2021 Annual Report and Accounts

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THE CAMBRIDGE
Building Society

Contents

Strategic Report

for the year ended 31st December 2021

From **John Spence,** Chairman

It is now a little over a year since I assumed the chairmanship of The Cambridge Building Society, which I regard as a great privilege. The more time goes by, the more appreciative I am of the opportunity.

I was attracted to join The Cambridge Board by the clarity of purpose, and the quality of vision and plan the Board has developed and I can truly say nothing I have come across in ensuing months has fallen short of my hopes and expectations.

The Cambridge is here to enable people to live in the home of their choice. That means we need to have good commercial offers and excellent mortgage processes.

Throughout 2021, both elements have been evident, enabling us to achieve £318m in new mortgage lending. It is a key aspect of our values that we maintain stability in the market; this applies across mortgages and savings, where relative stability is fair and helps our members and customers know where they are with their finances. This performance, along with focused efforts on retention, led to mortgage book growth of 4.3%, strong liquidity assets of £303m and total asset growth of 1.6%.

At the heart of our five-year plan are the words *mutual, independent* and *thriving*. For me, the key characteristics of a mutual are that it will put its people, its members and its community at the very heart of all it does. During 2021, I have witnessed the executive team dedicated to meeting the needs of all our staff, while also ensuring that the Society itself can continue to thrive. The fact the Society has operated so smoothly throughout the year is due to their leadership, and to the goodwill of our people. They know the concern we have for their health and wellbeing and repay us through their commitment and loyalty, alongside their expertise. The organisation has consistently demonstrated the values to which we aspire.

A commitment to customer service levels is as important to the Board as financial performance. In a year once again disrupted by the pandemic the fractional slippage in some scores is gratifying given the different circumstances in which staff and customers alike were living:

- 79% of customers said they were extremely or very satisfied with the service they received (81% in 2020)
- 91% of customers said service had improved or remained the same in 2021 (87% in 2020)
- 93% of customers said The Cambridge met or exceeded their expectations (94% in 2020)
- 84% said they would definitely remain a customer with The Cambridge over the next 12 months (86% in 2020)

Customer expectations continue to rise however and, after two years of customer service disruption arising from the pandemic, we are more committed than ever to keep investing in customer service and improving our customer proposition. We hope that with the lifting of pandemic restrictions 2022 will enable us to return to a steady-state focus on customer service, investing in the experience that customers receive.

The Cambridge is an increasingly sophisticated financial services institution, but we remain rooted in our local community and committed to making a difference to those who live and work in and around Cambridge. We are clear on our purpose: to find ways to help people have a home, by supporting people who couldn't buy without our help and by working with groups in our community that offer services for shelter and housing. In 2021 we continued to provide a combination of practical and financial support to a range of local groups, charities and organisations, all of which deliver valuable support to individuals, particularly vulnerable individuals, who face home and housing needs.

Of course, independence can only be assured if we continue to achieve the financial performance that enables us to invest in the future, continuously improving – not only to meet the needs of the members we have, but to attract others as well. In 2021, we have been able to achieve record Profit Before Tax of £11.9m. As noted opposite, part of this increase is due to a number of one-off financial market gains that will not repeat in future years, but nevertheless our financial performance demonstrated, underlying improvement. Capital reserves are now £100.6m, in excess of £100m for the first time in the Society's history.

And finally thriving, to which our performance in the past 12 months speaks for itself. The Cambridge is a growing organisation that is well supported by its members and many new ones, with strong financial foundations. All are indicators of a Society with a bright future ahead and one that I look forward to playing a part in.

I would not want any of this to come across as complacency. Far from it: your Board recognises that it must continuously work to be better and that however well we are doing today, we will only continue to thrive if we anticipate and address the challenges of tomorrow. That is why we have been upgrading our head office to support a new way of working, considering how to optimise our branch network and – par excellence – understanding how to address the challenges of climate change.

Society performance

The Board is committed to balancing the needs of borrowers, depositors, and investment in the Society to deliver excellent customer service and continued financial sustainability. Against a volatile and uncertain economic backdrop, the Society continued to improve its underlying financial performance. Total assets grew by 1.6% to £1.727m, within which the mortgage book grew 4.3% to £1.403m. Liquidity remains strong, with liquidity assets of £303m (2020:£342m) deliberately reduced from 2020's elevated levels resulting from the onset of the pandemic but nonetheless representing a healthy 18.8% (2020: 21.6%) of liabilities.

2021 was an exceptional year for profitability, with Profit Before Tax of £11.9m (2020: £4.8m). Profit growth was partly due to an increase in underlying performance, supported by a prevailing climate of low interest rates, but was exaggerated by the Society benefiting from a number of one-off financial market movements on its interest rate swap portfolio that it holds for risk management purposes. Whilst underlying business performance improved, this was not at the expense of a prudent approach to credit risk and our appetite in this area remains unchanged. The one-off high level of profitability for 2021 is of course welcome, and has enabled the Society to grow its capital reserves, which now stand at £100.6m and place the Society in a strong position for future investment and growth. However, the financial market movements are not recurring items, and the Society expects profitability in 2022 to be lower than in 2021 as we revert to a more modest profitability improvement trend.

Managed growth of the balance sheet, and in particular the mortgage book, has for several years been seen by the Board as a key component in improving the sustainability and resilience of the business. Over the last three years, the compound annual growth rate of the mortgage book has been 4.8% and the Board remains committed to continuing that positive trend in the future. In tandem, liquidity markets remain benign, with interest rates extremely low and markets supported by high levels of Government funding available to institutional deposit takers.

We expect rates to rise steadily over the next few years, which will be welcome news for our savings members.

Cost control also remains important. Costs rose in 2021 and are expected to continue to rise in 2022, partly reflecting the successful growth of the Society but also inflationary pressures, principally team member salaries and increased costs of information technology. The Board therefore remains of the view that for the long-term financial health of the Society, managed growth must continue to enable us to thrive in a highly competitive financial services market place.

Adapting to the long-term implications of COVID-19

Our guiding principles throughout the pandemic have been to look after our people, to be there for our members, and to safeguard the financial sustainability of the Society. Operating the Society during a pandemic continued to present challenges but is now very much 'business as usual' for The Society's management team. Our team members are designated as key workers and have continued working throughout the pandemic. We maintained all our branch and call centre services, supporting those who needed us most and, in particular, providing members with access to cash.

By necessity we operated with a high degree of flexibility during 2021, adapting our processes in line with the prevailing COVID-19 regulations and taking account of evolving member preferences. Over the course of the year, many of our usually office-based team members spent a considerable proportion of their time working from home, including our customer call centre teams. We have introduced new operating processes to enable this, ensuring that the service to members is largely seamless. In doing this we remained mindful of the emotional impact on team members who may be required to work in isolation for significant periods of time.

Many members retain a preference for transacting in store. However, other members, notably some of those who started interacting with us via digital channels at the onset of the pandemic, have benefited from online access and have transitioned to transacting electronically. Over the course of 2021, around 50% of transactions were completed entirely or partially via a digital method. We expect the post-pandemic 'steady state' to emerge over coming months and remain committed to offering members flexibility so that they may choose how they want to interact with us: in person on the high street, over the telephone, or digitally via app and web services.

Strategic Report
for the year ended 31st December 2021 (continued)

Continuing to develop the Society

Our robust financial position means that we are well placed to continue to invest to meet the changing needs of existing and future members. The Board believes that a strong member proposition, backed by excellent customer service, is just as important to The Cambridge's sustainability as sound finances. As noted on the previous page, we remain committed to offering members flexibility on how they choose to interact with us.

Recognising members' strong desire to deal with us face-to-face, in 2021 we invested further in developing our branch network. In Histon we relocated to new, purpose-built accommodation just a short walk up the high street from our previous location, and in doing so transitioned to our new, modernised store format that continues to attract positive feedback. And in the second half of 2021 we were thrilled to announce that The Cambridge was to extend its geographical footprint and open a store in Bury St Edmunds, the first time for over 15 years that the Society has expanded into a new location. Our new Bury store formally opened to the public in January 2022 and many new members have already been attracted to join the Society.

Alongside investment in our high street presence, we are directing significant energy into our digital offering, delivering improvements for both customers and intermediaries. We again undertook major capital expenditure in this area in 2021 and will do the same in 2022 as we seek to upgrade our end-to-end IT platform. This is a significant endeavour, which is requiring multi-year capital expenditure, but once completed will underpin the Society's IT platform for a number of years to come.

Our people

A fundamental responsibility of the Board is to manage leadership succession, ensuring that the Society has the appropriate executive leadership in place to deliver a strong future.

In January 2021, the Society appointed Lucy Crumplin to the Board as Chief Operating Officer, with responsibility for managing and developing all aspects of the Society's operations and ensuring that we deliver efficient, effective and value-adding customer service to all members. Lucy brings a wealth of managerial experience gained in both executive and consulting roles, and her appointment has already begun to make a positive difference to the Society's operational culture and capability.

In November 2021, after six years on the Board, Victoria Stubbs left the Society to take up a role in a different sector. During her time as Chief Risk Officer she transformed the Society's management of risk, and as a result contributed to a significant increase in the Society's planning and decision-making capabilities. Her tenure coincided with a sharp increase in the regulatory expectations of the risk management capabilities of a medium-sized building society, such as The Cambridge, which under her guidance the Society responded to in full. She will be much missed and we wish her every success in the future. The Society has conducted a full external market search to identify a successor, and subject to regulatory approval we expect to confirm the appointment of a new Chief Risk Officer in early 2022.

More generally, the Society has continued to invest in its people over 2021 with over 60 new team members joining the Society. Our philosophy is that by making The Cambridge a great place for team members to work, we allow individuals to flourish and reach their potential and in doing so they deliver great service to our members. In 2021 we refurbished our central Cambridge headquarters, making the working environment significantly more pleasant and productive for team members and equipping the office to support the hybrid working model that we expect to become the 'new normal' for modern financial services businesses.

In 2021 we participated in the independently run 'Best Employers Eastern Region' assessment process and were delighted to receive gold accreditation, with the judges commenting "the Leadership Team takes a noticeably pro-active approach to looking after their people".

Economic climate

The UK political and economic climate during 2021 was characterised by uncertainty, largely due to COVID-19. Whilst the impact of COVID-19 continues, your Board is optimistic that the worst of the pandemic is now behind us and consequently that 2022 will see a return to more sustainable operating conditions.

Nevertheless, the economic outlook for 2022 remains volatile. The pandemic has had a significant economic impact on the UK and consequently on public finances. Further, the nature and extent of the economic impacts arising from changes in the UK's international trading relationships as a result of Brexit have been clouded by the impact of the pandemic, but seem likely to become clearer in 2022. Whilst it is difficult to predict the UK's future macro-economic course with certainty, one aspect on which most economists agree is that 2022 is likely to see higher levels of inflation and increases in the Bank of England Base Rate. In turn, this will result in higher rates of interest on both mortgage and savings products. Base Rate was at an all-time low of 0.1% for most of 2021, rising to 0.25% in December. Early 2022 has seen it rise further to 0.5%, and we anticipate that it will increase further still over the course of the next year.

Changes in Base Rate impact on the level of interest rates in both the mortgage and savings markets. We remain acutely aware that changes in our product rates have real impacts on members, and your Board is focused on ensuring that in setting rates we continue to balance the interests of savers and borrowers, whilst ensuring that the Society is generating adequate margins. The Society continues to model the potential impacts of a range of economic scenarios on its business, and is confident that it has in place the appropriate capital resources and management control processes to protect its financial sustainability and to meet its promise of 'being there for members'.

The housing market, both nationally and most pertinently for us in the East of England, was strong in 2021 and outperformed the expectations of many commentators and analysts. Over the year house prices held up strongly, with average annual price growth across the UK of 10% and in the East of England of 10%. Transaction levels were high, and at times during the year the market was particularly buoyant, for example when borrowers sought to maximise the relief available before the expiration of the stamp duty land tax (SDLT) holiday periods.

The Society has participated in the Government's 'TFSME' scheme (the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises), drawing a total of £170m of Government-backed funding under the scheme. From a liquidity perspective this is positive for the Society, as it provides stable low-cost bulk funding with a repayment profile that does not commence until 2024. It is reasonable to assume, however, that the impact of schemes such as TFSME will continue to compress retail mortgage market and savings market rates, which creates commercial challenges for the Society, as well as impacting directly on members, for example by depressing the savings returns on which many of our members rely.

Mortgages

Structurally, the UK mortgage market is in a period of oversupply with both 'challenger' and 'ring-fenced' banks choosing to deploy their capital in the traditional building society marketplace. Coupled with the market volatility arising from changes to SDLT rules, this resulted in 2021 being a challenging but ultimately very successful year for our mortgage operations.

March 2021 brought the announcement of the UK Treasury's intention to end the SDLT holiday. The reduction in SDLT came in two steps, on 30th June and then on 30th September, creating significant peaks in demand for mortgages as borrowers rushed to complete home purchases within the deadline. Indeed, June 2021 was the Society's biggest month of mortgage lending ever, with over £50m of new loans advanced.

Over the year we had continued success in the Shared Ownership market, expanding our product range and increasing our distribution capability. We re-entered the Help to Buy, Holiday Let and Self-Employed markets having temporarily withdrawn from them at the start of the pandemic, and we extended our support to First Time Buyers by reintroducing our 5% deposit product range.

During the pandemic we have supported significantly more members than usual who have experienced difficulties with meeting their mortgage payments. We tailored that assistance as closely as possible to individual member's needs, most frequently through the use of the Government's mortgage payment deferral scheme. It is reassuring to note that by the end of 2021 almost all borrowers who deferred their payments under the scheme had recommenced their full mortgage payments, and arrears levels remain low. However, with uncertain macro-economic conditions we are mindful of the challenges for households that lie ahead, and as a mutual business we stand ready to support our members.

In 2020 we removed our historic geographic restrictions on lending and expanded our lending proposition to cover all of England & Wales. This was well received by intermediaries and has enabled us to broaden our range of intermediary relationships. Supported by this move, our 4.3% growth in mortgage balances over 2021 reflected a combination of £318m of new mortgage lending and focused efforts on mortgage retention. Product design and pricing are key components of our mortgage strategy, but so too is offering a high level of customer service as we help people navigate the home-buying or remortgage process. This is true whether we are helping people who have approached the Society directly or those who have been introduced by one of our intermediary partners. Strong third-party relationships are vital to our future success and below are a few statistics that demonstrate that the Society remains in tune with the needs and requirements of our intermediary partners:

- 80% of intermediaries said they were extremely or very satisfied with the service they received (82% in 2020)
- 98% of intermediaries said The Cambridge met or exceeded their expectations (99% in 2020)
- 99% of intermediaries said they would probably or definitely continue using The Cambridge over the next 12 months (94% in 2020)

Strategic Report

for the year ended 31st December 2021 (continued)

At the end of 2021, we had 34 mortgage accounts in arrears representing a total of £0.4m of payments in arrears. It is rare for us to have to repossess a property, and since the outbreak of the pandemic we placed a moratorium on any such activity, in line with industry best practice and regulation. This moratorium ended on 1st April 2021, again in line with industry best practice and regulation.

Retail shares and deposits

Since the financial crisis of 2008 savers have had to live with lower levels of return, so much so that such levels are now the accepted norm. We acknowledge the particular challenges that this creates for those, such as pensioners, who rely on their savings interest, and we take our commitment to savers very seriously. As a building society we are continually balancing the rates that we offer to our mortgage and savings members, trying to strike the right differential. At the end of the year, in line with an increasing Bank of England Base Rate, we announced increases to our savings rates, and there are signs that this trend will continue during 2022, bringing a modest yet welcome increase in returns for savers.

For much of 2021, however, interest rates remained at historic lows, placing particular pressure on our savings customers, as we set our rates accordingly. Seeking where possible to reward our loyal members, we operate market leading, members-only regular savings products, which pay interest of up to 3% per annum on regular monthly deposits of up to £100. In 2021 we improved our offer, such that loyal members who have been with us for three years or more can qualify for a 5% interest rate. As expected, this has proved popular with over 1,700 new accounts opened to date.

Increasing numbers of savers are looking to guarantee their returns by committing to fixed-term products and this requires the Society to improve the way in which we help people navigate the maturity process. We are pleased that our self-service savings maturity process is proving popular amongst members. Customers also want easier and more convenient ways to manage their money, and we continue to upgrade our app, as well as helping increasing numbers of customers transact over the internet or by telephone. This is important not just to keep pace with current social trends, but also in the longer term as we seek to attract new, younger members to the Society.

Making The Difference to our communities

The Cambridge has a clear purpose: to find ways to help people have a home by supporting people who couldn't buy without our help and working with groups in our community who offer services for shelter and housing.

Our 'Making The Difference' programme acts as the unifying thread of all our community initiatives and in 2020 we announced the launch of The Cambridge Building Society Community Fund. This is a charitable fund, established with initial funding from the Society of £500,000, available for local groups, charities and organisations who would benefit from financial support with their work to tackle home and housing needs. In 2021 we have made further resources available to the Fund, taking its assets to over £600,000 and made grants to four organisations: Cambridge Cyrenians, CHS Group, Disability Huntingdonshire and Wintercomfort. We hope that the fund will act as the vehicle for the Society to make a genuinely significant and life changing impact on the homes and housing prospects of many less fortunate people across our region.

Another of our 'Making The Difference' initiatives is our unique Rent To Home scheme, designed to help people for whom owning their own home is in sight but just out of reach. Under this scheme, individuals rent a property from The Cambridge for up to three years. At the end of the rental period, The Cambridge will return to them up to 70% of the rent paid over the last three years for them to use towards home purchase. This is a significant one-off benefit, aimed at helping people break out of the rental cycle and into home ownership. To ensure that we target and help the right people, access to the scheme is restricted to First Time Buyers and subject to a maximum income threshold.

In 2021 the Society was again the lead sponsor of Bridge The Gap, a walk through the colleges and historic buildings of Cambridge, which takes place every September, this year raising more than £15,000 for Arthur Rank Hospice Charity and Romsey Mill. Due to its timing the event was necessarily restricted by pandemic conditions, but we look forward to a return to more normal conditions in 2022.

99% of our team members participated in some kind of community support work over the year, amounting to in excess of 1,000 hours spent helping various good causes, most notably in conjunction with YMCA Trinity Group. We undertake our community work because it is part of who we are, but in doing so we also hope that we can strengthen The Cambridge brand and contribute to the future commercial success of the Society.

The future

Your Board is acutely aware of the issues facing all of us at this time. Recent years have been dominated by the pandemic, and we have focused on looking after our people, being there for our members, and safeguarding our financial sustainability. The longer term economic impacts of COVID-19, combined with the reorientation of the UK economy post Brexit, mean that the UK's macro-economic outlook is not as clear as it seemed a few years ago.

We believe that this makes the future for organisations like The Cambridge – organisations with a community ethos, with the wellbeing of its people and customers at its heart, and with a burning ambition to thrive – even more critical. We celebrated our 170th birthday during the pandemic, and we believe that we have a bright future ahead of us.

The Society has developed flexible plans that will see the organisation's managed growth continue whilst remaining conscious of the need to maintain capital replenishing profitability. We will continue to invest in the Society, particularly in our digital capability and our store network.

The demand for digital services grows apace and member feedback is clear that they value the convenience delivered by our mobile and online-based services but equally value the opportunity to talk to us face-to-face as they make significant financial decisions.

We are also acutely aware of the threat of climate change and recognise the role The Cambridge must take in tackling this and the responsibility we have to existing and future members in doing so. The year ahead will see us doubling down on our effort: dedicating more resources to developing and delivering our response, and spending more time as a board discussing the threats and risks this presents.

Much of our success in recent years has been due to the highly dedicated and professional people that we employ across The Cambridge, to whom the Board offers its heartfelt thanks. This has been a challenging year for all of us, but particularly for staff supporting customers face-to-face and over the telephone, and for those hidden heroes who have been working with and among our local communities on a daily basis.

I wish all members a safe, healthy and prosperous 2022.

John Spence
Chairman

15th March 2022

Directors' Report

for the year ended 31st December 2021

The Directors of The Cambridge Building Society have pleasure in presenting their Annual Report, together with the Accounts and Annual Business Statement for the year ended 31st December 2021.

Business review

The Cambridge Building Society is an independent, regional, mutual Society. Its primary purpose is to provide funding for the purchase of homes and to provide a trusted place for people wishing to save. Further detail on our view of 2021 is contained within the Strategic Report on pages 4 to 9.

Key performance indicators

The Board of Directors and Management Team monitor financial and non-financial information on a regular basis. Whilst this involves many performance indicators, the financial information shown on pages 10 to 13 relates to those that are considered key to the Group's overall success.

During 2017, the Group held assets under the Finance for Lending Scheme (FLS). In accordance with accounting convention, FLS assets were not shown in the Group's statutory balance sheet, but are included in the Directors' Report charts and analyses in order to provide a complete and accurate picture of the Group's financial position.

Mortgages

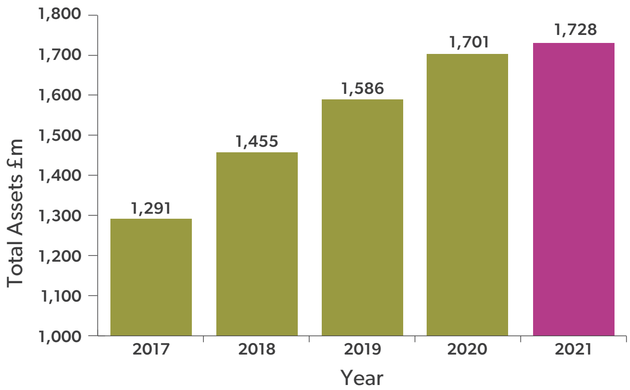
Gross mortgage lending is the amount of new loans that we make to members each year. The Group delivered new mortgage lending of £318m (2020: £241m). The increase in lending activity is primarily due to the housing and mortgage markets having been severely impacted by COVID-related restrictions during the second quarter of 2020. 2021 has seen a return to more normal levels of activity.

As a result of the increase in gross lending, total mortgage assets grew by 4.3% to £1,403m (2020: £1,345m).

At the end of the year, out of a total of 8,942 mortgage accounts, eight accounts (2020: 11 accounts) had arrears of 12 months or more. Together these accounts have balances outstanding of £1.6m (2020: £1.7m) and arrears of £0.1m (2020: £0.2m).

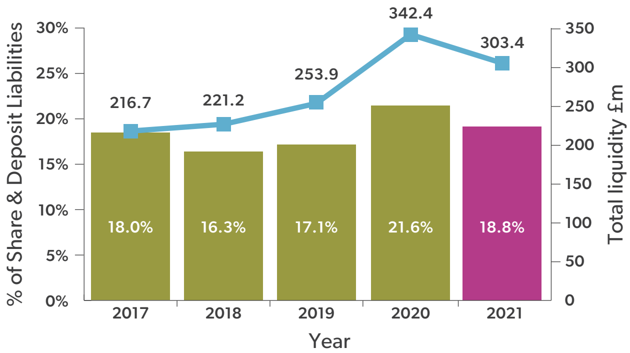
Arrears levels have fallen slightly over the year and they remain significantly below those of the mortgage market as a whole. This is testament to the Group's prudent lending policies and supportive approach towards members who have faced repayment difficulties.

Total assets



Assets principally comprise mortgages and liquidity investments. Total assets have increased by 1.6% over the year, driven by growth in the mortgage book but offset by a reduction in liquid assets, as outlined below.

Liquid assets



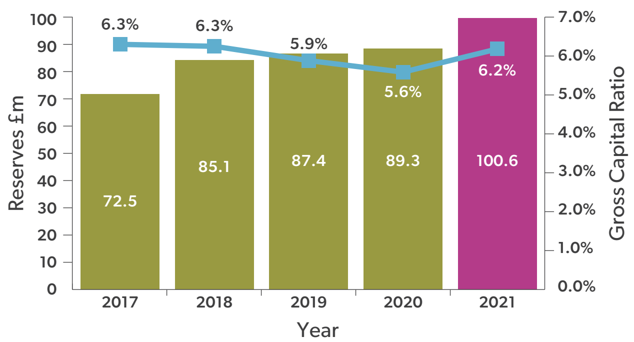
Liquid assets are cash and short term liquid investments, and can be expressed as a percentage of shares and borrowings. This is a key measure of the Group's ability to meet its financial commitments as they fall due. These commitments include withdrawal requests from savers, new mortgage lending and the funding of general business activities.

The Group is principally funded by its members' retail savings. During the year the Group has continued to diversify its funding sources and in addition to retail deposits held £170m (2020: £135m) under the Government's Term Funding Scheme, with additional incentives for SMEs (TFSME), which provides a valuable source of low-cost, secured funding. Additionally the Group remains active in wholesale money markets, with £28m (2020: £46m) of term deposits.

The majority of liquidity assets are invested in UK Government securities and a Bank of England Reserves Account. The Group also has holdings with highly-rated commercial counterparties.

At the end of 2021 the Group held £303m (2020: £342m) of high quality liquid assets. This level of liquidity is comfortably above regulatory requirements and represents 19% (2020: 22%) of shares and deposit balances. The decrease in the level of liquid assets is as planned as the Society begins to return to normal after the events of 2020, which saw increased levels of customer savings activity and significant retail savings inflows.

Reserves



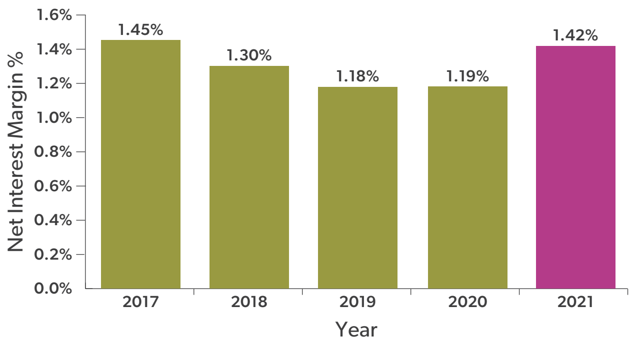
Our reserves are an important measure of the Group's financial strength, as they are there to protect members should the business encounter financial difficulties. The Group's reserves are all categorised as 'Tier 1' capital and as such are considered by the Prudential Regulation Authority to be the strongest form of capital.

Total reserves grew by 12.7% over the year to £100.6m (2020: £89.3m), including retained profit for the year of £10.0m. In addition to retained profit, total reserves benefited from a reduction of £2.2m in the Society's defined benefit pension scheme deficit and an uplift of £481k in the valuation of its freehold property portfolio.

Reserves include £15m (2020: £15m) of core capital deferred shares (CCDS). CCDS is a perpetual capital instrument with a discretionary distribution. The Group's CCDS investor (Cambridgeshire County Council Pension Fund) holds a single vote, preserving the Group's mutual status.

The Group's gross capital ratio stood at 6.2% and its free capital ratio at 5.6% (see page 84 for definitions). Capital amounts and ratios remained comfortably above regulatory requirements throughout the year.

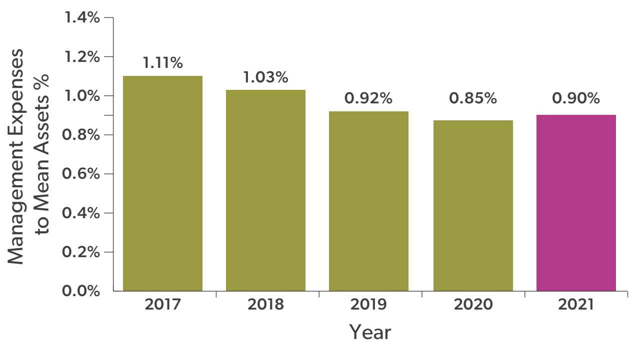
Net interest margin



The net interest margin is the difference between the rate charged to borrowers and that paid to savers, including the impact of net income or expenses on financial instruments. The Group's strategy is to offer competitive products to both borrowers and savers, while at the same time ensuring that it makes sufficient profits to maintain financial strength and stability.

Net interest margin has risen over the year, reflecting low interest rates in the retail savings market.

Management expenses ratio



This is the ratio of management expenses and depreciation to mean total assets. It is an indication of the Group's cost efficiency and the aim is, over time, to balance investment in excellent customer service with a desire to increase our efficiency.

In 2021 the Group continued to deliver tight cost control, while continuing to invest in developing the business to ensure it continues to meet customer and regulatory requirements.

Directors' Report

for the year ended 31st December 2021 (continued)

Profit before tax

The Cambridge's strategy is to generate sufficient profit to sustain the financial strength of the organisation and enable managed growth, investment in customer service and an increasing financial commitment to our 'Making The Difference' programme.

During 2021 net interest income increased to £24.3m (2020: £19.6m). This growth reflects both the Society's hard work over recent years to improve its margins, but also the impact of a record low in the Bank of England's base rate upon the retail savings market.

This strong underlying performance was bolstered by some significant one-off gains – most notably a £2.3m gain in the net value of the Society's interest rate swap portfolio (2020: a loss of £1.2m). In order to present a clear picture of the Group's profitability over time, a line has been added to the chart above representing Underlying Profit Before Tax, defined as Profit Before Tax less Net Gains and Losses From Other Financial Instruments at Fair Value Through Profit and Loss.

Financial risk management objectives and policies

Taking and managing risk is an integral part of running any successful business. The key challenge is to identify, monitor and control the principal risks, and balance risk and reward rather than seek to eliminate risk entirely.

The Society's Board has overall responsibility for setting the risk appetite and for ensuring that the approach is aligned to business strategy and objectives. The Board Risk Committee, together with Executive-led sub-committees covering Operational & Conduct risk, Mortgage Credit risk and Assets & Liabilities risk, plays a key role in monitoring the Society's overall risk profile.

The Board approves the risk management framework, oversees the process of risk management, and generally ensures a strong culture of risk awareness and ownership across the Society's operations.

The financial instruments used by the Society to mitigate certain risks, particularly interest rate risk, are set out in Note 27 of the accounts.

Further details of the Society's approach to risk management and its risk exposures are set out in a document entitled Pillar 3 Disclosure. This document can be obtained by writing to the Secretary at our Head Office or from our website cambridgebs.co.uk

Principal risks and uncertainties

The most significant risks faced by the Society, together with related mitigating actions, are set out in this section.

The COVID-19 pandemic has continued to have an impact across all risk categories and is discussed below.

Credit risk

The Society has two main areas of credit risk. Firstly, borrowers may be unable to make timely payments on their mortgages and may ultimately default on their loans. Secondly, the Society places a proportion of its liquidity with other financial institutions to ensure that it can meet its liabilities as they fall due (see liquidity risk opposite). These Treasury counterparties may also be unable to meet their obligations to repay the Society.

Mortgage credit risk is managed through prudent underwriting policies. Lending can only be approved, according to defined affordability criteria, by a central team of experienced underwriters. The underwriting is operationally independent of sales activity, ensuring that the Society has adequate security for the loan and that borrowers will be able to meet their repayments. The underwriting requirements have been closely monitored and adapted during the pandemic, in order to manage risks arising from payment deferrals, furlough arrangements and other measures. This has included withdrawing higher loan to value lending and more in depth reviews of income.

No matter how prudent lending is, some members inevitably get into financial difficulties and struggle to keep up their mortgage payments. As well as rigorous, risk-based underwriting, the Society prides itself on being highly proactive in supporting its members through any financial difficulties, thereby being true to its mutual values and helping mitigate mortgage credit risk.

In 2020 we saw the introduction of payment deferrals by the Government and FCA. Payment deferrals were made available to all eligible customers, and we worked closely with impacted borrowers to ensure they were able to resume payments and find the most appropriate solution for repaying missed payments. Most customers who took a payment deferral have now returned to full payments and we are supporting the small number who have been unable to restart payments. In line with FCA rules, the payment deferrals framework came to an end in 2021 and we no longer offer payment deferrals.

As a result of these controls the Society has low levels of concessions, arrears and repossessions in comparison to the industry as a whole.

As a mutual, we are committed to helping members that are in financial difficulty meet their mortgage commitments. We do this:

- by offering payment deferrals where available;
- by having people with relevant expertise empathetically handling approaches from borrowers experiencing repayment difficulties;
- by gaining a thorough understanding of their circumstances;
- through interviews establishing a repayment plan that considers the interest of both the borrower and the Society; and
- by ensuring that any repayment plan, be it a temporary reduction in monthly repayment or some other form of concession, is affordable and practical in terms of the borrower's circumstances, but without placing the loan in an unsustainable position

All accounts in payment deferrals or arrears are subject to ongoing monitoring to ensure the support in place for them remains appropriate.

The table on page 73 provides further information on the loans existing at 31st December 2021 by types of forbearance measure applied to our members over the previous two years. This is regardless of whether the account remains under forbearance at the reporting date, or has reverted to its original terms.

Treasury counterparty risk is kept to a minimum by only investing in counterparties with high credit ratings and in selected building societies. In addition, the Society limits exposures to particular counterparties, types of investment or countries, and limits the period it is prepared to invest for. These limits, together with a range of other mitigating processes and controls, are documented in the Society's Treasury Policy. The Board delegates oversight of counterparty credit risk to the Assets & Liabilities Committee (ALCO), through the Board Risk Committee.

Liquidity risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can do so only at excessive cost. These obligations include, for example, savers' withdrawals and mortgage advances. The Society has policies in place to help ensure that it always holds prudent levels of liquid assets such that it can meet these obligations. The Society also has contingency funding plans in place to cope with any sudden or extreme outflows, and carries out regular stress tests to ensure the robustness of these plans.

The liquidity policy and contingency funding plans are monitored by ALCO, which receives regular reports on the liquidity position and stress testing thereon. It also receives regular reports on the Society's compliance with regulatory guidelines that govern the scope and nature of the Society's liquid asset holdings.

During the pandemic we have seen our members have regarded the Society as a trusted home for savings and liquidity levels have remained very high.

Funding risk

Funding risk is the risk that the Society is not able to source the right type of funding to support its asset commitments.

The Society manages this risk by sourcing the majority of its funding through stable retail savings deposits, and by enforcing strict limits for the amount and term of funding that is sourced from money markets. Money markets have remained active and liquid throughout 2021.

Market risk

Market risk is the exposure to movements in interest rates, reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset or, if earlier, the instruments' maturity.

For example, if the Society was funded by variable rate savings but lent at fixed rates, it would expose itself to the risk that if rates rose, its cost of funding would rise without any corresponding increase in interest income on loans.

Directors' Report

for the year ended 31st December 2021 (continued)

In order to keep its interest rate risk exposure within limits, the Society enters into interest rate swaps with major banks. For example the Society would swap the fixed rate of income into a variable rate, usually by reference to the three-month London Inter Bank Offer Rate (LIBOR).

In this case, the Society would pay the bank a fixed rate of interest and in turn receive three-month LIBOR-based income from the bank. The Society proactively manages its levels of fixed rate lending.

The LIBOR benchmark rate will cease to operate after 2021, and the market has transitioned to SONIA rate. The Society has migrated its swaps to a SONIA basis and all new swaps are SONIA linked. Comprehensive interest rate risk limits are set by the ALCO and reviewed against actuals at both Board and ALCO meetings. The interest rate sensitivity of the Society at 31st December 2021 is set out in Note 27 on page 79.

Basis risk

The Society manages its interest rate risk exposure on several different bases, such as the Bank of England Base Rate and SONIA. Basis risk is the risk of divergent movements of these bases. The Society manages this risk by setting limits to the relative exposure between the different bases and performing scenario analysis to assess the impact of unexpected relative movements of different interest rates. The Bank of England raised Base Rate by 15bps in its December 2021 meeting. The rate rise was managed in line with our pricing policy and we continued to remain within our basic risk appetite.

Margin risk

Margin risk is the risk that competition erodes the margin between rates charged to borrowers and rates paid to savers, thereby threatening the financial strength of the Society. This risk is heightened in the current period of historically low interest rates. However, one of the Society's key aims is to offer both its savers and borrowers competitive rates and only earn sufficient margin to maintain the Society's financial strength and meet the product and service needs of its members.

The Board manages this risk by setting financial objectives and closely monitoring performance against them. Reforecasts are regularly carried out, enabling the Society to react promptly to challenges to these financial objectives.

Operational risk

Operational risk relates to the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. Operational risk is overseen by the Operational and Conduct Risk Committee.

All such risks are identified, assessed and closely monitored as part of the formal risk management structure, which includes reporting into the Board Audit Committee and Board Risk Committee. It is the responsibility of each business area, supported by the Chief Risk Officer, to understand how operational risk impacts them and to put in place appropriate controls or take other mitigating actions.

Where the Society has outsourced a particular activity, such as the provision of IT services, it has a robust set of procedures in place to monitor closely the provision and quality of these services against pre-determined service level agreements and key performance indicators and ensuring the Society has adequate oversight of these activities.

The Society, like most organisations, is dependent on a number of key third party suppliers. A framework has been introduced to assess and monitor all third parties before and during any contractual relationship, including their financial resilience and the risk they pose to the Society's data and cyber platforms.

There has been an increasing focus on operational resilience across the UK financial system. The Society ensures it understands the risks to key business and customer processes, and has contingency plans in place, including business continuity plans to ensure that the impact of any service interruption is minimised. The Society's Head Office functions operated on a mainly remote basis during 2021. All services have been available throughout the pandemic, although availability has been managed in response to customer demand and to maintain a safe working environment for team members. The Society has maintained a COVID-secure working environment for all team members in all settings, ensuring that the Government requirements and guidance in areas such as social distancing, face coverings, deep cleaning and protective screens were maintained.

The transition to remote working has increased the operational risk within the Society and as a result increased control testing by the second line of defence has remained place.

Conduct risk

Conduct risk is the risk that the Society does not treat its customers fairly and delivers inappropriate consumer outcomes. The Board acknowledges the requirement to fully embrace the FCA's Statement of Principles to ensure that the Society pays due regard to good conduct governance at all times. These principles are firmly embedded within the organisation's culture and the interests of the Society continue to be best served by following this strategy. This approach has been established into working practices within the Society.

Conduct risk is overseen by the Operational and Conduct Risk Committee, which considers regular conduct risk management information, approves the conduct risk policy and ensures that conduct risk is at the heart of the product development process, marketing, sales and post-sales customer service. The Committee also regularly considers the treatment of vulnerable customers and ensures this is embedded across the business, for example in product development and changes.

The conduct risk framework is regularly reviewed by Internal Audit. Compliance and Internal Audit both consider whether the Society is doing the best for members as part of their reviews. During the pandemic the Society continues to monitor its treatment of customers and customer outcomes, including additional feedback and surveys of customers who have found themselves in financial difficulties.

The Society is particularly conscious of ensuring that it treats any vulnerable customers appropriately and offers them the necessary support.

Regulatory risk

This is the risk that the volume, prescription and complexity of regulation, and changes thereto, may impair the Society's ability to compete effectively and grow profitably. The Board and Management Team closely monitor the Society's compliance with all regulatory requirements and keep up to date with relevant changes.

Key areas of regulatory change include:

- regulation of capital, including ongoing updates of the Capital Requirements Directive (CRD) IV
- PRA requirements on Operational Resilience
- gaining an understanding of the risks of climate change on the Society's business model
- FCA requirements around Consumer Duty

The regulators have slowed the pace of change of regulation to reflect the demands of the pandemic, other than policy changes required specifically in response to the situation.

Economic risk

The economic backdrop against which the Society operates remains volatile. In addition to the residual effects of the COVID-19 pandemic, Brexit remains a source of potential disruption.

The primary economic risk to the Society is its dependency upon the UK housing market. Although house prices increased and unemployment reduced over the course of 2021, most commentators agree that 2022 will see higher levels of inflation, together with further increase in the Bank of England's Base Rate, which may place pressure on borrowers' ability to repay mortgages.

The Society's capital position, predominantly retail funding and flexible but prudent approach to doing business, mean that it is well placed to continue to meet the needs of its members, whatever future economic conditions prevail. The Society regularly tests the strength of its balance sheet in a number of ways, including taking account of the stress-testing parameters set out by the Bank of England.

Pension funding risk

The Society has an ongoing commitment to fund its defined benefit pension scheme, which is closed to new entrants and future accrual. Pension funding risk is the risk that the value of the scheme assets will be insufficient to cover the scheme's obligations to scheme members over time. The value of scheme assets and scheme obligations is vulnerable to changes in corporate bond yields, equity markets, long-term inflation expectation, and longevity.

To mitigate this risk, management, together with the trustees of the scheme, regularly review reports prepared by independent actuaries to assess the risks and consider appropriate actions. These actions may include, for example, the trustees adjusting the investment strategy.

Directors' Report

for the year ended 31st December 2021 (continued)

Pandemic risk

2021 continued to be dominated by the ongoing COVID-19 pandemic.

Regular updates are provided to the Board and Board Risk Committee on the risks posed by the pandemic. The risks include:

- operational risk from a remote working environment
- health and safety risk in maintaining a COVID-secure workplace
- credit risk as customers take payment deferrals due to reduced income caused by the pandemic
- people risk as we support the physical and mental wellbeing of team members
- third party risk arising from poor supplier performance due to staff absence, an inability to work remotely or financial instability

The Board remains alert to future possible risks arising from potential falls in house prices, despite the significant house price increases in 2020 and 2021. If we were to see a rapid rise in the Bank of England base rate in 2022 it is not yet clear if house price rises will be sustained.

As part of its ongoing capital and liquidity risk management, the Society models a range of adverse market scenarios and this work is reviewed by regulators.

Climate risk

The Board recognises that climate change is one of the most critical global issues and, as such, may present risk to the Society in a number of ways. These risks may be direct physical risks to the Society's property or to properties upon which loans are secured, such as flooding or subsidence, or indirect, such as financial difficulties experienced by our customers in transitioning to a low carbon economy.

In line with regulatory requirements during 2021 the Society integrated climate change risk into its risk management framework and has carried out analysis to help it better understand the financial risks it presents, including carrying out stress testing through its annual Internal Capital Adequacy Assessment Process (ICAAP).

The Society will use the work carried out to date to help inform its wider climate strategy to reduce its own carbon footprint and to support its customers in transitioning to a low carbon economy.

Our people

Despite the COVID-related volatility of 2021, our commitment to our people remained steadfast.

Ensuring we had the right structure to support the evolving needs of our customers was a key priority at the start of the year. We restructured the branch network and contact centre to create our Customer Engagement Team, made changes to the IT structure and strengthened our risk and finance teams. The changes contributed to an increasingly positive impact in our customer satisfaction scores and performance metrics during the year, as well as on staff morale.

As we continued to manoeuvre our way through the pandemic and saw the recruitment market heat up, our people told us they value the continued stability of employment with us and the opportunity to progress their career with a building society with an ambitious outlook and positive workplace culture. Although staff turnover picked up, we've attracted many excellent new people to the Society, including team members for our new store in Bury St Edmunds.

We're proud of our approach to Diversity, Inclusion and Belonging and the further progress made during the year, including establishing a DIB group, designing accessibility in our premises, enhancing our Mental Health First Aiders team and much more. Throughout the year three out of five Executive team members were female and there is gender balanced representation across the wider leadership team and 'future leaders' talent group. Further details can be seen on our website under the 'About Us' section.

Our efforts in making this a great place to work, where people feel respected and have a sense of belonging, were rewarded mid-year when we won a Gold Award for engagement from the Best Employers East of England survey.

We didn't stop there. We continued to progress at pace and refurbished our Head Office as well as developing further office space at Bury St Edmunds. The contemporary finish and high quality connectivity provides our people with more attractive location choices and opportunities to collaborate as we embrace hybrid working.

The following were Directors of the Society during the year:

- John Spence (Chairman)
- Jonathan Spence (Ex-Chairman – Retired 15th January 2021)
- Stephen Jack (Vice Chairman)
- Fiona Hotston Moore
- Pauline Holroyd
- Andrew Jones
- Andrew Morley
- Andrew Rice
- Peter Burrows
- Victoria Stubbs (Retired 19th November 2021)
- Carole Charter
- Richard Brockbank
- Lucy Crumplin (Joined the Board 1st January 2021)

Lucy Crumplin will be standing for election to the Board. Richard Brockbank, Peter Burrows, Carole Charter, Fiona Hotston Moore, Stephen Jack, Andrew Jones, Andrew Morley, Andrew Rice and John Spence are each eligible for, and will seek, re-election to the Board at the Society's Annual General Meeting. Pauline Holroyd will be retiring from the Board following the 2022 AGM.

None of the Directors has any beneficial interest in any connected undertaking of the Society as at the year-end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986.

Biographies of the Board appear on pages 19 to 22.

Capital

Group gross capital at 31st December 2021 was £100.6m (2020: £89.3m) being 6.23% of total shares and borrowings (2020: 5.62%). Free capital at the same date was £90.9m (2020: £81.7m) and 5.63% of total shares and borrowings (2020: 5.15%). An explanation of these ratios can be found in the Annual Business Statement on page 84.

Charitable donations

During the year, the Society made charitable donations amounting to £24,106 (2020: £26,621). No contributions were made for political purposes.

Tangible fixed assets

The Directors consider that the overall market value of the freehold and leasehold properties occupied by the Group, including the principal office of the Society, corresponds to the book value that is included within tangible fixed assets (per Note 17 to the Accounts). In arriving at this view, the Directors have used external valuations of the Group's property portfolio. There is no difference between the book value and the external valuation obtained by the Directors.

Creditor payment policy

The Society's policy is to pay trade creditors within the agreed terms of credit once the supplier has discharged its contractual obligations. At 31st December 2021, the Society had an average of eight days' purchases outstanding in trade creditors (2020: 22 days).

Viability and going concern

The Board regularly engages in a forward planning process where it considers likely future growth, profitability, liquidity and levels of capital both in normal market conditions and various stressed scenarios, including the implications of Brexit and COVID-19 as highlighted on page 16.

The current economic conditions present ongoing risks and uncertainties for all businesses. In response to such conditions, and as required by the Financial Reporting Council, the Directors have carefully considered these risks and the extent to which they might affect the preparation of the Financial Statements on a going concern basis.

Viability assessment

The Society has modelled a number of severe but plausible five year scenarios as part of the latest ICAAP including a climate change stress scenario and the Bank of England-prescribed "double dip" recession scenario. The ICAAP also included a reverse stress test.

The Society's five year Corporate Plan shows that levels of profit for the next few years remain at healthy levels which are capital-sustaining. On the basis of these profit levels and of headroom over minimum capital requirements Management concludes that both the ICAAP and the Corporate Plan support the going concern assumption.

Liquidity stress testing, including reverse stress testing, is modelled annually in the ILAAP and the levels of liquidity and stress scenarios are regularly updated with management meeting to review liquidity as well as reviewing in detail at the monthly ALCO meeting.

Directors' Report

for the year ended 31st December 2021 (continued)

The Society's 2021 ILAAP showed that the Society held adequate liquidity to withstand a 92 day stress. The Society has continued to hold high levels of liquidity throughout 2021 and into 2022 and accordingly does not consider that liquidity levels present any threat to the going concern assumption.

Operational viability has been tested during the pandemic including the ongoing ability to maintain COVID-secure branches and offices and remote working for non-customer facing staff. These measures have worked effectively in maintaining services to Members.

Conclusion

Having reviewed the Society's five year plans and forecasts, including related funding, capital needs and a robust assessment of the principal risks facing the Society, the Directors consider that the Society remains viable and is able to generate adequate profits for regulatory capital requirements and holds sufficient liquidity to maintain its solvency.

The Society has maintained strong liquidity and capital positions since the start of the pandemic and the Directors are satisfied that this will continue. In conclusion they consider that the Society has adequate resources to continue in operational existence and continue to meet its liabilities over the five year planning period and so they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Post balance sheet events

The Directors do not consider that any event since the year end has had a material effect on the position of the Society, or any of its subsidiary undertakings.

Corporate governance

The Board of Directors is committed to best practice in Corporate Governance. The report on pages 23 to 29 explains how the Society has regard to the principles of the UK Corporate Governance Code as far as they are applicable to building societies.

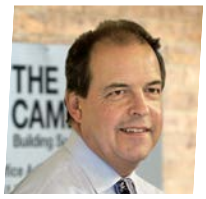
Auditor

The Auditor Mazars LLP has expressed its willingness to continue in office in accordance with Section 77 of the Building Societies Act 1986. A resolution for the reappointment of Mazars LLP as auditor is to be proposed at the Annual General Meeting on 25th April 2022.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

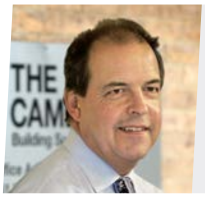
On behalf of the Board of Directors
John Spence,
Chairman

15th March 2022



Board of Directors

for the year ended 31st December 2021



John Spence CBE
Chairman,
Non-Executive Director

John joined The Cambridge in November 2020 and was appointed as Chairman of the Board in April 2021. John also chairs the Nominations Committee.

John has had a distinguished career in financial services, principally with Lloyds TSB where he ended his executive career with a series of Managing Director roles across various parts of the business.

Born and raised in Edinburgh, John excelled as a scholar, spanning across George Watson's College, Trinity College, Dublin, and Harvard Business School.

Today, John has a range of roles, including Non-Executive Directorships, Chair of the property group Spicerhaart, and has previously been a member of the Board at Skipton Building Society. He is also deeply committed to charitable and public service, being cabinet member for Health and Adult Social Care at Essex County Council and Finance Chair for the Church of England Archbishops' Council, and has chaired various disability charities.

John is a proud family man and lives with his wife, Yvonne, in Essex. He has a passion for cooking, swimming, gardening and motorcycling. John has been awarded the MBE, OBE and CBE for services to community, charity and business respectively.

Stephen Jack OBE
Vice Chairman,
Non-Executive Director

Stephen joined the Society as a Non-Executive Director in April 2014 and is Chair of the IT Sub-Committee and a member of the Audit and Risk Committees.

A Fellow of the Institute of Chartered Accountants, Stephen brings more than 30 years' experience in financial services, including senior level positions within global investment banking and broking businesses.

A keen walker and runner, Stephen regularly takes part in his local parkrun (parkrun.org.uk). He is also a keen singer. While at university, Stephen was captain of his University Challenge team, which sadly lost in round one! Nonetheless, Stephen went on to hold board positions in public and not-for-profit sectors that have benefited from his vast knowledge of financial and risk management, internal controls and governance.

In 2014 Stephen was honoured with an OBE, for his services to disabled people.

Pauline Holroyd
Non-Executive Director

Pauline started her career in manufacturing, becoming HR Director for Kimberly Clark European divisions before moving into the service industry as Gatwick Airport HR Director. She later joined the financial service sector, delivering reportedly the largest change programme in the insurance sector for Aviva.

After being HR Director of RAC, seeing it through its separation from Aviva and eventual sale into private equity, Pauline became Global HR Vice-President for the insurance loss-adjusting firm, Crawford & Co. Here she also established an in-house organisational transformation consultancy division, which she then grew further as an independent entity.

Her focus has been on creating the most enabling environment for people to thrive and deliver their best work. She believes that facilitating people to work together to improve performance across the organisational system of work is the best way to deliver superior results for customers.

She is currently Group HR Director for Network Rail, delivering transformational change for the modernisation of Network Rail and transition to Great British Railways.

Pauline is a member of the Audit and Remuneration and Organisational Design Committees.

Board of Directors

for the year ended 31st December 2021 (continued)

Andrew Jones
Non-Executive Director

Andrew has worked in the building society sector for 40 years, a career that supports his passionate belief in the mutual business model, best demonstrated through a local building society with strong ties to the local community.

His experience in senior roles brings a wealth of know-how to our Board as a Non-Executive Director. Most recently engaged as a Risk Director for a major regional society, Andrew is an accomplished Chair of The Cambridge's Risk Committee.

Brought up in Europe, Andrew returns when he can, enjoying city breaks. A family man, with three dogs, three daughters and six grandsons, he sometimes finds time to read crime fiction.

A graduate in Mathematics from Bristol University, Andrew holds qualifications with the Institute of Chartered Secretaries and Administrators and the Chartered Institute of Bankers.

Andrew Morley
Non-Executive Director

Andrew has been a 'champion of the customer' and a 'champion for digital' throughout his career – which started at the Ford Motor Company. Since then he has held several senior leadership roles at Sky Television, Cable & Wireless, Harrods, Google, Motorola and as the CEO of the advertising business, Clear Channel. In 2016, Andrew joined the world's largest international children's charity, World Vision where he serves as its International President and Chief Executive Officer.

Andrew is the Chair of the Remuneration Committee, a member of Nominations Committee and serves as the Senior Independent Director of the Society.

Andrew is also an Ordained Minister in the Church of England. A keen cyclist, he spends his leisure time cycling up mountains, trying to catch up with his wife, Vanessa.

Fiona Hotston Moore
Non-Executive Director

Fiona Hotston Moore joined The Cambridge in November 2018 and brings extensive financial expertise from a career in accountancy, which started in Cambridge at KPMG. Since then she has been a Partner in a number of Top 10 and international firms in London.

Today sees her as a forensic services partner in FRP, a national strategic business advisory firm. Fiona is based in Cambridge and Norwich, where she encourages the team to reach their own potential.

Fiona was attracted to The Cambridge because of our strong reputation, culture and focus on the local market. She is Chair of our Audit Committee and a member of the Nominations Committee. Fiona is married to Graham and has two children (Oliver and Helena), with three dogs and they're all keen runners! They live in Framlingham, Suffolk.

You can find Fiona on social media and she is actively involved with the Samaritans as a listening volunteer and supporting the communities within the local prisons.

Professor Andrew Rice
Non-Executive Director

Professor Andrew Rice joined The Cambridge in February 2020 and has extensive experience in computer technologies including privacy and professional software development. He is a member of the Risk Committee.

In January 2022 Andrew started a new role as Principal Researcher at GitHub Software UK Ltd using artificial intelligence to enhance software engineering. He previously worked in the Department for Computer Science and Technology at the University of Cambridge, where his research in software engineering and related areas is internationally recognised. He also has a strong interest in teaching, and co-founded the Isaac Computer Science and Isaac Physics projects, which provide online learning resources for school children across the UK.

Andrew lives in Cambridge with his family, is a keen squash player and enjoys jogging around The Backs. He also lists Olympic weightlifting among his hobbies, although he admits a call up to Team GB is highly unlikely.

Peter Burrows
Chief Executive Officer

Peter was appointed Chief Executive Officer in October 2019 having joined the Society as Finance Director in 2016. His vision is for The Cambridge to be a thriving, independent, mutual business, dedicated to helping people have a home and being a trusted place for people to save.

He has over 20 years of financial services experience, having held senior roles in both mutual and plc businesses and worked in the UK as well as mainland Europe. As well as ensuring that The Cambridge remains a member-centric, financially secure business, Peter is committed to the further development of our 'Making The Difference' programme aimed at supporting our members and their local communities.

A mathematics graduate of Oxford University, Peter now embraces 'all things Cambridge' as a keen road cyclist and runner alongside the River Cam. A favourite area is around Magdalene Bridge, which for him is where history and modernity meet.

Peter sits on the Nominations Committee and also attends the Audit, Risk and Remuneration & Organisational Design Committees, as well as the IT Sub-Committee.

Richard Brockbank
Chief Financial Officer, Executive Director

Richard joined the Board at The Cambridge in 2020 as Chief Financial Officer and brings a wealth of experience to the role. After graduating from the University of Cambridge and qualifying as a Chartered Accountant, Richard spent 10 years working in early stage venture capital fund management. In 2015, Richard joined the Society as Head of Finance and BI where he has been integral to the delivery of The Cambridge's strategy to deliver sustainable growth focussed on long term benefits to both savers and borrowers.

In Richard's spare time he is a keen photographer. He also loves baking and is a keen (but slow!) cyclist.

Board of Directors

for the year ended 31st December 2021 (continued)

Carole Charter
Chief Commercial Officer, Executive Director

Carole Charter joined the Society in 2003 and since then has held a variety of marketing and customer related roles within the business. She was appointed to Chief Commercial Officer and joined the Board in April 2020. Carole brings a wealth of knowledge and understanding of financial services and the building society sector to the role which encompasses responsibility for marketing, product development, lending and financial support & arrears. Carole has an Accountancy & Financial Management degree from the University of Sheffield. Carole attends the Risk Committee and chairs the Operational & Conduct Risk Committee.

In Carole's spare time she's a big 'foodie' and enjoys cooking up curries and the occasional paella. She would also like to spend more evenings attending the local theatre, the west end and the opera!

Lucy Crumplin
Chief Operating Officer, Executive Director

Lucy Crumplin joined The Cambridge in November 2019 as temporary Head of People and during 2020 became our Chief Operating Officer and member of our Board.

Lucy studied English Literature and Psychology at Cardiff University before joining KPMG and completing an MSc in Human Resources. Her skill in driving business improvement, turning strategy into reality and building positive workplace cultures has grown over more than 20 years in management consultancy and in-house leadership roles. She also has six years' experience as a Non-Executive Director of an NHS Foundation Trust.

Today, Lucy is responsible for ensuring The Cambridge has the operational capability to deliver outstanding customer service, help more people have a home, and make a difference in our community. Her remit includes Customer Engagement – our branch network and customer contact centre – IT and Change, People and Culture, Underwriting, Facilities and Operational Resilience.

Outside of work Lucy can usually be found cheering on her son and daughter at various sports fixtures, walking the dog, or just relaxing in front of the TV.

Corporate Governance Report

for the year ended 31st December 2021

The new UK Corporate Governance Code (the Code) has been introduced for reporting years commencing on or after 1st January 2019. Whilst the Code does not specifically apply to mutual organisations, it is aimed at listed companies, the Prudential Regulation Authority requires the Society to have regard to the Code in establishing and reviewing corporate governance arrangements. As such, this year's report is designed to demonstrate the actions taken under each of the outlined principles.

Board leadership and company purpose

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

The Board sees its role as one of stewardship – running the Society not just for the benefit of current members but also for future generations of members. As such, long-term sustainability forms a key part of planning and investment.

The Society ensures the Board's effectiveness through a considered recruitment process, 360 degree performance evaluation and review of Board minutes and decision-making. The full Board held ten meetings during 2021, which included a Strategy Day. Elsewhere in the Report & Accounts the Chairman has detailed the work, which continued in 2021 to ensure that the Society's strategy remains aligned to its members and wider society through delivery of the Making The Difference commitment to fulfil its purpose – which is to *actively find ways to help people have a home, by supporting people who couldn't buy without our help and working with groups in our community who offer services for shelter and housing.* Through focus on long-term value and relevance to our members we were able to demonstrate this commitment by continuing the Rent to Home initiative together with supporting local charities working to help homeless people in Cambridge. As a mutual, a building society is able to retain any surplus income to strengthen our capital base and deliver innovative solutions, such as Rent to Home and the 2021 top up of £160,000 for the Society's Community Fund.

An entrepreneurial approach is taken by the Society and is demonstrated by leadership in initiatives such as IT Systems and new lending and savings propositions.

The Board comprised seven Non-Executive Directors and four Executive Directors as at 31st December 2021. Recruitment of a Chief Operating Officer during the year will result in Lucy Crumplin being presented for election at the Annual General Meeting in April 2022 to enable the members to have a say in who runs their Society. The Board delegates appropriate levels of authority to five current Board Committees and each Non-Executive Director is a member of one or more of these committees. More information regarding the committees is set out in section C below.

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

The Society's strategic plans through to 2025 and beyond were set out following a Board and Leadership Team review in 2019. Performance against the set objectives is regularly evaluated to ensure the annual targets and business drive are aligned to deliver the goals.

The Society brings its values to life through design of products and projects, ensuring that the working culture enables teams to demonstrate engagement within member interactions.

The Senior Managers and Certification Regime replaced the Approved Persons Regime for building societies in March 2016 and Executive Directors and Non-Executive Directors are certified annually as competent to continue in role. There have been no conduct breaches reported by the Society since the introduction of the Regime.

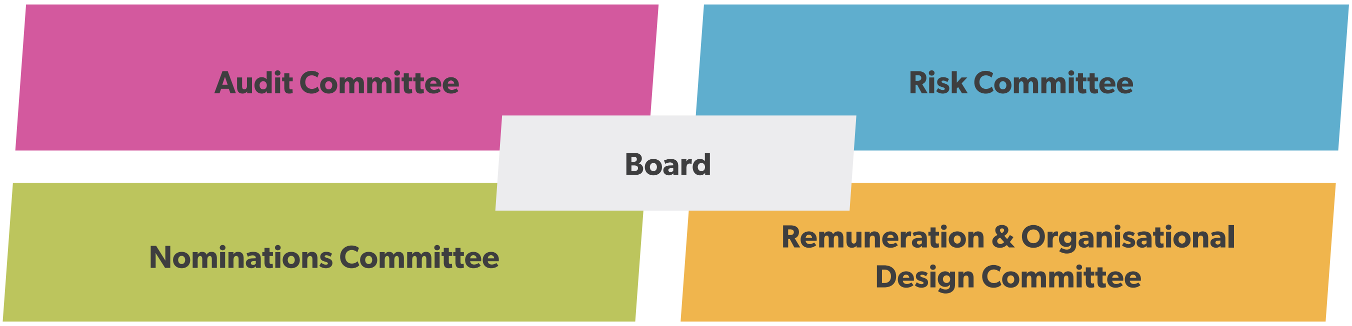
C. The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Board and committee reports provide information on the performance and achievement against objectives for each business function. The leadership team meets regularly to review progress and ensure that targets remain aligned to the business strategy and external environment.

The Board has established a framework of controls through the use of Board Committees to consider specific areas and measures of oversight. The four core Board Committees comprise: Risk Committee, Audit Committee, Remuneration & Organisational Design Committee and Nominations Committee. An additional short-term Board Sub-Committee for the delivery of Information Technology change has been formed and meets regularly with the business to ensure the project remains on track to enhance customer and business efficiencies.

Corporate Governance Report

for the year ended 31st December 2021 (continued)



Each committee is chaired by a Non-Executive Director and the committees' Terms of Reference are reviewed annually by the Board and published on the Society's website. A number of Operational Committees also report into Board Committees.

The External Auditors and Internal Auditors attend each Audit Committee meeting, and Internal Auditors join at least one Board meeting annually.

The Board oversees internal and external risks to the Society and its members through the implementation of a Risk Management Framework which incorporates an assessment of the approach to risk; appetite and controls in place; and details the reporting and escalation processes for all material risks. More information relating to the Framework is contained in section O.

Any areas identified for corrective action by Internal Audit or compliance reviews are tracked through to completion and monitored for improvement.

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 building society, The Cambridge is run for its members rather than the benefit of shareholders. The Society values its status as a thriving independent mutual and engages its members through a number of initiatives each year to ensure that we remain relevant and are delivering to the core values expected. Customer feedback surveys are independently summarised and resulting action plans designed to ensure that the Society continues to focus closely on its responsibility to members. Members were again unable to physically attend the Annual General Meeting (AGM) in 2021 due to COVID-19 restrictions, but were invited to join online and took the opportunity to submit questions for Board response. Results of voting for AGM resolutions are published on the Society's website and members were over 94% in favour of each of the resolutions.

Staff are invited to engage with the Board via Our Forum – the staff representative body which is involved in developing ideas about practices and approaches to help drive the Society's success for the future, informed by team member ideas. Minutes from these meetings are made available to all staff. Staff engagement is also measured through the completion of regular anonymised surveys and feedback escalated for review at leadership team meetings.

Intermediaries form a key relationship with the Society, introducing new customers to us and providing a vital conduit for customer interaction. Regular meetings with intermediaries are conducted by the Business Development Team to gauge satisfaction, and resulting feedback acted upon.

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

The Staff Handbook is regularly reviewed to ensure that the policies and procedures work within best practice guidelines to ensure fairness and consistency, and new methods of working are evaluated for practical adoption. The Handbook is available online for all staff to view, with support available from the People Team.

The Society provides a quarterly forum for joint discussions and examination of areas of concern to the staff and Society through the establishment of Our Forum lead by the Chief Executive. Staff representatives are elected for a maximum two year term, following which they may stand for re-election. The Senior Independent Director is the Society's Whistleblowing Champion and all team members are aware of how to raise concerns with him, anonymously if required, for investigation. In accordance with the FCA Senior Management Arrangements Systems and Controls handbook, an annual summary report covering the operation and effectiveness of the Society's policy in relation to whistleblowing is provided to Board members.

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 Chairman leads each Board meeting and has a Vice-Chairman in place to assume oversight if he is unavailable. The Chairman sets the direction of the Board and promotes a culture of interaction and debate with clear guidance to ensure that the business of the Board is conducted constructively with all members having opportunity for input.

The Board and each of the Board Committees undertakes annual Effectiveness Reviews to ensure that they remain relevant to the core Terms of Reference for their existence. An external independent Evaluation of the Board and its Committees was commissioned late in 2021 and the resulting report and suggested actions will be reviewed by the Board in January 2022.

Board and Committee papers are issued in advance of meetings with explanatory cover papers to aid decision-making. Members of the Leadership Team regularly attend to present updates on relevant projects and items for discussion.

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 comprised seven Non-Executive Directors and four Executive Directors on 31st December 2021 following the departure of Victoria Stubbs, Chief Risk Officer. Andrew Morley is the Senior Independent Director: he oversees the process for annual election of Board Chair and then acts as a sounding board for the Chair during the year.

The Chairman was considered independent upon appointment to the position. All other Non-Executives are considered to be independent and they form a majority on the Board.

The roles of Chairman of the Board and Chief Executive are held by separate individuals with a clear division of responsibilities. The Chairman leads the Board and ensures it discharges its duties and responsibilities to members effectively. The Chief Executive implements the strategies and policies agreed by the Board through the Leadership Team.

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.

During the recruitment search for Non-Executive Directors the interview process outlines the time commitment required and establishes the ability of individuals to undertake their responsibilities. The acceptance of subsequent additional external roles is subject to the approval of Nominations Committee to ensure that there is neither a conflict of interest nor dilution of time available for Society commitment.

When recruiting new Non-Executive Directors, Nominations Committee ensures that there is comprehensive cover within the Board of the required levels of skills and knowledge to enable appropriate challenge and support for Executives.

Non-Executive Directors meet without the Executive Directors at least annually to discuss performance of the Executive team against objectives. Non-Executive members excluding the Chairman meet with the Executive Directors annually to review the performance of the Chairman and feedback to the Chairman is provided by the Senior Independent Director.

Confirmation of regular attendance at Board and Committee meetings is outlined on page 29.

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

The Society's Company Secretary ensures that the Board members have access to appropriate information and resources. A documented system of annually reviewed Delegated Authorities enable appropriate committees or individuals to perform functions on behalf of the Board, although the Board retains overall accountability and responsibility.

Corporate Governance Report

for the year ended 31st December 2021 (continued)

Sufficient time is scheduled for Board and Committee meetings which are regularly briefed by members of the wider leadership team. Papers are issued well in advance, providing the opportunity to seek clarification before or at the meeting.

On appointment to the role members of the Board are made aware of the time commitment expected and further external roles are subject to approval of Nominations Committee to ensure that availability is not eroded.

If necessary, the Board members are able to seek 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.

Following the departure of the Chief Operating Officer in early 2020, the Nominations Committee agreed that this provided an opportunity to split the role between a Chief Operating Officer and Chief Commercial Officer to ensure that additional external knowledge and expertise was brought in to maintain the overall capability of the senior management team, a decision which was also reviewed and agreed by the Remuneration and Organisational Design Committee.

Lucy Crumplin, interim Head of People applied for the role of Chief Operating Officer and was externally evaluated alongside other candidates by Miles Advisory, recruitment consultants in London. Lucy had joined the Society in 2019 to provide maternity cover for the Head of People role, and her previous experience and background resulted in her appointment to the role and subsequently being invited to join the Board. Lucy will stand for election to the Board by the members at the AGM in April 2022. Lucy's profile is detailed within the Report and Accounts.

Following Victoria Stubbs' decision to leave the Society late in 2021, the role of Chief Risk Officer was advertised by Miles Advisory who were again engaged to source suitable candidates for the role. Following an intensive interview process facilitated by the Nominations Committee, Sandhya Kawar joined the Society in early 2022 as CRO.

Each current Director is eligible for re-election to the Board at the Annual General Meeting in April 2022. Pauline Holroyd will, however, be retiring from the Board following the 2022 Meeting.

All appointments are subject to the approval of the Prudential Regulation Authority and Financial Conduct Authority in line with the Senior Managers and Certification Regime, and all candidates have been duly approved.

The People Team has designed the Society's Diversity and Inclusion Policy and considers that appointments for all roles are based on merit. On 31st December the Board and Senior Leadership Team comprised 41% female appointments.

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.

A full review of Board knowledge and skills is completed annually by Nominations Committee. Board members are invited to serve a term of three years on the Board, subject to satisfactory performance. Their service contract may be renewed twice to enable a total of nine years' service. Nominations Committee review an individual's contribution and capacity prior to renewal, to ensure that the Board remains relevant and configured for the identified business challenges ahead. Appointment is subject to approval of the Society's members who vote on the election or biennial re-election of Directors. All member approved re-elections in 2021 were in excess of 97% positive votes.

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.

Nominations Committee commissions an annual external performance review of all Board members. 360 degree feedback is sought and delivered and resulting action plans followed through with the Chairman during individual reviews of performance and contribution. The performance of the Chairman is evaluated by the Senior Independent Director, after seeking feedback from other members of the Board.

Periodic external reviews of Board performance are undertaken to ensure that its composition and achievements remain relevant to business needs. Following a tender process conducted by Nominations Committee, Clare Chalmers of Clare Chalmers Ltd was engaged to conduct an independent external review of the Board in November 2021. Her review included observation of meetings of the Board and each of its committees, individual interviews with each Director, Non-Executive Director, the Company Secretary, the Head of People and the internal and external Auditors. The summary report will be reviewed with the Chairman and Company Secretary prior to presentation to the Board in January 2022. Resulting agreed actions will be tracked through to completion to ensure captured learnings are used to enhance future performance.

Audit, risk and internal control

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

Audit Committee meets at least four times a year. A summary of Committee minutes is presented by the Committee Chair to the following Board meeting and full minutes made available to all Board members.

At least annually the auditors meet the Audit Committee members without the Executive Directors present.

Following their appointment to the role in 2020, Mazars continue to act as External Auditors to the Society.

The production of the Annual Report and Accounts is overseen by members of the Leadership and Finance Teams, with sign off by the Chairman, Chief Executive and Chief Financial Officer following review by the Audit Committee.

Deloitte LLP continue to act as Internal Auditors to the Society, providing independent audit reviews of key Society functions and procedures.

Neither auditors have completed any prohibited non-audit work for the Society during this year.

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 33 sets out the Directors' responsibilities in respect of the preparation of the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts. The Directors' Report contains confirmation that the Society and Group continue to be considered to be a going concern.

The Audit Committee completes a full review of the Annual Report and Accounts and have recommended approval to the Board.

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 Society has established a comprehensive Risk Management Framework to provide an effective method of managing risk.

Corporate Governance Report

for the year ended 31st December 2021 (continued)

The Framework's purpose is to provide a structured and disciplined approach to managing risk, with documented procedures for identification, mitigation and control of material risks to the Society's business. Each business area is responsible for ensuring that appropriate controls are designed, maintained and operate effectively to manage risks. The Board receives regular reporting updates via Risk Committee on the extent and nature of principal risks and the adherence to the Society's risk appetite.

Internal Audit and the Compliance Monitoring Team review business areas to test the effectiveness of the procedures and systems in place, recommending appropriate enhancements and tracking actions through to implementation.

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.

The Directors' Remuneration Report on page 30 sets out the policy of Remuneration & Organisational Design Committee when reviewing Directors' remuneration.

Executive Directors are eligible to participate in the same annual performance award scheme as all team members and receive no additional performance related incentive payments.

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.

Remuneration & Organisational Design Committee is responsible for recommending to the Board the framework or broad policy for the Society's remuneration including that of the Chair and Executive Directors. The Committee reviews Leadership Team remuneration annually to ensure that it is sufficient to attract, retain and motivate individuals whilst balancing Society finances. Executive Directors participate in the Society-wide annual performance award scheme which is designed and approved by Remuneration & Organisational Design Committee.

Nominations Committee agrees the strategic policy for the remuneration of the Society's Non-Executive Directors.

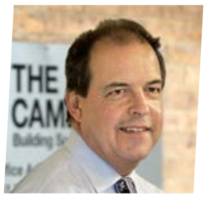
Nobody is involved in deciding their own remuneration outcome.

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

The Society operates an annual scheme which rewards all team members for achieving or exceeding the required level of customer experience and profit targets for the organisation. Remuneration & Organisational Design Committee agrees the scheme targets and reviews performance against objectives to assess whether any pay out should be made, including due regard to compliance, ethical standards, appropriate risk management and financial performance of the Society.

Non-Executive Directors do not receive any element of variable remuneration.

John Spence
15th March 2022



Directors' attendance record

The attendance record for Board members is shown in the table below. The table shows the actual number of meetings attended with the number of meetings for which the Directors were eligible to attend.

Board Member	Board	Audit	Risk	Nominations	Remuneration & Organisational Design	IT Sub-committee
John Spence	10 (10) Ch	–	–	3 (3) Ch	–	–
Andrew Jones	10 (10)	1 (1) A	5 (5) Ch	1 (1) A	–	8 (9)
Andrew Morley	10 (10)	–	–	2 (3)	3 (3) Ch	–
Stephen Jack	10 (10) Vc	5 (5)	5 (5)	3 (3)	–	9 (9) Ch
Pauline Holroyd	10 (10)	4 (5)	–	–	3 (3)	–
Fiona Hotston Moore	10 (10)	5 (5) Ch	–	3 (3)	–	–
Andrew Rice	10 (10)	–	5 (5)	–	–	9 (9)
Peter Burrows	10 (10)	5 (5) A	5 (5) A	3 (3)	3 (3) A	8 (9) A
Richard Brockbank	10 (10)	5 (5) A	5 (5) A	–	–	9 (9)
Victoria Stubbs	10 (10)	5 (5) A	5 (5) A	–	–	7 (8) A
Carole Charter	10 (10)	–	5 (5) A	–	–	–
Lucy Crumplin	10 (10)	–	5 (5) A	–	3 (3) A	8 (8) A

Ch – denotes Chairman

Vc – denotes Vice-Chairman

A – denotes attendee only

( ) – denotes number of meetings eligible to attend

Directors' Remuneration Report

for the year ended 31st December 2021

From **Andrew Morley,** Chair of the Remuneration & Organisational Design Committee

Directors' remuneration

The report on remuneration for the year ended 31st December 2021 considers the areas set out in the UK Corporate Governance Code relating to remuneration in so far as they are considered relevant to building societies, the relevant requirements of the Prudential Regulation Authority's Rulebook and Financial Conduct Authority's Remuneration Code.

The report includes an overview of the context of remuneration for Executive and Non-Executive Directors. All members eligible to vote at the Society's Annual General Meeting will have the opportunity to approve the Annual Report on Remuneration, through an ordinary resolution (non-binding). The 2021 Report received a 94.32% positive vote.

Remuneration in 2021

The Strategic Report and Directors' Report provide an overview of the performance of the Society during 2021. This year the Society has seen a demand for key roles where salaries are pitched at a premium. With companies ensuring to retain roles during the pandemic, entry level role salaries have also increased, which has impacted how we plan our reward structure for 2022.

In 2021 the Remuneration & Organisational Design Committee has undertaken a review and specifically considered the salary ranges within a relatively new Executive Team. The Committee considered the following:

- ensuring the alignment of corporate objectives to those of the Executive Directors and monitoring these during the year
- reviewing the roles and responsibilities of the Executive Directors and the Leadership Team

As part of the UK Corporate Governance Code, the Committee also reviewed salaries of the entire Leadership Team, which includes Heads of Function remuneration.

In line with staff remuneration the Executive Directors received a salary increase on 1st April 2021. The Society's Chief Operating Officer received a further increase at the point of PRA approval as Executive Director. The Society's Chief Financial Officer received an increase on promotion and PRA approval at the start of 2021. No further increase went through for the Society's CFO during the year.

The Remuneration & Organisational Design Committee reviews Executive Director Remuneration annually to ensure that it is sufficient to attract, retain and motivate individuals whilst balancing Society finances.

The remuneration of the Executive Directors is shown on page 32.

Remuneration & Organisational Design Committee

The primary objective of the Remuneration & Organisational Design Committee, under delegated authority from the Board, is to make recommendations to the Board on the general remuneration policy of the Society and specifically on the remuneration of Executive Directors. In addition to this, the Committee is updated on a regular basis on aspects relating to People & Culture at The Cambridge.

The Committee ensures that remuneration is in line with the Society's brand values, corporate objectives, and ambitions.

In addition, the Committee has responsibility for approving the Society's Remuneration Policy and Organisational Design Policy.

In 2021 the Remuneration & Organisational Design Committee met on three occasions. It is made up of two Non-Executive Directors as shown on page 29. The Chief Executive and Chief Operating Officer attend by invitation.

The Society adheres to the requirements of the Remuneration Code as defined by the Regulator. The Non-Executive Directors do not receive any element of variable remuneration.

Information on the Society's other Remuneration Code requirements is set out in the Pillar 3 disclosure published on the Society's website cambridgebs.co.uk, along with the Committee terms of reference.

The Remuneration & Organisational Design Committee's activities in 2021 also included:

- Consideration of the annual pay review and rewards for 2021
- Approval and monitoring of the Society's variable pay scheme 'Sharing in Success', including agreement of the corporate objective

- Reviewing and approving the Society's Remuneration Policy
- Reviewing and approving the Society's Organisational Design Policy
- Reviewing and approving the Society's Board Expenses Policy
- Receiving an update on progress made with People & Culture, which included a specific focus on employee engagement
- Reviewing the Terms of Reference of the Committee
- Receiving an update on our approach to Diversity, Inclusion and Belonging, which included an update on the Society's Gender Pay Gap and progress against our targets with the Women in Finance Charter
- Ensuring compliance with current regulatory requirements and their impact on the organisation.

Remuneration Policy

The Society's remuneration policy governs its approach to salary, benefits and bonus scheme construction. All elements of remuneration are reviewed on an annual basis.

The Society's policy for the reward of Executive Directors and Leadership Team is to ensure that remuneration is aligned to their overall responsibilities and delivery of corporate objectives. This includes ensuring that the delivery of objectives is in line with the Society's view on risk.

A variable pay element, which recognises the importance of customer experience, Society profitability and the financial wellbeing of the organisation is in place for all staff and the Executive Directors participate in this scheme.

Non-Executive Directors

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations.

Remuneration comprises a basic fee with a supplementary payment for the Chairman, Vice Chairman and the Chairs of the Audit, Risk and Remuneration & Organisational Design Committees.

Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not take part in any incentive scheme or receive any other benefits. Non-Executive Directors do not have service contracts with the Society.

Fees are set by the Nominations Committee and no Director takes part in any of the discussion concerning their own fee.

Executive Directors

The remuneration of Executive Directors reflects their responsibilities and roles within the Society. This year it comprised basic salary and various benefits. The Society has no share option scheme and none of the Executive Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of, any connected undertaking of the Society.

Basic salary

Salaries are reviewed on an annual basis and are benchmarked against both the sector and the wider financial services sector.

Sharing In Success Scheme

The Society operates an annual scheme, which rewards all our people for achieving or exceeding the required level of customer experience and profit targets for the organisation. The Executive Directors are part of this scheme to ensure that all team members of the Society are treated the same.

The Sharing In Success scheme is a consistent percentage of base salary for all team members.

The Remuneration & Organisational Design Committee agrees the Scheme on an annual basis and assesses whether any payment should be made, giving due regard to compliance, ethical standards and appropriate risk management.

Pensions

Executive Directors are members of the Society's Group Personal Pension Scheme, details of which are set out in Note 26 on pages 66 to 68.

Benefits

Executive Directors can receive other benefits, including a subsidised mortgage and a private health care scheme, which covers the Executive Directors.

Recruitment policy for Executive Directors

The Committee's approach to salary offers at the stage of recruitment is to pay a salary, that reflects the individual's skills and knowledge. Any new Executive Director's remuneration package will be consistent with our remuneration policy as outlined in this report.

Other Directorships

None of the Executive Directors currently hold any paid external directorships.

Andrew Morley

Chair of the Remuneration and Organisational Design Committee

15th March 2022

Directors' Remuneration Report

for the year ended 31st December 2021 (continued)

	Group & Society 2021					Group & Society 2020				
	Salary (Gross)	Performance related pay	Benefits	Pension contribution	Total 2021	Salary (Gross)	Performance related pay	Benefits	Pension contribution	Total 2020
Non-Executive Directors										
J Spence (Ex-Chairman, retired 15th January 2021)	1,994	–	–	–	1,994	45,692	–	–	–	45,692
John Spence (Chairman, joined the Board 1st November 2020)	46,996	–	–	–	46,996	7,660	–	–	–	7,660
S Jack (Vice-Chairman)	31,702	–	–	–	31,702	31,004	–	–	–	31,004
P Holroyd	26,697	–	–	–	26,697	26,110	–	–	–	26,110
F Hotston Moore	31,702	–	–	–	31,702	31,004	–	–	–	31,004
A Jones	31,702	–	–	–	31,702	31,004	–	–	–	31,004
A Morley	31,702	–	–	–	31,702	31,004	–	–	–	31,004
A Rice (joined the Board 1st February 2020)	26,697	–	–	–	26,697	23,934	–	–	–	23,934
Total	**229,192**	–	–	–	**229,192**	**227,412**	–	–	–	**227,412**
Executive Directors										
S J Mitcham (Chief Executive, retired 31st December 2019)	–	–	–	–	–	–	12,659	–	–	12,659
P Burrows (Chief Executive Officer)	237,220	15,546	997	28,466	282,229	222,091	9,778	1,076	26,651	259,596
R Brockbank (Chief Financial Officer, joined the Board 1st January 2020)	134,979	8,504	2,553	16,198	162,234	121,481	4,961	2,564	14,578	143,584
C Charter (Chief Commercial Officer, joined the Board 1st April 2020)	107,500	6,597	2 ,827	14,680	131,604	75,000	–	2,265	10,012	87,277
L Crumplin (Chief Operating Officer, joined the Board 1st January 2021)	100,833	5,629	1 ,065	12,100	119,627	–	–	–	–	–
A Lucas (Ex-Chief Operating Officer, retired 31st March 2020)	–	–	–	–	–	44,509	8,206	207	4,960	57,882
V Stubbs (Chief Risk Officer, retired 19th November 2021)	134,521	9,147	752	16,848	161,268	130,666	4,908	1,088	16,401	153,063
Total	**715,053**	**45,423**	**8,194**	**88,292**	**856,962**	**593,747**	**40,512**	**7,200**	**72,602**	**714,061**
Total Directors' remuneration	**944,245**	**45,423**	**8,194**	**88,292**	**1,086,154**	**821,159**	**40,512**	**7,200**	**72,602**	**941,473**

Statement of Directors' Responsibilities

for the year ended 31st December 2021

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the annual accounts

The Directors are responsible for preparing the Annual Report, Annual Business Statement, 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 that law they have elected to prepare the Group and Society annual accounts in accordance with UK Accounting Standards and applicable law (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 judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts
- 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 controls

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
- 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 by the Financial Conduct Authority and Prudential Regulation Authority 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 Society'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

to the members of The Cambridge Building Society

From **David Allen,** Senior Statutory Auditor

Opinion

We have audited the annual accounts of The Cambridge Building Society (the Society) and its subsidiaries (the Group) for the year ended 31st December 2021, which comprise the Group and Society Statement of Comprehensive Income, Group and Society Statement of Financial Position, consolidated Statement of Changes in Members' interests, Society Statement of Changes in Members' interests, consolidated Statement of Cashflows and related notes, including a summary of significant accounting policies.

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

In our opinion, the annual accounts:

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31st December 2021 and of the Group's and of the Society's income and expenditure for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

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 annual accounts section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, including 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the annual accounts, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

Our audit procedures to evaluate the Directors' assessment of the Group's and the Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Society's ability to continue as a going concern
- making enquiries of the Directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Society's/Group's future financial performance
- assessing the Group's 5-year Corporate Plan, ICAAP and ILAAP documentation forming the basis of their Going Concern assessment and consideration of whether the stresses applied are appropriate for assessing going concern
- assessing the historical accuracy of forecasts prepared by the Directors, and
- evaluating the appropriateness of the Directors' disclosures in the annual accounts on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least 12 months from when the annual accounts are authorised for issue.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including 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 annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key audit matter	How our scope addressed this matter
Impairment on loans and advances to customers (£1.1m; 2020: £1.8m). Refer to Note 1.16, accounting policy and Note 14 annual accounts disclosures Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year end provisions. The Society has limited actual loss experience on which to base its impairment assessment on the loan portfolio, resulting in management judgement being required in deriving assumptions to be applied in its assessment. The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. The impairment model is most sensitive to movements in the probability of default (PD) and forced sale discounts (FSD) against collateral. The impairment model is also sensitive to other factors applied to by management to take account of the impact of inflation on borrowers' financial resilience and the reducing desirability of energy inefficient homes by considering the energy performance certificate (EPC) ratings.	We performed the following procedures: • We tested the design and the operating effectiveness of the key controls in relation to credit processes (loan origination and approval, loan redemptions, arrears monitoring) • We assessed the reasonableness of external data used in the provisioning model and checked the relevance of this data based on our understanding of the Group's portfolio • We compared the Society's key assumptions with similar lenders and considered whether they are consistent with industry practice • We challenged the reasonableness of the inflation and EPC rating stresses applied in the impairment modelling • We have developed an auditor's estimate of the collective provision using reasonable alternative assumptions relevant to the Society's portfolio **Our observations** Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be acceptable.

Independent Auditor's Report

to the members of The Cambridge Building Society (continued)

Key audit matter	How our scope addressed this matter
Revenue recognition: Effective Interest Rate (EIR) (£1.2m: 2020 £1.2m). Refer to Note 1.16, accounting policy and Note 13 annual accounts disclosures Interest income substantially arises from contractual interest. Under the effective interest rate method, interest earned and fee income and expenses are spread over the expected lives of the loans using the Whistlebrook EIR system. EIR is an inherently subjective area due to the level of judgement required in determining which cash flows require spreading and over what time period. The most significant area where we identified greater levels of management judgement is the expected life and redemption profile of the loans. Its assessment is informed by historical experience and management's retention strategy.	We performed the following procedures: • Assessed the design of the process that management has adopted in respect of approval of the assumptions used in the model • Assessed the reasonableness of the Society's expected life assumptions against actual customer behaviour • Assessed the basis of management's judgements in respect of the cash flows included in the model • We reperformed the EIR calculation in line with accounting standards and compared with management results • We assessed the EIR model for sensitivity to changes in the key assumptions by considering alternative expected lives **Our observations:** Based on work done, we found the resulting estimate of the EIR method of recognising interest income to be acceptable.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual annual account line items and disclosures and in evaluating the effect of misstatements, both individually and on the annual accounts as a whole. Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	Group: £506,000 (2020: £445,000) Society: £506,000 (2020: £445,000)
How we determined it	0.5% of net assets
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the Group and Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, net asset as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators where net assets, is an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. Performance materiality of £354,000 was applied in the audit based on 70% overall materiality.
Reporting threshold	We agreed with the Directors that we would report to them misstatements identified during our audit above £15,200 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the annual accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the Directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the annual accounts as a whole. We used the outputs of a risk assessment, our understanding of the Group and the Society, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit scope included an audit of the Group's and the Society's annual accounts. Based on our risk assessment, we undertook a full scope audit of the Society and undertook specific review procedures on the material balances in the subsidiaries.

At the parent level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The other information comprises the information included in the annual report, other than the annual accounts and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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 Building Societies Act 1986 and regulations made under it
- the information in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts, and
- the information given in the Annual Business Statement (other than the information on which we are not required to report) gives a true representation of the matters in respect of which it is given.

Independent Auditor's Report

to the members of The Cambridge Building Society (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society, or
- the Society's individual annual accounts are not in agreement with the accounting records, or
- we have not obtained all the information and explanations and access to documents we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 33, the Directors are responsible for the preparation of the annual accounts 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 annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Group's and 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 and Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts 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, other irregularities 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 annual accounts.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group, Society and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), anti-money laundering and GDPR.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- gaining an understanding of the legal and regulatory framework applicable to the Group and Society, the structure of the Group, the industry in which they operate, and considering the risk of acts by the Group and Society, which were contrary to the applicable laws and regulations, including fraud
- inquiring of the Directors, management and, where appropriate, those charged with governance, as to whether the Group and Society are in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations
- discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance, and
- focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts based on our general commercial and sector experience, and through discussions with the Directors, inspection of the Group's and Society's regulatory and legal correspondence and review of minutes of Directors and Audit Committee meetings in the year.

We also considered those other laws and regulations that have a direct impact on the preparation of annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates.

Our procedures in relation to fraud included but were not limited to:

- making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud
- gaining an understanding of the internal controls established to mitigate risks related to fraud
- discussing amongst the engagement team the risks of fraud, such as opportunities for fraudulent manipulation of annual accounts, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions, and significant one-off or unusual transactions, and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Directors on 21st July 2020 to audit the annual accounts for the year ended 31st December 2021 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31st December 2020 to 31st December 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or Society and we remain independent of the Group and Society in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit 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 Allen
(Senior Statutory Auditor) for and
on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London

15th March 2022

Annual Accounts 2021

for the year ended 31st December 2021

Statement of Comprehensive Income

	Notes	Group		Society	
		2021 £000	2020 £000	2021 £000	2020 £000
Interest receivable and similar income	2	32,976	31,330	32,976	31,330
Interest payable and similar charges	3	(8,693)	(11,761)	(8,693)	(11,761)
Net interest income		**24,283**	**19,569**	**24,283**	**19,569**
Fees and commissions receivable		387	620	387	620
Fees and commissions payable		(18)	(12)	(18)	(12)
Other operating income		60	180	60	180
Net (loss)/gain from other financial instruments at fair value through profit and loss	4	2,307	(1,192)	2,307	(1,192)
Total net income		**27,019**	**19,165**	**27,019**	**19,165**
Other operating charges		(185)	(434)	(185)	(434)
Administrative expenses	5	(14,324)	(12,645)	(14,414)	(12,645)
Depreciation and amortisation	16/17	(1,106)	(1,291)	(1,106)	(1,291)
Operating profit before impairment losses and provisions		**11,404**	**4,795**	**11,314**	**4,795**
Impairment credit/(loses) on loans and advances	14	726	(52)	726	(52)
Provisions for liabilities	25	(212)	21	(212)	21
Profit before tax		**11,918**	**4,764**	**11,828**	**4,764**
Tax expense	8	(1,876)	(937)	(1,859)	(937)
Profit for the financial year		**10,042**	**3,827**	**9,969**	**3,827**
Other comprehensive income					
Remeasurement of the net defined benefit liability	26	2,160	(2,359)	2,160	(2,359)
Fair value adjustment on available for sale financial instruments		–	(23)	–	(23)
Deferred tax in respect of valuation gains on freehold property		(107)	272	(107)	272
Deferred tax arising on losses / (gains) in the pension scheme		(540)	570	(540)	570
Revaluation gains		481	503	481	503
Total comprehensive income for the year		**12,036**	**2,790**	**11,963**	**2,790**

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the period are attributable to the members of the Society.

The Notes on pages 45 to 83 form part of the financial statements.

Statement of Financial Position

	Notes	Group 2021 £000	Group 2020 £000	Society 2021 £000	Society 2020 £000
Assets					
Liquid assets					
Cash in hand	9	261,327	277,966	261,327	277,966
Treasury bills and similar securities	11	12,791	10,779	12,791	10,779
Loans and advances to credit institutions	10	24,281	53,695	24,253	53,666
Debt securities	11	5,019	–	5,019	–
Derivative financial instrument assets	12	5,632	111	5,632	111
Loans and advances to customers	13	1,403,401	1,345,094	1,403,401	1,345,094
Intangible assets	16	730	1,165	730	1,165
Tangible fixed assets	17	9,779	8,070	9,779	8,070
Investment properties	18	1,190	1,408	1,190	1,408
Other debtors	19	3,560	2,712	3,560	2,712
Total assets		**1,727,710**	**1,701,000**	**1,727,682**	**1,700,971**
Liabilities					
Shares	20	1,366,445	1,347,364	1,366,445	1,347,364
Amounts owed to credit institutions	21	1,001	5,015	1,001	5,015
Amounts owed to other customers	22	246,530	235,307	246,530	235,307
Derivative financial instrument liabilities	12	2,297	12,096	2,297	12,096
Other liabilities	23	2,110	1,362	2,110	1,362
Accruals and deferred income	23	1,983	1,415	2,410	1,768
Deferred tax liability	24	599	474	599	474
Provisions for liabilities	25	372	199	372	199
Retirement benefit obligations	26	5,794	8,461	5,794	8,461
Total liabilities		**1,627,131**	**1,611,693**	**1,627,558**	**1,612,046**
Reserves					
General reserves		81,773	70,694	81,318	70,312
Revaluation reserve		3,819	3,626	3,819	3,626
Core capital deferred shares	31	15,000	15,000	15,000	15,000
Available for sale reserves		(13)	(13)	(13)	(13)
Total reserves attributable to members of the Society		**100,579**	**89,307**	**100,124**	**88,925**
Total reserves and liabilities		**1,727,710**	**1,701,000**	**1,727,682**	**1,700,971**

The Notes on pages 45 to 83 form part of the financial statements.

These accounts were approved by the Board of Directors on 15th March 2022 and signed on its behalf:

John Spence
Chairman

Stephen Jack
Vice Chairman

Peter Burrows
Chief Executive

Annual Accounts 2021

for the year ended 31st December 2021 (continued)

Consolidated Statement of Changes in Members' Interests

2021	General reserve £000	Revaluation reserve £000	Core capital deferred shares £000	Available for sale reserve £000	Total £000
Balance at 1st January	70,694	3,626	15,000	(13)	89,307
Total comprehensive income for the period					
Profit or loss	10,042	–	–	–	10,042
Other comprehensive income	1,620	374	–	–	1,994
Total comprehensive income for the period	**11,662**	**374**	**–**	**–**	**12,036**
Transfers	181	(181)	–	–	–
Issue of core capital deferred shares	–	–	–	–	–
Distribution to the holders of core capital deferred shares	(764)	–	–	–	(764)
Balance at 31st December	**81,773**	**3,819**	**15,000**	**(13)**	**100,579**

2020	General reserve £000	Revaluation reserve £000	Core capital deferred shares £000	Available for sale reserve £000	Total £000
Balance at 1st January	69,374	2,967	15,000	10	87,351
Total comprehensive income for the period					
Profit or loss	3,827	–	–	–	3,827
Other comprehensive income	(1,789)	775	–	(23)	(1,037)
Total comprehensive income for the period	**2,038**	**775**	**–**	**(23)**	**2,790**
Transfers	116	(116)	–	–	–
Issue of core capital deferred shares	–	–	–	–	–
Distribution to the holders of core capital deferred shares	(834)	–	–	–	(834)
Balance at 31st December	**70,694**	**3,626**	**15,000**	**(13)**	**89,307**

Society Statement of Changes in Members' Interests

	2021				
	General reserve £000	Revaluation reserve £000	Core capital deferred shares £000	Available for sale reserve £000	Total £000
Balance at 1st January	70,312	3,626	15,000	(13)	88,925
Total comprehensive income for the period					
Profit or loss	9,969	–	–	–	9,969
Other comprehensive income	1,620	374	–	–	1,994
Total comprehensive income for the period	**11,589**	**374**	**–**	**–**	**11,963**
Transfers	181	(181)	–	–	–
Issue of core capital deferred shares	–	–	–	–	–
Distribution to the holders of core capital deferred shares	(764)	–	–	–	(764)
Balance at 31st December	**81,318**	**3,819**	**15,000**	**(13)**	**100,124**

	2020				
	General reserve £000	Revaluation reserve £000	Core capital deferred shares £000	Available for sale reserve £000	Total £000
Balance at 1st January	68,992	2,967	15,000	10	86,969
Total comprehensive income for the period					
Profit or loss	3,827	–	–	–	3,827
Other comprehensive income	(1,789)	775	–	(23)	(1,037)
Total comprehensive income for the period	**2,038**	**775**	**–**	**(23)**	**2,790**
Transfers	116	(116)	–	–	–
Issue of core capital deferred shares	–	–	–	–	–
Distribution to the holders of core capital deferred shares	(834)	–	–	–	(834)
Balance at 31st December	**70,312**	**3,626**	**15,000**	**(13)**	**88,925**

The Notes on pages 45 to 83 form part of the financial statements.

Annual Accounts 2021

for the year ended 31st December 2021 (continued)

Consolidated Statement of Cash Flows

	Notes	Group	
		2021 £000	2020 £000
Cash flows from operating activities			
Profit before tax		11,918	4,764
Adjustments for			
Depreciation and amortisation		1,106	1,290
(Gain) on disposal of tangible fixed assets		(20)	–
(Gain) on disposal of investment property		(17)	–
Coronavirus Job Retention Scheme grant		–	(101)
Revaluation of investment property		(10)	97
Loans and advances written off net of recoveries		–	–
Decrease in provisions for liabilities		173	(245)
Net (losses)/gains on disposal and amortisation of debt securities		–	(23)
Increase in impairment of loans and advances		(726)	52
(Gain)/losses on derivative financial instruments		(2,285)	1,481
Total		**10,139**	**7,315**
Changes in operating assets and liabilities			
Increase in prepayments, accrued income and other assets		(847)	(521)
Increase/(decrease) in accruals, deferred income and other liabilities		826	125
Increase in loans and advances to customers		(70,616)	(21,588)
Increase in shares		19,081	108,734
Increase/(decrease) in amounts owed to other credit institutions		(4,015)	4,535
(Decrease)/increase in amounts owed to other customers		11,223	(7,941)
Decrease/(increase) in other liquid assets		(7,031)	6,241
Increase in loans and advances to credit institutions		25,674	(212)
Increase/(decrease) in retirement benefit obligation		(1,047)	588
Taxation paid		(1,368)	(912)
Net cash generated by operating activities		**(17,981)**	**96,364**
Cash flows from investing activities			
Purchase of tangible fixed assets		(2,133)	(706)
Disposal of tangible fixed assets		284	–
Disposal of investment property		245	–
Purchase of intangible assets		(30)	(354)
Net cash generated by/(used in) investing activities		**(1,634)**	**(1,060)**
Cash flows from financing activities			
Coronavirus Job Retention Scheme grant		–	101
Distribution to holders of Core Capital Deferred Shares		(764)	(834)
Net cash generated by/(used in) financing activities		**(764)**	**(733)**
Net increase/(decrease) in cash and cash equivalents		**(20,379)**	**94,571**
Cash and cash equivalents at 1st January		**302,567**	**207,996**
Cash and cash equivalents at 31st December		**282,188**	**302,567**
Represented by:			
Cash and balances with the Bank of England	9	261,327	277,966
Loans and advances to credit institutions repayable on demand	10	20,861	24,601
		282,188	**302,567**

The Notes on pages 45 to 83 form part of the financial statements.

Notes

for the year ended 31st December 2021

1. Accounting policies

1.1. General information and basis of preparation

The Cambridge Building Society (the Society) has prepared these Group and Society annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)*. The address of the registered office is given on the back cover of this report.

The Society has also chosen to apply the recognition and measurement provision of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for conformity with the requirements of the Companies Act 2006). The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

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 following exemptions available under FRS 102 in respect of certain disclosures for the parent Society annual accounts have therefore been applied:

- No separate Society Cash Flow Statement with related Notes is included, and
- Key Management Personnel compensation has not been included a second time on the basis that it would be identical for both Group and Society.

The Society has taken advantage of exemption, under the terms of FRS 102, not to disclose related party transactions with wholly owned subsidiaries within the Group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Changes in accounting policies relating to the interest benchmark reform

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which were also enacted into FRS 102, modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks e.g. LIBOR are amended as a result of the ongoing interest rate benchmark reforms. The IASB has issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform.

In August 2020 the ISAB issued Interest Rate Benchmark reform Phase 2. These amendments (effective for years beginning after 1st January 2021, but with early adoption permitted) address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The amendments allow for modifications to be made to financial instruments to the extent that they are necessary to implement IBOR reform and where the new basis for calculating cash flows is economically equivalent to the previous basis.

Phase 2 reliefs

Both IAS 39 and IFRS 9 require hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Documentation in support of hedge accounting must be amended to reflect the changes and any changes in the fair value of the hedging instrument or the hedged risk are recognised immediately in the income statement. The Society has adopted Phase 2 for the year ended 31st December 2021.

The relief permitted the Society to amend its existing derivative contracts without the requirement to de-designate from their existing hedging relationship, which would otherwise have been required under IAS 39, providing the amendments were made on an economic equivalent basis. In September 2021 the Society completed the transition of all of its remaining LIBOR-linked interest rate swap contracts to SONIA-linked contracts on an economic equivalent basis and applied the IBOR Phase 2 reliefs to maintain all existing hedging relationships. The Assets and Liabilities Committee reviewed arrangements for the transition and noted that the process was designed in order that the impact on the Society's interest rate risk management and reported results should be minimal.

At 31st December 2021 the Society has an unmatched LIBOR-linked exposure of £23,306 due to contracts which terminate with final interest payment all on or before 31st March 2022.

Notes

for the year ended 31st December 2021 (continued)

1.2. Measurement convention

The annual accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: freehold property, investment property, derivative financial instruments and hedged items in designated hedging relationships and financial instruments classified at fair value through the profit or loss (FVTPL) or available-for-sale.

1.3. Basis of consolidation

The consolidated annual accounts include the annual accounts of the Society and its subsidiary undertakings made up to 31st December 2021. A subsidiary is an entity that is controlled by the parent. Control is established when the Society has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The results of subsidiary undertakings are included in the consolidated statement of comprehensive income from the date that control commences until the date that control ceases.

1.4. Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the Statement of Comprehensive Income and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis.

Fair value changes on derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the income statement.

1.5. Fees and commissions

Fees and commission income and expenses that are directly attributable to the acquisition or issue of the financial asset or financial liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed.

1.6. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts. Deferred tax assets and liabilities are recognised gross on the statement of financial position and deferred tax assets are only recognised where it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Both current and deferred taxes are determined using tax rates enacted or substantively enacted at the balance sheet date.

1.7. Financial instruments

Recognition

The Group initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

The Group classifies its financial assets into one of the following categories:

- *Loans and receivables*

  Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

  Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see 1.4).

- *Available for sale*

  Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial asset. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

  Interest income on debt securities is recognised in profit or loss using the effective interest method (see 1.4). Impairment losses are recognised in profit or loss.

  Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the available-for-sale reserve. When the investment is sold, the gain or loss accumulated in available-for-sale reserve is reclassified to profit or loss.

- *At fair value through profit and loss*

  The Group uses derivatives only for risk management purposes. Derivatives are measured at fair value in the statement of financial position. Any gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

  On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent.

  Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability, such as fixed rate mortgages and savings products, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged. If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Financial liabilities

Non-derivative financial liabilities, which includes the Group's shares, deposits and wholesale borrowings, are measured at amortised costs with interest recognised using the effective interest method. Derivative financial liabilities are recognised at fair value on inception with movements in fair value being recognised in the profit and loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Identification and measurement of impairment

Throughout the year and at year end, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Notes

for the year ended 31st December 2021 (continued)

Objective evidence that a financial asset is impaired includes:

- significant financial difficulty of the borrower or issuer
- default or delinquency by a borrower
- the renegotiating of a loan or advance by the Group on terms less favourable to the Group
- indications that a borrower or issuer will enter bankruptcy or other financial reorganisation, and
- any other information discovered during regular review suggesting that a loss is likely in the short to medium-term.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group analyses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in the income statement and reflected in a provision against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through the income statement.

Forbearance strategies and renegotiated loans

A range of forbearance options is available to support customers in financial difficulty. These are designed to achieve the best outcome for the customer and the Society by dealing with borrowers' financial difficulties at an early stage. These may include:

- reduced monthly payment
- an arrangement to clear outstanding arrears (a repayment plan)
- capitalisation of arrears
- conversion of terms from repayment to interest only, and
- extension of the mortgage term.

These accounts are subject to ongoing monitoring to ensure that the forbearance measures remain appropriate.

1.8. Cash and cash equivalents

For the purposes of the Cash Flow Statements, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Cash Flow Statements have been prepared using the indirect method.

1.9. Tangible fixed assets

Leasehold properties, motor vehicles, office and computer equipment are held at historical cost less accumulated depreciation and impairment losses.

Freehold properties are stated at revalued amounts, being the fair value, determined by market-based evidence at the date of valuation, less any depreciation subsequently accumulated and subsequent impairment.

Full valuations are completed at least every five years followed by interim valuations three years later. The Directors review the valuations to confirm that they remain appropriate in the intervening years.

Increases in valuations of freehold properties are credited to the revaluation reserve except to the extent that they reverse previous impairment losses recognised in the Income Statement for the same assets, in which case they are credited to the Income Statement. Decreases in valuations are recognised in the Income Statement except to the extent that they reverse amounts previously credited to the revaluation reserve for the same assets, in which case they are recognised in the revaluation reserve.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, or example capitalised costs of refurbishment are treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives are as follows:

- **Freehold buildings**
  50 years
- **Short leasehold premises**
  over the remainder of the lease
- **Office, computer equipment and motor vehicles**
  four to five years

The Society assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation methods, useful lives and residual values are also reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

1.10. Intangible assets

Intangible assets comprise purchased software and costs directly associated with the development of computer software where the asset will generate future economic benefits and where costs can be reliably measured.

Intangible assets are stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- **Software and capitalised development costs**
  five years

The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Intangible assets are regularly tested for impairment. An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

1.11. Investment property

Investment properties include those portions of freehold land and buildings owned by the Society that are held to achieve rental income, capital appreciation or both. Investment properties are initially recognised at cost and subsequently carried at fair value, determined by independent professional valuers on an open market value basis. Changes in fair values are recognised in the income statement. The cost of renovations or improvements is capitalised and the cost of maintenance, repairs and minor improvements is recognised in the income statement when incurred. No depreciation is charged on investment properties. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in the income statement.

1.12. Employee benefits

Pension schemes

The Group operated a contributory defined benefit scheme until 31st December 2009 when it was closed to future service accrual. The assets are held in a separate trustee administered fund. Included within the statement of financial position is the Group's net obligation calculated as the present value of the defined benefit obligation less the fair value of plan assets less any unrecognised past service costs. Any re-measurements that arise are recognised immediately in other comprehensive income through the statement of comprehensive income. The finance cost is recognised within finance income and expense in the income statement. The finance cost is the increase in the defined benefit obligation which arises because the benefits are one period closer to settlement.

Contributions are transferred to the trustee administered fund on a regular basis to secure the benefits provided under the rules of the scheme. Pension costs are assessed in accordance with the advice of a professionally qualified actuary.

The Group also operates a contributory defined contribution pension scheme. The assets for this scheme are also held separately from those of the Group. For this scheme the cost is charged to the income statement as contributions become due.

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Notes

for the year ended 31st December 2021 (continued)

1.13. Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.14. Term Funding Scheme (TFS) and Term Funding Scheme with additional incentives for SMEs (TFSME)

In order for the Society to access funding from the Government's TFS and TFSME it has to pledge mortgage assets as collateral to the Bank of England.

As the risk and reward of ownership of the mortgage assets remains with the Society, these assets are retained on its balance sheet. The interest receivable on these assets continues to be the Society's and is accounted for as earned on an accruals basis.

1.15. Equity instruments

Issued financial instruments are classified as equity instruments where the contractual arrangement with the holder does not result in the Group having a present obligation to deliver cash or to transfer any other value. Accordingly, the Society's Core Capital Deferred Shares are treated as equity instruments.

Distributions to the holders of equity instruments are recognised when they are paid and are deducted from the General Reserve.

1.16. Accounting estimates and judgements

The Society makes estimates and judgements which affect the assets and liabilities reported in its Statement of Financial Position. These estimates and judgements are based upon historical experience and expectations of future events, and are kept under continual review. The Society's key assumptions are described below.

Accounting estimates

a) Impairment losses on loans and advances to customers

The Society holds provisions for impairment losses against loans on an individual and collective basis. The level of impairment requires a significant degree of judgement and estimation. Provisions are calculated using the historic loss experience of the Society, as well as external indicators, however a number of assumptions are required, such as realisable values and customer behaviour.

This year the Society has made adjustments to reflect the estimated impact of unemployment and the rising cost of living upon the probability that loans will default. Although these adjustments are based upon credible data from the Office of National Statistics, they are nevertheless subjective. If no such adjustments had been made then the impairment provision would be reduced by approximately £260,000.

The carrying value of loans and advances to customers at 31st December is £1.4bn.

b) Defined benefit pension scheme

The Society makes significant judgements in the estimation of the defined benefit scheme liability. Significant judgements on areas such as future interest rates, future inflation or mortality rates have to be exercised in estimating the value of the assets and liabilities of the Society's defined benefit pension scheme. The assumptions used are set out in Note 26 to the accounts. The value of the pension scheme liabilities is most sensitive to the discount rate used.

An increase of 0.1% in the discount rate applied would reduce the scheme's liabilities and therefore the net deficit by approximately £500,000. Similarly, a decrease of 0.1% in the discount rate would increase the deficit by approximately £500,000.

The carrying value of the retirement benefit obligations at 31st December 2021 is £5.8m.

c) Property valuation

Land and buildings and investment property are measured at fair value with a valuation exercise carried out annually by an independent external valuer in accordance with the RICS Global Standards 2017 Edition (the Red Book). The Society considers the methodology and assumptions used by the independent external valuers to be supportive, reasonable and robust, the final valuation may be different to one that would have been used had there been a ready market for an identical property. The carrying value of the land and buildings and investment property at 31st December 2021 is £8.1m.

Judgement

Expected mortgage life

The calculation of an effective interest rate requires judgements regarding the expected life of the underlying mortgage assets. The expected life of mortgage assets is derived using a combination of historical data and management judgement and is reviewed periodically throughout the year and reassessed against actual performance. Any changes to the expected life would result in an adjustment to the carrying value of the mortgages, calculated as the present value of the revised cashflows discounted at the original effective interest rate, recognised immediately in the income statement as described in Note 1.4. Should the actual average life of a mortgage be 0.5 months shorter than that assumed, interest income for 2021 would increase by approximately £200,000.

1.17. Making The Difference – Rent to Home

Amounts expected to be paid out under the Society's "Rent to Home" scheme are not recognised as rental income and are instead held within other liabilities.

2. Interest receivable and similar income

	Group & Society	
	2021 £000	2020 £000
On loans fully secured on residential property	36,224	33,455
On other loans	486	651
On debt securities	9	-
On liquid assets	340	699
Net interest expense on derivatives	(4,083)	(3,445)
	32,976	**31,330**

3. Interest payable and similar charges

	Group & Society	
	2021 £000	2020 £000
On shares held by individuals	8,332	11,063
On other shares	45	64
On deposits and other borrowings	316	634
	8,693	**11,761**

4. Net profit/(loss) from other financial instruments at fair value through profit and loss

	Group & Society	
	2021 £000	2020 £000
Derivatives in designated fair value hedge relationships	15,266	(5,811)
Movement in fair value of hedged items	(13,035)	4,623
Loss on financial instruments not in designated hedge relationships	76	(4)
	2,307	**(1,192)**

Notes

for the year ended 31st December 2021 (continued)

5. Administrative expenses

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Wages and salaries	6,841	5,910	6,841	5,910
Social security costs	707	629	707	629
Contributions to defined contribution plans	839	788	839	788
Expenses related to defined benefit plans	110	123	110	123
	8,497	**7,450**	**8,497**	**7,450**
Other administrative expenses	5,827	5,195	5,917	5,195
	14,324	**12,645**	**14,414**	**12,645**

The remuneration of the external auditor, which is included within other administrative expenses above, is set out below (excluding VAT):

	Group & Society	
	2021 £000	2020 £000
Audit of these annual accounts	191	182
Other services	38	28
	229	**210**

6. Employee numbers

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Group & Society	
	2021	2020
Executive Directors	5	5
Non-Executive Directors	7	7
Principal office and administration centre	152	137
Branch offices	61	61
	225	**210**

	Full-time	Part-time
Executive Directors	4	1
Non-Executive Directors	–	7
Principal office and administration centre	117	35
Branch offices	34	27
	155	**70**

7. Directors' remuneration

Directors' emoluments are set out within the Directors' Remuneration Report on pages 30 to 32.

Total Directors' emoluments for the year amounted to £1,086,154 (2020: £941,473). Details of Director loans and transactions are shown in Note 30.

8. Taxation

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Current tax	2 ,326	844	2,309	844
Adjustments for prior years	(18)	(11)	(18)	(11)
	2,308	833	2,291	833
Deferred tax (Note 24)	(432)	104	(432)	104
Total tax expense	**1,876**	**937**	**1,859**	**937**

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1st April 2017 and to 17% from 1st April 2020. The rate reduction to 17% was subsequently reversed by the Finance Act 2020, such that the main rate of UK corporation tax from 1st April 2021 remains at 19%. The Finance Act 2021 confirmed an increase of UK corporation tax rate from 19% to 25% with effect from 1st April 2023 and this was substantively enacted by the statement of financial position date and therefore included in these financial statements. Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Profit before taxation	**11,918**	**4,764**	**11,828**	**4,764**
Expected tax at 19% (2020: 19%)	2,264	905	2,247	905
Fixed asset differences	49	52	49	52
Expenses not deductible for corporation tax purposes	14	39	14	39
Chargeable gains/(losses)	(61)	(58)	(61)	(58)
Effect of tax change in tax rate on deferred tax (current movements)	(220)	15	(220)	15
Pension movements	(130)	–	(130)	–
Prior year DT movement including rate change	(22)	(5)	(22)	(5)
Adjustments for prior years – current tax	(18)	(11)	(18)	(11)
Tax expense for the year	**1,876**	**937**	**1,859**	**937**

Notes

for the year ended 31st December 2021 (continued)

9. Cash and cash equivalents

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Cash in hand	261,327	277,966	261,327	277,966
Loans and advances to credit institutions (see Note 10)	20,861	24,601	20,833	24,572
Cash and cash equivalents per cash flow statements	**282,188**	**302,567**	**282,160**	**302,538**

10. Loans and advances to credit institutions

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Total loans and advances to credit institutions	24,281	53,695	24,253	53,666
Total included within cash and cash equivalents	20,861	24,601	20,833	24,572

11. Debt securities

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Floating rate notes	12,791	10,779	12,791	10,779
UK gilts	5,019	–	5,019	–
	17,810	**10,779**	**17,810**	**10,779**
Transferable debt securities comprise:				
Listed	12,791	10,779	12,791	10,779
	12,791	**10,779**	**12,791**	**10,779**
Market value of listed transferable debt securities	**12,791**	**–**	**12,791**	**–**

Of this total £5,019,000 (2020: £nil) is attributable to fixed income debt securities.

Movements in debt securities during the year are summarised as follows:

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
At 1st January	10,779	17,020	10,779	17,020
Additions	7,031	57,862	7,031	57,862
Disposals and maturities	–	(64,080)	–	(64,080)
Net gains (losses) from changes in fair value recognised in other comprehensive income	–	(23)	–	(23)
At 31st December	**17,810**	**10,779**	**17,810**	**10,779**

12. Derivative financial instruments

	Group & Society			
	2021		2020	
	Positive market value £000	Negative market value £000	Positive market value £000	Negative market value £000
Derivatives designated as fair value hedges:				
Interest rate swaps	5,553	(2,174)	5	(11,870)
Unmatched derivatives				
Interest rate swaps	79	(123)	106	(226)
	5,632	**(2,297)**	**111**	**(12,096)**

13. Loans and advances to customers

	Group & Society	
	2021 £000	2020 £000
Loans fully secured on residential property	1,398,925	1,327,553
Loans fully secured on land	7,707	8,391
Fair value adjustment for hedged risk	(3,342)	9,693
Effective interest rate adjustment	1,162	1,234
Allowance for impairment	(1,051)	(1,777)
	1,403,401	**1,345,094**

Notes

for the year ended 31st December 2021 (continued)

14. Allowance for impairment

	Group & Society 2021		
	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
Individual provision			
At 1st January 2021			
Individual impairment	128	–	128
Collective impairment	1,518	131	1,649
	1,646	**131**	**1,777**
Amounts written off during the year, net of recoveries			
Individual impairment	–	–	–
Collective impairment	–	–	–
	–	**–**	**–**
Income statement			
Impairment losses on loans and advances			
Individual impairment	77	–	77
Collective impairment	(801)	(2)	(803)
	(724)	**(2)**	**(726)**
At 31st December 2021			
Individual impairment	205	–	205
Collective impairment	717	129	846
	922	**129**	**1,051**

	Group & Society 2020		
	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
Individual provision			
At 1st January 2020			
Individual impairment	464	58	522
Collective impairment	1,117	86	1,203
	1,581	**144**	**1,725**
Amounts written off during the year, net of recoveries			
Individual impairment	–	–	–
Collective impairment	–	–	–
	–	**–**	**–**
Income statement			
Impairment losses on loans and advances			
Individual impairment	(336)	(58)	(394)
Collective impairment	401	45	446
	65	**(13)**	**52**
At 31st December 2020			
Individual impairment	128	–	128
Collective impairment	1,518	131	1,649
	1,646	**131**	**1,777**

Notes

for the year ended 31st December 2021 (continued)

15. Investments in subsidiary undertakings

	Society	
	2021 £000	2020 £000
Loans	–	–

The undertakings in which the Group's and Society's interest at the year end is more than 20% are as follows.

	Registered office address	Country of incorporation	Registered number	Principal activity	Class of shares	Proportion of nominal value owned by the Society
Cambridge IT Services Ltd.	51 Newmarket Road, Cambridge CB5 8EG	England	2599581	Holding company for the entities listed below	Ordinary	100%
Cambridge Property Services Ltd.	51 Newmarket Road, Cambridge CB5 8EG	England	3234360	Ownership of Group properties	Ordinary	100%
Cambridge Services Ltd.	51 Newmarket Road, Cambridge CB5 8EG	England	3234363	Ownership of Group properties	Ordinary	100%

16. Intangible assets

Intangible assets comprise purchased software and costs directly associated with the implementation of computer software where the asset will generate future economic benefits and where costs can be reliably measured. Amortisation is charged against these assets when they become ready for use by the business over estimated useful lives of five years.

	Group & Society
	£000
Cost	
Balance at 1st January 2021	5,199
Acquisitions	30
Disposals	–
Balance at 31st December 2021	**5,229**
Amortisation and impairment	
Balance at 1st January 2021	4,034
Amortisation for the year	465
Disposals	–
Balance at 31st December 2021	**4,499**
Net book value	
At 1st January 2021	**1,165**
At 31st December 2021	**730**

17. Tangible fixed assets

	Group			
	Freehold £000	Leasehold (short) £000	Motor vehicles, office and computer equipment £000	Total £000
Cost				
Balance at 1st January 2021	6,978	1,446	6,468	14,892
Acquisitions	1,269	672	192	2,133
Disposals	(272)	–	–	(272)
Revaluation	244	–	–	244
Balance at 31st December 2021	**8,219**	**2,118**	**6,660**	**16,997**
Depreciation and impairment				
Balance at 1st January 2021	90	788	5,944	6,822
Depreciation charge for the year	245	93	303	641
Disposals	(8)	–	–	(8)
Revaluation	(237)	–	–	(237)
Balance at 31st December 2021	**90**	**881**	**6,247**	**7,218**
Net book value				
At 1st January 2021	**6,888**	**658**	**524**	**8,070**
At 31st December 2021	**8,129**	**1,237**	**413**	**9,779**

Notes

for the year ended 31st December 2021 (continued)

17. Tangible fixed assets (continued)

	Society			
	Freehold £000	Leasehold (short) £000	Motor vehicles, office and computer equipment £000	Total £000
Cost				
Balance at 1st January 2021	6,888	1,446	5,921	14,255
Acquisitions	1,269	672	192	2,133
Disposals	(272)	–	–	(272)
Revaluation	244	–	–	244
Balance at 31st December 2021	**8,129**	**2,118**	**6,113**	**16,360**
Depreciation and impairment				
Balance at 1st January 2021	–	788	5,397	6,185
Depreciation charge for the year	245	93	303	641
Disposals	(8)	–	–	(8)
Revaluation	(237)	–	–	(237)
Balance at 31st December 2021	**–**	**881**	**5,700**	**6,581**
Net book value				
At 1st January 2021	**6,888**	**658**	**524**	**8,070**
At 31st December 2021	**8,129**	**1,237**	**413**	**9,779**

Freehold land and buildings were professionally valued by Carter Jonas, Chartered Surveyors, on an existing use basis as at 31st December 2021. This valuation was £8,129,000 compared to a previous net book value of £6,889,000. Freehold and leasehold costs of £2,133,000 were incurred in the year.

Had freehold land and buildings been valued on the historical cost basis at 31st December 2021, the net book value would have been £4,781,659 and depreciation charged to the income statement would have been reduced by £132,956.

18. Investment properties

	Group & Society	
	2021 £000	2020 £000
At 1st January	1,408	1,505
Disposals	(228)	–
Fair value adjustment	10	(97)
At 31st December	**1,190**	**1,408**

Investment properties are generally offices and retail premises ancillary to the Society's branches and are not used by the Society. Investment properties are held at valuation and were professionally valued by Carter Jones, Chartered Surveyors, on an open market value basis as at 31st December 2021.

The total future minimum lease payments receivable under non-cancellable operating leases relating to investment properties were as set out below:

	Group & Society	
	2021 £000	2020 £000
Within 1 year	56	59

19. Other debtors

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Prepayments and accrued income	2,043	1,105	2,043	1,105
Deferred tax assets (Note 24)	1,517	1,607	1,517	1,607
	3,560	**2,712**	**3,560**	**2,712**

Notes

for the year ended 31st December 2021 (continued)

20. Shares

Shares are held by individuals or for groups such as charities, councils, and clubs. In the ordinary course of business the repayment of share balances from the date of the statement of financial position is as follows:

	Group & Society	
	2021 £000	2020 £000
Accrued Interest	64	53
On demand	991,844	949,772
Within 3 months	34,147	33,267
Within 1 year	138,103	90,933
Within 5 years	202,287	273,339
	1,366,445	**1,347,364**

21. Amounts owed to credit institutions

In the normal course of business deposits owed to credit institutions are repayable from the date of the statement of financial position as follows:

	Group & Society	
	2021 £000	2020 £000
Accrued Interest	1	15
On demand	500	1,000
Within 3 months	–	2,500
Within 1 year	500	1,500
Within 5 years	–	–
	1,001	**5,015**

22. Amounts owed to other customers

In the normal course of business deposits owed to other customers are repayable from the date of the statement of financial position as follows:

	Group & Society	
	2021 £000	2020 £000
Accrued Interest	86	104
On demand	45,467	49,253
Within 3 months	9,258	14,935
Within 1 year	18,719	50,924
Within 5 years	173,000	120,091
	246,530	**235,307**

23. Other liabilities

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Corporation tax	1,662	733	1,662	733
Creditors	448	629	448	629
Total other liabilities	**2,110**	**1,362**	**2,110**	**1,362**
Accruals	**1,983**	**1,415**	**2,410**	**1,768**

Notes

for the year ended 31st December 2021 (continued)

24. Deferred tax assets and liabilities

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Movement on deferred tax asset				
At 1st January	1,607	1,229	1,607	1,229
Income statement credit/(charge)	450	(192)	450	(192)
Recognised directly in other comprehensive income	(540)	570	(540)	570
Asset (at 31st December)	**1,517**	**1,607**	**1,517**	**1,607**
The deferred tax asset is attributable to the following items:				
Pension and other post retirement benefits	1,511	1,608	1,511	1,608
Other timing differences	6	(1)	6	(1)
Total deferred tax asset	**1,517**	**1,607**	**1,517**	**1,607**
Movement on deferred tax liability				
At 1st January	(474)	(834)	(474)	(834)
Income statement credit/(charge)	(18)	88	(18)	88
Recognised directly in other comprehensive income	(107)	272	(107)	272
Liability at 31st December	**(599)**	**(474)**	**(599)**	**(474)**
The deferred tax liability is attributable to the following items:				
Accelerated capital allowances	(316)	(304)	(316)	(304)
Chargeable gains	(283)	(170)	(283)	(170)
Total deferred tax liability	**(599)**	**(474)**	**(599)**	**(474)**

The net deferred tax asset expected to reverse in 2022 is £917,962. This primarily relates to the deferred tax on pension and other post retirement benefit obligations.

Deferred tax balances at 31st December 2021 have been calculated based on the relevant prevailing rates.

25. Provisions

	Group & Society			
	Onerous lease and dilapidations £000	FSCS levy £000	Other £000	Total £000
Balance at 1st January 2021	159	40	–	199
Paid in year	(39)	–	–	(39)
Net charge for year	212	–	–	212
Balance at 31st December 2021	**332**	**40**	**–**	**372**

Onerous lease and dilapidation

The £212,000 charge for dilapidations relates to the Society's obligations under leased contracts for branches and stores. The cost is charged to profit and loss as the obligation arises. The provision is expected to be utilised between 2022 and 2031 as the leases terminate.

Financial Services Compensation Scheme levy

The Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The levies currently relate to claims events in 2008 and 2009. The levies are based on its share of protected deposits in relation to the total UK market.

The FSCS cost consists of two levies, a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme. The compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

As at 31st December 2021, the Society has a provision of £40,000 comprising management expense levies for scheme year 2019/2020. In accordance with FSCS guidance, and consistent with the previous year, the 31st December 2021 provision does not include any estimate for management expenses or compensation levies for future scheme years beyond 2020/2021.

Notes

for the year ended 31st December 2021 (continued)

26. Pensions

With effect from 1st January 2010 the Society established a Group Personal Pension Plan with Aviva for all Society staff.

The previous trust-based defined benefit and defined contribution schemes were closed on 31st December 2009. No benefits have accrued since 31st December 2009. Pension benefits for deferred members are based on the member's final pensionable salaries and service at the date the accrual ceased (or date of leaving if earlier). The funds in these schemes are still under the control of the trustees for all deferred and retired members. The trustees also oversee the management and payment of the deficit plan for the defined benefit scheme. The assets of all these schemes are held separately from the assets of the Society in independently administered funds.

The Trustees are required to carry out an actuarial valuation every three years. The last actuarial valuation of the Plan was performed by the Scheme Actuary for the Trustees as at 31st December 2019. This valuation revealed a funding shortfall of £2.3 million. In order to correct this shortfall, the Trustees and Society agreed that the Society would pay £616,800 per annum, in equal monthly instalments, to the Plan until December 2024. The Society therefore expects to pay £616,800 to the Plan during the accounting year beginning 1st January 2022. The Society will also meet ongoing running expenses directly.

The results of the 31st December 2019 valuation have been updated to 31st December 2021 by a qualified independent actuary. The following disclosures are required under FRS 102:

Significant actuarial assumptions

	Group & Society	
	2021	2020
Discount rate	1.90% pa	1.35% pa
RPI inflation	3.20% pa	2.70% pa
CPI inflation	2.80% pa	2.30% pa

Other actuarial assumptions

	Group & Society	
	2021	2020
Rate of increases to pensions in payment:		
RPI inflation limited to 5% pa	3.10% pa	2.70% pa
RPI inflation limited to 2.5% pa	2.20% pa	2.10% pa
Revaluation of deferred pensions:		
CPI inflation limited to 5% pa	2.80% pa	2.30% pa
CPI inflation limited to 2.5% pa	2.50% pa	2.30% pa

In valuing the liabilities of the pension fund at 31st December 2021, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial tables and include allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year-old to live for a number of years as below:

Life expectancies (in years)

	2021		2020	
	Males	Females	Males	Females
For an individual aged 65 in 2021	21.7	24.1	21.8	24.1
At age 65 for an individual aged 45 in 2021	22.7	25.2	22.8	25.2

Reconciliation of Plan's assets and defined benefit obligation (£000)

	Assets	Defined benefit obligation	Total
	£000	£000	£000
At 1st January 2021	22,558	(31,019)	(8,461)
Benefits paid:			
Pensions	(401)	401	–
Transfers	(903)	903	–
Tax-free cash lump sums	(34)	34	–
Employer contributions	617	–	617
Interest income/(cost)	306	(416)	(110)
Actuarial gains/(losses): Change of basis	–	2,021	2,021
Actuarial gains/(losses): Experience	–	(323)	(323)
Return on assets excluding interest income	462	–	462
At 31st December 2021	**22,605**	**(28,399)**	**(5,794)**

Notes

for the year ended 31st December 2021 (continued)

26. Pensions (continued)

Assets

	Group & Society	
	2021 £000	2020 £000
The fair value of the assets of the Plan were:		
Asset class		
Absolute Return Fund	17,951	16,246
Liability driven investment portfolio	5,289	6,127
Cash and net current liabilities	(744)	68
Annuities	109	117
Total	**22,605**	**22,558**
The return on the assets was:		
Interest income	306	412
Return on assets less interest income	462	1,738
Total return on assets	**768**	**2,150**
Reconciliation to the Statement of Financial Position (balance sheet)		
Market value of assets	22,605	22,558
Present value of defined benefit obligation	(28,399)	(31,019)
Pension asset/(liability) recognised in the Statement of Financial Position before allowance for deferred tax	**(5,794)**	**(8,461)**
Amounts recognised		
Amounts recognised in profit or loss		
Net interest	110	121
Past service cost	–	–
Amount charged to Statement of Comprehensive Income	**110**	**121**
Amounts recognised in other comprehensive income		
Actuarial gains/(losses) on defined benefit obligation	1,698	(4,097)
Actual return on assets less interest	462	1,738
Amount recognised in other comprehensive income	**2,160**	**(2,359)**

27. Financial instruments

The Group holds liquid assets in different asset types such as cash, short term investments and treasury bills. The Group also uses derivative financial instruments (derivatives) to manage the risks arising from its operations.

The Group uses derivatives for hedging purposes only. The Group does not run a trading book.

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1.7 'financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Group's assets and liabilities by financial classification:

Carrying values by category 31st December 2021

	Held at amortised cost		Held at fair value				
	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Non-financial assets and liabilities £000	Total £000
Financial assets							
Cash in hand	–	261,327	–	–	–	–	261,327
Treasury bills and similar securities	–	–	12,791	–	–	–	12,791
Loans and advances to credit institutions	–	24,281	–	–	–	–	24,281
Debt securities	–	–	5,019	–	–	–	5,019
Derivative financial instruments	–	–	–	5,553	79	–	5,632
Loans and advances to customers	1,403,401	–	–	–	–	–	1,403,401
Total financial assets	1,403,401	285,608	17,810	5,553	79	–	1,712,451
Non-financial assets	–	–	–	–	–	15,259	15,259
Total assets	**1,403,401**	**285,608**	**17,810**	**5,553**	**79**	**15,259**	**1,727,710**
Financial liabilities							
Shares	–	1,366,445	–	–	–	–	1,366,445
Amounts owed to credit institutions	–	1,001	–	–	–	–	1,001
Amounts owed to other customers	–	246,530	–	–	–	–	246,530
Derivative financial instruments	–	–	–	2,174	123	–	2,297
Loans and advances to customers	–	–	–	3,342	–	–	3,342
Total financial liabilities	–	1,613,976	–	5,516	123	–	1,619,615
Non-financial liabilities	–	–	–	–	–	10,858	10,858
Total liabilities	**–**	1,613,976	**–**	**5,516**	**123**	**10,858**	**1,630,473**

Notes

for the year ended 31st December 2021 (continued)

27. Financial instruments (continued)

Carrying values by category 31st December 2020

	Held at amortised cost		Held at fair value				
	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Non-financial assets and liabilities £000	Total £000
Financial assets							
Cash in hand	–	277,966	–	–	–	–	277,966
Treasury bills and similar securities	–	–	10,779	–	–	–	10,779
Loans and advances to credit institutions	–	53,695	–	–	–	–	53,695
Debt securities	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	5	106	–	111
Loans and advances to customers	1,335,401	–	–	9,693	–	–	1,345,094
Total financial assets	1,335,401	331,661	10,779	9,698	106	–	1,687,645
Non-financial assets	–	–	–	–	–	13,355	13,355
Total assets	**1,335,401**	**331,661**	**10,779**	**9,698**	**106**	**13,355**	**1,701,000**
Financial liabilities							
Shares	–	1,347,364	–	–	–	–	1,347,364
Amounts owed to credit institutions	–	5,015	–	–	–	–	5,015
Amounts owed to other customers	–	235,307	–	–	–	–	235,307
Derivative financial instruments	–	–	–	11,870	226	–	12,096
Total financial liabilities	–	1,587,686	–	11,870	226	–	1,599,782
Non-financial liabilities	–	–	–	–	–	11,911	11,911
Total liabilities	**–**	1,587,686	**–**	**11,870**	**226**	**11,911**	**1,611,693**

Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Valuation techniques

Fair values are determined using the following fair value hierarchy in FRS 102, which reflects the significance of the inputs in measuring fair value:

Level 1 The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio mainly comprises FRNs from Multilateral Development Banks for which traded prices are readily available.

Level 2 These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. The valuations are derived from the SONIA swap yield curve. The Group's Level 2 portfolio mainly comprises interest rate swaps for which traded prices are readily available.

Level 3 These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models.

The table below summarises the fair values of the Group's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Group to derive the financial instruments fair value:

Carrying values by category 31st December 2021

	Group & Society			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Gilts, treasury bills and supranational bonds	17,810	–	–	17,810
Loans fully secured on residential property	–	–	–	–
Interest rate swaps	–	5,632	–	5,632
	17,810	**5,632**	**–**	**23,442**
Financial liabilities				
Loans fully secured on residential property	–	–	3,342	3,342
Interest rate swaps	–	2,174	–	2,174
Index swaps	–	123	–	123
	–	**2,297**	**3,342**	**5,639**

Carrying values by category 31st December 2020

	Group & Society			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Gilts, treasury bills and supranational bonds	10,779	–	–	10,779
Loans fully secured on residential property	–	–	9,693	9,693
Interest rate swaps	–	111	–	111
	10,779	**111**	**9,693**	**20,583**
Financial liabilities				
Interest rate swaps	–	11,870	–	11,870
Index swaps	–	226	–	226
	–	**12,096**	**–**	**12,096**

Notes

for the year ended 31st December 2021 (continued)

27. Financial instruments (continued)

Financial assets pledged as collateral

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31st December 2021 and 2020 are shown in the following table.

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Cash in hand	1,420	13,090	1,420	13,090
Loans and advances to customers	274,316	237,118	274,316	237,118
	275,736	**250,208**	**275,736**	**250,208**

Financial assets are pledged as collateral as part of the Bank of England's Sterling Monetary Framework and Term Funding Schemes under terms that are usual and customary for such central bank schemes.

Credit risk

Credit risk is the risk that a borrower or counterparty of the Group will cause a financial loss for the Group by failing to discharge an obligation.

All loans are assessed with reference to the Group's lending policy. Appropriate credit limits have been established by the Board for individual counterparties and sectors.

The Group's maximum credit risk exposure is detailed in the table below:

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
LTV ratio				
Less than 50%	720,375	637,775	720,375	637,775
51 – 70%	502,496	444,627	502,496	444,627
71 – 90%	178,542	247,556	178,542	247,556
91 – 100%	4,167	4,209	4,167	4,209
	1,405,580	**1,334,167**	**1,405,580**	**1,334,167**

Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of loans and advances to customers, and the allowance for impairment/loss held by the Group and Society against those assets.

Credit quality values 31st December 2021

	Group & Society									
	Total book balance	Capitalisation		Payment concession		Term extension		Total renegotiations		
	£000	£000	Number of loans	£000	Number of loans	£000	Number of loans	£000	Number of loans
Neither past due nor individually impaired	1,394,397	–	–	749	4	–	–	749	4
Past due but not individually impaired	12,234	–	–	448	2	–	–	448	2
Provision	(1,051)	–	–	–	–	–	–	–	–
Total book	**1,405,580**	**–**	**–**	**1,197**	**6**	**–**	**–**	**1,197**	**6**
Past due but not individually impaired:									
Up to 3 months	4,770	–	–	203	1	–	–	203	1
3 to 6 months	1,546	–	–	245	1	–	–	245	1
6 to 12 months	4,699	–	–	–	–	–	–	–	–
Over 12 months	1,219	–	–	–	–	–	–	–	–
	12,234	**–**	**–**	**448**	**2**	**–**	**–**	**448**	**2**

Credit quality values 31st December 2020

	Group & Society								
	Total book balance	Capitalisation		Payment concession		Term extension		Total renegotiations	
	£000	£000	Number of loans	£000	Number of loans	£000	Number of loans	£000	Number of loans
Neither past due nor individually impaired	1,322,776	–	–	543	6	–	–	543	6
Past due but not individually impaired	13,168	–	–	2,313	18	–	–	2,313	18
Provision	(1,777)	–	–	–	–	–	–	–	–
Total book	**1,334,167**	**–**	**–**	**2,856**	**24**	**–**	**–**	**2,856**	**24**
Past due but not individually impaired:									
Up to 3 months	5,025	–	–	396	4	–	–	396	4
3 to 6 months	1,466	–	–	600	6	–	–	600	6
6 to 12 months	5,016	–	–	484	4	–	–	484	4
Over 12 months	1,661	–	–	833	4	–	–	833	4
	13,168	**–**	**–**	**2,313**	**18**	**–**	**–**	**2,313**	**18**

Individual impairment provisions of £nil (2020: £nil) are held in respect of loans with renegotiated terms.

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession, or where fraud or negligence has been identified. Further consideration is given in accounting policy 1.7 to the accounts.

Notes

for the year ended 31st December 2021 (continued)

27. Financial instruments (continued)

Collateral held and other credit enhancements

The Group and Society hold collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Percentage of exposure that is subject to collateral requirements

	Group		Society		Principal type of collateral held
	2021 %	2020 %	2021 %	2020 %	
Loans and advances to customers	100	100	100	100	Property

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio and by geographical location. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
LTV ratio				
Less than 50%	720,376	469,651	720,376	469,651
51 – 70%	502,864	445,567	502,864	445,567
71 – 90%	179,203	382,497	179,203	382,497
91 – 100%	3,090	37,339	3,090	37,339
More than 100%	1,098	890	1,098	890
	1,406,631	**1,335,944**	**1,406,631**	**1,335,944**

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Geographical analysis				
East Midlands	68,512	62,789	68,512	62,789
East of England	957,569	1,019,448	957,569	1,019,448
London	140,408	107,678	140,408	107,678
North East England	4,553	2,021	4,553	2,021
North West England	25,019	12,827	25,019	12,827
South East England	127,317	91,010	127,317	91,010
South West England	36,697	17,430	36,697	17,430
Wales	10,066	3,593	10,066	3,593
West Midlands	22,841	11,876	22,841	11,876
Yorkshire and the Humber	13,649	7,272	13,649	7,272
Total	**1,406,631**	**1,335,944**	**1,406,631**	**1,335,944**

Liquidity risk

Liquidity risk is the risk that the Society has insufficient cash or liquidity resources to be able to meet its liabilities as they fall due. At the Society, the main form of liquidity risk arises from the mismatch in the maturity period of long term mortgage loans and short term savings deposits. The Society mitigates this risk by ensuring it holds adequate high quality liquid assets to cover a variety of severe but plausible stress scenarios.

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Group's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example, loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

Notes

for the year ended 31st December 2020 (continued)

27. Financial instruments (continued)

	Group – 31st December 2021					
	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial assets						
Cash in hand	261,327	–	–	–	–	261,327
Treasury bills and similar securities	–	–	–	12,791	–	12,791
Loans and advances to credit institutions	–	22,861	–	–	1,420	24,281
Debt securities	–	–	5,019	–	–	5,019
Derivative financial instruments	–	–	5,632	–	–	5,632
Loans and advances to customers	–	1,096	7,084	98,855	1,299,595	1,406,630
Total financial assets	**261,327**	**23,957**	**17,735**	**111,646**	**1,301,015**	**1,715,680**
Financial liabilities						
Shares	991,867	34,153	138,110	202,315	–	1,366,445
Amounts owed to credit institutions	500	–	501	–	–	1,001
Amounts owed to other customers	45,466	9,269	18,736	173,059	–	246,530
Derivative financial instruments	–	–	2,297	–	–	2,297
Total financial liabilities	**1,037,833**	**43,422**	**159,644**	**375,374**	**–**	**1,616,273**

	Group – 31st December 2020					
	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial assets						
Cash in hand	277,966	–	–	–	–	277,966
Treasury bills and similar securities	–	10,779	–	–	–	10,779
Loans and advances to credit institutions	–	35,603	5,001	–	13,091	53,695
Derivative financial instruments	–	–	111	–	–	111
Loans and advances to customers	–	1,760	8,242	84,043	1,241,899	1,335,944
Total financial assets	**277,966**	**48,142**	**13,354**	**84,043**	**1,254,990**	**1,678,495**
Financial liabilities						
Shares	949,805	33,268	90,935	273,356	–	1,347,364
Amounts owed to credit institutions	1,010	2,503	1,502	–	–	5,015
Amounts owed to other customers	49,274	14,948	50,977	120,108	–	235,307
Derivative financial instruments	–	–	12,096	–	–	12,096
Total financial liabilities	**1,000,089**	**50,719**	**155,510**	**393,464**	**–**	**1,599,782**

Society – 31st December 2021	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial assets						
Cash in hand	261,327	–	–	–	–	261,327
Treasury bills and similar securities	–	–	–	12,791	–	12,791
Loans and advances to credit institutions	–	22,832	–	–	1,420	24,252
Debt securities	–	–	5,019	–	–	5,019
Derivative financial instruments	–	–	5,632	–	–	5,632
Loans and advances to customers	–	1,096	7,084	98,855	1,299,595	1,406,630
Total financial assets	**261,327**	**23,928**	**17,735**	**111,646**	**1,301,015**	**1,715,651**
Financial liabilities						
Shares	991,867	34,153	138,110	202,315	–	1,366,445
Amounts owed to credit institutions	500	–	501	–	–	1,001
Amounts owed to other customers	45,466	9,269	18,736	173,059	–	246,530
Derivative financial instruments	–	–	2,297	–	–	2,297
Total financial liabilities	**1,037,833**	**43,422**	**159,644**	**375,374**	**–**	**1,616,273**

Society – 31st December 2020	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial assets						
Cash in hand	277,966	–	–	–	–	277,966
Treasury bills and similar securities	–	10,779	–	–	–	10,779
Loans and advances to credit institutions	–	35,574	5,001	–	13,091	53,666
Debt securities	–	–	–	–	–	–
Derivative financial instruments	–	–	111	–	–	111
Loans and advances to customers	–	1,760	8,242	84,043	1,241,898	1,335,944
Total financial assets	**277,966**	**48,113**	**13,354**	**84,043**	**1,254,990**	**1,678,466**
Financial liabilities						
Shares	949,805	33,268	90,935	273,356	–	1,347,364
Amounts owed to credit institutions	1,010	2,503	1,502	–	–	5,015
Amounts owed to other customers	49,274	14,948	50,977	120,108	–	235,307
Derivative financial instruments	–	–	12,096	–	–	12,096
Total financial liabilities	**1,000,089**	**50,719**	**155,510**	**393,464**	**–**	**1,599,782**

Notes

for the year ended 31st December 2021 (continued)

27. Financial instruments (continued)

The tables below set out maturity analysis for financial liabilities that shows the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

Group & Society – 31st December 2021						
	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial liabilities						
Shares	991,887	34,164	138,579	207,458	–	1,372,088
Amounts owed to credit institutions	500	–	501	–	–	1,001
Amounts owed to other customers	45,466	9,269	18,736	173,059	–	246,530
Derivative financial instruments	–	–	2,297	–	–	2,297
Lending commitments	7,319	24,892	1,135	15,154	9,032	57,532
Total financial liabilities	**1,045,172**	**68,325**	**161,248**	**395,671**	**9,032**	**1,679,448**

Group & Society – 31st December 2020						
	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial liabilities						
Shares	949,826	33,278	91,404	278,499	–	1,353,007
Amounts owed to credit institutions	1,010	2,503	1,502	–	–	5,015
Amounts owed to other customers	49,273	14,949	50,977	120,108	–	235,307
Derivative financial instruments	–	–	12,096	–	–	12,096
Lending commitments	10,147	27,712	918	18,156	21,781	78,714
Total financial liabilities	**1,010,256**	**78,442**	**156,897**	**416,763**	**21,781**	**1,684,139**

Market risk

Market risk is discussed in the Directors' report.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in the yield curve. The following is an analysis of the Group's sensitivity to a 200bp increase in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

The Group only deals with products in sterling so is not directly affected by currency risk. The Group's products are also only interest orientated products and so are not exposed to other pricing risks.

	At 31st December 2021 £000	At 31st December 2020 £000
Sensitivity of reported equity and profit to interest rate movements	(1,610)	(994)

Derivatives held for risk management

The Group uses derivatives to manage certain risks it faces.

Fair value hedges of interest rate risk

The Group uses interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate notes and of its exposure to market interest rates on certain loans and advances. Interest rate swaps are matched to specific issuances of fixed-rate notes or loans.

The fair values of derivatives designated as fair value hedges are as follows.

	Group 2021		Group 2020	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps	5,553	(2,174)	5	(11,870)

Notes

for the year ended 31st December 2021 (continued)

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Society	
	2021 £000	2020 £000	2021 £000	2020 £000
Less than 1 year	416	319	416	319
Between 1 and 5 years	1,308	1,118	1,308	1,118
More than 5 years	126	256	126	256
	1,850	**1,693**	**1,850**	**1,693**

During the year £358,204 was recognised as an expense in the profit and loss account in respect of operating leases (2020: £313,689).

29. Turnover by country

31st December 2021							
	Type of entity	Nature of activity	Location	Turnover (£m)	Number of employees	Profit or loss before tax (£m)	Tax paid (£m)
The Cambridge Building Society	Credit institution	Financial services	United Kingdom	24.3	225	11.9	1.4

31st December 2020							
	Type of entity	Nature of activity	Location	Turnover (£m)	Number of employees	Profit or loss before tax (£m)	Tax paid (£m)
The Cambridge Building Society	Credit institution	Financial services	United Kingdom	19.6	210	4.8	0.9

30. Related parties

a. Transactions with Directors

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

	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members
	2021	2021 £000	2020	2020 £000
Loans and advances to customers	6	982	4	561

A register is maintained by the Society containing details of loans, transactions and agreements made between the Society and the Directors and their connected persons. A register of loans to Directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at the Society's principal office. This is available for inspection during normal office hours for a period of 15 days prior to, and at, the Society's Annual General Meeting.

The Directors held £82,621 of shares and deposit balances with the Society at 31st December 2021 (2020: £163,730).

b. Key management compensation

The Directors of the Society are considered to be the key management personnel, as defined by FRS 102.

Total compensation for key management personnel for the year ended 31st December 2021 was £1,086,154. (2020: £941,473).

Further information on compensation for key management personnel can be found in the Directors' Remuneration Report.

c. Transactions with other related parties

During the year the Society transacted with Spicerhaart Group Ltd, a company of which John Spence is Chairman. These transactions were for various services provided by Spicerhaart in the normal course of business in respect of certain mortgage accounts and all were on an arm's length basis.

The cost of services provided by Spicerhaart since John Spence joined the Society's Board are shown below, together with amounts outstanding to Spicerhaart at the end of the year, which may include fees for services provided before John Spence's date of appointment.

	Group & Society	
	2021 £000	2020 £000
Cost of services provided	2	1
Amounts outstanding	–	2

Defined Benefit Pension Scheme

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

Notes

for the year ended 31st December 2021 (continued)

31. Core capital deferred shares

	Group & Society			
	Number of shares	CCDS £000	Share premium £000	Total £000
At 31st December 2021	150,000	15,000	–	15,000
At 31st December 2020	150,000	15,000	–	15,000

CCDS are a form of Common Equity Tier 1 (CET 1) capital, developed to enable the Group to raise capital from external investors.

CCDS are perpetual instruments which rank pari passu to each other and are junior to claims against the Society of all depositors and creditors. Each holder of CCDS has one vote, regardless of the number of shares held. In the event of a winding up or dissolution of the Society the extent to which each holder of CCDS may participate in the division of the remaining assets of the Society will be limited in proportion to their contribution to the Society's capital over time.

Distributions to the holders of CCDS are at the sole and absolute discretion of the Board of Directors, save that the amount that can be paid to the holders of CCDS in any financial year is currently capped at £17.21 per share. The level of the cap on distributions is adjusted annually in line with CPI. The Society paid distributions of £384,590 (£2.66 per CCDS) on 6th May 2021 and £379,356 (£2.56 per CCDS) on 1st November 2021. These distributions have been recognised in the statement of movements in members' interests.

32. Capital management

Requirements for the quality and quantity of capital to be held by the Group are set out in the Capital Requirements Directive IV, an EU legislative package covering prudential rules for banks, building societies and investment firms. The capital requirements of the Group are monitored quarterly with the results reported to the Board. Capital is ultimately held for the protection of depositors. The internal level of capital is set with the aim of ensuring that the business has sufficient levels of capital for current and projected future activities, to withstand downturn stresses, and to ensure that the minimum regulatory requirement is always met.

The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) covering all risks. This is used to assess the Society's capital adequacy and determine the levels of capital required going forward to support the current and future risks in the business.

Throughout the year the Group complied with, and maintained surplus capital above, the externally imposed capital requirements.

The following table shows the composition of the Group's regulatory capital (further information is available in the Pillar 3 disclosures published on the Society's website):

	Society	
	2021 £000	2020 £000
Common Equity Tier 1 capital		
General reserves	81,318	70,312
Core capital deferred shares	15,000	15,000
Other reserves	3,806	3,613
Common Equity Tier 1 capital prior to regulatory adjustments	**100,124**	**88,925**
Intangible assets	(730)	(1,165)
Common Equity Tier 1 capital	**99,394**	**87,760**
Tier 2 capital		
Credit risk adjustments	846	1,649
Total capital	**100,240**	**89,409**

33. Post balance sheet events

At the date on which these accounts were approved by the Board, the economic impact of the conflict in Ukraine and related sanctions remained unclear. However, the Board is satisfied that the Society is well placed to weather a severe stress and as the conditions relating to the conflict were not present at the balance sheet date, no adjustments to the financial statements have been made.

Annual Business Statement

for the year ended 31st December 2021

1. Statutory percentages

	2021 %	Maximum Statutory Limit %
Lending limit	2.70	25
Funding limit	15.34	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 are defined as total Group assets plus loan impairment provision less liquid assets and fixed assets.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

2. Other percentages

	2021 %	2020 %
As a percentage of shares and borrowings		
Gross capital	6.23	5.62
Free capital	5.63	5.15
Liquid assets	18.80	21.57
Profit after tax as a percentage of mean total assets	0.59	0.23
Net interest margin as a percentage of mean total assets	1.42	1.19
Management expenses as a percentage of mean total assets	0.90	0.85

The above percentages have been prepared from the Group accounts and as such exclude assets held under the Government's Funding for Lending Scheme.

- 'Shares and borrowings' represent the total of shares, amounts owed to other customers and to other credit institutions
- 'Gross capital' is the Group's reserves
- 'Free capital' represents gross capital and collective loan impairment allowance, less fixed assets
- 'Mean total assets' represent the average of the total assets at the beginning and end of the financial year
- 'Net interest margin' is the difference between the rate paid to savers and that charged to borrowers (after adjusting for net income or expenses on financial instruments, such as interest rate swaps). It is the ratio of net interest receivable for the year to the average balance of the total assets for the year
- 'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets
- 'Management expenses' represent the aggregate of administrative expenses and depreciation and amortisation

3. Information relating to the Directors and the other officers at 31st December 2021

Name	Occupation	Other Directorships during the year	Date of birth	Date of appointment
Directors				
John Spence (Chairman)	Non-Executive Director	• Spicerhaart Group Ltd • Business Banking Resolution Service Ltd • Church of England Central Services • North Essex Garden Communities Ltd (until June 2021) • The Queen Elizabeth Diamond Jubilee Trust (until March 2021)	January 1951	November 2020
Stephen Jack (Vice Chairman)	Non-Executive Director	• MUFG Securities EMEA plc • Golden Lane Housing Limited • Royal Mencap Society	March 1958	April 2014
Peter Burrows	Chief Executive of The Cambridge Building Society	• Cambridge I.T. Services Ltd • Cambridge Services Ltd • Cambridge Property Services Ltd • Astrea Academy Trust (from September 2021)	September 1968	August 2016
Richard Brockbank	Chief Financial Officer	• Cambridge I.T. Services Ltd (from November 2021) • Cambridge Services Ltd (from November 2021) • Cambridge Property Services Ltd (from November 2021)	October 1977	April 2020
Carole Charter	Chief Commercial Officer	• CAMMS Meals on Wheels Ltd	June 1979	April 2020
Lucy Crumplin	Chief Operating Officer	• Tiger Bright Ltd	September 1977	January 2021
Pauline Holroyd	Group HR Director	• Human Resourcefulness Ltd	January 1964	April 2016
Fiona Hotston Moore	Director of Forensic and Advisory Services	• Securities Industry Management Association Ltd • FRP Advisory Services LLP	February 1965	November 2018
Andrew Jones	Non-Executive Director	None	April 1957	April 2014
Andrew Morley	President and Chief Executive Officer	• World Vision International Global Centre • Visionfund International • The Strand at Porth Ltd (from April 2021) • The Strand Porth Management Company Ltd (from March 2021)	November 1969	April 2014
Andrew Rice	University Professor, Cambridge University	None	July 1980	February 2020

Peter Burrows, Richard Brockbank, Carole Charter and Lucy Crumplin each have a service contract with the Society terminable by either party giving six months' notice.

Correspondence to Directors jointly or individually should be addressed 'Private and Confidential' and c/o Mazars LLP, Chartered Accountants, Tower Bridge House, St Katharine's Way, London, E1W 1DD.

Annual Business Statement

for the year ended 31st December 2021 (continued)

4. Information relating to the officers at 31st December 2021

Name	Occupation	Other Directorships during the year
Officers		
Janet Reid	Company Secretary and Head of Compliance	None

Member of the Building Societies Association
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