneration is set by the People, Remuneration and Culture Committee (PARC). The remuneration of the executive directors is determined by PARC, which consists of its Chair Michael Hulme, Alan Johnston and Jackie Arnold.

In determining non-executive and executive director remuneration, both the Board and PARC take account of fees and salaries payable and other benefits provided to non-executive directors, executive directors and chairmen of building societies that are similar in size and complexity to The Cumberland. To ensure that fees and salaries are set at a level to retain and attract individuals of the calibre necessary to operate an organisation such as the Society and which reflect the skills and time commitment required, the committee periodically commissions an external review of executive and non-executive remuneration.

The committee believes that bonus schemes relating to financial and business performance are an appropriate part of a balanced remuneration package, and for the year ended 31 March 2019, agreed a bonus based on key elements of the financial and strategic plan delivered in a way that is consistent with The Cumberland's core values and framework.

Executive directors in office at 31 March 2019 are members of a defined contribution scheme and are entitled to receive contributions towards this, although depending upon their individual circumstances, they may be paid as a pension replacement amount. Executive directors are also provided with a car (or car allowance) and membership of a private medical insurance scheme. They are employed under contracts terminable by the Society on nine to twelve months' notice and by the individual on six months' notice.

Full details of individual directors' remuneration, including the arrangements that applied to executive directors who stepped down in the year, are disclosed in note 8 to the accounts.

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

On behalf of the People, Remuneration and Culture Committee

Michael Hulme
Chair
4 June 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The directors are responsible for ensuring that the Group:

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

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

- give a true and fair view of the state of the group's and the society's affairs as at 31 March 2019 and of the group's and the society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland";
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the group and society income statements;
- the group and society statements of comprehensive income;
- the group and society balance sheets;
- the group and society statement of changes in member's interests;
- the group cash flow statement; and
- the related notes 1 to 31.

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

BASIS FOR OPINION

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

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

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

Summary of our audit approach	
Key audit matters	The key audit matters that we identified in the current year were: • Residential loan loss provisioning; and • Hedge accounting. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with
Materiality	The materiality that we used in the group financial statements was £716,000, which was determined on the basis of 5% of Profit Before Tax ("PBT").
Scoping	All trading subsidiaries were subject to full scope audit procedures performed to a lower materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.
Significant changes in our approach	In the prior year, we pinpointed a key audit matter to revenue recognition on the basis that there is inherent judgement involved in determining the period over which interest receivable and other income should be spread and the fees which should be included within the calculation. This year our analysis identified that the balance was less sensitive to this assumption and therefore we have determined it not to be a key audit matter. We have also removed the key audit matter around commercial loan loss provisioning, previously pinpointed to the key assumptions used within the provisioning methodology. Our sensitivity and trend analysis determined that the level of risk in this balance did not warrant it being a key audit matter in the current year.

Conclusions relating to going concern	
We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

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

Residential loan loss provisioning	
Key audit matter description	The society holds £0.5m (2018: £0.5m) of impairment provisions against the residential mortgage book ("Loans fully secured of residential property"), which has a gross balance of £1,898.3m (2018: £1,872.6m). The society's residential portfolio is focused upon low loan to value ("LTV"), first charge, owner-occupied lending. We have pinpointed our key audit matter to the application of Management judgement in calculating the impairment provision recognised. In calculating the impairment provision, Management apply probabilities of default ("PDs") which contain an element of judgement given the limited historical arrears and loss experience of the society's residential mortgage portfolio in recent periods. Management judgement is also applied to determine whether any adjustments are required to address exposures or risks that are not captured within the provisioning models that are utilised to determine the required provisions. Given the heightened economic uncertainty, in particular relating to the economic impact of the UK's exit from the European Union, at the balance sheet date, Management has also considered whether historical macroeconomic assumptions remain appropriate. We thus consider that there is a risk of fraud inherent in the application of loan loss provisioning given the impact of Management judgements on the final figure. Loan loss provision balances are detailed within note 13. Management's associated accounting policies are detailed on pages 31-32 with detail about judgements in applying accounting policies and critical accounting estimates also on page 32. The Audit Committee's consideration of this risk is included on page 18.
How the scope of our audit responded to the key audit matter	We performed a walkthrough to understand the residential loss provisioning process and identify the relevant internal controls. We evaluated the design and assessed the implementation of those key controls. This included verifying that the accounting judgements and provisioning policies were reviewed and approved on a regular basis, and evaluating the level of challenge by key management personnel over the calculation of the relevant PDs. We also challenged the assumptions applied by management to assess whether they remain appropriate in the current economic climate. For assumptions applied where there has been limited observable data in the current year, such as the number of possessions, we have assessed whether historical rates remain appropriate and also benchmarked these assumptions to similar building societies to assess their ongoing suitability. We also assessed the completeness and validity of the society's identified impairment triggers in the residential loan book, testing a sample of the triggers in the residential loan book, and testing a sample of performing loans to determine whether these had experienced any of the trigger events requiring specific provision. In addition, we reviewed the geographical concentration of the society's mortgage book to identify any areas of greater risk that could indicate additional provision being required. We also worked with internal credit experts to assess whether there are any emerging exposures within the residential mortgage market.
Key observations	Based on our audit procedures above, we concluded that the society's provision is reasonably stated, and is supported by a methodology that is consistently applied and materially compliant with the accounting requirements as per IAS 39, "Financial Instruments: Recognition and Measurement". In particular, we have not identified any material risks and exposures which are inadequately provided for within the society's portfolio and we have assessed that the impairment triggers used are materially complete.

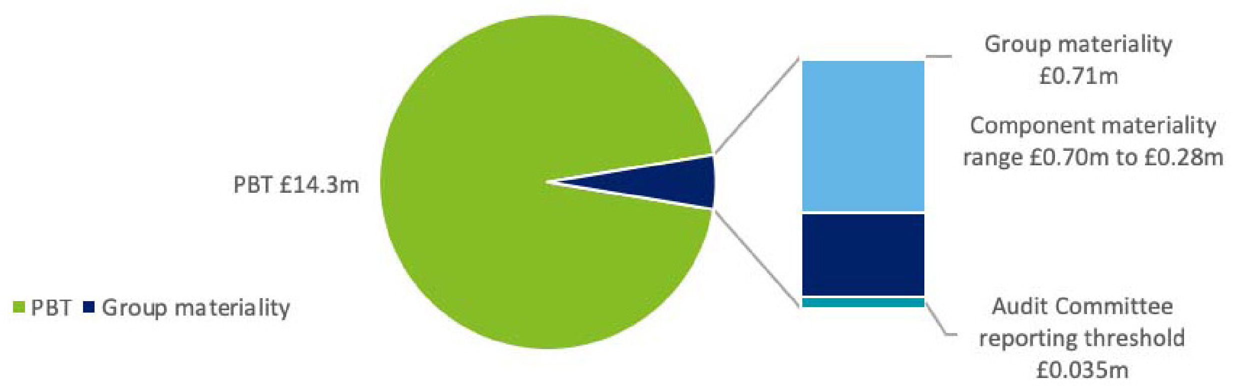
Hedge accounting	
Key audit matter description	The society applies hedge accounting using fair value macro hedge relationships in order to minimise the volatility of fair value movements in the income statement. As the macro hedge evolves, hedged items and the associated derivative, incept and de-designate from the hedge relationship. The fair value adjustment to the hedged item at the year-end was an asset of £2.1m (2018: £3.6m liability). There is a risk that the identification of items de-designated from hedging relationships is not complete and the fair value adjustments on items entering or exiting the hedge are not initially recorded, and/or amortised, correctly. The hedge effectiveness assessment criteria must also be met on an ongoing basis, both prospectively and retrospectively, for the hedge relationships to be eligible under IAS 39 "Financial Instruments: Recognition and Measurement" criteria for hedge accounting. The fair value adjustment to hedged item and the fair value of derivatives are detailed within notes 29 and 30. The group's associated accounting policies are detailed on pages 31-32 with detail about judgements in applying accounting policies and critical accounting estimates on page 32.
How the scope of our audit responded to the key audit matter	We performed a walkthrough to understand the hedge accounting process and identify the relevant internal controls. We evaluated the design and assessed the implementation of those relevant internal controls. We reviewed Management's methodology for assessing items that have de-designated from the hedge relationship. We then tested a sample of de-designated instruments by creating an expected amortisation profile and compared that to Management's calculation. We also tested the accuracy and completeness of Management's process for designating instruments and items into the macro hedge to check that the fair values were accounted for correctly. We obtained evidence of Management's prospective and retrospective effectiveness testing, which is required under IAS 39, to determine that the hedge relationships continue to meet certain criteria, and reviewed the macro hedge effectiveness assessment.
Key observations	The fair value adjustments accounted for on items designated into the hedge relationship, de-designated from the hedge relationship, and the subsequent amortisation of the adjustments, was considered to be materially appropriate throughout the period. The macro hedge relationship has remained effective throughout the period, and therefore the hedge relationships continue to be eligible under IAS 39 criteria for hedge accounting.

Our application of materiality

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

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

	Group financial statements	Society financial statements
Materiality	£716,000 (2018: £1,100,000)	£626,500 (2018: £1,000,000)
Basis for determining materiality	5% of profit before tax.	5% of profit before tax.
Rationale for the benchmark applied	This is an appropriate benchmark to use because the accumulation of profits is critical to maintaining and building capital for regulatory purposes and allowing the group to invest in activities for its members.	This is an appropriate benchmark to use because the accumulation of profits is critical to maintaining and building capital for regulatory purposes and allowing the group to invest in activities for its members.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £35,000 (2018: £53,300), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we performed a full audit of the society and all of its trading subsidiaries, executed at levels of materiality applicable to each individual entity. The materiality level used to audit each trading subsidiary was the lower of the calculated statutory materiality for the subsidiary or the calculated group materiality cap within the range of £0.7m to £0.3m.

We, as the group auditor, were responsible for performing the audit of each subsidiary. At the group level, we also tested the consolidation process.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic Report, the Corporate Governance Report, the Report on Directors' Remuneration and the Directors' Report other than the financial statements and our auditor's report thereon.

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: application of management judgements and estimates in the calculation of impairment provisions; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included legislation imposed by the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA"), the Building Societies Act 1986 and tax legislations. In addition, we considered the regulation set by the PRA relating to regulatory capital and liquidity requirements, which are fundamental to the group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified residential loan loss provisioning as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Building Societies Act 1986

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

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

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

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 13 for the financial year ended 31 March 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Building Societies Act 1986 we are required to report to you if, in our opinion: • adequate accounting records have not been kept by the Society; or • the Society's financial statements are not in agreement with the accounting records; or • we have not received all the information and explanations and access to documents we require for our audit.	We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 24 June 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 March 2015 to 31 March 2019.

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

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

Use of our report

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor
Manchester, United Kingdom
4 June 2019

GROUP AND SOCIETY INCOME STATEMENTS

For the year ended 31 March 2019

	Notes	**Group 2019 £000**	Group 2018 £000	**Society 2019 £000**	Society 2018 £000
Interest receivable and similar income	3	**65,966**	59,725	**63,927**	57,640
Interest payable and similar charges	4	**(25,343)**	(20,501)	**(25,343)**	(20,502)
Net interest receivable		**40,623**	39,224	**38,584**	37,138
Fair value (losses)/gains on financial instruments	5	**(1,842)**	2,450	**(1,788)**	2,380
Pension finance charge	24	**(419)**	(482)	**(419)**	(482)
Fees and commissions receivable		**2,860**	2,912	**1,498**	1,530
Fees and commissions payable		**(2,474)**	(2,370)	**(2,184)**	(2,090)
Other operating income		**2,869**	3,161	**2,876**	3,161
Total Income		**41,617**	44,895	**38,567**	41,637
Administrative expenses	6	**(25,062)**	(21,033)	**(22,544)**	(18,649)
Depreciation and profit on sale of tangible fixed assets		**(2,021)**	(1,895)	**(1,944)**	(1,819)
Loss on revaluation and disposal of investment properties		**(163)**	(376)	**(63)**	(156)
Provisions for bad and doubtful debts	13	**(64)**	(77)	**(27)**	(59)
Provisions for liabilities and charges	22	**14**	(109)	**14**	(109)
Write off of amounts owed by and investments in subsidiaries	14	**-**	-	**(1,473)**	-
Profit on ordinary activities before tax		**14,321**	21,405	**12,530**	20,845
Tax on profit on ordinary activities	9	**(2,920)**	(3,871)	**(2,854)**	(3,877)
Profit for the financial year		**11,401**	17,534	**9,676**	16,968

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Notes	**Group 2019 £000**	Group 2018 £000	**Society 2019 £000**	Society 2018 £000
Profit for the financial year		**11,401**	17,534	**9,676**	16,968
Items that may subsequently be reclassified to income and expenditure:					
Available for sale investment securities gain/(loss)	11	**68**	(3)	**68**	(3)
Movement in deferred tax relating to investment securities		**(14)**	1	**(14)**	1
Movement in gain on equity share investment	31	**1,584**	650	**1,584**	650
Movement in deferred tax relating to equity share investment		**(269)**	(111)	**(269)**	(111)
Items that may not subsequently be reclassified to income and expenditure:					
Actuarial (loss)/gain on retirement benefit obligations	24	**(1,107)**	3,587	**(1,107)**	3,587
Movement in deferred tax relating to retirement benefit obligations		**188**	(610)	**188**	(610)
Total comprehensive income for the year		**11,851**	21,048	**10,126**	20,482

The notes on pages 31 to 53 form part of these accounts.

GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2019

Assets	Notes	Group 2019 £000	Restated Group 2018 £000	Society 2019 £000	Restated Society 2018 £000
Cash in hand and balances with the Bank of England	10	**270,023**	291,097	**270,023**	291,097
Loans and advances to credit institutions	25	**128,146**	114,049	**128,146**	114,049
Debt securities	11	**64,182**	34,900	**64,182**	34,900
		462,351	440,046	**462,351**	440,046
Derivative financial instruments	29	**1,367**	7,519	**1,358**	7,472
Loans and advances to customers	12				
Loans fully secured on residential property		**1,897,225**	1,865,834	**1,897,225**	1,865,834
Other loans		**189,140**	182,076	**166,215**	160,219
		2,086,365	2,047,910	**2,063,440**	2,026,053
Investments in subsidiary undertakings	14	**-**	-	**21,943**	22,573
Investment in equity shares	31	**5,497**	3,913	**5,497**	3,913
Tangible fixed assets	15	**13,127**	12,185	**12,860**	11,926
Investment properties	16	**3,620**	3,803	**2,445**	2,528
Other assets	17	**3,021**	3,175	**2,973**	3,575
Prepayments and accrued income		**1,456**	1,086	**1,068**	686
Total Assets		**2,576,804**	2,519,637	**2,573,935**	2,518,772

Liabilities	Notes	Group 2019 £000	Restated Group 2018 £000	Society 2019 £000	Restated Society 2018 £000
Shares	19	**1,933,232**	1,824,878	**1,933,232**	1,824,878
Derivative financial instruments	29	**3,905**	2,617	**3,886**	2,615
Amounts owed to credit institutions	25	**295,425**	349,557	**295,425**	349,557
Amounts owed to other customers	25	**133,995**	143,841	**134,378**	145,035
Other liabilities	20	**4,360**	6,671	**4,830**	6,574
Accruals and deferred income	21	**2,694**	2,465	**2,557**	2,346
Provisions for liabilities	22	**138**	214	**138**	214
Pension liability	24	**17,922**	16,112	**17,922**	16,112
Total Liabilities		**2,391,671**	2,346,355	**2,392,368**	2,347,331
Total equity attributable to members		**185,133**	173,282	**181,567**	171,441
Total Equity and Liabilities		**2,576,804**	2,519,637	**2,573,935**	2,518,772

The notes on pages 31 to 53 form part of these accounts.

These accounts were approved by the Board of Directors on 4 June 2019
T. Hebdon, Chairman
A. Johnston, Vice-Chairman and Chair of the Audit Committee
D. Moore, Director and Chief Executive Officer

STATEMENTS OF CHANGES IN MEMBERS' INTEREST

Group	General Reserve £000	Available for Sale Reserve £000	Total Equity Attributable to Members £000
Balance at 1 April 2017	151,538	696	152,234
Profit for the year	17,534	-	17,534
Other comprehensive income	2,977	537	3,514
Total comprehensive income for the year	20,511	537	21,048
Balance at 31 March 2018	172,049	1,233	173,282
Profit for the year	11,401	-	11,401
Other comprehensive income	(919)	1,369	450
Total comprehensive income for the year	10,482	1,369	11,851
Balance at 31 March 2019	182,531	2,602	185,133

Society	General Reserve £000	Available for Sale Reserve £000	Total Equity Attributable to Members £000
Balance at 1 April 2017	150,263	696	150,959
Profit for the year	16,968	-	16,968
Other comprehensive income	2,977	537	3,514
Total comprehensive income for the year	19,945	537	20,482
Balance at 31 March 2018	170,208	1,233	171,441
Profit for the year	9,676	-	9,676
Other comprehensive income	(919)	1,369	450
Total comprehensive income for the year	8,757	1,369	10,126
Balance at 31 March 2019	178,965	2,602	181,567

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Profit before tax	**14,321**	21,405
Adjustments for:		
Depreciation and profit on sale of tangible fixed assets	**2,021**	1,895
Loss on revaluation and disposal of investment properties	**163**	376
Changes in fair values of derivatives	**1,842**	(2,450)
Provisions for bad and doubtful debts	**64**	77
Provisions for liabilities and charges	**(14)**	109
Pension finance charge and service cost	**703**	457
Other non-cash movements	**(489)**	(185)
Cash generated from operations	**18,611**	21,684
Movements in operating assets and liabilities		
Loans and advances to customers	**(32,287)**	(153,007)
Shares	**108,209**	81,059
Loans and advances to credit institutions and other liquid assets	**(23,175)**	11,648
Amounts owed to credit institutions and other customers	**(63,978)**	188,279
Prepayments and accrued income	**(422)**	(343)
Other assets	**41**	42
Accruals and deferred income	**229**	353
Other liabilities	**(1,431)**	2,393
Payment into defined benefit pension scheme	**-**	(311)
Taxation paid	**(3,844)**	(4,158)
Net cash flows from operating activities	**1,953**	147,639
Cash flows from investing activities		
Net purchase and maturity of debt securities	**(29,300)**	(10,700)
Purchase of tangible fixed assets	**(3,168)**	(1,933)
Purchase of investment property	**(65)**	-
Sale of tangible fixed assets	**205**	47
Sale of investment property	**85**	-
Net cash flows from investing activities	**(32,243)**	(12,586)
Net (decrease)/increase in cash and cash equivalents	**(30,290)**	135,053
Cash and cash equivalents at beginning of year	**316,018**	180,965
Cash and cash equivalents at end of year	**285,728**	316,018
Represented by:		
Cash and balances with the Bank of England	**270,023**	291,097
Loans and advances to credit institutions repayable on demand	**15,705**	24,921
	285,728	316,018

NOTES TO THE ACCOUNTS

1. Accounting Policies

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

Basis of Preparation

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

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

Prior Year Restatement

Effective interest rate adjustment

The Group has reclassified the fees earned and incurred as a result of mortgage origination from prepayments and accrued income and deferred income into loans and advances to customers. These fees and charges which are amortised over the effective lives of the loans are better presented as part of the carrying value of the attendant loans. This change has been applied retrospectively in these financial statements and the prior year comparative disclosures restated accordingly. There is no impact on the Group's income, comprehensive income, cashflows or Members' interests. In the year ended 31 March 2018 prepayments and accrued income have been reduced by £0.554m, accruals and deferred income has been reduced by £3.133m and loans and advances to customers reduced by £2.579m.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Society and its subsidiary undertakings for the year ended 31 March 2019. All intra-group transactions are eliminated on consolidation.

Going Concern

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

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

Corporation Tax

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

Deferred Taxation

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

Fixed Assets and Depreciation

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

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

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

Investments in Subsidiary Undertakings

Investments in subsidiaries are measured at cost less accumulated impairment.

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

Pension Costs

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

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

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

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

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

Contributions to the defined contribution pension schemes are charged to the income statement as incurred.

Investment Properties

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

Financial Instruments

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

i) Loans and advances

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

ii) At fair value through income and expenditure

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

Derivatives can be designated as fair value hedges.

iii) Available for sale

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

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

iv) Financial liabilities

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

v) Derecognition of financial assets and liabilities

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

vi) Fair value hedges

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

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

Provisions for Bad and Doubtful Debts

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

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

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

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

Interest Income and Expense

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

Fees and Commission Income

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

2. Critical Accounting Estimates and Judgements

The Group has to make estimates and judgements in applying its accounting policies which affect the amounts recognised in the financial statements. These estimates and judgements are based on the best available information at the balance sheet date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from these estimates. The Group considers the most significant use of accounting estimates and judgements relate to the following areas:

Provisions for Bad and Doubtful Debts

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

Fair Value of Derivatives

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

Effective Interest Rate (EIR)

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

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

Pensions

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

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

NOTES TO THE ACCOUNTS

3. Interest Receivable and Similar Income

	Group 2019 £000	Group 2018 £000	**Society 2019 £000**	Society 2018 £000
On loans fully secured on residential property	**56,555**	56,601	**56,216**	56,233
On other loans	**9,223**	8,920	**7,512**	7,168
On debt securities				
Interest and other income	**458**	138	**458**	138
On other liquid assets				
Interest and other income	**2,529**	1,267	**2,529**	1,267
Net expense on derivative financial instruments	**(2,799)**	(7,201)	**(2,788)**	(7,166)
Total interest receivable	**65,966**	59,725	**63,927**	57,640

All income is derived from operations within the UK.

4. Interest Payable and Similar Charges

On shares held by individuals	**22,036**	17,970	**22,036**	17,970
On deposits and other borrowings	**3,338**	2,573	**3,338**	2,574
Net income on derivative financial instruments	**(31)**	(42)	**(31)**	(42)
Total interest payable	**25,343**	20,501	**25,343**	20,502

5. Fair Value (Losses)/Gains on Financial Instruments

Change in fair value derivatives in designated fair value hedge accounting relationships	**(6,373)**	14,627	**(6,373)**	14,627
Change in fair value derivatives not in designated fair value hedge accounting relationships	**(54)**	70	**-**	-
Adjustment to hedged items in designated fair value hedge accounting relationships	**4,585**	(12,247)	**4,585**	(12,247)
	(1,842)	2,450	**(1,788)**	2,380

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

6. Administrative Expenses

Staff costs (note 7)	**15,517**	13,300	**13,787**	11,767
The analysis of the auditor's remuneration is as follows:				
Fees payable to the Group's auditor for the audit of the annual accounts	**90**	87	**70**	69
Other Services:				
Other assurance services	**41**	29	**41**	29
Other expenses	**9,414**	7,617	**8,646**	6,784
	25,062	21,033	**22,544**	18,649

Group and Society other administrative expenses include £846,000 (2018 - £nil) relating to strategic change.

7. Staff Numbers and Costs

The average number of persons employed during the year (including executive directors) was as follows:	**Full time**		**Part time**	
	2019	2018	**2019**	2018
Society's principal office	**183**	166	**72**	71
Society's branches	**118**	113	**106**	104
Subsidiaries	**42**	43	**16**	12
	343	322	**194**	187

The aggregate costs of these persons were as follows:	**Group 2019 £000**	Group 2018 £000	**Society 2019 £000**	Society 2018 £000
Wages and salaries	**13,294**	11,442	**11,801**	10,118
Social security costs	**1,103**	1,052	**961**	924
Other pension costs (note 24)	**1,120**	806	**1,025**	725
	15,517	13,300	**13,787**	11,767

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

8. Directors' Remuneration

	2019 £000	2018 £000
Total directors' remuneration	**961**	1,301
Non-executive directors' remuneration		
Trevor Hebdon (Chairman)	**67**	54
Alan Johnston (Chair of the Audit Committee and Vice-Chairman)	**50**	42
Peter Anstiss (resigned 2 February 2018)	**-**	29
Jackie Arnold (appointed 19 March 2018)	**38**	3
Gill Gardner (resigned 2 July 2018)	**11**	33
Eric Gunn	**41**	33
John Hooper (Chair of the Board Risk Committee)	**45**	39
Michael Hulme (Chair of the People, Remuneration and Culture Committee)	**44**	37
Mark Stanger (appointed 1 June 2018)	**32**	-
	328	270

Executive directors' remuneration **2019**	**Salary £000**	**Bonus £000**	**Pension Contributions £000**	**Pension Replacement Amounts £000**	**Taxable Benefits £000**	**Total £000**
Des Moore (appointed 1 April 2018)	**250**	**50**	**-**	**35**	**12**	**347**
Peter Temple (resigned 22 June 2018)	**37**	**-**	**5**	**-**	**7**	**49**
John Kidd (resigned 11 December 2018)	**116**	**-**	**8**	**9**	**7**	**140**
Chris McDonald (resigned 30 April 2018)	**14**	**-**	**2**	**-**	**1**	**17**
	417	**50**	**15**	**44**	**27**	**553**

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

2018						
Kevin Parr	247	43	-	34	8	332
Peter Temple	163	29	10	16	9	227
John Kidd	163	29	10	16	8	226
Chris McDonald	153	27	10	16	8	214
	726	128	30	82	33	999

Defined Benefit Pension Scheme Pension benefits earned by directors:	**Accumulated total accrued pension at 31 March 2019 £000**	**Increase in accrued pension in year to 31 March 2019 £000**	Increase in accrued pension in year to 31 March 2018 £000
Kevin Parr (resigned 31 March 2018)	**n/a**	**n/a**	2
Peter Temple (resigned 22 June 2018)	**61**	**-**	-
John Kidd (resigned 11 December 2018)	**51**	**-**	-

The accumulated accrued pension is shown as at the date of resignation for the two directors.
None of the directors had an interest in shares in, or debentures of, any subsidiary undertaking of the Society at any time during the financial year.

9. Taxation

	Group 2019 £000	Group 2018 £000	**Society 2019 £000**	Society 2018 £000
(a) Analysis of charge in year:				
Current tax				
Corporation tax at 19%	**2,891**	4,176	**2,821**	4,118
Under/(over) provision of corporation tax in prior years	**11**	(399)	**(1)**	(380)
Total current tax	**2,902**	3,777	**2,820**	3,738
Deferred tax at 17%				
Origination and reversal of timing differences (note 18)	**18**	94	**34**	139
Tax on profit on ordinary activities	**2,920**	3,871	**2,854**	3,877
Total deferred tax relating to items of other comprehensive income	**95**	720	**95**	720

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

Profit on ordinary activities before tax	**14,321**	21,405	**12,530**	20,845
Tax on profit on ordinary activities at UK standard rate of 19%	**2,721**	4,067	**2,381**	3,961
Effects of:				
Expenses not deductible for tax purposes	**188**	203	**474**	296
Under/(over) provision of corporation tax in prior years	**11**	(399)	**(1)**	(380)
Total tax charge for year	**2,920**	3,871	**2,854**	3,877

Finance Acts in 2015 and 2016 provided for a reduction in the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and by a further 2% to 17% from 1 April 2020. Accordingly, both of these rate reductions have been reflected in the financial statements. The Group's profits for this accounting period are taxed at a rate of 19%. Opening and closing deferred tax assets and liabilities have both been recognised at 17%, as this is the rate substantively enacted at both balances sheet dates.

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

Cash in hand	**3,340**	3,126	**3,340**	3,126
Balances with the Bank of England	**266,683**	287,971	**266,683**	287,971
Included in cash and cash equivalents	**270,023**	291,097	**270,023**	291,097

Balances with the Bank of England do not include cash ratio deposits of £3.73 million (2018 - £2.12 million) which are not available for use in the Group's day to day operations. Such deposits are included within Loans and Advances to Credit Institutions in the Balance Sheet.

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

	Group	
	2019 £000	2018 £000
Cash in hand and balances with the Bank of England (as above)	**270,023**	291,097
Loans and advances to credit institutions	**15,705**	24,921
	285,728	316,018

11. Debt Securities	Group and Society 2019 £000	2018 £000
(a) Debt securities are repayable from the date of the balance sheet in the ordinary course of business as follows:		
Unlisted - In not more than one year	**64,000**	34,700
Accrued interest	**113**	199
Fair value adjustment	**69**	1
	64,182	34,900

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

(b) The movement in available for sale debt securities is summarised as follows:	2019 £000	2018 £000
At 1 April	**34,900**	24,077
Additions	**102,520**	51,700
Maturities	**(73,220)**	(41,000)
Gains/(losses) from changes in fair value	**68**	(3)
(Decrease)/increase in accrued interest	**(86)**	126
At 31 March	**64,182**	34,900

In addition, at 31 March 2019 the Society had drawn £70 million (2018 - £70 million) of Treasury Bills under the Bank of England's Funding for Lending Scheme, £70 million (2018 - £40 million) were held off balance sheet.

12. Loans and Advances to Customers	Group 2019 £000	Restated Group 2018 £000	Society 2019 £000	Restated Society 2018 £000
Loans and advances to customers comprise:				
Loans fully secured on residential property before EIR adjustment	**1,898,274**	1,872,566	**1,898,274**	1,872,566
Effective interest rate adjustment	**(2,666)**	(2,579)	**(2,666)**	(2,579)
Loans fully secured on residential property	**1,895,608**	1,869,987	**1,895,608**	1,869,987
Other loans				
Loans fully secured on land	**165,902**	160,289	**165,902**	160,289
Other loans	**24,505**	23,452	**1,563**	1,585
Fair value adjustment for hedge risk	**2,139**	(3,602)	**2,139**	(3,602)
	2,088,154	2,050,126	**2,065,212**	2,028,259
Less: Provisions for bad and doubtful debts (note 13)	**(1,789)**	(2,216)	**(1,772)**	(2,206)
	2,086,365	2,047,910	**2,063,440**	2,026,053

At 31 March 2019 £559.5 million (2018 - £560.3 million) of loans had been pledged as collateral to the Bank of England under the Funding for Lending and Term Funding Schemes.
The effective interest rate adjustment of £2.666 million (2018 - £2.579 million) represents fees earned and incurred as a result of bringing mortgages onto the balance sheet. These fees and charges are amortised over the effective lives of the related loans. The comparative amounts have been restated to conform to the current year presentation which better reflects the nature of the balances. Accordingly in the year ended 31 March 2018 prepayments and accrued income have been adjusted by £0.554m and accruals and deferred income by £3.133m.

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

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

				Society 2018
At 1 April 2017				
Collective impairment	396	1,161	40	1,597
Individual impairment	88	611	34	733
	484	1,772	74	2,330
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	(25)	69	-	44
Individual impairment	174	(165)	6	15
	149	(96)	6	59
Amount written off during the year				
Individual impairment	(82)	(97)	(4)	(183)
At 31 March 2018				
Collective impairment	371	1,230	40	1,641
Individual impairment	180	349	36	565
	551	1,579	76	2,206

Group provisions for bad and doubtful debts
The table above relates to the Society. Borderway Finance Limited had individual impairment provisions of £10,000 at 31 March 2018, and a charge in the year of £16,000. Cumberland Estate Agents Limited had a charge in the year of £2,000.

14. Investments in Subsidiary Undertakings

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

Subsidiary undertakings

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

	Company Number	Principal Activity
Direct		
Cumberland Holdings Limited	02332404	Holding Company
Indirect		
Borderway Finance Limited	03048466	Motor Vehicle Finance
Cumberland Estate Agents Limited	02348222	Estate Agents
Cumberland Financial Services Limited	02564425	Independent Financial Adviser
Cumberland Homes Limited	02332657	Development Company
Cumberland Property Services Limited	02564021	Property Company
Cumberland Financial Planning Limited	02564416	Dormant
Cumberland Building Society Insurance Limited	03171961	Dormant
Cumberland Leasing Limited	02920588	Dormant
Cumberland Conveyancing Services Limited	02563987	Dormant
Cumberland Insurance Services Limited	02564419	Dormant
Solway Mortgage Solutions Limited	03296404	Dormant

As a result of the loss incurred by Cumberland Estate Agents Limited an impairment review of the Society's interests in and loans to the company was completed. This indicated that the estimated recoverable amount of Cumberland Holdings Limited's investment in Cumberland Estate Agents Limited was £1,020,000 lower than the carrying amount. The Society's investment in Cumberland Holdings Limited was subsequently reduced to reflect this. In addition to the impairment, an intercompany balance of £183,000, held within other debtors and owed by Cumberland Estate Agents Limited to the Society was written off at 31 March 2019.

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

15. Tangible Fixed Assets (Group)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2018	16,909	10,801	27,710
Additions	383	2,785	3,168
Disposals	-	(503)	(503)
At 31 March 2019	17,292	13,083	30,375
Depreciation			
At 1 April 2018	8,881	6,644	15,525
Charge for year	312	1,754	2,066
Disposals	-	(343)	(343)
At 31 March 2019	9,193	8,055	17,248
Net book value			
At 31 March 2019	8,099	5,028	13,127
At 31 March 2018	8,028	4,157	12,185

Tangible Fixed Assets (Society)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2018	16,618	10,616	27,234
Additions	383	2,659	3,042
Disposals	(77)	(374)	(451)
At 31 March 2019	16,924	12,901	29,825
Depreciation			
At 1 April 2018	8,593	6,715	15,308
Charge for year	310	1,655	1,965
Disposals	(77)	(231)	(308)
At 31 March 2019	8,826	8,139	16,965
Net book value			
At 31 March 2019	8,098	4,762	12,860
At 31 March 2018	8,025	3,901	11,926

The net book value of land and buildings occupied by the Group for its own activities at 31 March 2019 was £7,908,000 (Society £7,907,000) (2018 - Group £7,832,000, Society £7,829,000).

16. Investment Properties	Group 2019 £000	Group 2018 £000	Society 2019 £000	Society 2018 £000
At 1 April	**3,803**	4,179	**2,528**	2,684
Additions	**65**	-	**65**	-
Disposals	**(90)**	-	**(90)**	-
Revaluation	**(158)**	(376)	**(58)**	(156)
At 31 March	**3,620**	3,803	**2,445**	2,528

Valuations of all investment properties were carried out on an open market value basis by an independent valuer, S. Lobb, BSc (Hons), MRICS of Hyde Harrington Ltd, as at 31 March 2019.

Group properties valued at £1,175,000 are currently in advanced stages of sale and are expected to be disposed of next financial year.

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

Cost	**4,527**	4,587	**3,315**	3,375
Depreciation	**1,767**	1,722	**1,691**	1,658
	2,760	2,865	**1,624**	1,717

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

	Group and Society	
	2019 £000	2018 £000
Within one year	**147**	138
In the second to fifth years inclusive	**247**	190
After five years	**15**	12
	409	340

The Group is additionally contractually obliged to carry out annual repairs and maintenance in respect of investment properties, which in the current year amounted to £42,000 (2018 - £52,000).

17. Other Assets	Group 2019 £000	Group 2018 £000	Society 2019 £000	Society 2018 £000
Deferred taxation asset (note 18)	**2,941**	3,054	**2,913**	3,042
Other	**80**	121	**60**	533
	3,021	3,175	**2,973**	3,575

18. Deferred Taxation				
At 1 April	**3,054**	3,868	**3,042**	3,901
Charge to the income and expenditure account (note 9)	**(18)**	(94)	**(34)**	(139)
(Charge)/credit to other comprehensive income	**(95)**	(720)	**(95)**	(720)
At 31 March	**2,941**	3,054	**2,913**	3,042
Deferred tax assets and liabilities are attributable to the following items:				
Difference between accumulated depreciation and amortisation and capital allowances	**208**	370	**185**	346
Revaluation of investment properties	**-**	(26)	**-**	(57)
Pension scheme	**3,045**	2,739	**3,045**	2,739
Investment in equity shares	**(522)**	(252)	**(522)**	(252)
Debt securities	**(13)**	1	**(13)**	1
Differences arising from transition to FRS 102	**223**	222	**218**	265
	2,941	3,054	**2,913**	3,042

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

	Group and Society	
19. Shares	2019 £000	2018 £000
Held by individuals	**1,933,087**	1,824,878
Other	**7**	7
Fair value adjustment for hedged risk	**138**	(7)
	1,933,232	1,824,878

20. Other Liabilities	Group 2019 £000	Group 2018 £000	Society 2019 £000	Society 2018 £000
Other liabilities falling due within one year:				
Corporation tax	**1,155**	2,097	**1,088**	2,008
Income tax	**2**	2	**2**	2
Other creditors	**3,203**	4,572	**3,740**	4,564
	4,360	6,671	**4,830**	6,574

21. Accruals and Deferred Income	Group 2019 £000	Restated Group 2018 £000	Society 2019 £000	Restated Society 2018 £000
Accruals	**2,428**	1,775	**2,295**	1,657
Accrued interest relating to derivative financial instruments	**170**	541	**170**	541
Other deferred income	**96**	149	**92**	148
	2,694	2,465	**2,557**	2,346

Comparative figures for accruals and deferred income have been re-presented to show £3.133 million of other deferred income as a deduction from the gross value of loans fully secured on residential property (note 12).

	Group and Society	
22. Provisions for Liabilities	2019 £000	2018 £000
Financial Services Compensation Scheme Levy:		
At 1 April	**214**	372
Paid	**(62)**	(267)
(Credited)/charged to income statement	**(14)**	109
At 31 March	**138**	214

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

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

Interest is charged on each outstanding loan at the higher of 12 months LIBOR plus 100 basis points and the relevant gilt rate published by the Debt Management Office, on which the management expenses levies for scheme years 2018-19 and 2019-20 have been based.

In the current year, the Society paid £62,000 in respect of the levy for 2017-18.

The credit of £14,000 in the latest year reflects the release of an over provision in respect of the scheme year 2018-19, which was accrued for at 31 March 2018, partly offset by a charge for the Society's estimated share of the management expenses levy for 2019-20.

23. Financial Commitments

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

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

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

	Group 2019 £000	Group 2018 £000	**Society 2019 £000**	Society 2018 £000
Contracted but not provided for	**187**	630	**187**	630
(d) Memorandum items				
Irrevocable mortgage commitments	**10,358**	7,331	**10,358**	7,331

24. Pensions

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

Defined contribution schemes

The Group operates three defined contribution schemes funded by contributions from the Group and its staff. One scheme is open to all new employees. The total expense charged to the income statement as part of administrative expenses in the year ended 31 March 2019 was £763,000 (2018 - £643,000).

Defined benefit scheme

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

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

The valuation used for FRS 102 disclosures has been prepared by a qualified independent actuary to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 31 March 2019 using the projected unit method with a suitable control period which reflects the expected ageing of the scheme.

Scheme assets are stated at their market value at 31 March 2019.

The most recent full actuarial valuation was as at 26 August 2018 and showed a deficit of £6.478m.

In respect of the deficit in the Plan, the Society agreed to make annual payments of £2,332,000 for the next three years. The first of these payments will be made in August 2019.

Key assumptions used:	**Valuation at**	
	2019 %	2018 %
Rate of increase in pensions in payment	**2.30 - 3.10**	2.30 - 3.00
Discount rate	**2.30**	2.60
Inflation assumptions - RPI	**3.20**	3.10
- CPI	**2.20**	2.10

Mortality assumptions:
Post-retirement mortality is based on 95% of the 2018 S2PA year of birth tables, projected assuming medium cohort improvements with a minimum improvement of 1.25% per annum. No allowance is made for pre-retirement mortality.

The number of years' life expectancy, retiring at 62, is as follows:	**2019**	2018
Retiring today:		
Males	**86.6**	87.1
Females	**88.6**	89.1
Retiring in 20 years:		
Males	**88.0**	88.6
Females	**90.2**	90.7

The Group has not contributed in the current and previous financial years following the closure of the scheme to further accrual at 31 March 2015, other than in respect of payments under the Scheme's recovery plan and the augmentations which have resulted in the service cost charges.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:	**2019 £000**	2018 £000
Present value of defined benefit obligations	**(71,292)**	(72,116)
Fair value of scheme assets	**53,370**	56,004
Liability recognised in the balance sheet	**(17,922)**	(16,112)
Movements in the present value of defined benefit obligations were as follows:		
At 1 April	**72,116**	75,561
Interest cost	**1,819**	1,874
Service cost	**284**	104
Benefits paid	**(4,323)**	(1,238)
Actuarial loss/(gain)	**1,396**	(4,185)
At 31 March	**71,292**	72,116
Movements in the fair value of scheme assets were as follows:		
At 1 April	**56,004**	56,137
Actuarial gain/(loss)	**289**	(598)
Expected return on assets	**1,400**	1,392
Contributions from employers	**153**	440
Benefits paid	**(4,323)**	(1,238)
Expenses paid	**(153)**	(129)
At 31 March	**53,370**	56,004
The analysis of the scheme assets at the balance sheet date was as follows:		
Growth assets	**38,106**	48,857
Liability driven investments	**8,202**	5,170
Diversified credit	**4,995**	-
Cash	**243**	153
Other assets	**1,824**	1,824
	53,370	56,004

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

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

a) Administrative expenses

Service cost	**284**	104

The service cost in 2019 includes £180,000 (2018 - £nil) in respect of Guaranteed Minimum Pension (GMP) equalisation. Other service costs in the current and prior years have arisen as a result of an augmentation of the retirement benefits of two executive directors, Mr. Parr and Mr. Kidd.

The operating charge of £284,000 (2018 - £104,000), plus the Group's contributions to the defined contribution schemes of £763,000 (2018 - £643,000) and life assurance premiums of £73,000 (2018 - £59,000), comprise the Group's other pension costs total of £1,120,000 (2018 - £806,000) shown in note 7.

b) Pension finance charge

Expected return on pension scheme assets	**1,400**	1,392
Interest on pension scheme liabilities	**(1,819)**	(1,874)
Net charge	**(419)**	(482)
c) Statement of Comprehensive Income		
Actual return less expected return on pension scheme assets	**289**	(598)
Actuarial (loss)/gain on defined benefit obligation	**(1,396)**	4,185
Actuarial (loss)/gain	**(1,107)**	3,587
Movement in deferred taxation relating to pension scheme	**188**	(610)
Actuarial (loss)/gain recognised in the Statement of Comprehensive Income	**(919)**	2,977

d) Movement in the deficit in the scheme during the year	2019 £000	2018 £000
Deficit in scheme at beginning of year	**(16,112)**	(19,424)
Movement in year:		
Service cost	**(284)**	(104)
Contributions net of expenses paid	**-**	311
Pension finance charge	**(419)**	(482)
Actuarial (loss)/gain	**(1,107)**	3,587
Deficit in scheme at end of year	**(17,922)**	(16,112)

History of experience gains and losses	2019	2018	2017	2016	2015
Actual return less expected return on pension scheme assets (£000)	**289**	(598)	3,362	(3,976)	4,833
Percentage of scheme assets	**0.5**	1.1	6.0	7.7	8.8
Actuarial (loss)/gain on defined benefit obligation (£000)	**(1,396)**	4,185	(13,458)	932	(9,956)
Percentage of scheme liabilities	**2.0**	5.8	17.8	1.5	16.3

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

25. Liquidity Risk

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

It is Group policy to ensure that sufficient liquid assets are available at all times to meet the Group's statutory, regulatory and operational obligations. The development and implementation of liquidity policy is the responsibility of the BALCO and approved by the Board. The day-to-day management of liquidity is the responsibility of Treasury with oversight from the Group's independent Risk Function.

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

Limits on potential cash flow mismatches over defined time horizons are the principal tool used to control liquidity.

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

Contractual Maturity and Derivatives

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

At 31 March 2019:	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than 1 year £000	More than 1 year but not more than 5 years £000
Swap contracts	(522)	(720)	(805)	(4,248)
At 31 March 2018:				
Swap contracts	(1,142)	(1,654)	(2,953)	(7,414)

Maturity profile of financial instruments

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

At 31 March 2019:	Repayable on demand £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	Over 5 years £000	Derivative fair value and non interest bearing £000	Total £000
Assets							
Cash in hand and balances with the Bank of England	269,965	-	-	-	-	58	270,023
Loans and advances to credit institutions	15,705	43,932	65,500	2,730	-	279	128,146
Debt securities	-	64,000	-	-	-	182	64,182
Derivative financial instruments	-	-	-	-	-	1,367	1,367
Loans and advances to customers							
Loans fully secured on residential property and land	1,791	19,699	60,558	387,408	1,594,720	(2,225)	2,061,951
Other loans	1,563	106	1,214	21,622	-	(91)	24,414
Liabilities							
Shares	1,432,368	224,158	219,835	53,053	-	3,818	1,933,232
Derivative financial instruments	-	-	-	-	-	3,905	3,905
Amounts owed to credit institutions	-	1,000	4,000	290,000	-	425	295,425
Amounts owed to other customers	81,899	34,451	17,080	397	-	168	133,995
At 31 March 2018:							
Assets							
Cash in hand and balances with the Bank of England	291,057	-	-	-	-	40	291,097
Loans and advances to credit institutions	24,921	35,117	53,500	370	-	141	114,049
Debt securities	-	34,700	-	-	-	200	34,900
Derivative financial instruments	-	-	-	-	-	7,519	7,519
Loans and advances to customers							
Loans fully secured on residential property and land (restated)	2,870	20,111	63,090	360,509	1,586,276	(8,311)	2,024,545
Other loans	1,585	93	790	20,984	-	(86)	23,366
Liabilities							
Shares	1,293,642	207,429	286,618	33,551	-	3,638	1,824,878
Derivative financial instruments	-	-	-	-	-	2,617	2,617
Amounts owed to credit institutions	-	54,715	4,500	290,000	-	342	349,557
Amounts owed to other customers	66,640	48,991	27,471	496	-	243	143,841

Included within Other loans are balances of £22,942,000 (2018 - £21,867,000) relating to loans and advances to customers of Borderway Finance Limited.

26. Interest Rate Risk

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

The Group only uses derivatives for risk management purposes, principally the management of interest rate risk, and does not run a trading book. The Group uses interest rate stress testing and gap analysis to analyse and manage its interest rate position. The following table provides a summary of the interest rate re-pricing profile of the Group's assets and liabilities. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date.

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

At 31 March 2019:	Not more than 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but not more than 5 years £000	Derivative fair value and non interest bearing £000	Total £000
Assets						
Liquid assets	371,330	83,500	7,000	-	521	462,351
Derivative financial instruments	-	-	-	-	1,367	1,367
Loans and advances to customers	1,100,568	86,873	146,543	754,697	(2,316)	2,086,365
Tangible fixed assets	-	-	-	-	13,127	13,127
Other assets	-	-	-	-	13,594	13,594
Total assets	1,471,898	170,373	153,543	754,697	26,293	2,576,804
Liabilities						
Shares	1,773,635	47,683	54,877	53,111	3,926	1,933,232
Derivative financial instruments	-	-	-	-	3,905	3,905
Amounts owed to credit institutions and other customers	416,016	12,148	476	320	460	429,420
Other liabilities, pension liability, accruals and deferred income	-	-	-	-	25,114	25,114
Reserves	-	-	-	-	185,133	185,133
Total liabilities	2,189,651	59,831	55,353	53,431	218,538	2,576,804
Net assets / (liabilities)	(717,753)	110,542	98,190	701,266	(192,245)	-
Derivative instruments	886,050	(63,650)	(69,350)	(753,050)	-	-
Interest rate sensitivity gap	168,297	46,892	28,840	(51,784)	(192,245)	-
Cumulative gap	168,297	215,189	244,029	192,245	-	-

At 31 March 2018:						
Assets						
Liquid assets	398,165	25,500	16,000	-	381	440,046
Derivative financial instruments	-	-	-	-	7,519	7,519
Loans and advances to customers (restated)	961,915	93,581	198,625	799,607	(5,818)	2,047,910
Tangible fixed assets	-	-	-	-	12,185	12,185
Other assets (restated)	-	-	-	-	11,977	11,977
Total assets (restated)	1,360,080	119,081	214,625	799,607	26,244	2,519,637
Liabilities						
Shares	1,629,322	67,039	91,502	33,377	3,638	1,824,878
Derivative financial instruments	-	-	-	-	2,617	2,617
Amounts owed to credit institutions and other customers	468,854	14,564	8,726	669	585	493,398
Other liabilities, pension liability, accruals and deferred income (restated)	-	-	-	-	25,462	25,462
Reserves	-	-	-	-	173,282	173,282
Total liabilities (restated)	2,098,176	81,603	100,228	34,046	205,584	2,519,637
Net assets/(liabilities) (restated)	(738,096)	37,478	114,397	765,561	(179,340)	-
Derivative instruments	1,077,250	(77,200)	(163,250)	(836,800)	-	-
Interest rate sensitivity gap (restated)	339,154	(39,722)	(48,853)	(71,239)	(179,340)	-
Cumulative gap (restated)	339,154	299,432	250,579	179,340	-	-

The Society's interest rate re-pricing profile is not materially different to the Group's position.

The following table details the Group's and Society's sensitivity to a 200 basis point change in interest rates at the year end with all other variables held constant. A positive number indicates an increase to profit and equity reserves.

	Group and Society +200bps 2019 £000	Group and Society +200bps 2018 £000	**Group and Society -200bps 2019 £000**	Group and Society -200bps 2018 £000
Impact on equity reserves	(940)	(1,937)	**940**	1,937

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

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

27. Wholesale Credit Risk

The Society holds various liquid investments, including central bank deposits, in order to satisfy operational demand, earn interest and to meet current and future liquidity requirements. Credit risk arises because of factors such as deterioration in the counterparty's financial health and uncertainty within the wholesale market generally.

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

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

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

At 31 March 2019 none of the Group's treasury portfolio exposure was either past due or impaired. There are no assets that would otherwise be past due or impaired whose terms have been renegotiated. 70% (2018 - 83%) of the Group's treasury investments are rated A3 or better.

The table below provides ratings details for the Group's treasury investment portfolio as at 31 March 2019:

	Group and Society	
	2019 %	2018 %
Aa3-A3	**11**	16
Sovereign exposure to the UK	**59**	67
Other	**30**	17
	100	100

All wholesale exposures are to UK financial institutions. The largest exposure to a single institution other than the UK Government was £46.2 million (2018 - £31.4 million).

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

	Group 2019 £000	Group 2018 £000	**Society 2019 £000**	Society 2018 £000
Cash in hand and balances with the Bank of England	**270,023**	291,097	**270,023**	291,097
Loans and advances to credit institutions	**128,146**	114,049	**128,146**	114,049
Debt securities	**64,182**	34,900	**64,182**	34,900
Total wholesale credit risk	**462,351**	440,046	**462,351**	440,046

Credit risk also arises from the Group's derivatives. The Group's agreements to enter derivatives transactions with counterparties are all documented through the International Swaps and Derivatives Association (ISDA). Master Agreement. In addition, the Group's agreements in respect of repurchase contracts are documented through the Global Master Repurchase Agreement (GMRA). Credit Support Annexes are in place with all of the Group's IDSA and GMRA counterparties. These provide the legal basis for measuring the extent of any credit risk exposures and govern how cash is moved as collateral between the Group and the counterparty to offset these exposures, which arise as a result of movements in interest rates. At 31 March 2019 the Group had no open repurchase transactions.

28. Credit Risk on Loans and Advances to Customers

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

The Group's exposure to retail credit risk can be broken down as follows:	Group	
	2019 £000	2018 £000
Loans fully secured on residential property	**1,898,274**	1,872,566
Loans fully secured on land	**165,902**	160,289
Other loans	**24,505**	23,452
Total gross exposure (contractual amounts)	**2,088,681**	2,056,307
Impairment and hedging adjustments	**350**	(5,818)
EIR adjustment	**(2,666)**	(2,579)
Total net exposure	**2,086,365**	2,047,910

Loans fully secured on residential property

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

	Group and Society	
Geographical distribution	**2019 %**	2018 %
North West	**56**	55
Scotland	**11**	11
London	**8**	10
South East	**8**	8
South West	**8**	7
Yorkshire & Humberside	**2**	2
East of England	**2**	2
North East	**2**	2
West Midlands	**1**	1
East Midlands	**1**	1
Wales	**1**	1
	100	100

Loan to value distribution:

The indexed loan to value analysis on the Group's residential loan portfolio is as follows:		
<70%	**77**	78
70%-80%	**12**	11
80%-90%	**10**	10
>90%	**1**	1
	100	100

The overall indexed loan to value of the residential portfolio is 44% (2018 - 43%).

	Group and Society		Group and Society	
Payment due status	**2019 £000**	**2019 %**	2018 £000	2018 %
Not impaired:				
Neither past due nor impaired	**1,884,549**	**99**	1,863,774	99
Past due up to 3 months but not impaired	**11,463**	**1**	4,860	1
Impaired:				
Past due 3 to 6 months	**1,121**	**-**	2,088	-
Past due 6 to 12 months	**398**	**-**	480	-
Past due more than 12 months	**743**	**-**	424	-
Possessions	**-**	**-**	940	-
	1,898,274	**100**	1,872,566	100

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

Forbearance strategies

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

At 31 March 2019:	Interest only concession £000	Arrears capitalised £000	Transfer to interest only £000	Term extension £000	Total forbearance £000
Neither past due nor impaired	347	44	209	783	1,383
Past due up to 3 months	120	-	-	-	120
Past due more than 3 months	242	99	-	-	341
Total loans and advances	709	143	209	783	1,844
At 31 March 2018:					
Neither past due nor impaired	95	137	132	750	1,114
Past due up to 3 months	168	-	-	22	190
Past due more than 3 months	37	-	-	-	37
Total loans and advances	300	137	132	772	1,341

Loans fully secured on land

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

	Group and Society	
Industry type	**2019 %**	2018 %
Leisure and hotel	**75**	73
Commercial investment and industrial units	**18**	18
Retail	**2**	2
Offices	**-**	1
Others, including mixed use	**5**	6
	100	100
Unindexed loan to value distribution		
<70%	**94**	94
70%-80%	**3**	3
80%-90%	**1**	2
>90%	**2**	1
	100	100

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

	Group and Society		Group and Society	
Payment due status	**2019 £000**	**2019 %**	2018 £000	2018 %
Not impaired:				
Neither past due nor impaired	**163,066**	**98**	156,795	98
Past due up to 3 months but not impaired	**1,465**	**1**	2,827	1
Impaired:				
Past due 3 to 6 months	**950**	**1**	507	1
Past due 6 to 12 months	**348**	**-**	160	-
Past due more than 12 months	**73**	**-**	-	-
	165,902	**100**	160,289	100

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

29. Derivative Financial Instruments

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

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

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

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

	Group 2019			Group 2018		
	Notional principal amount £000	**Positive market value £000**	**Negative market value £000**	Notional principal amount £000	Positive market value £000	Negative market value £000
Interest rate swaps designated as fair value hedges	**1,134,600**	**1,358**	**(3,886)**	1,127,450	7,472	(2,615)
Interest rate swaps not designated as hedges	**18,300**	**9**	**(19)**	15,800	47	(2)
Total derivatives held for hedging	**1,152,900**	**1,367**	**(3,905)**	1,143,250	7,519	(2,617)

	Society 2019			Society 2018		
	Notional principal amount £000	**Positive market value £000**	**Negative market value £000**	Notional principal amount £000	Positive market value £000	Negative market value £000
Interest rate swaps designated as fair value hedges	**1,134,600**	**1,358**	**(3,886)**	1,127,450	7,472	(2,615)

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

	Group 2019		Group 2018	
	Notional principal amount £000	**Credit risk weighted amount £000**	Notional principal amount £000	Credit risk weighted amount £000
Interest rate swaps:				
Under one year	**355,850**	**162**	306,450	96
Between one and five years	**797,050**	**2,323**	836,800	3,174
	1,152,900	**2,485**	1,143,250	3,270

	Society 2019		Society 2018	
	Notional principal amount £000	**Credit risk weighted amount £000**	Notional principal amount £000	Credit risk weighted amount £000
Interest rate swaps:				
Under one year	**355,850**	**160**	304,450	96
Between one and five years	**778,750**	**2,262**	823,000	3,140
	1,134,600	**2,422**	1,127,450	3,236

30. Fair Values

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

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

	Group and Society	
At 31 March 2018:	Carrying Value £000	Fair Value £000
Financial assets:		
Loans and advances to customers		
Loans fully secured on residential property (restated)	1,869,436	1,879,710
Loans fully secured on land	158,710	156,985
Financial liabilities:		
Shares	1,824,885	1,824,118

The fair value and carrying value of balance sheet items not included in the table above are the same, as shown on the balance sheet.
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms-length transaction.
The carrying value of loans and advances to customers and shares are recognised at amortised costs using the effective interest rate method, less provisions for impairment together with fair value adjustments using discounted cash flow principles set out in IAS 39.
The fair value of derivatives is calculated using discounted cash flow models. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties. The above are Level 2 assets, as defined in FRS 102. In addition, the 'investment in equity shares' which is shown in the balance sheet at fair value (see note 31) is a Level 3 asset, as its valuation includes certain assumptions which are deemed to be unobservable.

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

At 31 March 2019:	Financial assets/ liabilities at fair value through Income Statement £000	Financial assets available for sale £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Non-financial assets/ liabilities £000	Total £000
Financial Assets:						
Cash and balances with the Bank of England	-	-	270,023	-	-	270,023
Loans and advances to credit institutions	-	-	128,146	-	-	128,146
Debt securities	-	64,182	-	-	-	64,182
Derivative financial instruments	1,367	-	-	-	-	1,367
Loans and advances to customers						
Loans fully secured on residential property	2,139	-	1,895,086	-	-	1,897,225
Loans fully secured on land	-	-	164,726	-	-	164,726
Other loans	-	-	24,414	-	-	24,414
Investment in equity shares	-	5,497	-	-	-	5,497
Non-financial assets	-	-	-	-	21,224	21,224
Total assets	**3,506**	**69,679**	**2,482,395**		**21,224**	**2,576,804**
Financial Liabilities:						
Shares	138	-	-	1,933,094	-	1,933,232
Derivative financial instruments	3,905	-	-	-	-	3,905
Amounts owed to credit institutions	-	-	-	295,425	-	295,425
Amounts owed to other customers	-	-	-	133,995	-	133,995
Non-financial liabilities	-	-	-		25,114	25,114
General and other reserves	-	-	-	185,133	-	185,133
Total reserves and liabilities	**4,043**	**-**	**-**	**2,547,647**	**25,114**	**2,576,804**
At 31 March 2018:						
Financial Assets:						
Cash and balances with the Bank of England	-	-	291,097	-	-	291,097
Loans and advances to credit institutions	-	-	114,049	-	-	114,049
Debt securities	-	34,900	-	-	-	34,900
Derivative financial instruments	7,519	-	-	-	-	7,519
Loans and advances to customers						
Loans fully secured on residential property (restated)	(3,602)	-	1,869,436	-	-	1,865,834
Loans fully secured on land	-	-	158,710	-	-	158,710
Other loans	-	-	23,366	-	-	23,366
Investment in equity shares	-	3,913	-	-	-	3,913
Non-financial assets (restated)	-	-	-	-	20,249	20,249
Total assets (restated)	**3,917**	**38,813**	**2,456,658**	**-**	**20,249**	**2,519,637**
Financial Liabilities:						
Shares	(7)	-	-	1,824,885	-	1,824,878
Derivative financial instruments	2,617	-	-	-	-	2,617
Amounts owed to credit institutions	-	-	-	349,557	-	349,557
Amounts owed to other customers	-	-	-	143,841	-	143,841
Non-financial liabilities (restated)	-	-	-	-	25,462	25,462
General and other reserves	-	-	-	173,282	-	173,282
Total reserves and liabilities (restated)	**2,610**	**-**	**-**	**2,491,565**	**25,462**	**2,519,637**

31. Investment in Equity Shares

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

The Visa Inc. preference shares were received as part of the consideration for the sale of the Society's share in Visa Europe in June 2016. At 31 March 2019 the preference shares have been recognised at a fair value of £5.497 million (2018 - £3.913 million). The gain for the year has been recognised in the available for sale reserve, net of deferred tax.

The preference shares are convertible into Class A common shares of VISA Inc. at a future date subject to conditions including that the conversion rate may be reduced to cover certain litigation costs (primarily the setting of interchange fees).

In addition, the Society may receive deferred cash consideration in 2020 which is contingent upon certain performance thresholds being met. As this cannot currently be reliably measured, this has been valued at nil (2018 - nil).

32. Capital Structure (unaudited)

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

The Total Capital Requirement required by the regulator as at 31 March 2019 was £93.4 million. The Group has maintained capital in excess of that required by the regulator throughout the year and in doing so, has complied with the requirements included within the EU Capital Requirements Directive IV (Basel III).

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

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

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

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

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

1. Statutory Percentages

	31 March 2019 %	Statutory Limit %
Lending Limit	**9.58**	25
Funding Limit	**18.18**	50

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

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

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

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

2. Other Percentages

	Group 31 March 2019 %	Group 31 March 2018 %
As percentage of shares and borrowings:		
Gross capital	**7.84**	7.47
Free capital	**7.35**	7.02
Liquid assets	**19.57**	18.98
Profit for the financial year as a percentage of mean total assets	**0.45**	0.74
Management expenses as a percentage of mean total assets	**1.06**	0.96

	Society 31 March 2019 %	Society 31 March 2018 %
Management expenses as a percentage of mean total assets	**0.96**	0.86

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

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

3. Information Relating to the Directors as at 31 March 2019

Name	Occupation	Date of Appointment	Other Directorships (excluding dormant companies)
DIRECTORS			
T. Hebdon, ACIB	Business Consultant	11.12.09	Nil
A. J. Johnston, BA, FCA	Chartered Accountant	15.02.11	Future Money Ltd
J. Arnold, FCMA, FGMA	Management Consultant	16.03.18	Jackie at Eastwood Ltd
E. R. Gunn, FCIBS	Retired Bank Executive	09.11.16	Nil
J. Hooper (Member of the Australian Institute of Directors)	Company Director/Advisor	20.11.15	Sarhon Homes Limited Sarhon Developments Limited John Hooper Consulting Limited The Leasing Industry Philanthropic and Research Foundation Limited VTB Capital Plc VTB Capital
M. K. Hulme, MPhil	Company Director	03.09.15	Nil
M. J. Stanger, FCA	Chartered Accountant	01.06.18	Gibbons Wealth Management Limited Gibbons Properties Limited Carleton Properties (Cumbria) Limited
P. D. Moore, MBA, Certified Bank Director (ROI)	Chief Executive Officer	01.04.18	Borderway Finance Limited Cumberland Estate Agents Limited Cumberland Holdings Limited Cumberland Property Services Limited Cumberland Homes Limited Cumberland Financial Planning Limited Cumberland Building Society Insurance Limited Cumberland Insurance Services Limited Cumberland Conveyancing Services Limited Cumberland Leasing Limited Solway Mortgage Solutions Limited

Mr P. D. Moore is employed under a contract terminable by the Society on twelve months' notice or by the individual on six months' notice. Mr P. D. Moore's contract was signed on 30 January 2018.
Correspondence to the Directors jointly or individually should be addressed 'Private and Confidential' and c/o Deloitte LLP, 2 Hardman Street, Manchester, M3 3HF.

OTHER INFORMATION

GLOSSARY

AGM	Annual General Meeting
BALCO	Board Assets & Liabilities Committee
BCIT	Board Customer, Innovation & Technology Committee
CBS	Cumberland Building Society
CBSCF	Cumberland Building Society Charitable Foundation
CCF	Cumbria Community Foundation
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CFSL	Cumberland Financial Services Limited
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
NGC	Nomination & Governance Committee
NIM	Net Interest Margin
PARC	People, Remuneration & Culture Committee
PRA	Prudential Regulation Authority

CALCULATION OF THE GROUP'S KPIS

FEEFO RATING

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

COLLEAGUE TURNOVER (%)

This is the number of leavers in the year expressed as a percentage of the average number of staff across the period. Both figures exclude Saturday branch assistants and casual staff.

GROUP PROFIT AFTER TAX

Group profit after tax is the net amount earned after taking into account all expenses and tax charges. The same metric is also reported excluding the impact of hedge accounting as removing the accounting volatility, in management's view, shows a truer reflection of the Group's performance.

GROUP PROFIT AFTER TAX AS A % OF MEAN TOTAL ASSETS

This ratio shows the Group's profit after tax to its mean total assets, which are calculated as the simple average of total assets at the beginning and end of the financial year. It allows the Board to understand the relationship between profitability and the size of the balance sheet.

COMMON EQUITY TIER 1 CAPITAL RATIO

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

NET INTEREST MARGIN

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

This KPI has replaced interest margin for members as that measure did not capture the requirement to hold liquidity to support the Group's operations or the importance of our commercial customers and diverse sources of funding.

COST / INCOME RATIO

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

GROWTH IN LOANS AND ADVANCES TO CUSTOMERS

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

GROSS LENDING DURING THE YEAR

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

INFLOW OF FUNDS FROM CUSTOMERS

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

LIQUIDITY RATIO

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

Gold Trusted Service Award

2019 feefo

Read our Feefo customer satisfaction reviews at cumberland.co.uk

Cumberland Building Society
Cumberland House, Cooper Way,
Parkhouse, Carlisle, CA3 0JF
Phone: 01228 403141
customerservice@cumberland.co.uk
cumberland.co.uk

The Cumberland
Building Society