REPORT and ACCOUNTS

Year ended 31 March 2023

The Cumberland

Kinder banking. It's in our nature.

Our performance HIGHLIGHTS

FEEFO PLATINUM SERVICE AWARD

4.8 out of 5.0

CUSTOMER SATISFACTION*

BEST CUSTOMER EXPERIENCE

(Crisis category) at the UK Customer Experience Awards 2022

£26.6m

Profit before tax*

£541m

Gross mortgage lending*

* Those figures highlighted with an asterisk are a Group key performance indicator (KPI). For information on how these are calculated, please see page 147.

All information and data correct as at 31 March 2023

£3bn

Total assets

NET PROMOTER SCORE 80

Source : Feefo

£205k

Charitable donations

One of the best **100** companies in the North West to work for

Source: Best Companies

funds inflow*

£138m

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STRATEGIC

Report

CHAIR'S
Welcome

> We will always do the right thing for our customers. That's in The Cumberland's DNA, and it is what 'kinder banking' is all about.

KINDER BANKING.
It's in our
NATURE.

On behalf of your board of directors, I am delighted to present Cumberland Building Society's Annual Report and Accounts for the year to 31 March 2023.

I am pleased to report that, despite being a volatile year for financial markets and the wider UK economy, your Society has performed exceptionally well.

The Cumberland remains a safe, resilient home for your savings and is well positioned to meet future challenges.

Residential mortgage lending is up, helped by very strong retention rates for customers reaching the end of fixed-rate deals. Commercial lending is up too, boosted by businesses switching their loans to The Cumberland. This has resulted in our balance sheet exceeding £3 billion for the first time in our history. Borderway Finance, our subsidiary that provides vehicle finance, also had an exceptionally strong year.

Our performance has contributed to a strong pre-tax profit of £26.6 million, however, other factors have significantly impacted this figure. As a building society, owned by you, our customers, we don't strive to maximise profits. Our primary aim is to offer competitive, long-term value products and exceptional service.

Operating profits rose to £12.3 million (2022: £5.3m), primarily due to growing net interest income. However, this year our accounting profits have also been boosted by financial instruments, known as interest-rate swaps, that we prudently took out to protect our position in the event of a sudden, sharp rise in interest rates. That is precisely what happened both before and, particularly, after the mini budget in September, triggering substantial accounting gains from the swaps and increasing our statutory profits.

Looking ahead though, we face multiple challenges that are likely to squeeze profits over the next two or three years. Higher inflation, at levels we haven't seen since the 1970s, is impacting everyone, and like everyone our costs are increasing. There are also signs that the housing market is slowing, which will inevitably affect the level of mortgage lending over the next few years.

We are acutely aware that our customers and colleagues face cost pressures too. As the Bank of England struggled to contain inflation, the unprecedented era of very low and stable interest rates we have experienced since 2009 came to an end. Rates climbed throughout 2022, accelerating after the mini budget.

While we don't expect rates to go significantly higher, we do anticipate that they will stay elevated over the medium term. This return to more normal interest rate levels benefits savers but is impacting borrowers. Although more than three quarters of our borrowers are currently benefitting from fixed-rate mortgages, as these end many will see their mortgage payments rise in the coming months and years. To help, we remain focused on providing highly competitive mortgage and savings products.

Unlike the banks, which frequently offer their best rates to new customers, we ensure that existing customers get the most attractive deals. I am proud to say that, while many lenders withdrew all their fixed-rate mortgage products in the wake of the mini-budget, we did not. Borrowers approaching the end of fixed-rate deals were still able to transfer to a new one. Thankfully, we have yet to see an increase in mortgage arrears. That may change as borrowers come to the end of fixed-rate terms and have to adjust to higher mortgage payments. Likewise, our commercial customers, mostly in the hospitality sector, face significant headwinds. Some may struggle in the coming year.

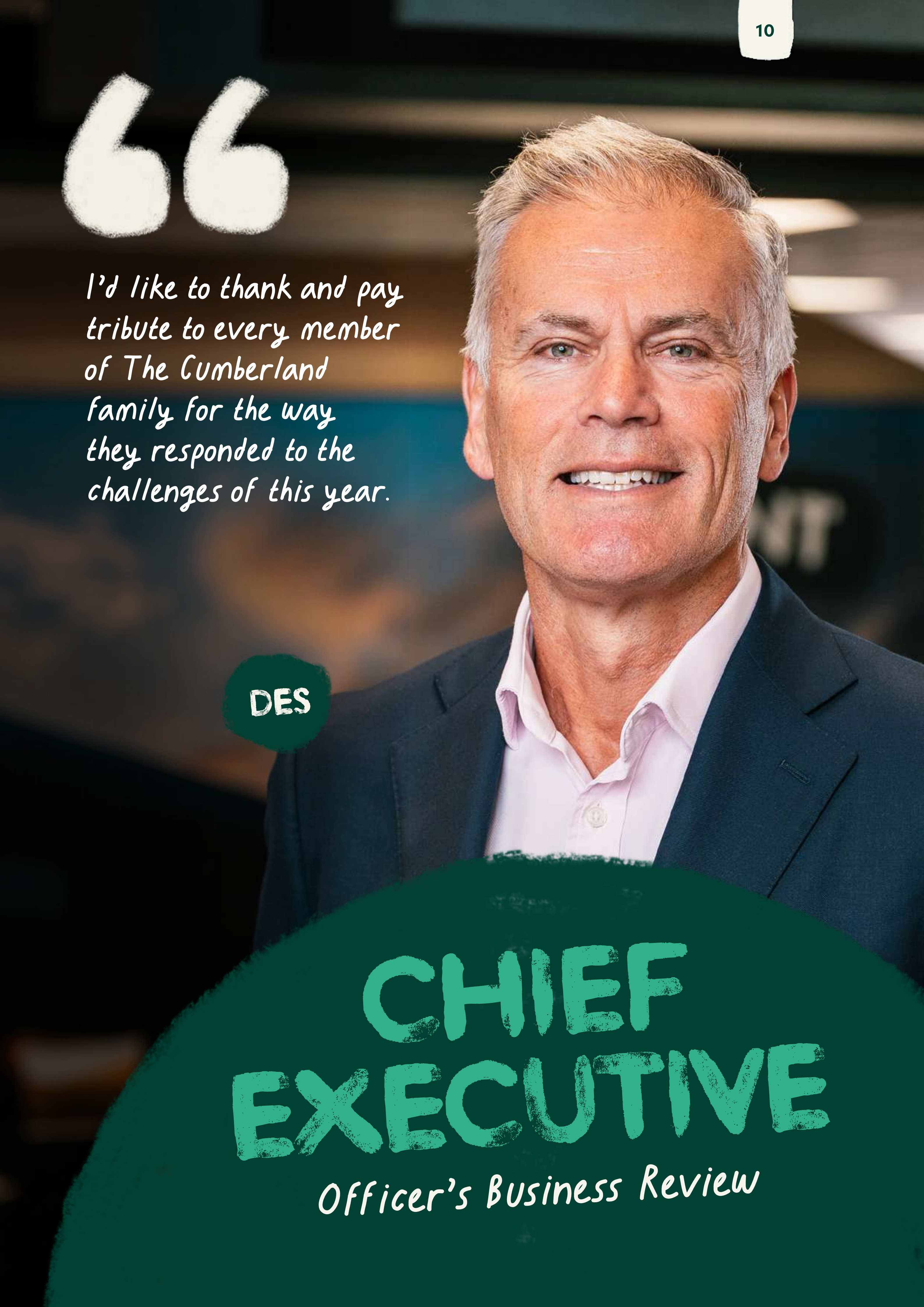
We stand willing and ready to help our customers when times are tough. We have already strengthened our customer service teams, and enhanced training, building on the experience of supporting customers during the Covid-19 pandemic. Our aim is to ensure that anyone in difficulty gets the best advice possible.

I'm pleased we have also been able to support our colleagues during this period of inflation. For all but our highest paid colleagues, we made a one-off cost-of-living payment last year to help with the economic pressures. This was repeated in April this year, by way of being consolidated into basic salaries.

The economic and political upheaval of the last 12 months is a reminder that it is impossible to predict the future. What I can say, with absolute confidence, is that whatever the future holds we will continue to focus on what we do best – providing excellent mortgage, savings and current account products and commercial lending.

We will always do the right thing by our customers. That's in The Cumberland's DNA, and it is what 'kinder banking' is all about.

John Hooper
Chair
6 June 2023



> I'd like to thank and pay tribute to every member of The Cumberland family for the way they responded to the challenges of this year.

DES

CHIEF EXECUTIVE
Officer's Business Review

Volatile conditions

While the past 12 months have been challenging, The Cumberland has successfully weathered that volatility.

Surging inflation as the economy emerged from lockdown prompted repeated rises in interest rates to levels we haven't seen for 15 years.

However, as was the case in the global financial crisis of 2008-9, the Society is well positioned to withstand such shocks. You can be confident that we will continue to run the Society in a prudent fashion, never risking long-term stability in a dash for growth. This approach has served us well right back to our foundation as The Cumberland Co-operative Land and Benefit Building Society 173 years ago.

Exceptional customer experience

I'd like to thank and pay tribute to every member of The Cumberland family for the way they responded to the challenges of this year. They never faltered in their dedication to looking after our customers, the savers and borrowers, and in delivering the highest standards of service.

Platinum Trusted Service Award

2023 feefo

> It is a source of immense pride, that we maintained our Feefo Platinum Trusted Service Award for consistently exceptional customer service for third consecutive year with a
>
> 4.8 out of 5.0 customer satisfaction rating
>
> and
>
> NET PROMOTER SCORE OF 80

This is no mean achievement. The Feefo scores are arrived at by feedback from real customers – there is nowhere to hide. This tells us that our Cumberland colleagues are among the best in the business.

Kinder banking

Exceptional customer service is the foundation of kinder banking, a concept we introduced last year to encapsulate our purpose, which is to 'create a banking experience that is kinder to people and the planet'.

A cynic might dismiss it as a marketing slogan but the events of the past 12 months have given us the opportunity to demonstrate kinder banking in action and to show that we do what we say.

The Cumberland continues to provide a stable, safe destination for your savings. Our savers benefited from rising interest rates – we passed on most of the Bank of England's base rate increases. However, we were well aware that many borrowers watched with concern as mortgage rates edged upwards.

Rising interest rates

Anyone who took out their first mortgage in 2008 or later won't have seen rates this high before – it's little consolation that interest rates are still, by historic standards, relatively low.

The bulk of our mortgage lending is fixed rate, so borrowers won't experience a higher monthly payment until their fixed-rate deal comes to an end. The Cumberland has always been a responsible lender. We've never stretched our lending criteria to allow borrowers to take on burdensome levels of debt.

Cost of living pressures

If it were only the rise in interest rates, I'm sure almost all our borrowers would cope. It isn't just that though. It's rising interest rates, coupled with soaring energy bills and significantly higher food prices. A perfect cost-of-living storm squeezing disposable incomes. We haven't yet seen arrears rise but, clearly, that could happen as fixed-rate deals mature.

To reassure our borrowers, we've pledged to give those coming to the end of fixed-rate terms preferential deals on new products, and we're on hand with specialist advisors if any of our borrowers begin to experience financial difficulty.

THIS IS KINDER BANKING IN PRACTICE

Helping customers in difficulty

Prioritising existing borrowers in this way goes against the industry norm, which is to offer the best deals to new customers in an attempt to reel them in. That isn't the way we do things at The Cumberland.

Secondly, we've enlarged and enhanced training for our customer service teams who are the first point of contact for borrowers in difficulties. We want to make sure that any member struggling to pay their mortgage gets the best possible support and advice. A 'money worries hub' on our website signposts people in financial difficulties to other organisations that can help them. **Again, this is kinder banking in action.**

Commercial lending

The same is true for our commercial borrowers. The Cumberland has built an enviable reputation for lending to the hospitality industry. Initially, we lent to businesses on our home patch in Cumbria but over the years we've expanded the loan book to help hospitality businesses across Scotland, Yorkshire, the North East and South West of England.

Last year we reported that many of these businesses were doing well. The lifting of Covid restrictions, combined with continued difficulties in travelling abroad, led to a boom in UK-based 'staycations'. This year the prospects for the sector are tougher. Hospitality businesses are having to contend with higher costs, recruitment difficulties and a potential downturn in trade as the cost-of-living crisis squeezes consumer spending.

Each commercial borrower has a relationship manager who visits them at least once a year for an annual review. If a borrower gets into difficulties, they can speak directly to their relationship manager who understands their business and can make practical suggestions.

Our colleagues

I'm immensely proud to report that the Society was named as one of the 'Best companies in the North West to work for' by Best Companies. This award isn't only about remunerating our people well, it's about treating them properly, with dignity and respect. It shows that kinder banking is a philosophy that applies to our colleagues, as well as to our members.

Keen readers of the annual report will know we have been working hard together to transform our business over the past 5 years under the Cumberland 2025 banner. A lot has been achieved but there is much more to do. Over the next few months, we will be evaluating the strategic options available to us to secure a more sustainable future for the Society. I look forward to updating you on our progress in next year's report.

> One of the 'Best 100 companies in the North West to work for'

Branches remain a fundamental part of what we're about, albeit that footfall has declined. We know that people want choice. Not all our customers in our branches are comfortable using apps. Many prefer face-to-face interaction in a branch or speaking to a real person at the end of a telephone line and we will continue to provide our services the way our customers want and use them.

To underline our commitment to branches, we have just completed a significant refurbishment of our Maryport branch and will be making major investment in our flagship English Street branch in Carlisle, the latter delayed by the Covid pandemic.

Going forward, the way we deliver services will continue to evolve but one thing remains constant: The Cumberland began its life with an ethos of kindness, rooted in community; that has always been the case and it always will be.

Des Moore
Chief Executive Officer
6 June 2023

> THE CUMBERLAND CONTINUES TO BE SAFE, STRONG AND WELL POSITIONED TO MEET THE FUTURE NEEDS OF CUSTOMERS.

We were delighted to win an international award after being hailed as one of the best companies in the world for improving customer service.

The Best Continuous Improvement System was awarded at the prestigious Global OPEX and Business Transformation Awards in Miami. It is the second year in a row that we have received an award at the event despite strong competition from global brands.

In March we were pleased to re-open our branch in Maryport following refurbishment.

WHAT we do, and WHY we do it

Like all building societies, The Cumberland provides mortgages and savings accounts. Unlike almost all the others, we offer full banking services in our core operating area – personal current accounts with standing orders, direct debits, an app and online access – and we provide business current accounts and lend to businesses too.

We've done this because you, our savers and borrowers, told us many years ago that these were services you valued and wanted us to provide. But while we offer banking services, we are emphatically not a bank. This is an important distinction that goes to the very heart of The Cumberland's ethos.

Banks exist to maximise profits in order to pay dividends to their shareholders. As a building society, we have no external shareholders. We are owned solely by you, our customers.

While we need to trade profitably, for obvious reasons, we don't strive to maximise profits. We don't need to. Rather, our aim is to ensure that our mortgage and savings products are as competitive as they can be and our customer service is the best in the UK. These are our priorities.

We will never take reckless risks in the pursuit of profit as others have done, both before and after the global financial crisis, with catastrophic results. The profits we do make we reinvest in our business, including our people, our systems and our branches. This formula of looking after our savers and borrowers and reinvesting profits wisely to promote long-term value has served us well for more than 170 years.

It goes to the very heart of what The Cumberland is about – a mutual organisation, owned by and operating for the benefit of our customers and rooted in the communities we serve.
This philosophy is encapsulated in our purpose 'to create a banking experience that's kinder to people and planet', a statement that recognises we have a responsibility to play our part in addressing social and environmental challenges, as well helping our customers achieve their financial goals.

WE'RE DRIVEN BY OUR VALUES

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

Better Together

We work as one team.

Customer Led

We put customers first in everything we do.

Responsible

We do the right thing.

Straight Forward

We work hard to make things simpler.

Forward Thinking

We embrace new ideas to continually improve.

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

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

STRATEGIC PRIORITIES

Our strategic priorities are what we're concentrating on in order to deliver our growth and transformation plans. These are to:

1. **Deliver transformation with pace and focus** – safeguarding our business for the future.
2. **Deliver exceptional customer experience and a kinder brand** – whilst living our purpose, we aim to offer the best customer experiences in the UK.
3. **Embed the right talent, culture and skills to enable us to grow and transform** – we need to attract, develop and retain the right talent to support our growth and transformation plan.
4. **Grow safely and defend margin** – we will responsibly balance the needs of our customers while ensuring our business remains profitable so we can continue to grow.
5. **Protect the society and our members** – we will take all necessary steps to ensure we protect our business and our stakeholders whilst we grow and transform.

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

Our Purpose

To create a banking experience that's kinder to people and planet

Deliver the Cumberland 2025 transformation with pace and focus

Our Objectives

- Deliver exceptional customer experience and a kinder brand
- Embed the right culture, talent and skills to enable us to grow and transform
- Grow safely and defend our margin
- Protect the Society and our members

Our Values

- Customer Led
- Straight Forward
- Responsible
- Forward Thinking
- Better Together

TRANSFORMING THE BUSINESS

We have been working hard to transform our business under the Cumberland 2025 banner since 2018 and while much has been achieved, there is plenty more to do.

We are evaluating the strategic options open to us in order to secure a more sustainable future for the Society.

We look forward to updating you on our progress over time.

We're proud to be part of our communities.
Our Kinder Banking purpose means we're committed to supporting the people, businesses and organisations that give something back to our region.

We are proud to donate **1.5% of our profits** to actively support charitable causes and projects, with most of our financial support going straight to projects benefitting people in our area.

Whether it's sponsorship, education or financial support, we're privileged to be able to help others achieve our common goals.

Our COMMUNITIES

Here's just some of the activities we've been involved in during the year.

For every vote cast by our customers at our AGM we donate £2 to a great cause that's working to make a difference in our region.

Thanks to our members, last year we were able to support the Samaritans work on suicide awareness and prevention with a donation of £19,916, as part of our ongoing drive to recognise the importance of mental health.

Samaritans runs a free helpline 24 hours a day 365 days a year and responds to a call for help every 10 seconds. The money allowed the charity's volunteers to respond to 4,000 calls from people struggling to cope.

This year we'll be supporting FareShare who provide invaluable support to people struggling to afford to feed themselves and their families.

We were able to support the work of Samaritans with a donation of

£19,916

PLEDGE FOR VOTES

Financial education: EVERFI PARTNERSHIP

In a bid to help young people build their financial confidence and learn how to manage their money from an early age, we teamed up with international tech company, Everfi, to launch a pilot project which introduced a new mobile-first education resource entitled **Vault: Understanding Money.**

The ambition is to roll out the programme to 25 schools around our region free-of-charge, with the aim of teaching children how to make sensible financial decisions, as well as learning bigger life skills such as goal-setting and responsible decision-making.

We were delighted to attend an interactive session at Brampton Primary School in January this year to see the platform in action and provide some insight to the children about working in the financial services industry.

THE CUMBERLAND'S VAULT REACH

629 *users*

21 *schools active*

Ambition to roll out to

25 SCHOOLS

around our region free-of-charge

Over the last few years we've been working closely with the team at Cumbria Community Foundation to provide funding for a range of causes around our region. **This year we donated £98,184 to projects** supporting challenges faced in our communities such as financial illiteracy and financial exclusion, poverty and substance abuse and addiction.

In 2022/23, we have donated to:

- **Citizens Advice Carlisle and Eden**
- **Cumbria Alcohol and Drug Advisory Service (CADAS)**
- **Lancashire Community Finance (IPS) Limited**
- **Northern Fells Rural Community Development Group**
- **Spring Mount Christian Fellowship**
- **Springfield Domestic Abuse Support in South Lakeland**
- **St Barnabas and St Luke's Church**

Moving forward, we can clearly see the impact that the cost-of-living crisis is having on our communities, and we believe that our funding can make a significant difference to the lives of people struggling to make ends meet.

We are proud to be teaming up with FareShare and Recycling Lives to launch a six-figure programme to help provide food for thousands of meals for people across Cumbria and Lancashire.

This project is incredibly important to us, and we'll be providing more details in the coming weeks. You can follow the progress of this exciting partnership on our social channels and website.

VOLUNTEERING

This year our colleagues were safely able to resume their annual volunteer day. Although many had opted to use their paid day off to support local charities and community groups with online assistance over the previous two years, this year saw an increased appetite to get back to volunteering in person.

Collectively our teams have shown amazing kindness this year, undertaking the highest number of volunteer days since we introduced the scheme. Over 115 of our colleagues have supported a wide range of charities and good causes including Carlisle Foodbank, Cumbria Wildlife Trust, Eden Valley Hospice, People First, Anti Racist Cumbria and West Cumbria Rivers Trust as well as beach cleaning in Barrow, painting furniture at an animal refuge and gardening at a local primary school.

Over **115**

of our colleagues have supported a wide range of charities

A wave of kindness swept across Cumbria and South West Scotland last year. Not just a social media surge. But a real life, practical, roll up your sleeves, go to those in need and put in some effort to help, sort of wave.

This tide of generosity was all thanks to our 'Kinder Shop', a pioneering idea we launched to introduce our Kinder Banking purpose. The concept was that customers would pay with kindness by volunteering to work for a local charity. Eager shoppers snapped up gifts, hampers, homeware, garden furniture, toys and barbeques without a penny changing hands. Instead of a price tag, each item at a Kinder Shop had a label stating how many hours' volunteering was needed to 'pay' for it.

The shops initially popped up during summer in Carlisle, Kendal and Dumfries, and later returned for Christmas in Carlisle and Dumfries. Hundreds of local people pitched in across the five shops, **donating their time to volunteer with 32 local charities and good causes.** Among those which benefitted were Eden Valley and Jigsaw Children's Hospice, Anti Racist Cumbria, Carlisle Youth Zone, Cumbria Scouts, South Lakes Carers, Cumbria Deaf Association and Queen of the South Community Trust Food Bank.

The volunteers ranged from school children to local business leaders, along with numerous ordinary shoppers – who now all have one thing in common: they're connected through kindness, in their pledge to volunteer in their community. **That's Kinder banking.**

Our Kinder Shops generated a total of

2,000

VOLUNTEER HOURS

for **32**

LOCAL CHARITIES

and good causes across our operating area.

KINDER SHOPS

Thousands of youngsters attended a Carlisle United game for free this season after we extended our partnership with the club's Community Ticket Scheme.

The scheme provides local primary schools and community groups with up to 300 free tickets for home football matches during the season. We've supported the scheme for over 12 years.

The ticket-holders, many of whom may not usually have the chance to attend, enjoy a tour of the grounds, meet the mascot and players, and watch the match from The Cumberland Community stand.

The scheme provides local primary schools and community groups with up to

300

FREE TICKETS

for every home football match.

CARLISLE UNITED COMMUNITY TICKET SCHEME

AFFINITY ACCOUNT DONATION

Each year, The Cumberland donates to three local hospices and Carlisle United on behalf of its Affinity Account savers. This is equivalent to 1% of the total average balance of all Cumberland Blues and Hospices savings accounts during the year.

This year, more than £44,000 was donated to three Cumbrian hospices: Hospice at Home West Cumbria, Hospice at Home Carlisle and North Lakeland and Eden Valley Hospice.
The occasion was marked by acknowledging a number of volunteers with floral tributes.

Between them the three charities provide vital care for people across Cumbria who are living with life-limiting illnesses, as well as palliative care and support for patients' families. While Hospice at Home West Cumbria and Hospice at Home Carlisle and North Lakeland provide care in patients' own homes, Eden Valley Hospice offers both in-patient and out-patient services from its site in Carlisle.

CUMBERLAND BRANCH COMMUNITY FUND

In 2022/23, the Cumberland Branch Community Fund donated £24,424 to support 154 community groups and charitable causes.

Donations up to £250 were considered and awarded on an individual basis by our branch teams themselves. Donations over this amount were considered by the fund's board of trustees.

Examples of donations made include:

£1,000

to Gary "Marathon Man" McKee's fundraiser for Macmillan Cancer Support and West Cumbria Hospice at Home.

£250

to Little Learners Nursery in Egremont for new tables.

£160

to Little Lifers to provide basic first aid training to two classes of primary school children age children.

1.5%

OF PROFITS

donated to charitable causes and projects

THE UK'S
100
BEST LARGE COMPANIES
TO WORK FOR
Q3 2022
cert.b.co.uk

VERY GOOD
TO WORK FOR
2022
cert.b.co.uk

JILL

> *Once again, our people have made an outstanding contribution to our success this year and I thank them sincerely for everything they have done.*

Our PEOPLE

It is a cliché to say that people are the greatest asset of a business but in the customer-centred financial services industry it's absolutely true.

We could not deliver the exceptional experience to our members, the savers and borrowers, that we are renowned for without a committed team of people who deliver our kinder banking approach every day.

It has been a welcome relief to put the disruption of the Covid-19 pandemic behind us but this year has presented challenges of a different sort. Rising interest rates and the cost-of-living crisis have been a worry for many of our customers and we've gone out of our way to help them by enlarging our customer service team and enhancing training to ensure they can provide the most appropriate help and advice.

Of course, our colleagues face the same cost-of-living pressures as our customers and we had to help them too. After careful deliberation, we quickly took the decision to make a one-off cost-of-living payment of £1,500 to all colleagues other than higher-rate taxpayers, and we have repeated this by consolidating the same amount into their salaries from April 2023. That's a big commitment for any employer but one we had to make. Goodwill is a two-way street, after all. We expect a lot of our people and, in return, we strive to treat them properly.

I was thrilled that The Cumberland's approach to people development and communication was recognised externally with a string of awards this year. We were named as one of the UK's 'Best 100 companies in the North West to work for' by Best Companies who described us as a "fantastic business with great employees".

We won **'Financial Services Company of the Year'** at the British HR Awards. The judges praised us for "driving change top down" and making a "strong" investment in learning and development including "extensive" leadership coaching and a "power hour" programme of workshops. They said that the impact of our anti-racism session was a particular highlight.

Our **'Back to the Future'** internal communication campaign, explaining how we approached a post pandemic safe return to our offices, whilst introducing hybrid working and a complimentary working environment, won best change/transformation campaign at the Institute of Internal Communications Awards.

And following last year's success, when we won two global operational excellence awards at the Business Transformation World Summit in Miami, our Operations Director, Stephen Donne, delivered a masterclass on delivering change and collaborative working at this year's event as well as collecting a further award for 'Best Continuous Improvement System'. This is fantastic recognition of the work we're doing to deliver exceptional customer experiences.

It is perhaps worth looking at our approach to people in more detail. **We have what we call four pillars that illustrate how we nurture and bring the best out of our people.**

Attract and retain

Reward and recognise

Support and balance

Engage and develop

Attract and retain

It's crucial for us to attract the best people and to hang on to them once they're here. That has been especially true as we gear up to delivery of our transformation plan, which has required us to bring in technical and strategic skillsets we didn't necessarily have before to complement our existing colleagues, many of whom have deep knowledge of how and why we do what we do, developed over many years in our business.

Recruitment is a challenge for all businesses at present and our reputation as an excellent employer means that we are able to recruit competitively in a wide talent pool. It's not always easy but we are building our expertise and processes in these areas. We are also providing increasing opportunities for apprenticeships at the Society. Moving out of the pandemic, we embraced the fact that the world of work had fundamentally changed and that hybrid working was key to our future. We asked our teams what works effectively for them and their customers (internal and external) and where they produced their best work. Practically, this means that employees outside of customer facing roles, are able to work from differing locations providing a blend between working in the office and working safely and securely at home. Our people are entrusted to manage how best they organise their work to deliver outcomes. This change has been transformational for us and is something our people have told us is an important part of our culture in terms of attracting and retaining talent.

Reward and recognise

I've already mentioned the cost-of-living payments, which exemplify the way The Cumberland looks after its people. We thought long and hard about how soaring prices were affecting our colleagues and how we should support them as a responsible employer.

We have also introduced 'Our Kind of People Awards ' to recognise colleagues who do great work within the Society and the wider community. They are nominated for the award by their peers and judged by our Purpose Pioneers, set up to ensure the Society holds fast to its values and ethos.

Among the winners were Jenny Strong, at Borderway Finance, for simplifying the credit application process, providing a quicker decision for customers; Darren Madine, an application support analyst, who worked flexibly changing his personal plans to ensure a service enhancement could go ahead; and Sophie Court-Oak, of Cockermouth branch, for outstanding assistance to customers.

Support and balance

We believe in treating our people with dignity and respect, promoting wellbeing, diversity and inclusion. Half of senior posts, at board and executive level, are now held by women. We are committed to the Women in Finance Charter and our work with Women in Banking and Finance, of which we are a foundation sponsor. We invited Anti Racist Cumbria to deliver sessions on racism and anti-racism and provided sponsorship. This initiative is continuing as we build on our learning.

We have invested time and money to ensure we have the right wellbeing support for our people, learning through the pandemic of how important this is to our colleagues. This support includes extensive occupational health provision, enhanced life insurance and wellbeing education and discussion sessions. To date we have created 18 mental health champions within our workforce – trained by the charity Mind – and this year we adopted a menopause policy, providing training for managers and supervisors and encouraging women going through the menopause to ask for support and to support each other.

The thrust of all these efforts is to create a supportive workplace where people experiencing difficulties can raise them with managers without fear of stigma. It is gratifying that we scored extremely highly in a benchmarked survey we commissioned asking colleagues if they felt connected to the business. That's good for our customers too because, we know without doubt, employees are more productive if they feel engaged in the purpose of a business.

Engage and develop

We've spent a lot of time putting in place learning and development interventions to support our people. We recognise that having a realistic potential career path within the business, supported by the most appropriate education and skills development opportunities, is key to helping us hold onto the best people.

During the pandemic we began online 'power hour' sessions on chosen topics to help people develop their careers and we've invested heavily in management and leadership development. Our Insights Profiling programme helps people to grasp better how they work, what their priorities are, and helps our teams to collaborate more effectively and understand each other better. We have introduced an online learning portal to enable all employees to access training remotely and keep up to date with regulatory changes.

It is a priority for us that our people know where we are going as a business and that they understand the reasons behind the decisions we make. How we engage with our employees is crucial. We have a focus on internal communications through regular newsletters and 2023 saw the introduction of our quarterly colleague magazine **Our Kind of People** focussing on sharing and celebrating our people success stories and news. We also run quarterly 'town hall' meetings for all employees where members of the senior leadership team discuss key topics, followed by a Q&A session.

Appointments

The Society has made several key appointments to our senior team this year. Claire Deekes, a chartered banker with many years' experience, has been promoted to Chief Customer Officer. She has also been appointed to the board of Cumbria Local Enterprise Partnership, the body leading economic regeneration and growth in Cumbria. Claire's promotion created a vacancy for Elizabeth Eastburn to join as Head of Direct Distribution, responsible for the branch network, mortgage hubs, customer experience and complaints.

Anna Barsby has joined the board as a non-executive director. She is one of the UK's top chief information officers and is a people and transformation leader, used to delivering large-scale change across different industries. She has worked for Asda, Halfords and Morrisons and is a managing partner and founder of Tessiant, a bespoke strategy and transformation consultancy.

Jill Johnston
Chief People Officer
6 June 2023

OUTLOOK

We will continue to ask more of our people. Our transformation programme requires our people to adapt to what the business needs in the future. For many, it represents an opportunity to learn new skills and develop their careers.

Likewise, the cost of living crisis may change the shape of some of our teams as we flex to meet customer demand. Adaptability and flexibility will be the watch words going forward. We will continue to seek out and recruit the best talent, to nurture the talent we already have and make sure we utilise the capabilities of our people in the best possible way.

The last few years have been a salutary lesson that none of us knows for certain what is around the corner. But whatever the future holds, I am confident that our people will rise to the challenge just as they have in the past. I know they will because they believe in our purpose and core values that provide the platform to continue creating banking experiences that are kinder to people and planet.

Our Approach to SUSTAINABILITY

Our purpose as an organisation drives our approach to sustainability – 'to create a banking experience that's kinder to people and planet'.

Over the course of the year, this has been reflected in our continued support for our members and community as the UK has navigated through the tail of the Covid pandemic. It's also reflected in our long-standing commitment to personal and face-to-face service, helping our members and serving our communities, sometimes as the sole remaining bank or building society branch in a locality.

Our purpose is also reflected in our commitment to distributing a share of our profits to good causes. As a regional building society, we need to find ways that connect with the lives, aspirations and sentiments of our members – an investor friendly 'ESG' strategy doesn't seem the best way to us as we have no investors – just members living in the community we serve. As a result, we have decided upon a simple framework to demonstrate how we bring Kinder Banking to life across three pillars:

PEOPLE

- We treat customers fairly and pride ourselves on excellent experiences
- We pay our employees a real living wage and have a strong company culture that celebrates difference
- We provide coaching and mentoring, and support our people with qualifications funding

PLANET

- We do not use your money to lend to firms involved in fossil fuel production
- We are committed to reducing our emissions and will be carbon neutral in our operations by 2030
- 100% of the electricity we use in our business comes from renewable sources

COMMUNITY

- We provide in-person support in the community through our network of local branches and Carlisle-based telephony centre
- We give 1.5% of our annual profits to charity and are owned by customers, not by shareholders
- We provide one paid day per year for every colleague to volunteer for charitable activity

Within these three pillars we have decided to adhere to a set of simple commitments that we think embody what matters to our members and helps us live our purpose. As we were founded on, and have always operated on the basis of, serving the community we operate in, we are already doing almost all of the activity required to meet our commitments. We now also have a plan to ensure we play our part in continuing to reduce our impact on the environment by targeting a carbon neutral position in our own operations by 2030.

Our KINDER BANKING Commitments:

PEOPLE

Our Commitment	What it means	How we prove it
We treat customers fairly and pride ourselves on excellent experiences	The Society is fair and honest in its dealings with customers and always seeks the best possible outcome for them.	We closely monitor and publish our NPS and Feefo feedback scores to ensure they remain market leading.
We pay our employees a living wage and have a strong company culture	We pay each and every employee a fair and equitable wage and the Society's values and purpose are important to the people that work there.	We benchmark employee pay against the government's real living wage figures and survey our employees on a regular basis through B-Heard and Barrett surveys.
We provide coaching, mentoring and support our people with qualifications funding	The Society supports its employees in their careers and provides funding for education and self improvement.	We have defined qualifications spending guidelines and mentoring/learning policies in place.

PLANET

Our Commitment	What it means	How we prove it
We use your money to support local communities and businesses	Customer deposits in current and savings accounts are not used to invest in harmful fossil fuel or arms production.	We only lend funds to help other customers buy homes, support UK based tourism and hospitality or finance small businesses and their vehicles.
We are committed to reducing our emissions and will be carbon neutral in our operations by 2030	The Society is committed to reducing its carbon emissions to as low a level as possible by 2030 through positive action. Any remaining emissions will be offset using high quality and visible offsetting schemes.	We are developing a clear roadmap of activity to reduce our emissions with the help of third-party experts.
100% of the electricity we use in our business comes from renewable sources	All of the electricity used by the Society comes from renewable sources such as solar power or onshore/offshore wind.	Our electricity supplier has contractually committed to providing electricity from renewable sources.

COMMUNITY

Our Commitment	What it means	How we prove it
We provide in person support in the community through a network of local branches and our Carlisle-based telephony centre	The Society maintains a local presence with access to human support when needed in person or via telephone.	Any of our customers are welcome to visit our branches or call our telephony centre at anytime.
We give 1.5% of our annual profits to charity and are owned by customers not shareholders	The Society donates 1.5% of its annual profits (capped) and doesn't have to pay shareholders a dividend. It operates on behalf of and for the benefit of its customers.	We report our annual donation in our audited accounts. Our articles of association establish that we are a mutual building society.
We provide a paid day each year for every colleague to volunteer for charitable activity	The Society allows its employees to give back to the community.	This clause is written into our people policies and employee contracts.

Monitoring the risks of climate change

Although we are putting a plan in place to be carbon neutral in our operations by 2030 as part of our Kinder Banking commitments, we are already on a journey of understanding the risks posed to us as a building society by climate change and have made steps to reduce our emissions significantly because it is the right thing to do.

We recognise that climate change will increase the frequency of flooding and subsidence, the rate of coastal erosion and, potentially, lead the government to require that energy inefficient properties be remediated.

We monitor these and other risks within our climate risk management framework which is based on recommendations made by The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. The Cumberland is currently too small an organisation to fall under the remit of TCFD from a regulatory perspective but we think it makes good sense and good governance to use their themes for best practice and get ahead of any future reporting requirements.

Theme	Our progress
Governance How we oversee climate-related risks and opportunities	• Our climate change policy means that we regularly report our position to the Board • Having embedded our climate risk management framework we are in a strong position to monitor and report back on how climate change impacts the Building Society
Risk Management How we identify and manage climate-related risks, which include both risks emerging from the UK's energy transition and the risk of climate change itself and how these are integrated into the way we manage risk overall	• Having assessed our physical risks against each and every mortgaged property, we have implemented an annual review of credit risk exposure focusing on our most vulnerable customers • We have communicated our climate risk policy to all colleagues in the Society to increase awareness and engagement • We continue to work with suppliers and the wider industry and regulators to understand the transition risks of climate change
Strategy How we manage the impact of climate-related risks and opportunities through our strategy and financial planning	• Our Head of Strategy has helped us define our Kinder Banking commitments which help embody how we will deal with our own impact on the environment • In terms of managing the risks within our strategy, we have embedded environmental considerations and scenario planning into our annual assessments of our future capital and liquidity adequacy analysis (ICAAP and ILAAP)
Disclosure How we identify and manage climate-related risks, which include both risks emerging from the UK's energy policy and changing climate conditions	• We will report our risk management progress through considered metrics to the Board on a regular basis • Our Kinder Banking commitment reporting will be made available to all of our stakeholders

Our own impact on the environment

We have continued our efforts to reduce our own emissions this year through a focus on electricity supply, energy conservation and waste management. In reading this data, it is important to note two trends: firstly, our office usage has risen post pandemic, both as our people choose to work more in the office for business reasons and also in response to their own heating and electricity costs; and secondly, while we report our electricity consistently, our supply is now from renewable sources only reducing the actual impact. We made this transition in the second half of the year.

Our submission for the SECR (Streamlined Energy and Carbon Reporting) for the year ended 31 March 2023 is set out in the table below. 2022 figures are provided for comparison purposes. This year we have also submitted a report, developed by expert third parties, under the 'Energy Savings Opportunities Scheme' (ESOS) which provides further guidance on how we can further reduce our emissions and conserve energy.

	2022-23		2021-22	
SCOPE 1 - DIRECT EMISSIONS	**kWh**	**Carbon as tCO_2e**	**kWh**	**Carbon as tCO_2e**
Natural Gas	372,550	68.01	421,236	77.49
Business Mileage, **unknown fuel**	64,945	15.19	33,457	9.20
Total Scope 1	**437,495**	**83.20**	**454,693**	**86.69**
SCOPE 2 – INDIRECT EMISSIONS	**kWh**	**Carbon as tCO_2e**	**kWh**	**Carbon as tCO_2e**
Electricity – National Grid, Location based grid average	472,844	91.44	1,140,755	242.20
Electricity – National Grid, Market based, REGO backed	713,875	0.00	N/A	N/A
Total Scope 2	**1,186,719**	**91.44**	**1,140,755**	**242.20**
SCOPE 3 – INDIRECT EMISSIONS	**kWh**	**Carbon as tCO_2e**	**kWh**	**Carbon as tCO_2e**
Electricity – T & D, Offices	1,186,179	20.99	1,140,755	21.40
Employee car – Average Passenger car, **Unknown fuel**	159,605	37.33	77,406	19.00
Well-to-tank (WTT) – **all car miles**	224,550	13.87	110,863	7.20
Total Scope 3	**1,570,874**	**72.19**	**1,329,024**	**47.60**
Total – Scopes 1, 2, 3		**246.83**		**376.49**
Total tCO_2e per FTE, Scopes 1 & 2		**0.28**		**0.52**
Total kWh per m^2, Scope 1 Gas		**55.77**		**63.06**
Total kWh per m^2, Scope 2 (carbon generated electricity)		**39.18**		**94.52**
Total tCO_2e per £M gross turnover, Scopes 1 & 2		**2.48**		**6.80**

Notes
2021-22 FTE = 602 / 2022-23 FTE = 631
Floor space 12,069 m^2 for electricity calculations and 6,680 m^2 for gas calculations
2021-22 Turnover £48,390k / 2022-23 Turnover £70,393k (Turnover = Total income adjusted for gains/losses on derivatives)
2021-22 metrics originally included work from home emissions. As home working and the energy used are not under the control of The Cumberland in a hybrid working model they have been excluded for comparison.

Scope 1

National Grid gas consumption

Total Scope 1 emissions are calculated as **68.01 tCO2e.**

There are 23 sites with a gas supply, consuming 372,550 kWh during the reporting period. This is a reduction of approximately 11.6% compared to 2021/22.

Company cars / Fuel cards

Total Scope 1 emissions are calculated as **15.19 tCO2e.**

The Society has direct control over the choice of company cars and fuel type, so these emissions are classed as Scope 1. We have assumed an 'average car' and 'unknown fuel' for these calculations.

This is a significant increase form 2021/22 emissions (9.2 tCO2e), reflecting the increased travel now that Covid restrictions have been lifted and business returns to normal.

Scope 2

Electricity – National Grid

National Grid electricity consumption within the owned offices is calculated at 1,186,719 kWh, with emissions of 91.44 t CO2e.

This is a c.4% increase in electricity consumption reflecting greater use of our buildings. However, as mentioned above, electricity is now sourced from renewable sources, resulting in a significant reduction in carbon in the second half of the year.

Scope 3

Summary

SECR does not require the Society to report any of its Scope 3 emissions. However, the Society believes it is useful to report the metrics shown below as it can do so accurately and it has the ability to exert some influence by its own actions and decisions.

Scope 3, Category 3 Fuel & Energy

The emissions associated with the transmission and distribution of electricity between the generating site and the Society's offices is proportional to the total NG electricity consumed and is calculated as 20.99 tCO2e. Even when the electricity delivered is fully from renewable sources the energy used in its transmission may not be.

Scope 3, Category 6 Business Mileage

In addition to direct emissions from the fuel combustion, the Society can also calculate the 'Well to Tank (WTT)' emissions which arise from the extraction, refining and distribution aspects of fuel manufacture. These are calculated at 13.87 tCO2e. As the Society's people migrate to hybrid and fully electric cars the WTT emissions will fall sharply, so the Society believes is helpful to report the existing WTT emissions so that future planned improvements can be highlighted.

GOING FORWARD, WE WILL REPORT ON HOW WE CONTINUE TO MEET THESE COMMITMENTS ANNUALLY.

RISK Report

↑ Increasing level of risk

↓ Decreasing level of risk

⇄ Stable level of risk

PRINCIPAL RISKS AND UNCERTAINTIES

This year has seen the country emerge from the Covid pandemic into an environment dominated by a deteriorating economic position and the ongoing war in Ukraine. The Society has been required to manage a volatile situation of increased interest rates and increased inflation, putting the well-being of its customers at the centre of what we do, whether it be ring-fencing financial resources to offer best priced mortgages, protecting our most vulnerable customers through adoption of the new Consumer Duty regulations, or offering financial guidance through our cost of living website.

We have not yet seen adverse lending portfolio performance as a result of the economic environment and cost of living crisis; however it has and will remain an area of considerable focus for the Society.

Set against this backdrop, the Society has continued to deliver its transformation plans. Such changes cannot be executed without strong control over the risks that will arise; this has meant an extensive build out of risk management processes and governance to give us the oversight we need of such complex activity.

The Society utilises a risk framework which is consistent with industry best practice. It uses the '3 lines of defence' approach where all risks are owned in the most appropriate business area, be it branches, operational teams or the finance department - because that is the area that will best understand the most suitable way to control and mitigate these risks.

The framework itself is owned, developed, and overseen by the 'second line of defence' Risk function, led by the Chief Risk Officer (CRO), John Hunt, who is a member of the Senior Leadership Team. The 'first line of defence' is also well supported by embedded first line risk teams, in which the Society has invested heavily over the past two years; these teams develop and assure controls locally.

The design and operation of the risk framework, the skill and capability of the CRO and the wider Risk teams, and the successful operation of controls to manage risk are independently overseen by the internal audit team, the 'third line of defence'.

The risk framework supports the design and delivery of strategy within agreed risk levels, minimum standards and adherence to applicable regulation and legislation. It ensures risks are defined, measured, and controlled in a consistent way across the Society and puts the Society in the best possible place to manage through severe, but plausible, shocks.

The following are the principal and significant risks currently facing the Society, the key mitigants that help control those risks, and commentary outlining the latest progress in enhancing the Society's approach. Whilst the underlying set of risks included are broadly consistent with the risks faced in the prior 12 months, there has been a shift in emphasis as the Society takes steps to both manage in the macro-economic environment and further advance our transformation plans.

Risk and impact	Mitigation	Movement in risk profile	Latest progress
Macro-economic Impacts The risk that the economic, political, or regulatory changes arising from the wider environment cause detriment to the Society, including emerging impacts of the deteriorating UK economy (including the 'cost of living crisis'), Brexit, and the ongoing war in Ukraine.	The key risks to the Society are the second order impacts on the UK economy and our customers. Whilst structural impacts of Brexit and the weaknesses in the UK economy are becoming clearer, there remains much uncertainty and volatility due to the combination of world events and the attendant inflationary pressure and cost of living squeeze. This general economic risk is managed by governance, scenario planning and stress testing.	↑	As we reach the end of the year the risk profile is increasing due to unpredictability of national and world-wide factors; there remain significant downside risks to the UK economy and signs of disruption to trade are emerging. Over the past 12 months, the Society has: • monitored and responded to changes in the economy and government support schemes; • monitored the developing legal and regulatory changes required arising from our exit from the EU; • maintained observation of global events and considered all potential impacts on the Society; and • responded quickly to interest rate and swap movements, and carefully assessed inflationary impacts.
Strategic Risk The risk of current or prospective impact on the Society's earnings, capital, reputation or standing arising from changes in the environment the Society operates in. It may further arise from adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic or technological changes.	All risks are formally assessed as part of the corporate strategy setting process. In addition, an annual review of the Society's strategic risk register is undertaken, and a quarterly monitoring report presented to BRC. The acceptable levels of risk that can be taken when delivering the strategy are clearly stated in risk appetite. Outcomes against risk appetite and triggers are presented monthly to Board alongside a review of our top risks.	⇄	Risk profile is stable as despite the worsening macro-economic outlook, the Society continues to deliver against its strategy and invest in its transformation. Over the past 12 months, the Society has: • continued to build key aspects of the business to be able to deliver strategic change; • agreed our over-arching corporate plan and level of technology investment with the Board; • launched our 'Kinder Banking' initiative; and • reviewed our product strategy and sought opportunities for harmonisation.
Transformation and Change The risk that the Society fails to deliver successfully against our strategic change objectives.	All risks are formally assessed as part of the change process in line with industry best-practice. The acceptable levels of risk that can be taken when delivering the change are clearly stated in risk appetite. Review of transformation progress and risk is undertaken by steering committees, which in turn report to BRC.	↑	Risk profile is increasing as the Society is embarking on a significant transformation programme. Over the past 12 months, the Society has: • continued to deliver transformation under the Cumberland 2025 banner; • ensured that BAU (business-as-usual) or growth segments of the business do not suffer whilst the Society is being transformed; • established the capability and processes to be able to deliver a transformation; • undertaken a strategic review of our core systems and assessed risk agreeing our plans and level of investment with the Board and refinements thereof; and • simplified the operations of the Group through a programme of process review and improvement.
Credit Risk The risk that a borrower fails to pay interest or to repay capital on a loan and/or that a counter party fails to meet their contractual obligations to repay the Society or fails to perform their obligations in a timely manner. This risk is impacted by unemployment rates, changes in house values and interest rates. In a recession, increasing unemployment and falling house prices may mean it is more likely that the Society would lose money if members failed to keep up to date with their loan payments. The current economic environment and the potential for further recession creates an enhanced degree of risk and uncertainty for the Society.	Overall lending standards are controlled by a Board level policy. Lending criteria and our Arrears and Forbearance management policy are agreed at formal credit committees, chaired by the Head of Data & Credit Risk and attended by SLT members. All lending is fully manually underwritten, checked for affordability, suitability and that the lending is responsible. All high value or complex lending is approved by specialist underwriters. Oversight of credit is provided by assessing the quality of underwriting, tracking our portfolios and concentrations and our collections and forbearance performance with credit management information summarised at the Board Risk Committee.	⇄	Overall arrears and forbearance levels remain low and increased resource and focus within the Commercial team has seen further improvement against impaired loans (90+ days arrears). Whilst no adverse performance has been seen across our portfolios to date due to the current economic environment and consequent 'cost of living crisis' this remains an area of high focus for both the Society and regulator alike due to future uncertainty. Over the past 12 months, the Society has: • continued to develop data and reporting capabilities to enable more insight of internal and external leading indicators to facilitate more informed decision making; • continued to refine its operational processes to manage arrears and provide forbearance and other forms of support to members and in response to regulatory concern (June 2022 Dear CEO letter and FCA Draft Guidance for firms supporting their existing borrowers impacted by the cost of living); and • reviewed lending criteria and procedures to improve clarity and efficiencies in process (including full review of Holiday Let lending strategy) and reflect impacts of current economic environment with changes to affordability and stress rates.

Risk and impact	Mitigation	Movement in risk profile	Latest progress
Interest Rate Risk The risk of fluctuations in interest rates and changes in the value of contracts we use to manage interest rate risk, impacting the Society's earnings or Capital.	Managed through the Assets and Liabilities Committee (ALCO). A financial risk management framework and policy details all the processes and limits for managing interest rate risk. Stress tests are applied as part of the ICAAP and additional capital is held to cover any unforeseen losses arising from interest rate risk. Interest rates have moved rapidly upwards following a prolonged static period and customers show an increasing preference for fixed-rate loans. Our controls mean that, whilst the external environment interest rate risk is increasing, our actions and governance result in a stable risk profile.	⇄	Over the past 12 months, the Society has: • secured significant inflows of fixed-term deposits to act as a natural hedge for 2 and 5 year lending; • enhanced our governance structures to rapidly and proactively manage the market volatility; • managed the volatility in swap rates and its impact on mortgage lending, by use of pre-hedging, allowing us to safely provide fix rate mortgages as rates rose; • further developed our Net Interest Margin reporting, providing new insight into the balance sheet performance and its underlying dynamics; • successfully applied to the PRA for an increase in the limit up to which we can provide mortgages at fixed interest rates; and • continued to diversify our liquid asset portfolio by further acquisition of Covered Bonds.
Liquidity Risk The risk of failing to meet demands and commitments to provide funds to customers and other third parties.	Managed through ALCO supported by the Liquidity Management Committee, which ensures future lending volumes and funding availability is considered in managing liquidity levels. Liquidity levels are stress tested as part of the ILAAP to ensure sufficient liquidity available to meet requirements through a severe stress; the ILAAP also sets our risk appetite. A weekly dashboard gives full overview of liquidity levels versus the defined triggers and limits. The Liquidity Contingency Plan, which forms part of the Recovery Plan, ensures that predetermined plans are followed if a liquidity stress was ever to occur. This is also subject to routine tests.	⇄	Our risk profile is stable as improvements in our approach to forecasting and managing liquidity requirements have offset the risk arising from external liquidity stresses. Over the past 12 months, the Society has: • improved its ILAAP with enhanced analysis, insight, and stress tests based on real world data, including the impact of swap collateral arising from increases in swap rates over 2022; • successfully evidenced our ability to secure fixed-term deposits rapidly; • maintained our levels of liquidity, with significant surplus to both our own risk appetite and regulatory requirements; and • carefully monitored global banking events seeing no impacts on our own depositors behaviour.
Capital Risk The risk of having insufficient capital to meet any risks to which the Society is exposed. The Society's capital is mainly made up of 170 years of retained profits.	Managed through ALCO. The ICAAP helps ensure appropriate levels of capital are maintained at all times and allows the Society to effectively test and set the risk appetite. While the amount of capital required to be held has increased due to the application of the Counter-cyclical buffer from the end of 2022, the overall risk profile is stable due to strong surplus over buffers, the Society's products and control environment.	⇄	Over the past 12 months, the Society has: • delivered ongoing capital monitoring and the production and review of an ICAAP to confirm its capital strength; • grown the level of available capital through profitable operation; and • assessed the implications of PRA consultation on both Basel 3.1 and Strong and Simple, providing an individual response on the former and working with the BSA closely on the latter.
Conduct Risk The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to unfair outcomes being created for customers and/or reputational risks materialising.	Managed through a Customer Outcome Testing Framework which looks at all areas of potential customer detriment and tests whether any detriment is occurring. Comprehensive Management Information flags areas to investigate, and any issues identified are put right for customers affected. Detailed product governance framework ensures that any new products developed minimise the likelihood of customer detriment.	⇄	The outlook for this risk is stable as the necessary processes are in place. We are proactively identifying areas to be investigated and any potential detriment to be put right for our members. Over the past 12 months, the Society has: • enhanced its Operational Resilience processes to better understand the processes that are critical to its customers and the potential resilience vulnerabilities in these processes; and • commenced work in relation to the FCA's new Consumer Duty and continued to refine its approach to Vulnerable Customers.

Risk and impact	Mitigation	Movement in risk profile	Latest progress
Operational Risk The risk of loss resulting from inadequate or failed internal (including where provided by a third party) processes, people, and systems, or from external events. This includes losses from fraud.	Minimum standards are set through the Operational Risk Policy. Further policies support the management of risks arising from failures by third parties, the management of financial crime risk and the management of information security risk. Risk teams in the business follow agreed processes to identify, measure, manage and mitigate risk. These teams also report any incidents or policy or regulatory breaches. Independent reporting by the risk team helps understand any trends and tracks overall operational risk losses against the agreed risk appetite.	⇄	There has been continued investment and progress to improve operational resilience within our technology platform. Further improvements and increased digitalisation form the core of our transformation programme and strategy. The operational risk management system has continued to be embedded which has enhanced the management of operational risk enabling greater insight and profiling of our operational risks. Nevertheless, there is more work to do as we focus on reducing this risk over time. Over the past 12 months, the Society has continued to: • invest in specialist roles to enhance the capability for oversight of our transformation programme; • further developed our First Line Risk teams and working practices supporting enhanced use of our operational risk management system and our first line of defence risk management practices; and • upgrade our infrastructure underlying our core banking platform in a way that will also support future transformation.
Climate Change Risk The risk climate change could create for the Society as a result of physical impacts and the transition of the UK economy to lower carbon activities.	The Society has embedded its Climate Risk Management Policy within the existing Risk Management Framework, ensuring the policy and requirements therein are governed effectively. The policy identifies and considers risk through defined monitoring and specific stress testing approaches consistent with the Climate Biennial Exploratory Scenario used by the Bank of England. The climate risk exposure is managed in accordance with the regulatory requirements outlined in the PRAs supervisory statement SS3/19.	⇄	• The Society conducted a review of its mortgage portfolios (as at the end of December 2021) in February 2022 to identify the risks under the different climate change scenarios. The outcomes of this review covered both physical risks (e.g. flooding, subsidence or coastal erosion) and transitional risks (i.e. adjustments to a low carbon economy, e.g. target EPC ratings for property). These were communicated through the relevant risk and board committees. • A subsequent internal audit (with support from our co-source audit partner RSM) was undertaken in June 2022 and findings were positive in terms of the Society's approach and compliance with regulation. • The annual review of the Society's portfolio at 31 December 2022 has just been completed and will be discussed with the Board Risk Committee at its next scheduled meeting.
Regulatory Risk The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to non-compliance with regulation, legislation, or voluntary codes of practice, potentially leading to unfair outcomes for customers and/or regulatory sanction and/or reputational risks materialising.	Minimum standards are maintained through the Regulatory Risk Policy. Business areas in the Society follow agreed processes and standards for managing compliance. Horizon scanning gives a clear view of upcoming regulatory requirements. This is all supported by agreed standards for proactively managing contact with the regulators.	⇄	• The outlook for this risk is stable. During the course of the year, some challenges were encountered in delivering regulatory changes in the timescales we wanted, and an issue in one of our internal controls was identified. However, we have worked closely and pro-actively with the regulator to ensure the closure or remediation of these historic issues. • Further, the Society has successfully delivered a number of regulatory requirements and has projects in place to address new regulatory requirements, identified through its horizon scanning function.
Pension Risk The risk that the value of assets in the Society's defined benefit pension scheme alongside additional contributions are insufficient to cover the anticipated obligations of the scheme over time.	All pension investment decisions and required Society funding overseen by an independent trustee board who are advised by the scheme actuary and investment managers. The approach is stress tested against standard requirements set out by the PRA. Capital is held to ensure there are sufficient funds to cover severe but plausible changes to pension asset values or liabilities. The scheme is administered by a specialist outsourced body.	⇄	• During the year, the Society received the triennial actuarial valuation of the scheme to 26 August 2021. This indicated a modest deficit, which was subsequently eliminated by significant contributions from the Society (during November 2021) in accordance with the long term journey plan agreed with the trustee. • The value of Scheme assets was subsequently impacted by the war in Ukraine and increased inflation; however, the investment strategy and hedging resulted in a corresponding reduction in scheme liabilities, ending the year in a position of modest deficit. The scheme had some exposure to the issues surrounding Liability Driven Investments (LDIs) during the economic turbulence following the 'mini-budget' in Autumn 2022. Based on its year end valuation this appears to be relatively modest in financial terms. • The extent of this financial impact and any mitigating action required is under investigation with the trustee and actuary. • Irrespective of the final impact this will result in a revised investment strategy going forward, reflecting changes in UK pension rules and updates to risk management. • Nevertheless and despite the volatility experienced, the outlook for this risk is stable with the pathway to scheme self sufficiency maintained year on year.


RICHARD

Welcome to your CHIEF FINANCIAL Officer's Review

Our financial performance was excellent

The Cumberland and its customers faced a very different financial environment to recent history. Your Society successfully navigated the first year of this new economic cycle.

Rising interest rates supported income, and allowed us to complete our planned investment in the preparatory stages of the New Cumberland transformation programme, without the expected reduction in profit forecast, in fact operating profits rose.

Sharply rising base rates, rampant inflation and political instability disrupted the fixed rate mortgage market dramatically, and our savers benefitted as we raised our rates each time the base rate moved. Against this backdrop, your Society grew its mortgage lending as planned and you continued to trust us with your with your transactional banking, savings and deposits, which cumulatively grew well above expectations.

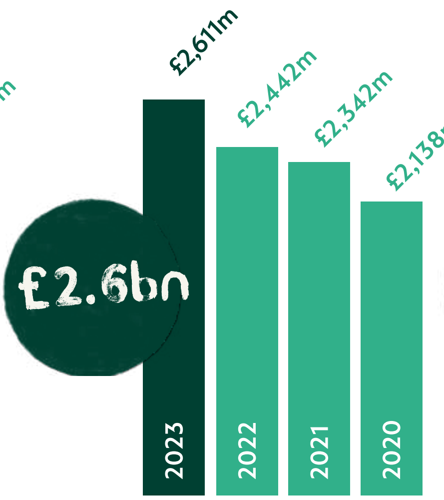
> *Our performance was substantially better than budget*

We continued to invest in our people and our processes. The spend and pace of delivery both rose resulting in substantially increased resilience in our underlying technology architecture and improved cyber security – setting in place many of the foundations that will allow us to confidently progress into further technology build in line with our stated strategy. Our performance was substantially better than budget, and guided in last year's annual report, reflecting revenue outperformance, derivative volatility that will unwind, partially offset by the ramp up of investment spend and our decision to prioritise supporting our people through the cost of living crisis.

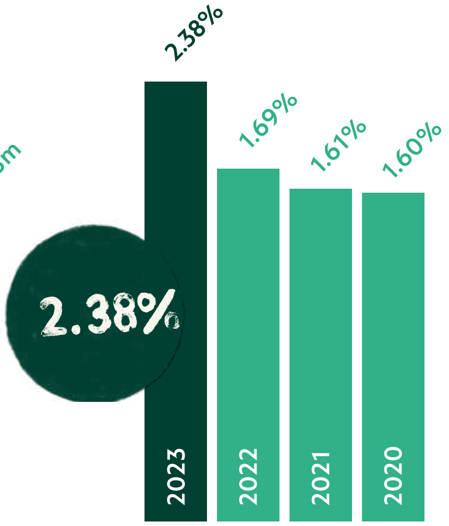
Profit before tax was £26.6m (2022: £8.6m), of which £14.1m (2022: £3.8m) was swap volatility.

At an operating profit level, which strips out the large fair value hedging gain which will reverse, your Society saw an improvement to £12.3m (2022: £5.3m), as revenue rose, driven in particular by the net interest income on swaps on our back book of fixed rate mortgages but also reflecting the benefit of base rate rises on liquidity. This was offset by our ongoing and growing investments in people and processes as we purposefully reshape how The Cumberland delivers to you, our members.

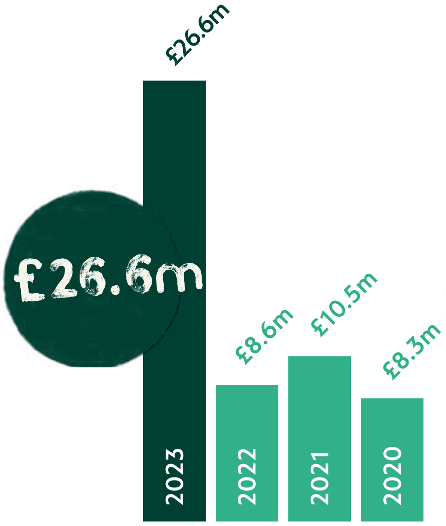
Mortgages



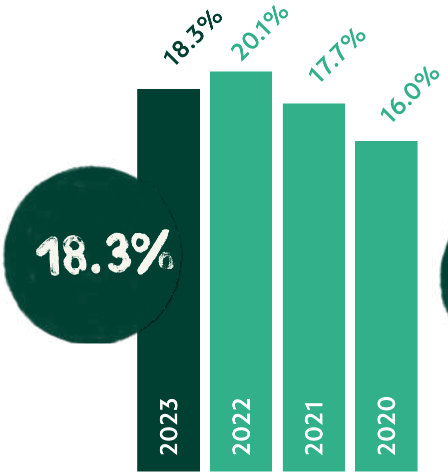
Deposits



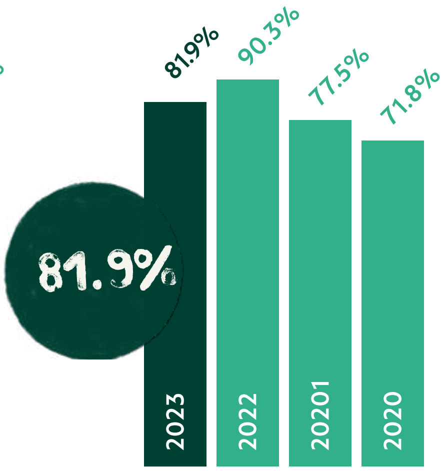
Net Interest Margin



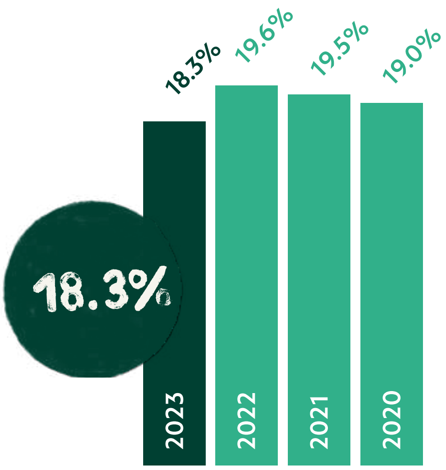
Profit before tax



High Quality Liquid Assets



Cost to income ratio



Common Equity Tier I ratio

Key performance indicators

The Society monitors many aspects of financial and non-financial performance on a regular basis. The graphic above, and this section, focuses on those measures that are reported to and considered key to the business' financial success by the Board. A full list of the Group's KPIs and definitions can be found on page 147.

INCOME STATEMENT

Overview

Statutory and Operating profits rose year on year, with net interest income and fair value volatility being a key dynamic. This was driven by the sharply rising UK base rate and SONIA as the Bank of England and financial markets responded to inflation and the political chaos surrounding the Truss administration. The rising rate environment's impact more than offset our growing level of investment. These key macroeconomic drivers were supported by balance sheet growth, more efficient use of liquidity and the mix of advances within our mortgage books. Funding costs rose as we raised rates in response to each base rate rise and we saw a migration by depositors towards fixed term products reflecting the re-emergence of a rate curve.

A summarised Income Statement is set out below.

	2023 £000	2022 £000
Interest receivable	**109,859**	58,121
Interest payable	**(40,433)**	(10,455)
Net interest income	**69,426**	47,666
Other income or charges	**967**	724
Total operating income	**70,393**	48,390
Management expenses	**(57,647)**	(43,700)
Provision for bad and doubtful debt	**(434)**	618
Operating profit (before hedge accounting, other provisions and one off items)	**12,312**	5,308
Other gains/(provisions) and (charges)	**213**	(503)
Gains on derivatives and hedge accounting	**14,054**	3,808
Profit before tax	**26,579**	8,613
Tax	**(5,000)**	(1,204)
Profit for the year	**21,579**	7,409

Net interest income

Net interest income grew by 46%. This reflected four key dynamics. Firstly, the impact of a rising rate environment. This positively impacted returns on our historic swap book (which successfully protected the Society from the type of change in rates that we saw), as well as taking return for our liquid assets regularly above the cost of funding as our floating rate deposits and instruments responded overnight to moves in base rate and SONIA. Secondly, a positive mix within our mortgage books. Our letting book continued its growth, our FSOL portfolio continued to grow too, supporting the ongoing recovery of our hospitality and tourism businesses, and maintaining the trajectory seen in the second half of last year. Thirdly, offsetting the first two dynamics, the volatility in rates, as well as sharp revisions in swap pricing, saw front book spreads narrow markedly for a period and required us to pre-hedge to provide members with short windows of price stability. Many members took advantage of this protecting themselves from the rises that followed and the spike in rates associated with the mini budget. While rising rates generally support retail financial institutions, volatility of the type seen creates and crystallises risk, and necessitated far swifter repricing than for perhaps a decade. Fourthly, depositors responded to the changes in rates and the attendant cost of living crisis. We saw some drawdown, some movement for rate and, most significantly, a second half of the year move to term products reversing the recent dominant preference for instant access.

The Cumberland looks to provide value to members over the long term, and this saw us raise variable deposit rates in response to each base rate move, as well as ensuring that back book customers on variable rates always received at least as good a rate as the equivalent front book offer. These dynamics, as well as better than planned deposit growth, saw cost of funds (interest payable) rise and reduced the level of margin widening to well below the step up in the external rate environment.

For these reasons, Net Interest Income (NII) grew more significantly than the growth in assets. Further detail is captured in the Net Interest Margin (NIM) section below and in our balance sheet review.

Net interest margin

NIM has increased by 69 basis points year on year to 2.38% as base rate increased by 350 basis points to 4.25%. NIM improved steadily for the first six months of the year as the asset side of the balance sheet benefitted from rising rates. This was very largely an existing book dynamic, driven by the growing level of income from historic swaps, the improved return from liquid assets and the rise in variable rate mortgages. In the second half of the year, the Society regularly opted to deliver rate rises in response to the multiple base rate rises to saving members first, with our variable mortgage and SVR rate rises lagging. This, coupled with the rise in fixed term deposit rates and a customer preference for them, moderated growth in margin in the later part of the year. Within this macro dynamic, the multiple base rate rises and forward rate volatility saw spikes and declines in individual months.

The front book dynamic was rather different and pulled in the opposite direction. Fixed rate mortgages are priced to reflect forward rate expectations inherent in the swaps used to protect the Society from the risk that fixed rate loans offered may end up being cheaper than the deposits that fund them. Rates in the swap market were significantly higher than UK base rate throughout the year, and

INCOME STATEMENT

the daily movements in swaps were so significant that it became impractical to offer fixed rate products without pre-hedging, or accepting that some necessary protection, bought at the point of customer decision, cost more than the customer had agreed to pay. The Society responded early in the year by adopting pre-hedging for the first time but also had to re-price products far more frequently than in the past. At the peak of the volatility during the short lived Truss government, a number of products had to be withdrawn, though we ensured that customers coming to the end of a fixed rate product with us always had a new fixed rate product. While we are acutely aware of the challenge customers faced from higher costs to fix their mortgage, the economic reality is that the Society earned, and will earn, lower spreads, and thus margin, from the mortgages originated during this period too. We supported existing members, whose historic fixed rate mortgage ended, by offering discounts to the products offered to new borrowers (via rate or fees) throughout the year.

On the liability side, we continued to offer competitive rates throughout the year and, as explained earlier, this, and a shift in the mix of deposits selected by customers, has meant our cost of funds has been on a rising trajectory. Within this overarching dynamic, the Society has benefitted from its current account franchise, and the funding it provides, alongside the unwind of the effective retail liability floor that existed when base rate (at 0.1%) was well below the rate that we paid our instant access depositors.

	2023 £m	2022 £m
Net interest income	**69.4**	47.7
Average financial assets	**2,925**	2,818
	%	%
Net interest margin	**2.38**	1.69

Defending margin is a key strategic aim, which will remain a focus in 2023-24. Pressure will come from asset price reduction as the political volatility, and perhaps the inflation rate, moderates alongside greater flows within our deposit book as depositors seek rates that have become more attractive than for a number of years. While a rising rate environment usually has a positive impact on margin, volatility, such as that experienced during the year, also creates risks that require careful management, and this is discussed in the next section.

Derivatives and hedge accounting

The Society uses derivative financial instruments to manage interest rate risk arising from its mortgages and, on occasion, savings.

Over the last few years, customers have overwhelmingly opted for fixed rate mortgages, and their preference has migrated towards 5 year fixed rates from 2 years. Offering a fixed rate mortgage exposes the Society to the risk that interest rates rise, and in turn the rates it pays to depositors rise, and this rate can grow to a level above the interest its mortgage customers are paying. This occurred in the year, as base rate moved from 0.75% to 4.25% and existing fixed rate mortgages continued to pay at the lower rates set when base rate was lower still at 0.1% in the 20 months prior to December 2021. Without swaps (or natural hedging), the Society would make losses. The Society mitigates this risk by entering swaps, where it pays a fixed rate and agrees to receive a floating rate of interest in return. Once the swap is in place, the Society has floating rate income and a floating rate liability funding it, effectively mitigating this sub element of interest rate risk.

On our back book, customers have benefitted from the low fixed rates agreed historically, and the Society too has benefitted as the floating leg of the swaps have paid it more interest than would have been the case if rates hadn't risen. This has resulted in the value of our historic portfolio of derivatives rising, and significant levels of additional interest income from swaps.

During the year, there has been considerable market volatility, impacting swap valuations within a rising swap price trend, which abruptly reversed with the removal of the Truss government in late October. Markets, thereafter, repriced downwards rapidly, assuming UK rates would peak at a lower level before starting to drift back up as we reached year end.

In order to mitigate the volatility in fair value that occurs, accounting rules allow an institution to adopt hedge accounting, where the value of the swap, and the mortgages it relates to, broadly offset each other. However, these rules do not allow this valuation volatility to be mitigated in the period between a customer agreeing to take a mortgage and draw down of the funds, as the mortgage does not yet exist. This is known as the mortgage pipeline and, during the year, the derivatives managing the risk of the mortgage pipeline have been highly volatile.

Retail customers do not expect mortgage pricing to change daily but, as touched on earlier, the speed of rate rise and the volatility within the swap market (also reflecting future base rate expectations, the UK government's actions and inflation amongst other matters) was dramatic and made this a reality from the Society's perspective as a financial institution. To allow us to safely offer fixed rate mortgages, this dynamic required the Society to increasingly buy swaps in advance to underwrite the price of the mortgages offered (i.e. pre-hedging). This expanded the pipeline period further, as the derivative was bought earlier in the process, and thus the size of the volatility increased too. As expectations of future interest rates rose, the swaps the Society had bought to protect itself and allow members to take fixed rate mortgages rose in value too. This dynamic is the key driver of the large fair value gain shown in the financial statements.

Once a mortgage completes, hedge accounting reduces the volatility seen, but the gain (or loss) already recognised during the "pipeline" period is subsequently unwound over the expected life of the related mortgage (2 or 5 years as amended by payments and prepayments). This charge will offset the NII earned in future years, reversing the gain, and is the reason why the Society removes hedge accounting gains and losses from its operating profit disclosures.

These fair value movements, which in the current year (except in the period after the removal of the Truss administration) were predominantly credits, represent timing differences and, unless the derivatives are closed out, are expected to reverse over the remaining life of the derivatives and do not reflect the economic reality of the hedge.

The Society took the decision to close out an element of the final pre-hedging bought during the Truss administration at a loss, as a number of customers walked away from accepted mortgage offers and new fixed rate business volumes collapsed for a two month period. This loss of £955k is recorded within the fair value line and this element will not reverse.

As explained in the NII analysis, the Group's income from mortgages has been substantially increased by the sustained rise in variable rate income received from the hedging derivatives and this is expected to continue into the early part of next year. As these historic deals mature, and the more recent mortgages predominate, this trend could reverse as the Society has agreed to pay a relatively much higher fixed rate to protect itself and, over the later parts of, in particular, 5 year mortgage deals, the variable income it receives from the hedging derivatives may decline substantially.

The market is currently predicting a higher rate environment for a sustained period, though the Bank of England has periodically indicated that the market's rate view may be too aggressive. It is likely that rate volatility will persist in the near term as the actual outcome is worked through.

Management expenses

Our substantial investment in the Society and its strategy continued as we deliver on our commitment to make the business safe, sound, compliant and ultimately sustainable. This is seen in both our people and administrative costs, which grew. Year on year, salaries and staff numbers rose as we brought in further new skills, particularly in technology and transformation.

We invested £8.9m in the first year of the New Cumberland programme, all of which was expensed as we are too early in the programme to capitalise the work performed. In addition, a further £7m, a proportion of which was capitalised as tangible and intangible assets, was invested in our current infrastructure, data, networks, information security management and operating systems. This included work related to delivering enhanced operational resilience in line with the FCA and PRA framework and many other regulatory driven initiatives. The ongoing fruits of the Six Sigma process improvements initiative were seen by our winning once again at the global operational excellence awards. The level of investment reflects an almost doubling of project based spend and is indicative of the scope of transformation ahead.

We responded proactively to the cost of living crisis on behalf of our people by making an extra payment of £1,500 in October to all employees who don't pay the UK higher rate of tax. This covered over 82% of colleagues. Recognising that, while inflation may slow, costs won't come down, we concurrently announced that each of the colleagues who qualified to receive the payment would have a permanent salary increase of the same amount from 1 April 2023. This is in addition to the discretionary salary rise we will make next year for all of our people and has most benefitted those who earn least. We also saw significant evidence of inflationary wage pressures in recruitment, as turnover rose and competition for technical skills intensified.

Operational expenses rose, reflecting the impact of the war in Ukraine on utilities and the rising costs of our suppliers, who responded by demanding above inflationary cost increases. Cost increases also reflected our significant use of third party skills to ensure we safely manage technology upgrade and transformation, and the Society's widening use of more modern subscription based technology.

The Society's major change programme, "New Cumberland", will continue in 2023-24. The overall delivery will extend over our three year strategic planning horizon into financial year 2026-27 and perhaps later, and we expect to support a significantly elevated and growing level of investment over this multi-year period, as we move towards the heart of delivery. This is expected to challenge overall profitability as we prioritise long term sustainability through a "fit for the future" core banking platform as it will require tight control of other costs to ensure its affordability. Further information regarding management expenses is included in notes 6 and 7 to the accounts.

INCOME STATEMENT

Arrears and impairment charge

The strong credit performance of the Society's loan books was maintained in 2023, and the benefits of our long term commitment to prudent and responsible lending was demonstrated. Our rigorous underwriting processes ensure that loans are affordable, and our loans continue to be subject to manual underwriting by specialist teams, rather than relying on automated credit scoring. This allowed us to rapidly adjust our lending criteria and appetite, as the cost of living crisis emerged and inflation bit, without withdrawing from the market.

While some modest tightening of lending criteria has taken place, we have been able to work through customers' circumstances, and lend where this has been the responsible thing to do, and we have continued to provide mortgages, overdrafts and vehicle finance throughout the year.

In the year ended 31 March 2021, our levels of forbearance grew sharply in response to the pandemic, before the vast majority of customers exited payment holidays. The unwind of these arrangements, which had materially progressed last year, continued in this year as planned, such that only our FSOL book, where a higher level of support had been required throughout the pandemic, reflects any elevation of forbearance, much of which is arrangements which see the customer repay more than their contractual amount each month, in order to clear the amounts built up through Covid support measures. The level of customers in forbearance measures at 31 March 2023, are:

No. of cases (% of book)	31 March 2023	31 March 2022
FSRP (All)	**18 (0.11%)**	41 (0.23%)
FSRP (Owner Occupied)	**17 (0.12%)**	32 (0.21%)
FSRP (BTL and HL)	**1 (0.04%)**	9 (0.39%)
FSOL	**13 (2.40%)**	7 (1.22%)

The volume of accounts fully secured on residential property (FSRP) and fully secured on land (FSOL) 90 days or more past due (90 DPD) at the balance sheet date remains low despite the pressures predicted to emerge from rising inflation, the impact of the cost of living crisis and the increases in interest rates a proportion of our borrowers have faced. The volumes are as follows:

Accounts in arrears (≥ 90 DPD) as % of loan book	31 March 2023	31 March 2022
FSRP	**0.07%**	0.11%
FSOL	**1.64%**	2.10%

Reflecting the build up of pressures on borrowers from inflation, utility costs in particular, coupled with rising interest rates, the Society has recognised a modest loan loss charge. This reflects a significant increase in our modelled collective provision calculations after management overlays to account for the impact of inflation on borrowers capacity to pay. This was largely offset by releases from our FSOL specific provisions as borrowers who had previously struggled during the pandemic either sold up, re-banked or returned to our good book.

The income statement charge for bad and doubtful debts was £434k (2022: £618k release). More information on forbearance, arrears, provisioning and impairment is included in notes 12 and 29 to the annual report and accounts.

Other provisions, charges and gains

No significant new exposures arose in 2023, and we utilised the majority of the amounts first provided for in 2020, as we materially completed the refresh of customer due diligence. A modest gain on revaluation of our investment properties of £20k (2022: loss £15k) and a gain of £116k on sale of investment properties was recognised (2022: impairment charge of £211k).

Subsidiary companies

The Group's financial statements incorporate the assets, liabilities and results of a small, and reducing, number of subsidiaries, as we deliver on our commitment to simplify our business as part of the Cumberland 2025 strategy. The simplification exercise was completed in the early part of this year leaving only the Society, a holding company, and Borderway Finance Limited (BFL).

BFL, our motor finance business, contributed a profit before tax of £951k (2022: £530k) to the Group's reported results. BFL traded successfully during the year benefitting from the robust value of used cars and its high touch customer service, which was recognised by the retention of Feefo's platinum accolade. The result was also supported by gains on BFLs hedging derivatives. The balance sheet grew to £26.7m (2021: £22.3m) surpassing its pre Covid peak. Credit quality has been good. Pleasingly, the level of arrears has remained subdued.

BALANCE SHEET

Overview

The Society's balance sheet exceeded £3bn for the first time. Loans and advances to customers have grown during the year by £198m[1] (2022: £70m). Customer deposit growth was modestly lower than lending asset growth at £169m (2022: £100m).

A summarised Balance Sheet is set out below:

	2023 £000	2022 £000
Assets		
Loans and advances to customers	**2,397,996**	2,228,548
Liquidity	**581,911**	596,372
Other	**110,179**	60,365
Total assets	**3,090,086**	2,885,285
Liabilities		
Retail funding	**2,610,818**	2,441,984
Wholesale funding	**242,724**	231,702
Other	**9,955**	6,495
Total liabilities	**2,863,497**	2,680,181
Equity		
Profit for the year	**21,579**	7,409
General reserve	**201,497**	194,684
Available for sale reserve	**3,513**	3,011
Total equity	**226,589**	205,104
Total liabilities and equity	**3,090,086**	2,885,285

Loans and advances to customers

The Cumberland's lending strategy remains consistent, but the year's performance is best understood in the light of the macro-economic environment of the UK market. Our high quality, owner occupied book grew throughout the year. Mortgage growth was particularly high in the first quarter reflecting The Cumberland's pricing, which was, on occasion, at the top of the market, but also a strong surge of borrowers who sought fixed rates, in particular, longer term fixed rate deals, believing that rates would rise. Rates started to climb and further customers sought to respond in the same way, locking in fixed rate deals despite their growing price, right up until the chaos of the short lived Truss government. This saw a further sharp rise in mortgage rates, which in turn reflected the movement in swaps and the dramatic undermining of the UK's reputation for fiscal prudence. While swap, and thus mortgage prices, moderated in November and December as a new government took power, ongoing base rate rises and fears of recession dampened UK housing demand and our growth, and slowed the pipeline of new approvals. In the period since, mortgage approvals and completions have increased but remain well below the levels seen in the first half of the year.

Our Holiday Let business grew throughout the year, also benefitting from a strong pipeline built up in the early part of the year. Our FSOL book grew well, as the investment we made in strengthening the team last year bore fruit, and the book reached over £200m for the first time, having more than fully recovered the balances lost during the Covid period. It stood at £207m at the year end. Strong levels of retention throughout the year, in most portfolios above those seen in 2022, further supported our growth trajectory.

We advanced £541m of mortgages (2022: £422m) and mortgage balances grew by £193m (2022: £68m).

Liquidity

On-balance sheet liquid assets reduced to £582m (2022: £596m), as we grew mortgages faster than deposits in the initial part of the year, as planned, using some of the 4 year TFSME taken late in 2022.

Throughout the year, we maintained a prudent buffer given the uncertain economic backdrop, and liquidity benefitted in the final quarter, as members deposited new funds into our fixed term products.

The Society's principal measure of liquidity is high quality liquid assets (HQLA) as a percentage of shares, deposits and loans, as this reflects the funds that are immediately and fully available to support the Group's liquidity needs. The level of HQLA remained elevated at 18.3% (2022: 20.1%). The Liquidity Coverage Ratio (LCR), which is the primary regulatory measure, continued to be very strong at 239% (2022: 268%), considerably above the minimum regulatory requirement.

Liquid assets are principally held in deposits at the Bank of England. We have continued to diversify a portion of our liquid assets away from the Bank of England reserve account into covered bonds. These deposits, which will largely replace funds that we historically held in unsecured deposits with other UK based financial institutions, are secured by the cashflows of the underlying mortgage assets as well as the guarantee of the issuers, but offer a small increase in the available yield. We have also held a small number of multilateral development bank bonds. Accordingly at 31 March 2023, included in liquid assets are £86m (2021: £55m) of assets held at fair value through other comprehensive income (FVOCI).

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[1] Gross exposure excluding hedge accounting adjustments.

BALANCE SHEET

Retail funding

The Society continues to be well funded by its retail depositors, the great majority of whom are located in its branch operating area. We saw an above budgeted inflow of funds of £138m (2022: £93m), which, after the capitalisation of accrued interest, resulted in our total retail funding rising to £2,611m (2022: £2,442m), growth of 7%. As a result, our deposit to loans ratio remained well over 100%.

Our growth in instant access accounts continued throughout the year, current accounts were slightly lower as customers both used funds to respond to the cost of living challenges and more laterly transferred excess balances to benefit from the rise in savings rates particularly fixed term rates.

Our retention of fixed rate term deposits that passed through a maturity date was well over 90%, validating our long term commitment to support savers. Growth in fixed term deposits was significant in the second half of the year reflecting both market positioning which generated new inflows and the overarching rate environment which encouraged existing members to lock in returns by fixing more of their savings. Our long term commitment to savers remains at the forefront of our mind and we passed on an element of all the UK Base rate rises in the year[2] while balancing volumes which were in excess of lending in the second half.

Wholesale funding

We use wholesale funding to make our funding mix more diverse. This reduces risk, and our use of the Bank of England's sterling monetary framework facilities provides additional tenor and flexibility.

As a result of the strong retail inflows this year, our need for new wholesale funding was limited. Reflecting this we tested our ILTR process with a single drawing of £20m and we commenced repayment of an element of the existing TFSME funding in March. At 31 March we had £200m in TFSME and £20m in ILTR. We maintained a modest presence in the inter bank funding market.

Capital

The Society holds capital to provide protection for members deposits against losses from lending, and to protect the Society's continued operation through difficult periods. Our capital comes from retained profits, and our healthy financial results have increased our gross capital ratio (gross capital expressed as a percentage of total shares and deposits), to 7.94% (2022: 7.67%). This gives us a strong base to support the business, as we accelerate investment levels, to deliver the New Cumberland programme. Our current level of surplus will, subject to the outcomes of the Basel 3.1 PRA consultation process (which as currently proposed would create substantive capital headwinds to our hospitality mortgages), allow us to grow our level of lending, even as profits are very largely invested in 2024 and beyond.

The Society's regulatory capital position at 31 March 2023 is summarised below. Our CET 1 ratio declined slightly to 18.29% (2022: 19.6%). If 2023's earned profit is included, this ratio improves to 20.24%.

	March 2023	March 2022
Capital resources:	**£m**	£m
Common Equity Tier 1 (CET 1) capital	**223.6**	202.6
Total capital	**223.6**	202.6
Risk weighted assets	**1,104.7**	994.7
Capital and leverage ratios:		%
Common Equity Tier 1 (CET 1) ratio	**18.29***	19.6*
UK leverage ratio	**8.43**	8.41

The Prudential Regulation Authority (PRA) provides the Society with a Total Capital Requirement (TCR). This sets the minimum capital which the Society must hold under Pillar 1 and Pillar 2A requirements and is driven by both balance sheet growth and risk factors determined by the PRA. The Society comfortably meets this requirement using CET 1 capital alone. The Group's TCR at 31 March 2023 was £103.4m.

Further information on the Group's capital management can be found in the Pillar 3 disclosures published on the Society's website concurrently with these annual financial statements.

Richard Ellison
Chief Financial Officer
6 June 2023

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[2] The 23 March 2023 base rate rise resulted in our deposit rates rising in April 2023 reflecting the time needed to approve and safely implement this decision.

* At 31 March the profit earned in the year is excluded for the regulatory capital calculation. It is added after the Annual Report is released so will be included from June onwards.

VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code, the directors have formally assessed the longer term prospects and viability of the Group, taking into account its current financial position and considering the potential impact of the principal and emerging risks set out on pages 36 to 39.

Longer term prospects

The Group's business model and strategic priorities are set out on pages 16 to 19. These are regularly reviewed by the Board. In the year ended 31 March 2019, the Group completed a 12 month piece of work, which resulted in our refreshed strategy Cumberland 2025. Since this work set our direction, the Board has at least annually considered our overarching strategy. Having considered our strategic direction at the end of last year in two detailed assessments supported by a third party the Board committed to a significant technological investment and change utilising a transformation structure that operates in parallel to our day to day technology teams. This alongside a no regrets year one investment, which has now been made, was to ensure a single minded focus on transformation. During this year the Board oversaw completion of an updated corporate plan reflecting the choices made and the detailed work required to issue a formal proposal (RFP) to suppliers and system integrators. This work has progressed and the formal responses thereto were received concurrent with our year end. This input which represents a major milestone in the programme will now allow the Society to more fully assess the costs and benefits of transformation, and refine its approach where necessary, in order to continue to progress our transformation journey. Concurrently, multiple programs of work to update infrastructure and enhance our operational resilience continue successfully.

One key lesson emerging from other transformations undertaken in regulated financial services is that sufficient time must be given to each stage of a major programme and planning must not be based on a set delivery date. As such the Board has acknowledged that the overall timescale of our refreshed strategy has elongated during the year just completed, and that the cost of delivery has increased too, reflecting both necessary adjustments to scope now that the detailed planning has progressed and also the material impact of inflation.

In this context, the Board reflected on another year of successful change delivery and a strong financial performance, while recognising that the path of the economy necessarily saw reprioritisations in some areas of our ongoing business and created volatility we had to manage through.

The Board considers a three year time horizon in detail, which aligns with its usual forecasting and management reporting, but also has due regard to the longer timescales over which its strategy will ultimately be executed.

The Board's reviews considered the strengths of the Group's business model and financial position, and the changes, which the planned investment over the next three years will bring about. Actions identified as part of these reviews are incorporated into the Group's strategic thinking and progressed, so that the Group's business model remains relevant and, crucially, that the amount of change is maintained at a level that is absorbable by the business.

The Board considered and approved The Cumberland's three year budget at the end of March 2023. In April it considered its ongoing transformation plans and levels of investment capacity over the next three years and has incorporated that analysis in its assessment of viability.

Assessment period for viability

The directors have considered the viability of the Group and Society over a three year period to 31 March 2026. The three year review period is considered to be the most appropriate timeframe for viability for the following reasons:

- increasing uncertainty, regarding the economic, competitive and regulatory environments beyond the three year period, reduces the reliability of a longer assessment of viability;

- a significant proportion of the Group's assets and liabilities are expected to mature within three years, despite a growing book of 5 year fixed rate mortgages;

- key drivers of financial performance, such as net interest income and impairment losses, are heavily influenced by the level of market interest rates, house prices and unemployment, which are increasingly difficult to predict beyond a three year horizon. Even predicting these over a one year time horizon remains fraught as has been seen in the current year where rates rose well above those predicted in the planning we performed which was based on the Bank of England's forecasts at that time. Drivers of this rate volatility include the war in Ukraine, global supply chain issues, significant UK specific political turmoil, industrial unrest and inflation all of which have changed the path of the economy as a whole from that expected; and

- the three year period aligns with the period over which the Group conducts its annual budgetary forecasts.

Viability assessment activities

The corporate planning process assesses the forecast financial performance of the Group under a range of scenarios against its strategic risk appetite. The following risk factors, among others, were specifically considered in the modelled scenarios, which are aligned with scenarios used in the Group's ICAAP and ILAAP:

- a stagflation scenario with rising inflation and a recession causing an increase in market interest rates driving unemployment and sharp HPI falls; and

- a liquidity stress as a result of an idiosyncratic event coupled with a market wide stress in the banking sector triggered by unemployment and cost of living pressures driving withdrawals of saving and current account balances.

The Group's baseline financial forecasts for the next three year period assume a completion of the interest rate tightening cycle during the spring or summer of 2023 a persistence of the rates reached until spring 2024 and, thereafter, a modest series of reductions, as inflation begins to weaken towards the Bank of England's target. It is possible that rate rises may continue reflecting the persistence of inflation in the UK.

As a building society owned by its members, the directors believe that short term profitability is not the only, or indeed the primary, driver of its viability. Nevertheless, the directors currently expect the Group to remain modestly profitable over the three years of their viability assessment, as the shape of our strategic investment is balanced in light of the need to transform at pace and our financial capacity.

The financial statements presented alongside this viability discussion incorporate the directors' current best estimate of incurred losses in its lending portfolios at 31 March 2023. While we are cautious about the future, and have provided on this basis through our modelled assumptions and judgmental overlays, the level of loss crystalised has remained very low. This tension between observed experience and the risk of loss, arising from the current cost of living crisis and pending recession, is reflected in provision coverage (which has remained broadly stable).

While there remains a risk that the level of loan losses ultimately suffered is higher than forecast, as a result of sharply higher inflation in the UK and the impact on households and businesses alongside the squeeze on living standards; our persistently low levels of loan losses over the last ten years, show the strength of our underwriting and quality of our book in relative terms. Our financial budgets have incorporated an appropriate level of loan losses vis à vis our actual historic performance in each of the years forecast, and this risk is also incorporated in our stress testing.

During 2022, the Group conducted an analysis of the susceptibility of its lending books to the risk of Climate change and the transition to a non / lower carbon economy. This analysis, which is currently being refreshed was conducted at an individual mortgaged property level. It is further discussed on page 34, but climate change continues to have a very limited direct impact on the three year viability assessment period.

The directors have also reviewed the Society's viability from a capital and liquidity perspective through the ICAAP and the ILAAP. These processes assess the Society's ability to withstand severe capital and liquidity stresses, in line with regulatory requirements, including new and emerging regulation where sufficient information is known about future requirements. The Board also received reports on and discussed the recent market events in the USA and Switzerland, and considered whether there were any changes that The Cumberland should make, concluding that there were no similarities requiring specific action.

The ICAAP and ILAAP assessments take into account potential management actions and consider the impact and credibility of those actions in mitigating the potential impacts of the stresses applied. An example of a capital stress would be a significant growth in the level of loan losses or a rise in the pension deficit, both of which could occur as a result of a recession induced by the cost of living crisis and the macro-economic tools used to respond to high inflation.

The ICAAP was last updated in August 2022 and concluded that the Society maintains sufficient capital resources to meet regulatory requirements under the central planning scenario and also, with management actions, under the modelled economic stress scenarios. The Society's surplus of capital over regulatory requirements is significant and has grown year on year. In the central scenario, our capital surplus is expected to decrease over the three year period assessed, reflecting loan growth and the concurrent diversion of income into strategic investment, both of which are in the control of the Society's management. One additional factor that will impact capital in the later part of our forecasting period is a change in the UKs capital adequacy framework. In the Society's case this will either be Basel 3.1 or the UKs new Strong and Simple regime. The former is under consultation the later is as yet unpublished but the PRA has indicated that it will be based on the finalised Basel 3.1 proposals. The proposals, as currently consulted on, would materially increase the level of the Society's RWAs and reduce the currently significant headroom available. This may require modest use of capital buffers if the proposed treatment is maintained without modification, or a change in the planned approach to our transformation or its timescale. Alternatively it will require a change in our strategy in relation to Holiday Let mortgage lending. The Society has responded alongside the BSA to the consultation and the outcome of this matter is unknown at the date of the report.

The Society considered the economic conditions which existed at 31 March 2023 and concluded that the stress testing remained appropriate. The stress tests applied were in line with, or more severe than, Bank of England scenarios. As the Bank of England did not issue an updated scenario until after this year's ICAAP, we ensured that, when it was issued, our internal scenario was appropriately calibrated. We also ensured that the current year's scenario outcome, which incorporated rate rises (which are prima facie beneficial to income), was at least as severe as the previous year's rates down scenario.

Our ICAAP stress testing also incorporates a series of reverse stress tests, which explore the extent to which changes in specific underlying factors would render the Society's business model non-viable. These are designed to assist management's understanding of the constraints inherent in the business model.

Our ICAAP analysis incorporated the increase in the level of countercyclical capital buffer in December 2022, and the further increase in July 2023. The current year's significant post tax profits are also available as capital, shortly after the date of approval of these accounts.

The ILAAP, which addresses the Group's funding and liquidity, was last updated in November 2022, and concluded that the Group is able to meet both internal risk capacity requirements and regulatory requirements under modelled stress scenarios. The ILAAP noted the potential for differing retail customer behaviour in light of the cost of living crisis and potential UK recession, and our plans to continue repayment of TFSME in the years of the assessment, as well as the differing growth trajectory of the loan and savings book over the next two years, and, in response, maintained the tightening of its primary operational metric first introduced in 2022, so that it holds more HQLA as a percentage of Shares Deposits and Loans. Since this date, the Group has seen significant deposit inflows in response to its fixed term deposit offers, widening its surplus liquidity, and updated its funding plans and stress testing to reflect the continued inflow of customer funding.

The Cumberland is an active member of the Sterling Monetary Framework (SMF) but, due to the current level of retail inflows, it has not utilised ILTR in the current period other than for a single test transaction.

At 31 March 2023, £200m of TFSME remained outstanding. The TFSME drawdowns, which were concentrated at the back end of the drawdown window last year, markedly extend the tenor and stability of this funding source. Reflecting the success of retail funding in the second half of the current year, the Group repaid £20m reducing the outstanding balance that it will commence structured repayment of in 2023-24 forward.

Liquidity stress testing, incorporating each of the relevant principal risks on pages 36 to 39, has been performed to understand the ability of the Group to withstand extreme stress scenarios, including unprecedented adverse movements in key economic indicators, major dislocation and volatility in financial markets, significant liquidity outflows and severe operational risk events. This testing has demonstrated that the Group has the resources, measures and controls in place to manage and withstand such extreme events. Liquidity stress testing is conducted monthly.

During March 2020, the Society transitioned the vast majority of head office colleagues to home working in line with government guidelines. In late February 2022, we reopened our head office to colleagues as part of new hybrid working practices. These hybrid arrangements have been maintained for an extended period, and throughout the year, and represent a stable new way of working that has proved its effectiveness. As time has progressed, we have seen growing use of our office facilities, but this is a hybrid work environment maturing, rather than a return to pre-pandemic patterns.

This form of flexible and agile operation has become a new normal. The Group has planned, and is confident, that it can offer the critical services required by its members, even if 50% of staff are unable to work. This leaves the directors satisfied that the business can continue to operate safely and soundly, even if it were to see a repeat of the type of circumstances it found itself in during the pandemic.

Suppliers and viability

In our interconnected modern world, the Group relies on third party suppliers for the provision of both goods and services. These range from the mundane, but necessary, matters of office and cleaning supplies, to more banking specific matters like new debit cards.

The Group periodically reassesses both its own critical services, and its supplier base, and has refreshed its procurement framework this year. In March 2022, the Board approved its important business services and its plans to ensure that these remain within stated impact tolerances by 2025. This assessment was updated and approved in February 2023, progress continues to be made, enhancing our resilience and our understanding of the matters that could breach our tolerance. Nevertheless, the Board expects to make full use of the time provided by the regulations, and a number of resilience improvements are linked to and dependent upon our New Cumberland transformation.

During the year ended 31 March 2023, the Group has continued the process of moving some of its non customer facing technology provision to the Cloud and, as part of the Cumberland 2025 journey and increasing our operational resilience, we expect this trend to accelerate over time, including the use of material outsourcing, as defined under regulation, after appropriate approvals have been granted.

Accordingly, the Group is satisfied that there is nothing in its current regulatory or legal position that would have an impact on its viability.

The Group's overarching risk management process, as detailed on pages 36 to 39, includes ongoing monitoring and reporting of emerging risks and scenario analysis, enabling further enhancements to the control environment to adapt to these risks.

Conclusion

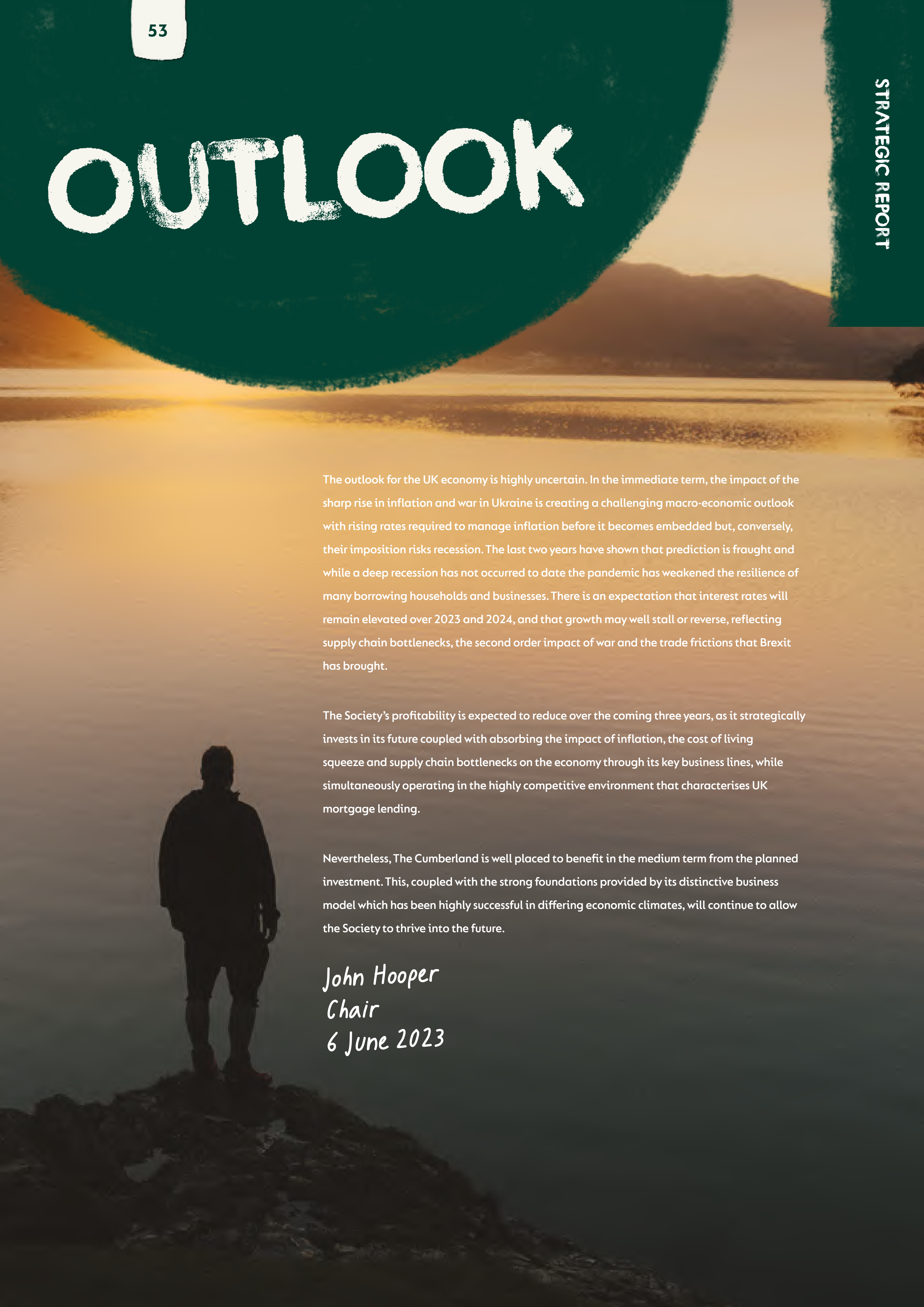
Based on the above assessments, and having considered each of the principal risks and uncertainties discussed on pages 36 to 39, the directors have concluded that:

- the Group's business model and overarching strategy remain appropriate, and actions have been identified which are intended to enable it to remain relevant as the markets in which it operates evolve;
- the Group maintains an appropriate level of liquidity, sufficient to meet both the normal demands of the business and requirements, which might reasonably arise in modelled stressed circumstances. The availability and quality of liquid assets are structured so that funds can reasonably be expected to be available to repay maturing wholesale funds and to cover exceptional demand from retail investors;
- the Society has sufficient current capital resources, in excess of regulatory requirements, and credible plans to meet known future requirements, under both central and modelled stressed scenarios, while noting the unknowable outcome of the current Basel 3.1 consultation, and awaited consultation on the Strong and Simple Capital regime which is more likely to apply to the Society; and
- whilst it is accepted that it is not possible to completely eliminate all risk, the Society has taken reasonable steps to put in place suitable operational capabilities to manage and mitigate the impacts of risk events to within reasonable tolerances, showing over the last three years that it can safely operate under highly unusual and stressed circumstances.

Therefore, the directors have a reasonable expectation that the Group and Society will be able to continue in operation and meet their liabilities as they fall due over the three year period.

The Group's going concern statement is included on page 97.

OUTLOOK



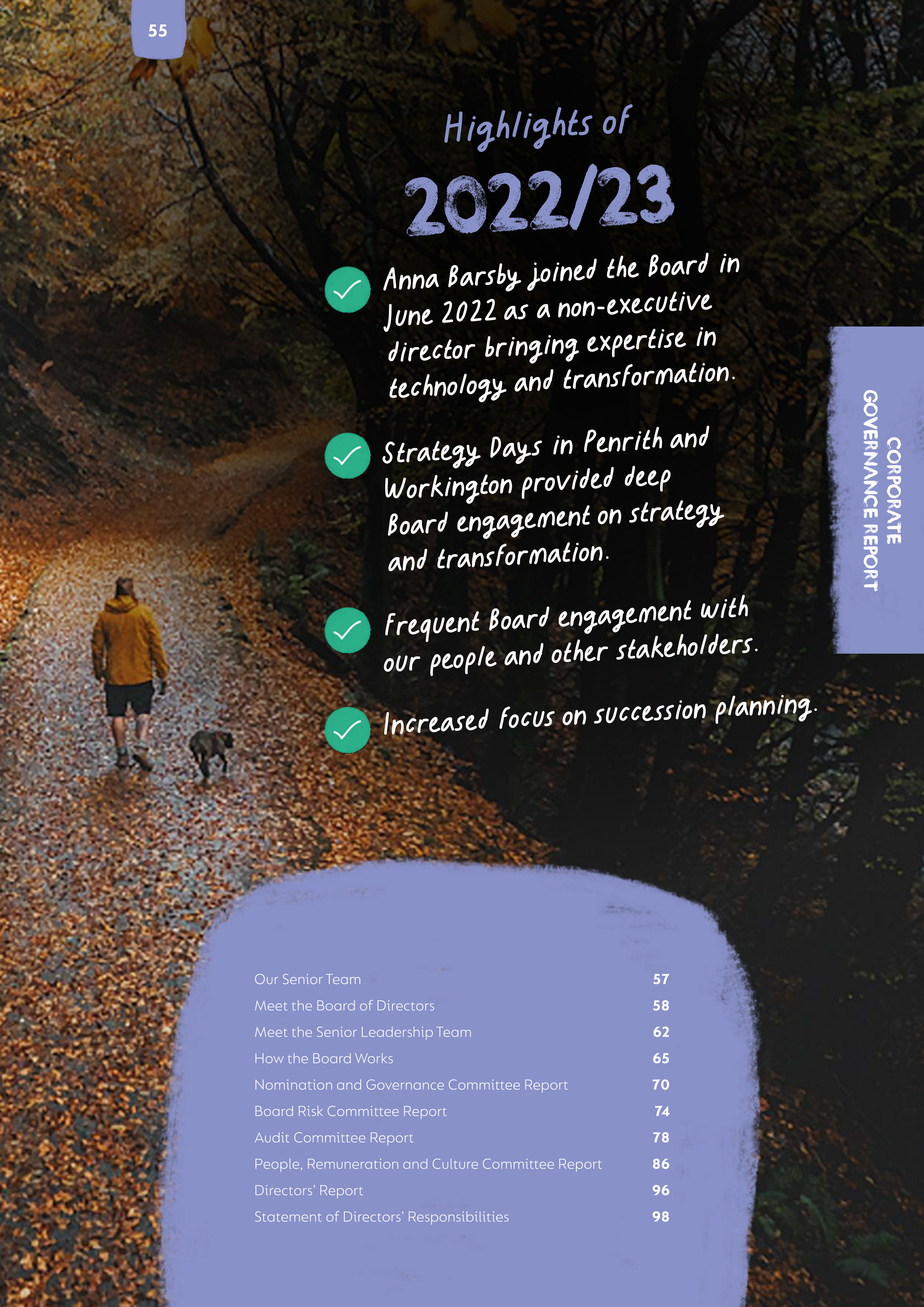
The outlook for the UK economy is highly uncertain. In the immediate term, the impact of the sharp rise in inflation and war in Ukraine is creating a challenging macro-economic outlook with rising rates required to manage inflation before it becomes embedded but, conversely, their imposition risks recession. The last two years have shown that prediction is fraught and while a deep recession has not occurred to date the pandemic has weakened the resilience of many borrowing households and businesses. There is an expectation that interest rates will remain elevated over 2023 and 2024, and that growth may well stall or reverse, reflecting supply chain bottlenecks, the second order impact of war and the trade frictions that Brexit has brought.

The Society's profitability is expected to reduce over the coming three years, as it strategically invests in its future coupled with absorbing the impact of inflation, the cost of living squeeze and supply chain bottlenecks on the economy through its key business lines, while simultaneously operating in the highly competitive environment that characterises UK mortgage lending.

Nevertheless, The Cumberland is well placed to benefit in the medium term from the planned investment. This, coupled with the strong foundations provided by its distinctive business model which has been highly successful in differing economic climates, will continue to allow the Society to thrive into the future.

John Hooper
Chair
6 June 2023

Corporate GOVERNANCE Report



Highlights of 2022/23

- ✓ Anna Barsby joined the Board in June 2022 as a non-executive director bringing expertise in technology and transformation.
- ✓ Strategy Days in Penrith and Workington provided deep Board engagement on strategy and transformation.
- ✓ Frequent Board engagement with our people and other stakeholders.
- ✓ Increased focus on succession planning.

The Society's Board of Directors and Senior Leadership Team is responsible for the governance of the Society

Our SENIOR TEAM

Chair's welcome

Dear Member,

Welcome to the Corporate Governance Report for 2022/23 at the end of my fourth year as your Chair. My Board and I remain committed to the highest standards of corporate governance. Although the Society, as a mutual organisation, is not required to comply with the principles in the UK Corporate Governance Code 2018 (the 'Code'), we nevertheless have regard to the Code, along with other legislation and guidance, when establishing and reviewing corporate governance arrangements. This report explains how the Society does that and the table on pages 148-150 sets out the principles of the Code and where in this report you can find how the Society addresses them.

In June, Anna Barsby joined the Board as a non-executive director. Anna, formerly Chief Information Officer, at Morrisons, brings with her a wealth of experience in technology and transformation, skills which are essential during our forthcoming transformation programme. Anna has already provided an invaluable contribution.
Two further highlights of the Board's year were the strategy days held in September and April, when the Board reviewed the Society's strategy and provided scrutiny for the Society's transformation programme. This followed on from the February 2022 strategy day when the Board approved a first year "no regrets" investment in our transformation programme allowing us to complete and consider the outcome of a full RFP while continuing the ongoing investment in our underlying infrastructure and resilience.

The Board also continued its work to improve those areas highlighted for improvement in the Board Effectiveness Review. The main focus for the year was on providing opportunities for the Board to engage more widely with the Society's people and other stakeholders to allow the Board to take into account wider perspectives in its decision making, contributing to the long term success of the Society.

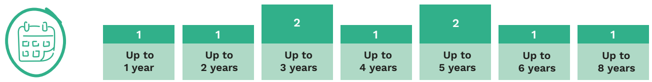
The Board spent some time visiting the Customer Care team, to spend time with team members and understand this vital element of the Society's service offering first hand. Members of the Board also attended various Society events, including a tour of our new hybrid working environment at Cumberland House, the launch of the Society's new "Kinder Banking" purpose, the Technology team's recognition awards and a workshop with Anti-Racist Cumbria. Board strategy meetings were held in Penrith and Workington (April 2023), providing an opportunity to engage with teams working on those areas and visit the Society's wider operating area. Finally, many colleagues also joined the Board for lunch during Board meetings. As ever, it has been a challenging and rewarding year for the Board serving you, our members.

John Hooper
Chair
6 June 2023

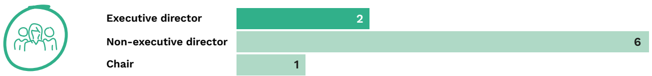
Gender split

Longevity of Board members (years with the Society since 2015)*

*as at 31 March 2023



Executive and non-executive director split



Committee membership

	NGC	BRC	Audit	PARC
John Hooper	Chair			
Kelli Fairbrother				Member
Vicky Bruce		Member	Member	
Eric Gunn	Member	Chair		
Jackie Arnold	Member		Member	Chair
Mark Stanger		Member	Chair	Member
Anna Barsby				Member
Des Moore				
Richard Ellison				

Meet the Board of DIRECTORS

The Board is comprised of 6 non-executive, the Chair, and 2 executive directors. The non-executive directors are considered to be independent under the UK Corporate Governance Code; the Chair was considered independent on appointment.

The Chair is responsible for leading the Board and ensuring it acts effectively. The Chair must be a different individual to the CEO and there must be a clear division of responsibilities between the two roles. Eric Gunn is the Senior Independent Director and acts as a sounding board for the Chair and serves as an intermediary for the other directors and the members.

The November 2020 Board Effectiveness Review found the Board operates a positive, friendly, constructive culture that encourages transparency and facilitates straight talking; the way non-executive directors and executive directors operate within the Board environment is in line with best practices for a unitary board; and the relationship between the Board and the executive team is effective, transparent and productive.

This has continued to be the case during 2022/23. We will facilitate an updated external board effectiveness review in 2023/24.

Nomination and Governance Committee

Board Risk Committee

Audit Committee

People, Remuneration and Culture Committee

JOHN HOOPER

Board Chair and Nomination and Governance Chair

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

Skills and experience

John has been involved in banking and financial services for over 35 years, and still holds active positions as non-executive director on the boards of several financial services companies. During his career, John was an executive director at both Clydesdale Bank PLC and National Australia Bank Europe Limited. Whilst at National Australia Bank, he held a number of senior positions and was a member of its Executive Committee.

Current material external positions

Non-Executive Director (Chair of Board Risk Committee), Together Money Personal Finance Limited

Non-Executive Director (Chair), Digital Completion UK Limited trading as PEXA UK

Non-Executive Director (Chair), Stubbers Adventure Centre Limited

Non-Executive Director (Chair), Stubbers Trading Limited

Previous positions include

Director, National Australia Group Europe Limited

Director, Clydesdale Bank PLC

Non-Executive Director, The Leasing Industry Philanthropic and Research Foundation Limited

Non-Executive Director since June 2022, PARC Member since July 2022 (independent)

Skills and experience

Anna is one of the UK's top transformation and technology leaders, used to delivering large scale change across different industries. Currently Founder and Managing Partner at Tessiant and Interim Group CPTO at 888/William Hill. Previously the CDIO/CTO at Halfords, Morrisons and Asda, she has significantly improved the technology capabilities in many organisations.

Current material external positions

Founder and Managing Partner, Tessiant

Group Chief Product and Technology Officer (Interim), 888holdings

Director, ACR Cars Ltd

Previous positions include

Chief Information Officer, Halfords

Chief Digital and Technology Officer, Asda

Chief Technology Director, Morrisons

ANNA BARSBY

Non-Executive Director

KELLI FAIRBROTHER

Non-Executive Director

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

Skills and experience

Kelli's background is in consumer and technology businesses. She is currently CEO of technology start-up xigxag after co-founding the company, and was previously Chief Operating Officer of Gelato. Formerly a US Army Captain and an MBA graduate of Harvard Business School, Kelli previously led the entry to market of Premier Inn in Germany whilst working at Whitbread Hotels and Restaurants.

Current material external positions

Co-Founder and CEO, Xigxag Limited

Previous positions include

Chief Operating Officer, Gelato

Business Development and Commercial Director, Whitbread Hotels and Restaurants

Group Head of Strategy, Whitbread Plc

VICKY BRUCE

Non-Executive Director

Non-Executive Director and BRC Member since September 2020, Audit Member since July 2022 (independent)

Skills and experience

Vicky has worked in international financial services for over 25 years, latterly as a Managing Director of Deutsche Bank Wealth Management. Her experience spans change, risk and regulation and she has UK board experience in the not-for-profit as well as the financial services sector.

Current material external positions

Non-Executive Trustee, Hope and Homes for Children

Non-Executive Trustee, Agitos Foundation

Consultant, International Paralympic Committee

Previous positions include

Global COO for Institutional Wealth Partners, Deutsche Bank Wealth Management

Global Head of Regulatory Change, Deutsche Bank Wealth Management

Executive Director, DB UK Bank Ltd

Head of Change Management, Coutts

ERIC GUNN

Board Risk Chair and Senior Independent Director

Non-Executive Director since November 2016, BRC Chair since August 2019, SID since April 2022 (independent)

Skills and experience

Eric spent his entire career at Clydesdale Bank PLC, most recently as Chief Risk Officer and a member of its Executive Management Team. Eric was responsible for managing the UK risk profile of National Australia Bank Group as part of a career of almost 40 years in the UK banking sector.

Current material external positions

None

Previous positions include

Chief Risk Officer, Clydesdale Bank PLC

JACKIE ARNOLD MBE

People, Remuneration and Culture Chair

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

Skills and experience

Jackie has over 35 years' experience in business and financial management roles, and was most recently Pro-vice Chancellor at University of Cumbria. Prior to this, she was Head of Strategy at BAE Systems where she also held a number of other senior positions. Jackie was also Managing Director of Lakeland Power Limited.

Current material external positions

Professor of Practice, University of Cumbria
Honorary Fellow, University of Cumbria
Leader in Residence, Lancaster University

Previous positions include

Head of Strategy, BAE Systems
Chief Accountant, BAE Systems
Managing Director, Lakeland Power Limited
Vice Chair, Cumbria Local Enterprise Partnership
Member, North West Business Leadership Team
Pro-vice Chancellor, University of Cumbria

MARK STANGER

Audit Chair

Non-Executive Director since June 2018, Audit Committee Chair since July 2020, BRC member since January 2019 and PARC member since July 2022 (independent)

Skills and experience

Mark has over 35 years' experience in the accountancy sector, and is a Senior Partner and Managing Partner with a West Cumbria-based chartered accountancy practice.

Current material external positions

Senior Partner and Managing Partner, Gibbons

Director, Gibbons Wealth Management Limited

Director, Gibbons Properties Limited

Director, Carleton Properties (Cumbria) Limited

Previous positions include

Chair, Board of Governors, Lakes College, Lillyhall

DES MOORE

Chief Executive Officer

Chief Executive Officer and Executive Director since April 2018

Skills and experience

Des is an accomplished senior leader in Financial Services in both the UK and Ireland, with deep experience in both retail and commercial banking. Prior to joining the Society, Des spent five years as Managing Director of AIB (NI). He was responsible for leading the restructure and turnaround of the bank. Des is a Chartered Director with the Institute of Directors, and has been leading the transformation of the Society.

Current material external positions

Non-Executive Director, North Cumbria Integrated Care NHS Foundation Trust

Previous positions include

Managing Director, AIB (NI)

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

RICHARD ELLISON

Chief Financial Officer

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

Skills and experience

Richard has significant experience in the UK financial services sector. As Deputy Chief Financial Officer and Chief Data Officer at CYBG PLC, he helped lead the successful demerger and IPO of Clydesdale Bank PLC from National Australia Bank, and led the restructure and cultural transformation of the finance function.

Since joining the Society, Richard has led changes to the treasury function to allow greater sophistication in risk management, as well as improving operational design of the Finance function to position them to support the delivery of the Cumberland 2025 strategy. He also oversees the Governance, Legal and Secretariat functions.

Current material external positions

Non-Executive Director, Audit Committee Chair, and Vice Chair Kingdom Bank Limited

Previous positions include

Interim Finance Director, Newcastle Building Society Group

Deputy Chief Financial Officer and Chief Data Officer, CYBG PLC

Director Banking and Capital Markets, PwC

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

Richard Ellison, who we also introduced as a member of our Board, is our CFO and a member of the Senior Leadership Team. The remaining members of the Senior Leadership Team are introduced on the following pages.

Meet the Senior LEADERSHIP Team

JOHN HUNT

Chief Risk Officer (CRO)

Chief Risk Officer since December 2020

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

Skills and experience

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

Current material external positions

None

Previous positions include

CRO, Oodle Car Finance

CRO, Together Personal Finance

Director of Compliance Advisory, Nationwide Building Society

SUSANNE PARRY

Chief Operating Officer (COO)

Chief Operating Officer since March 2019

The COO has responsibility for direction and control of all organisation operations in accordance with strategy and business planning as agreed by the CEO and the Board. Susanne leads the Operations and Customer Service functions and supports the Society by leading enterprise Operational Resilience and Information Security.

Skills and experience

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

Current material external positions

Trustee, Tullie House Museum and Art Gallery Trust

Vice Chair, University of Cumbria Students' Union Board

Previous positions include

Senior leadership positions at Cumberland Building Society, including:

Head of Change & Technology

Head of Operations

Head of HR

IAN STACEY

Chief Information and Transformation Officer (CITO)

Chief Information and Transformation Officer since May 2023 (CIO from January 2022 – May 23)

The CITO is responsible for leading on technology strategy and operations, and for delivering the Society's transformation programme.

Skills and experience

Ian is an experienced transformation and technology leader with over 35 years' experience in financial services. Previously Head of International Operations at Barclays and with global transformation experience with major international consultancy firms and international banks, Ian recently held Chief Operating Officer positions at two start-up challenger banks in London.

Current material external positions

None

Previous positions include

Chief Information Officer, Cumberland Building Society
COO, Vive
COO, LQID
CIO, First Abu Dhabi Bank
Director, Barclays Wealth
Head of International Operations, Barclays

CLAIRE DEEKES

Chief Customer Officer (CCO)

Chief Customer Officer since August 2022

The CCO is responsible for ensuring the business provides a differentiated and exceptional customer experience to deliver the business' income objectives. Claire is accountable for overall customer acquisition and retention. This includes responsibility for the branch network, the direct and introduced lending functions, Product Development, Marketing, First Line Risk, Cumberland Commercial and Borderway Finance.

Skills and experience

Claire is a Chartered Banker with many years' experience in the retail banking sector. Prior to moving into the role of CCO, she had held the role of Head of Retail Distribution since 2019. Claire moved to The Cumberland from Virgin Money where she was Head of Stores and Lounges, and prior to this enjoyed success in several senior manager roles at the Halifax.

Current material external positions

Non-executive Director, Cumbria Local Enterprise Partnership

Previous positions include

Head of Stores and Lounges, Virgin Money

Head of Stores Network – South, Virgin Money

Area Manager, Halifax

JILL JOHNSTON

Chief People Officer (CPO)

Chief People Officer since March 2019

The CPO is responsible for leading on people strategy. Jill oversees the development of people and culture across the business, providing support across the People function including recruitment, performance, retention, talent development, engagement and internal communications. In addition to this, Jill provides organisational development functions, including leadership development, reward, wellbeing, safety and diversity and inclusion.

Skills and experience

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

Current material external positions

Non-Executive Director and Chair of Remuneration Committee, University of Cumbria

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

Previous positions include

Head of HR, Border Television plc/Border Radio

Group HR Director, GMG Radio (part of the Guardian Media Group)

ALEX WINDLE

Chief Transformation Officer (CTO)

Chief Transformation Officer from August 2021 to April 2023

The CTO is responsible for delivering the Society's transformation programme. Alex also has responsibility for creating and managing the corporate strategy.

Skills and experience

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

Current material external positions

None

Previous positions include

Chief Customer Officer, Cumberland Building Society

Global Product and Offer Director, British Petroleum PLC

Marketing Director UK, British Petroleum PLC

Head of Marketing UK and Ireland, LG Electronics

How the BOARD works

Leadership & purpose

The Board has established a purpose, values and strategy for the Society as set out in the Strategic Report on pages 8 to 53. The Board oversees management's delivery of the strategy within this framework, measuring the SLT against key performance metrics across a range of strategic, financial, customer, operational, risk and conduct, and people measures.

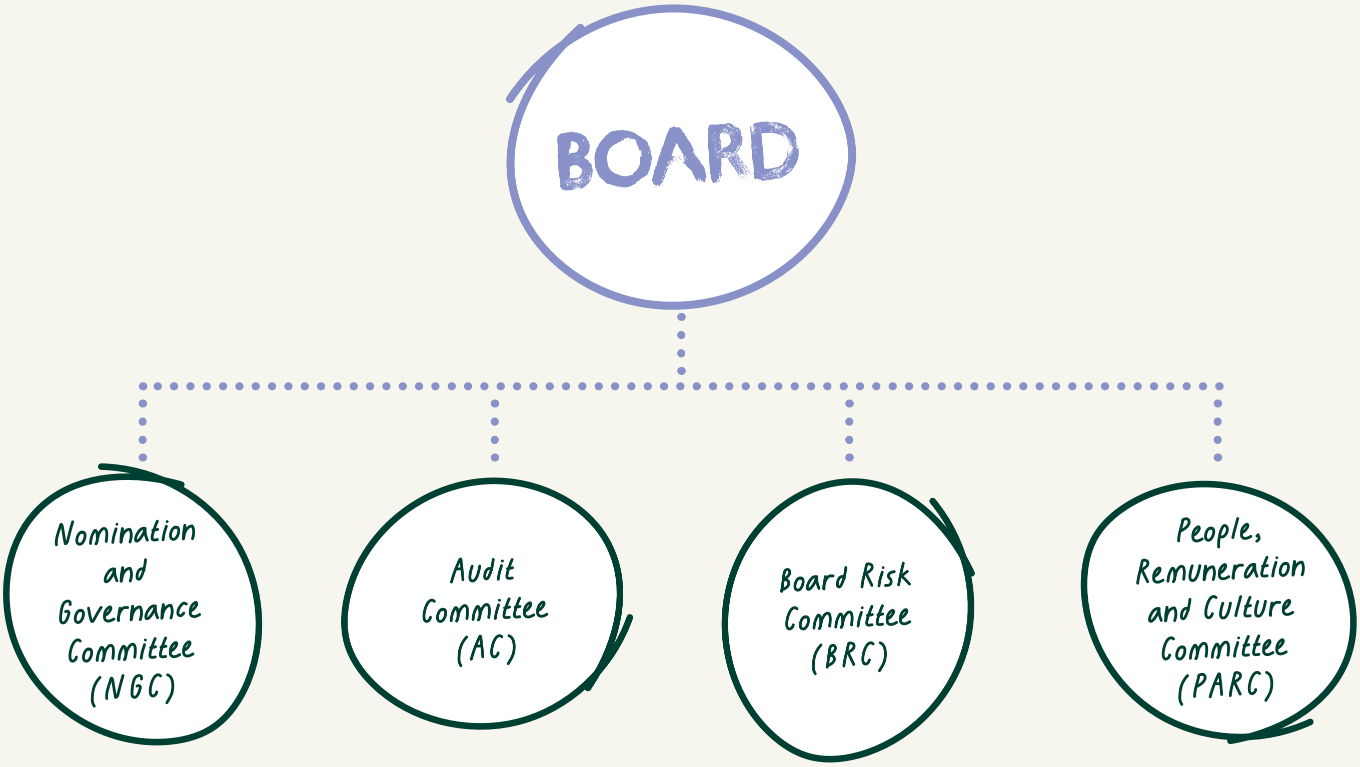
The Board meets at least ten times each year to fulfil its function. The non-executive directors meet without the executive directors present on a regular basis. Set out below are details of the directors' attendance record at Board meetings during 2022/23. Membership of and attendance at Board Committees are set out in the relevant Committee reports.

JOHN HOOPER	10/10
ERIC GUNN	10/10
MARK STANGER	10/10
JACKIE ARNOLD	10/10
KELLI FAIRBROTHER	10/10
VICKY BRUCE	10/10
DES MOORE	9/10
RICHARD ELLISON	10/10
ANNA BARSBY	9/9

The Chair ensures that directors receive accurate, timely and clear information to enable them to undertake their roles effectively. Established Board reporting formats provide the Board with information on the performance of each business area; these are proactively amended when new matters and themes emerge. Information is provided via a secretariat, headed by the Society's Secretary. The Secretary ensures that non-executive directors have access to resources, the advice and services of the Secretary and, if necessary, are able to take independent professional advice at the Society's expense.

Each year, at least one Board meeting includes an in-depth review of strategy.
The Board also meets informally, as required, to provide support and challenge to management in the development of strategy before it is formally presented to the Board and to provide input to the agenda for the reviews of strategy. The Board held two formal strategy days in September and April, when the Board input into and approved plans for the Society's transformation.

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



Further information on the membership and work of each Committee can be found in the relevant Committee report later in this section.

The Board, through the work of PARC has actively engaged with the changes being made as part of the Society's strategy and their impact on culture. This direct involvement is supported by the Society's Internal Audit function's work, which seeks to assess the Society's culture to ensure alignment with the Society's purpose, values and strategy, as part of its ongoing work, particularly in its end-to-end audit work.

STAKEHOLDER ENGAGEMENT

Under Section 172 of the Companies Act 2006, boards have a duty to promote the success of a company by considering the consequences of decisions in the long term and the interests of different stakeholders. As a mutual organisation, with members rather than shareholders, a status which the Board values, the Board believes the Society is particularly well placed to respond to the similar provisions that apply to it. The Board recognises the diverse range of the Society's stakeholders and the importance of assessing and understanding their needs. We have identified our key stakeholders below and describe how we engage with each group and give examples of how they have influenced our decision making.

Our customers

Members are invited to attend the AGM, where they can ask questions and voice their opinions. We provide members with the opportunity to attend, ask questions and vote at the AGM by video conference, as a convenient alternative to attending in person. The Board and Board Committee Chairs and the CEO are present at the AGM each year to answer questions, along with other members of the Board, as appropriate.

The Society actively seeks customer engagement feedback daily through its partnership with Feefo, achieving the much sought-after Platinum Trusted Service Award for the third year running. This award is given to businesses that have achieved Feefo's Gold standard for three consecutive years and recognises consistently exceptional customer service. The Society actively monitors social media to ensure that customer feedback is captured and addressed.

The Society also seeks customer feedback through market research, focus groups and website surveys. The output is used to shape the Society's strategy and business model, as well as in the design of the Society's product and service offering. This year, notably, market research and focus groups were used to test and revise the Society's purpose before launch to ensure it resonated with and met the expectations of customers.

"Customer Led" has been adopted as one of the Society's core values underpinning the strategy and the customer perspective is considered as part of our decisions making process, as a key factor for consideration in all board papers.

Our people

The Chair of the People, Remuneration and Culture Committee is the designated non-executive director for workforce engagement; workforce engagement is facilitated by the Chief People Officer utilising a variety of forums. Wider people engagement was a focus of the Board during the year, and the Chair's welcome on page 57 summarises just some of the activity undertaken.

We also participate in the Best Companies B Heard engagement survey, which measures levels of engagement across the Society, and we supplement this with regular feedback using Pulse surveys throughout the year.

The Senior Leadership Team hold regular events and briefings at which the Society's strategy and objectives are communicated to our people, who are encouraged to participate, ask questions and give feedback.

In the year, feedback we obtained in this way has been instrumental in shaping the way in which the Society supported its people through the challenges of the cost of living crisis.

Our communities

We are actively engaged with the communities in which we operate, providing sponsorship, education and financial support, as well as through the provision of branch-based services which were maintained throughout the pandemic. Our people also have the option to spend a day volunteering for local community organisations.

Our people are active in the business community and our CCO is a non-executive director of the Cumbria Local Enterprise Partnership.

The perspective of our community stakeholders was a key consideration for the Board in setting our refined purpose, which is to create a banking experience that's kinder to people and planet.

Our suppliers

Our Procurement function and relationship managers stay in close contact with our key suppliers via regular relationship reviews and supplier health checks.

Feedback we have obtained through discussions with suppliers has helped shape our transformation programme and its approach.

Environment

We work with a range of external bodies and suppliers to monitor, manage and reduce our environmental impacts. Feedback we obtained in this way, alongside the work we have done with Landmark, has helped the Board in shaping the planet element of our new purpose as well as our policies and risk management framework.

Regulators

We have a transparent and open relationship with our regulators have regular dialogue with them, both directly, for example through our quarterly update with the PRA, and through our industry bodies. We monitor regulatory publications both from the regulators and wider stakeholder groups and take action as required

Further details on our key stakeholders, and why they are important to us, can be found on pages 20 to 35 of the Strategic Report.

Cumberland colleagues take part in volunteering day with Cumbria Wildlife Trust.

NOMINATION and GOVERNANCE Committee Report

JOHN

CHAIR'S INTRODUCTION

Dear Member,

As Chair of the Nomination and Governance Committee (NGC), which I chair in addition to the Board, I am pleased to present the Committee's report for the financial year ended 31 March 2023. NGC assists the Board in fulfilling its responsibilities in relation to Board appointments, succession planning and corporate governance. We lead the process for appointments and ensure plans are in place for orderly succession to Board positions. This includes ensuring the right mix of capabilities at Board level to enable the successful operation of the Board.

NGC's remit includes oversight of the Society's wider governance framework to ensure it remains effective, particularly during implementation of the Society's programme to simplify and de-risk the business.

I set out below details of the work the Committee has focussed on during the year in relation to the Senior Managers and Certification Regime, Board succession planning and Board effectiveness.

WHO SITS ON THE COMMITTEE

JOHN HOOPER (CHAIR) 3/4

JACKIE ARNOLD 4/4

ERIC GUNN 4/4

HOW THE COMMITTEE WORKS

The Committee is chaired by the Chair of the Board; the Chair of PARC and the Senior Independent Director are also members. The Committee's attendance record is set out above. Details of the skills and experience of the Committee members can be found in their biographies on pages 59 to 60. The Committee is also attended by the Chief People Officer, the Chief Executive Officer, the Chief Financial Officer and the Society's Secretary. The Committee meets four times a year in January, April, July and October and, additionally, as and when required. The number of meetings held in the year was four.

The Committee focusses on the orderly succession of and appointments to the Board, Board related policies, SMCR compliance and the continuing effectiveness of the Society's governance framework with diversity and inclusion and wider succession planning being considered by PARC. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: cumberland.co.uk

The Board conducts an annual assessment exercise to review the effectiveness of the Board and the Board Committees and highlight any areas which should be improved. During 2022/23, the Society carried out an internal board effectiveness review. As part of the review, all directors and the Senior Leadership Team completed questionnaires to gather their view on the way the Board operates and the Board's work. The findings were reported back to the Board via the Secretariat and an action plan was agreed to address any significant matters identified, which will be monitored by the Committee. No matters relevant to Board composition were raised. The Society will facilitate an external board effectiveness review during 2023/24.

The Society also has a process to evaluate, at least annually, the performance and effectiveness of individual directors. The performance of all directors, both executive and non-executive, is evaluated annually by the Chair. The Chair is evaluated by the Senior Independent Director, after consulting and obtaining the views of the other directors.

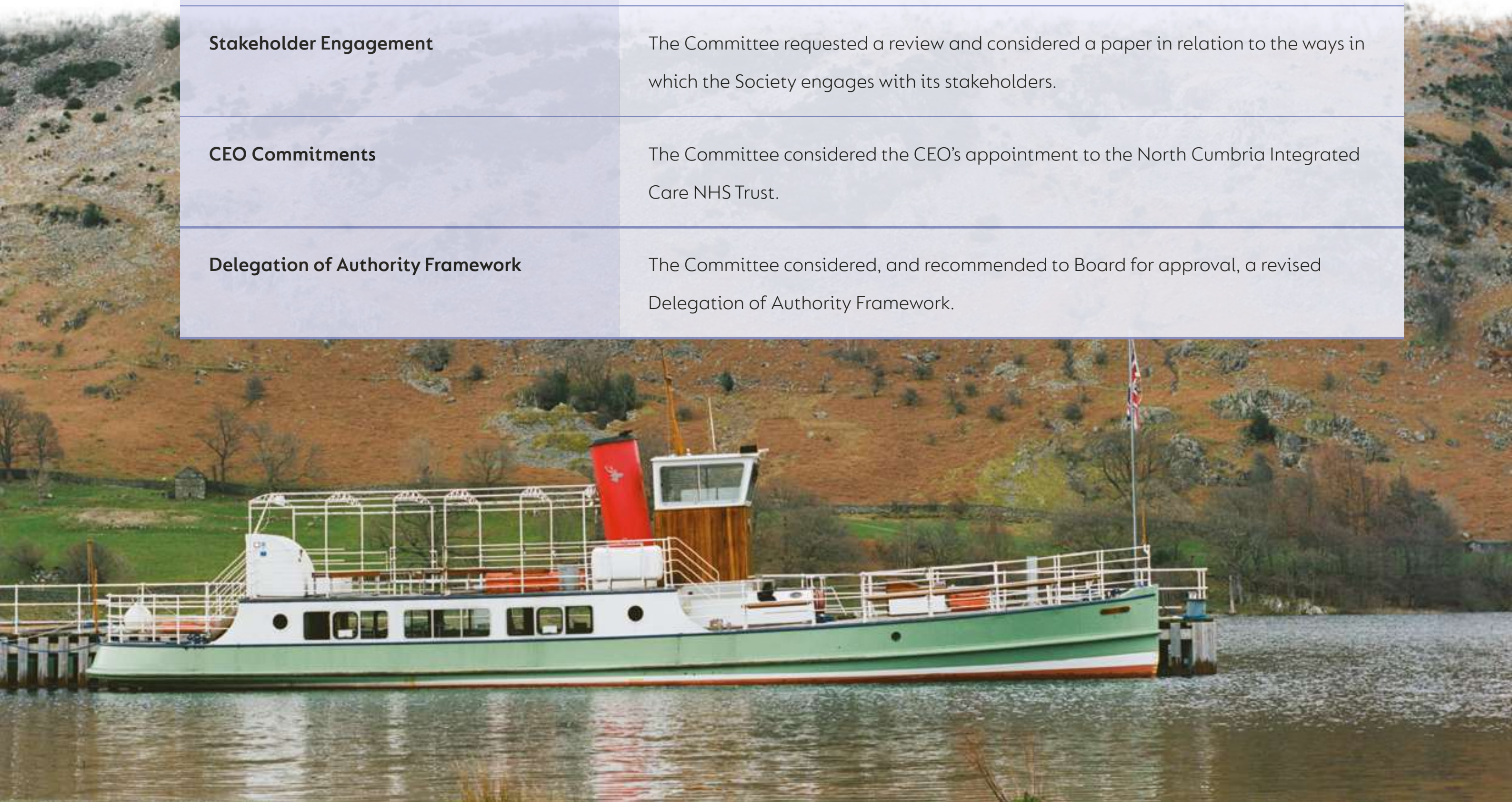
Those non-executive directors, who have served at least six years on the Board, are subject to a particularly rigorous performance evaluation in line with the Code's requirements. All directors were appraised during the year and the Board is of the view that all directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the AGM 2023.

In relation to diversity and inclusion, the Committee works closely with PARC, which oversees diversity and inclusion throughout the organisation (see Report of PARC on pages 86 to 95) and all appointments to the Board comply with the Society's diversity and inclusion policy.

REPORT ON THE YEAR

NGC focussed on the following key areas during the year:

Areas of Focus	Committee's Response
Appointments	The Committee oversaw the appointment of Anna Barsby in June 2022 and in July 2022 recommended the appointments of Mark Stanger and Anna Barsby to PARC and of Vicky Bruce to Audit Committee.
Succession Planning	The Committee considered and discussed a plan for succession for Board and Board Committee roles.
Board Procedures	The Committee considered and approved revised operating procedures for the Board and the induction of new non-executive directors.
Board and Director Effectiveness	The Committee considered progress with the action plan agreed following the Board effectiveness review in 2020, oversaw the completion of the internal board effectiveness review and recommended a revised action plan for 2023/24. The Committee also oversaw significant changes to the process and documentation for effectiveness reviews of individual directors.
Board Skills and Experience	The Committee facilitated a review of the skills and experience of Board members and those required to support the Society's strategy and considered the results.
Status of Directors	The Committee considered the independence status of directors and whether they were eligible for election at the AGM.
SMCR Compliance	The Committee monitored the progress of applications and allocation of responsibilities under the Senior Manager & Certification Regime and approved the Society's Management Responsibilities Map each time it was updated.
Stakeholder Engagement	The Committee requested a review and considered a paper in relation to the ways in which the Society engages with its stakeholders.
CEO Commitments	The Committee considered the CEO's appointment to the North Cumbria Integrated Care NHS Trust.
Delegation of Authority Framework	The Committee considered, and recommended to Board for approval, a revised Delegation of Authority Framework.



NGC will focus on the following key areas during 2023/24:

Areas of Focus	Committee's Response
Board Effectiveness Review	The Committee will conduct an external Board Effectiveness Review beginning in July 2023.
SMCR Compliance	The Committee will continue to monitor the progress of outstanding applications under the Senior Manager & Certification Regime and consider the Management Responsibilities Map twice in the year.
Structure & Composition	The Committee will consider the structure and composition of the Board and succession planning, in particular in relation to Board Committees, to ensure that the Society has the appropriate mix of skills and experience to support the Society's strategy.
Policies, Procedures and Processes	The Committee will consider policies, procedures and processes, including the Delegation of Authority Framework, related to the Board as part of its annual cycle to ensure they remain effective and to drive continuous improvement.

On behalf of the Nomination and Governance Committee

John Hooper

Chair

6 June 2023

BOARD RISK

Committee Report

CHAIR'S INTRODUCTION

Dear Member,

As Chair of the Board Risk Committee, I am pleased to present the Committee's report for the financial year ended 31 March 2023.

At the beginning of this financial year, we emerged from the restrictions placed upon us by the Covid pandemic, but found ourselves facing a period of substantial economic instability and change. The Committee has focussed its attention on overseeing the financial and operational resilience of the Society, and critically, the health and wellbeing of our members and colleagues in these difficult times.

The economic turbulence has emphasised the importance of the Society's 'New Cumberland' transformation programme; as such, the Committee has looked toward the next phase of this. During the year this has meant both supporting the development of the transformation strategy and making sure the correct risk governance is in place to manage the key risks relating to this change. Alongside this we have continued to oversee remediation of areas of technology risk, the further improved fraud processes, third party supplier management and information security. All of this contributes to the safeguarding of our Society for the benefit of our members.

The Committee plays an important role in safeguarding our members in other ways too, by ensuring our consumer protection measures are effective, particularly for our most vulnerable members. This has meant undertaking a review of our vulnerable customer programme and the future adoption of the Financial Conduct Authority's Consumer Duty regulations. Delivery plans for these regulations have been closely monitored, and Cumberland's Board Consumer Duty champion sits on Board Risk Committee.

Looking forward, the coming year will focus firmly on scrutiny of our transformation activity. We will also support the continued work to look after our members best interests and the Society's efforts to navigate the challenges the economy will present.

WHO SITS ON THE COMMITTEE

ERIC GUNN (CHAIR)	4/4
MARK STANGER	4/4
VICKY BRUCE	4/4

HOW THE COMMITTEE WORKS

The Board Risk Committee comprises independent non-executive directors whose attendance record is set out above. Eric Gunn became Chair of the Committee in August 2019. Details of the skills and experience of the Committee members can be found in their biographies on pages 60 to 61. The Committee is scheduled to meet four times a year in January, April, July and October and, additionally, as and when required. Specific sessions are set aside to cover New Cumberland ahead of each meeting. The Committee is also attended on a standing basis by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer (CRO), and the Head of Internal Audit. The Committee receives a report from the CRO at each meeting, with subject matter experts also invited to present on a variety of topics.

Following each meeting, a written report is provided to the Board by the Chair of the Committee, which summarises areas of focus of the meeting and documents key decisions made. The Board Risk Committee also oversees the Risk Management Committee, which is the Executive Committee responsible for ensuring a co-ordinated risk management approach across all of the Society's risks.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. It also undertakes an annual self-assessment of meeting effectiveness. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: cumberland.co.uk.

REPORT ON THE YEAR

The purpose of the Committee is to provide oversight and advice to the Board on all risk-related matters, including advising on risk in strategy setting, monitoring the risk profile, horizon scanning future risks, supporting adherence to regulations, and ensuring the appropriate level and capability of risk resources.

It supports the Board sign-off of the following key documents:

- **Risk Management Framework:** the formal framework for identifying and managing risks throughout the business;
- **Risk Appetite:** to support and monitor the delivery of the corporate plan by ensuring an appropriate level of risk is taken; and
- **Risk Policy Framework:** ensuring the adherence to documented minimum standards.

The Committee also delivers the following:

- Oversight and challenge of the Society's significant risks and the controls in place to manage those risks, including a specific transformation section and routine review of Financial and Credit Risk; and
- Sign off of key policies under delegated authority from the Board; and
- Oversight of key annual reports including the Money Laundering Reporting Officer's Annual Report and the Annual Report on Climate Change Risk.

KEY AREAS OF FOCUS DURING THE YEAR

BRC focussed on the following key areas during the year:

Areas of Focus	Committee's Response
TRANSFORMATION RISK **The risk of loss or failure from formally managed project activities that seek to deliver change in the Group's capabilities**	• Oversaw the establishment of transformation risk governance, including the implementation of specialist risk reporting. • Separate BRC section to oversee the New Cumberland transformation programme.
CONDUCT RISK **The risk that, unfair customer outcomes arise or may arise, from the operations of the Group and/or its third-party contractors.**	• Oversaw progress on the Society's implementation of the Consumer Duty legislation; • Continued to enhance the frameworks that support fair customer treatment, including oversight of progress made in Strong Customer Authentication and Vulnerable Customer improvements.
REGULATORY RISK **The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to non-compliance with regulation or legislation or voluntary codes of practice potentially leading to unfair outcomes for customers and/or regulatory sanction and/or reputational risks materialising.**	• Supported proactive and positive engagement with our regulators. • Oversaw remediation and closure of regulatory risk matters encountered. • Reviewed the outputs of regulatory horizon scanning and the delivery of the operational and regulatory changes required to remain compliant.
STRATEGIC RISK **The risk of current or prospective impact on the Society's earnings, capital, reputation or standing arising from changes in the environment the Society operates in.**	• Received quarterly reporting of strategic risks, with particular emphasis on Society navigation of macro-economic risk. • Reviewed overall Strategic Risk Register to ensure risks arising in external environment are well understood with monitoring and actions in place.
CREDIT RISK **The risk that a borrower fails to pay interest or to repay capital on a loan and/or that a counterparty fails to meet their contractual obligations to repay the Society or fails to perform their obligations in a timely manner.**	• Oversaw continued prudent lending standards as we manage the impact of the UK economic position. • Tracked portfolio performance particularly in respect of arrears and forbearance. • Provided oversight of lending policy.
FINANCIAL RISK **The risk of the Society having inadequate earnings, cashflow or capital to meet current or future requirements and expectations.**	• Working in conjunction with the Assets and Liability Committee (our key financial risk meeting) and the Board, ensured the monitoring of financial risk metrics and the interest rate, capital and liquidity risk position of the Society. • Oversaw reviews of any breaches of policy that occurred during a volatile year to ensure risk appetite was maintained.

Areas of Focus	Committee's Response
OPERATIONAL RISK **The risk of loss resulting from inadequate or failed internal (including where provided by a third party) processes, people, and systems, or from external events.**	• Oversaw continued embedding of the new operational risk management system and our risk and control processes. • Oversaw the roles and responsibilities of policy owners regarding management of risks. • Oversaw and challenged key enhancements of Information Security and Third Party Supplier management. • Supported further enhancements in the financial crime prevention capability of the Society and the delivery of money laundering prevention actions. • Agreed appropriate risk appetite measures to continue to inform governance of risk management performance.

THE YEAR AHEAD

During the year ahead, the Committee will continue to focus on ensuring The Cumberland is in a strong position to support our members through the likely prolonged economic challenges we will all face, as well as taking the right steps to manage the continued financial strength of the Society. This will mean on-going assessment of key financial risk metrics, and ensuring we have the right support structures in place for our members.

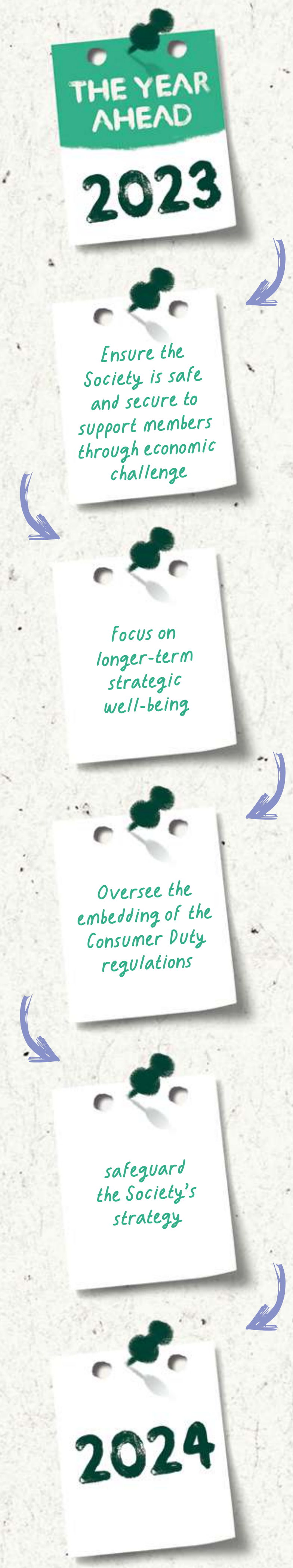
Additionally, we will focus on the longer-term strategic well-being of our Society. This will be achieved by close management of the risks of our large scale and complex transformation programme, and by gaining confirmation that it is delivering against the objectives that have been set.

To further support our members, the Committee will oversee the embedding of the Consumer Duty regulations and the further steps being taken to reduce ever present threats from fraud and financial crime. The embedding of risk management and governance will continue, with the Committee overseeing the annual plan set out by Group Risk. The Committee will also play a key role in the continued strengthening of our operational resilience processes to protect our members.

The near- and medium-term future will remain a complex balancing act.

The Committee will focus on safeguarding that the Society's strategy is sustainable and can be delivered within agreed levels of risk. The Committee will always ensure that minimum standards are adhered to and, if things go wrong, that lessons are learned, and that our members are central to everything we do.

On behalf of the Board Risk Committee
Eric Gunn
Chair
6 June 2023



AUDIT Committee Report

CHAIR'S INTRODUCTION

Dear Member,

As Chair of the Audit Committee, I am pleased to present the Committee's report for the financial year ended 31 March 2023.

The report explains the details of membership of the Committee, the work of the Committee during the year and key areas of focus.

Key areas noted within this report include significant accounting matters and judgements and how they were addressed during the year, our review of the Internal Audit function and matters related to the engagement of the external auditor.

As part of my role, I meet regularly with the Head of Internal Audit, the external auditor and the Chief Financial Officer and have a good working relationship with them all. The Audit Committee has a good working relationship with the Board Risk Committee and has considered that Committee's priorities when approving its own assurance priorities for the year ahead.

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

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

WHO SITS ON THE COMMITTEE

MARK STANGER (CHAIR) 7/7

JACKIE ARNOLD 7/7

VICKY BRUCE 5/5 (appointed 1 July 2022)

HOW THE COMMITTEE WORKS

The Audit Committee comprises three non-executive directors, who bring a diverse range of experience in business, finance, auditing, risk and controls; their attendance record is set out above. The Committee is, therefore, able to challenge and scrutinise the work of management.

Other individuals such as the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Head of Internal Audit are standing attendees at all meetings and the external auditor was invited to attend all planned Committee meetings held in the year.

Following each Committee meeting, the minutes of the meeting are distributed to the Board and the Committee Chair provides an update to the Society's Board on key matters discussed by the Committee.

Private meetings are held at least once a year with the external auditor and with the Head of Internal Audit in the absence of management to enable issues to be raised directly if necessary. The Committee Chair meets with the Head of Internal Audit on a regular basis.

The Committee met on seven occasions during the year. The Committee draws on the expertise of key advisors and control functions, including the internal and external auditors, both of whom are standing attendees of the Committee. The Committee implements the Society's policy on the use of the external auditor for non- audit work, the purpose of which is to ensure the continued independence and objectivity of the external auditor. The external auditor, Deloitte LLP, undertook no non-audit related assignments during the year.

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

The Committee meets at least five times per year and supports the Board in protecting the interests of the Society's members and fulfilling its oversight responsibilities for the following:

- Monitoring the integrity of annual financial statements, including Summary Financial Statements, focusing particularly on significant financial reporting judgements and ensuring that the financial statements are fair, balanced and understandable and that interests of the Society's members are properly protected;
- Reviewing the effectiveness of the systems of internal controls and risk management systems;
- Scrutinising the activities and performance of the internal audit function;
- Monitoring the independence and objectivity of the external auditor and the effectiveness of the audit process;
- Recommending the appointment and approving the remuneration and terms of engagement of the external auditor; and
- Overseeing the Society's whistleblowing arrangements.

The Committee's terms of reference are available at www.cumberland.co.uk and it reports to the Board on these matters during the year. In addition, the minutes of all meetings are presented to the Board. The Committee is authorised by the Board to obtain any information it needs from a director or employee of the Society. It is also authorised to seek, at the expense of the Society, appropriate professional advice as needed.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm its effectiveness and that its activities were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: cumberland.co.uk.

The Committee has advised the Board that, in its opinion, the Annual Report and Accounts are fair, balanced and understandable. The primary areas of judgement considered by the Committee in relation to these accounts related to loan loss provisions (including the impact of the emerging cost of living squeeze driven by inflation as at 31 March 2023), and the work performed to support the Going Concern and Viability assumptions.

REPORT ON THE YEAR

The Audit Committee's main purpose is to support the Board in protecting the interests of the Society for the benefit of our members and customers. It has achieved this during 2022/23 by:

- overseeing the Society's systems of internal control, including the work undertaken by Internal Audit;
- monitoring and reporting to the Board on the integrity and the fair and balanced nature of the Society's financial reporting;
- assessing and reporting to the Board on the appropriateness of the Society's accounting policies;
- monitoring the performance of the external auditor; and
- overseeing the Society's whistleblowing arrangements.

KEY AREAS OF FOCUS DURING THE YEAR

The significant judgements, issues and actions taken by the Committee in relation to the Annual Report and Accounts for the year ended 31 March 2023 are outlined below. Each matter was discussed with the external auditor during the year and, where appropriate, have been addressed as areas of audit focus in the Auditors' Report.

Areas of Focus	Committee's Response
Accounting Policies	The Committee reviewed the Society's accounting policies and confirmed they were appropriate to be used in the financial statements. In preparing the financial statements, there are inevitably material areas in which significant judgements are necessary, and the Committee considered these in detail. This year, these included: i) ensuring our approach to hedge accounting under FRS 102 (IAS 39) remained consistent; and ii) reviewing the method to account for the revenue from amortised cost financial instruments on an effective interest rate basis under FRS 102, which was unchanged.
Going Concern and Business Viability Statement	The Committee reviewed and recommended to the Board the use of the Going Concern basis of preparation for the Annual Report and Accounts and the attendant Going Concern and Viability Statements, having assessed and challenged the basis for the conclusions management had reached. The detailed viability statement can be found on pages 49 to 52 and the Board's Going Concern Statement on page 97.
Fair, Balanced and Understandable Report and Accounts	The Society's Annual Report and Accounts, taken as a whole, must be fair, balanced and understandable. The Committee assessed the financial statements and was satisfied that they portray both successes and challenges, fairly represented the results and business performance, and the language used was appropriate (in that it could be understood by a person with reasonable knowledge of the building society and financial services sectors). The Committee reviewed the Corporate Governance Report and was satisfied that it presented an accurate view of the work of the Board and its Committees. After consideration of management's report and the Committee's own review, the Committee concluded that it could inform the Board that, in its opinion, the Annual Report and Accounts were fair, balanced and understandable.

In compiling a set of financial statements, it is necessary to make estimates and judgements about outcomes that are typically dependent on future events. Significant matters are set out below:

Significant Estimates and Judgements	Committee's Response
Impairment Provisions for Loan Portfolios and Related Disclosures	The Committee oversaw the outcomes of management's assessment of loan loss provisioning at 31 March 2023. It noted that management had used a consistent modelling approach for loans fully secured on residential properties. It also evaluated management's approach to overlays, in light of the impact of rising inflation, rising interest rates and the attendant cost of living squeeze, which has continued since the final quarter of calendar 2021. This was accounted for by an in-model adjustment to probability of default reflecting the existing period of high inflation and its cumulative impact on our borrowers. It was also noted that the use of forbearance remained limited and arrears were low and stable. In relation to loans fully secured on land, which is our commercial portfolio focused on tourism and hospitality, the Committee noted the increase in collective provisions reflecting a consistently designed overlay for the impact of inflation and cost of living (vis a vis our residential property models). The cost of living challenge and inflation impacts both our borrowers and their customers. The Committee also noted the specific provisions recorded, which had reduced in size and number based on successful resolution of customer difficulty or re-banking away from the Society. The Committee challenged management's application of judgement in relation to security realisation rates and HPI trends in light of the requirements of FRS 102 (IAS 39), and concluded that, despite the difficulty in fairly estimating losses at 31 March 2023, management had calculated a suitable best estimate.
Impairment of Investment Properties and Buildings within Fixed Assets	At 31 March 2023, the Society continued to hold a portfolio of non-operating property, albeit reduced through successful sale of 5 further properties. In this context, the Committee noted that the Group had obtained independent, external valuations to support the values of investment properties recognised at 31 March 2023. The Committee was pleased to note that no further impairment charges were required this year and that a modest gain on sale was recorded indicating the valuations applied at the previous year end were reasonable.

The Committee has responsibility for monitoring the adequacy of the Group's control environment. This has included the ongoing steps being taken to improve Internal Audit's operating model and enhance its service proposition. The Committee's review of the operation of internal controls encompassed the following:

Controls	Committee's Response
Control Environment	The Committee continued to monitor the overall effectiveness of the Society's control environment during the year by reviewing reports from Internal Audit and updates from management in respect of the design and effectiveness of the systems of control in place to manage risks. During the year, the Committee, through Internal Audit and other management information and insight, reviewed the controls in operation for: business change, arrears & forbearance, technology, climate risk management, regulatory change, financial crime and key projects. Internal Audit utilised the services of RSM LLP for co-sourced internal audits to provide specialist/expert support, input and promote knowledge transfer to Internal Audit. Supported by the work of Internal Audit and the opinion of the Head of Internal Audit, the Committee concluded there had been no significant deficiencies which warrant specific mentioning within the Annual Report and Accounts.
Business Change	The Committee had a particular focus in the year on business change receiving presentations from internal and external Change professionals noting market trends in this area as well the controls in place and the ongoing work to enhance them in this critical and dynamic area. This also included the new Project Assurance arrangements introduced by Internal Audit during the financial year.
Whistleblowing	The Committee continued its overview of the Society's Whistleblowing arrangements. These arrangements were enhanced during the financial year, not only from a process perspective, but also from an ongoing training and development viewpoint.
Resolution Pack	The Committee, in meeting its regulatory responsibilities, continued its overview of the Society's treasury arrangements by reviewing the Society's updated Resolution Pack and obtaining insight from Group Risk as to the level of oversight and engagement they had with the Treasury function.

Internal audit

The Committee works closely with the Head of Internal Audit, who reports directly to the Chair of the Audit Committee. Throughout the year, the Committee monitors the progress of the Internal Audit function.

The Audit Committee approved the internal audit plan and all changes to it during the year. The scope of work takes account of the function's own assessment of risks, and the input of management and the Audit Committee itself. At each meeting the Committee received updates from the Head of Internal Audit on the work of the Internal Audit function, drawing its attention to the most significant audit work.

The Committee continued to focus on the prompt and effective resolution of control issues raised by Internal Audit, where progress was made during the year.

Every six months, the Committee reviewed the resourcing of the internal audit function and was satisfied that the resources were appropriate. A private session with the Head of Internal Audit is held either before or after each scheduled Committee meeting.

External audit

Deloitte LLP acted as the Society's external audit firm throughout the 2022/2023 financial year. The Audit Committee is responsible for overseeing the relationship with the external auditor, and for the effectiveness of the audit process.

To protect the independence of the external auditor, it is normal to rotate the statutory auditor. Matthew Bainbridge of Deloitte LLP is The Cumberland's statutory auditor for the 2022/23 financial year. This is Matthew's second year as The Cumberland's statutory auditor.

Deloitte's report can be found on pages 102 to 110.

Audit quality and materiality

The Committee has a responsibility for reviewing the quality and effectiveness of the external audit. Due to the ongoing focus on audit quality from the Financial Reporting Council (FRC) and societal expectations and the ever more detailed work expected to be carried out by the external auditor, there has been a further uplift in the external audit fee. Despite this uplift and after benchmarking the new fee levels with the experience of its peers, the Committee has decided to stay with its current external auditors. The Committee approved the scope of the audit plan and considered the proposed materiality level in advance of the annual audit. Materiality is the level at which the auditor considers that a misstatement would compromise the truth or fairness of the financial statements. For 2022/23, overall audit materiality was set by Deloitte at £1,138k (2021/22: £820k).

Auditor independence

The Board has an established policy setting out the non-audit services that can be provided by the external auditor. The aim of the policy, which is reviewed annually, is to safeguard the independence and objectivity of the external auditor and comply with the ethical standards of the FRC. The policy specifies non-audit services provided by the external auditor that are either permitted or prohibited. Deloitte has confirmed that it has complied with relevant regulatory and professional requirements and its objectivity is not impaired. The Committee is satisfied that Deloitte remained independent throughout the year.

Audit outputs

The Committee reviewed Deloitte's year end report for the 2022/23 financial year and its statutory opinion in respect of the year. The Committee also reviewed Deloitte's planning report and interim updates on its work.

Audit and non-audit fees

Under the Society's non-audit fees policy, all non-audit work is approved by the Audit Committee where the fee is over £10k, or by its Chair (and subsequently ratified at the next meeting). Where the fee is below £10k approval is required from the Chief Financial Officer. During the 2022/23 financial year, no requests to use the external auditor for non-audit services were made.

The fees paid to Deloitte for the year ended 31 March 2023 totalled £360k for audit services (2021/22: £334k, of which £300k was for audit services and £34k for non-audit services).

The total fees are set out in note 6 to the financial statements.

Audit effectiveness

The Committee reviews the effectiveness of the external audit process on an annual basis taking into account management feedback. This review confirmed that the external auditor was performing its duties in an independent and effective manner, with some areas for consideration identified and fed back to the statutory auditor.

In 2023/24, the Audit Committee will continue to focus on its oversight of the financial reporting and internal controls of The Cumberland. A key area of focus for the Committee will be understanding how management continues to embed the Risk Management Framework across the wider Society. In the challenging and competitive environment in which The Cumberland operates, the Audit Committee remains committed to its vital role in overseeing the integrity of financial reporting and the effectiveness of controls.

On behalf of the Audit Committee
Mark Stanger
Chair
6 June 2023

> “A main focus for the year was on providing opportunities for the Board to engage more widely with the Society’s people and other stakeholders to allow the Board to take into account wider perspectives in its decision making, contributing to the long term success of the Society.

John Hooper, Chair

PEOPLE, REMUNERATION and CULTURE Committee Report

CHAIR'S INTRODUCTION

Dear Member,

As Chair of the People, Remuneration and Culture Committee (PARC), I am pleased to present the Committee's report for the financial year ended 31 March 2023. PARC assists the Board by overseeing all people related matters at the Society, including remuneration and culture. I set out in this report details of the work the Committee has focussed on during the year. This report includes the Report on Directors' Remuneration, which explains the remuneration policies for executive and non-executive directors and how the Society has regard to the principles of the UK Corporate Governance Code.

WHO SITS ON THE COMMITTEE

JACKIE ARNOLD (CHAIR) 7/7

KELLI FAIRBROTHER 7/7

ANNA BARSBY 3/4 (appointed 1 July 2022)

MARK STANGER 4/4 (appointed 1 July 2022)

HOW THE COMMITTEE WORKS

PARC comprises independent non-executive directors, whose attendance record is set out above. Jackie Arnold is Chair of the Committee. Details of the skills and experience of the Committee members can be found in their biographies on pages 59 to 61. The Committee is scheduled to meet four times a year, one week ahead of Board, in January, April, July and October and, additionally, as and when required. The Committee is also attended on a standing basis by the CEO, CFO, and CPO. Following each meeting, a written report is provided to the Board by the Chair of the Committee, summarising activities undertaken, areas where the Committee had challenged management and key decisions taken.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: cumberland.co.uk.

REPORT ON THE YEAR

The purpose of the PARC is to ensure:

- the Society's remuneration, culture and people policies and practices are designed to support strategy and promote long-term sustainable success;
- executive remuneration is aligned to the Society's purpose and values, and is clearly linked to the successful delivery of the Society's long-term strategy; and
- there is a formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration.

The Committee assumed responsibility for diversity and inclusion from NGC during the year. Diversity and inclusion are core considerations and we met our commitment under the Women in Finance Charter to have at least 33% of women at senior level by April 2021 and continued to do so during the year. At present, the gender balance of the Society's Board, Senior Leadership Team and their direct reports, is as follows:

	Male		**Female**	
	2023	2022	**2023**	2022
Board	**5/9 (56%)**	6/9 (67%)	**4/9 (44%)**	3/9 (33%)
Senior Leadership Team	**5/8 (62.5%)**	4/6 (67%)	**3/8 (37.5%)**	2/6 (33%)
Extended Leadership Team	**18/30 (60%)**	13/25 (52%)	**12/30 (40%)**	12/25 (48%)

REPORT ON THE YEAR

PARC focussed on the following key areas during the year:

Areas of Focus	Committee's Response
Remuneration	The Committee reviewed and approved the Society's remuneration principles, including the roles considered to be Material Risk Takers, and oversaw compliance with the FCA and PRA Remuneration Codes. The Committee considered the annual cost of living increase for all employees and made a recommendation to Board. In addition, the Committee considered the cost-of-living crisis, the significant impact it was having on colleagues and how best to support those they believed to be most likely to struggle financially. The Committee approved support for those colleagues most likely to fall within the basic rate tax bracket with a one off payment of £1,500 (pro rata for part timers) payable in October 2022, with an equivalent amount consolidated into basic pay from April 2023. This allowed for both a meaningful one off payment and longer term impact on basic pay. This approach positively impacted 82% of colleagues. The Committee benchmarked the remuneration of the Senior Leadership Team and made appropriate adjustments, including to the CEO's base salary. The Committee approved an increase to the Chair and non-executive director fees in line with the increase awarded to all employees and to reflect an increased workload of certain committees.
Incentive Schemes	The Committee approved the Senior Leadership Team Incentive Scheme, the Commercial Incentive Scheme, the Heads Of Incentive Scheme, the Distribution Incentive Scheme and the Brighter Performance Incentive Scheme (for all other employees). This included calibrating performance against objectives set for 2021/22 and setting objectives for 2022/23. The Committee also reviewed the suitability of remuneration in the context of the Society's transformation programme and approved the introduction of the Long Term Incentive Plan for a number of its senior employees, including executive directors, which is described in the Report on Director's remuneration set out on Pages 89-95.
Benefits	The Committee received and reviewed external benchmarking on benefits provision to colleagues. Significant changes were approved to "Family Friendly" Policies, including enhancement to maternity and paternity benefits and our approach to support for pregnancy loss.
Diversity and Inclusion	The Committee received the annual update, incorporating reporting such as the Gender Pay Gap and progress on initiatives and affiliations such as Women in Finance Charter, Becoming (Female Leadership Programme), WIBF research sponsorship, Anti Racism Cumbria and work on developing diverse talent and a new approach to hybrid and flexible working. In doing so it challenged the D&I action plan and ambition of the leadership team. It also approved some progressive changes to our "Family Friendly" policies which will support ambitions in this area.

Areas of Focus	Committee’s Response
Talent & Succession	The Committee oversaw the development of the talent strategy including onboarding, performance management, succession, professional and future leadership development. It also supported the introduction of an online learning portal to aid compliance and other training.
Culture and Engagement	The Committee considered how leaders and colleagues engaged in the purpose of The Cumberland by reviewing the enterprise objectives and undertaking oversight of the annual colleague B Heard survey results. The Board had the opportunity to engage with and listen to colleagues.
Wellbeing	The Committee tracked progress of colleague support measures as the Society came out of the pandemic period, supporting the development of wellbeing initiatives in the mental and physical health space, alongside increased awareness around neurodiversity. PARC approved a new Menopause Policy alongside the annual Health and Safety Policy review.
Other People Policies	The Committee considered the Society’s people related policies and a roadmap for updating these. In addition to those already mentioned above, the Committee considered the Pensions Policy, the Health and Safety Policy and the Fire Policy.

REPORT ON DIRECTORS’ REMUNERATION

The purpose of this report is to provide information about the Group’s policy for the remuneration of non-executive and executive directors and to give details of the process for determining the level of remuneration. The Society’s remuneration policy meets with the requirements of the Remuneration Code. In determining non-executive and executive director remuneration, both the Board and PARC take account of fees and salaries payable and other benefits provided to non-executive directors, executive directors and chairs of building societies that are similar in size and complexity to The Cumberland. To ensure that fees and salaries are set at a level to retain and attract individuals of the calibre necessary to operate an organisation such as the Society and which reflect the skills and time commitment required, the Committee periodically commissions an external review of executive and non-executive remuneration. This year KPMG reported on executive director and other executive remuneration.

Full details of individual directors’ remuneration, are disclosed on page 94.

Non-executive directors

The remuneration of non-executive directors comprises only of fees and this is reviewed and agreed annually by the Board. The Chair’s remuneration is set by PARC.

Executive directors

Fixed Remuneration

Base Salary

Executive directors are employed under contracts terminable by the Society on nine to twelve months' notice and by the individual on six months' notice. The remuneration of executive directors is determined by PARC.

Variable Remuneration

Benefits

Executive directors in office at 31 March 2023 are members of a defined contribution pension scheme and are entitled to receive pension contributions towards this, although depending upon their individual circumstances, they may be paid a pension replacement amount. Executive directors are also provided with a car allowance (or car) and membership of a private medical insurance scheme.

Annual Incentive Scheme

The Committee believes that bonus schemes relating to financial and business performance are an appropriate part of a balanced remuneration package for executive directors, and for the year ended 31 March 2023, agreed a bonus based on key elements of the financial and strategic plan delivered in a way that is consistent with The Cumberland's core values and risk management framework.

Long Term Incentive Plan

During the year, the Board and Committee undertook a review of executive pay arrangements, including consideration of the appropriate balance between salary or fixed pay and pay based on performance, and how we link performance related pay to the achievement of the longer-term objectives of the Society and the significance of the planned transformation programme.

As a result, a new discretionary element of remuneration has been introduced this year to be known as the Long Term Incentive Plan (LTIP). This has been designed with the support of 3rd party remuneration consultants from KPMG.

The purpose of The Cumberland LTIP is to incentivise delivery of performance over the long term. The Committee and the Board have determined that the delivery of the whole business transformation plan was best supported by introduction of an LTIP provided to executive directors, members of the senior leadership team and a small number of other employees.

It has been designed as a tool for retention of the assembled team and as a mechanism that will align reward to delivery of both whole business transformation and growth over the period of strategy execution.

In the view of PARC the proposed performance measures for LTIP awards are supportive of the Society's risk appetite and do not promote the taking of undue risk inconsistent with that appetite.

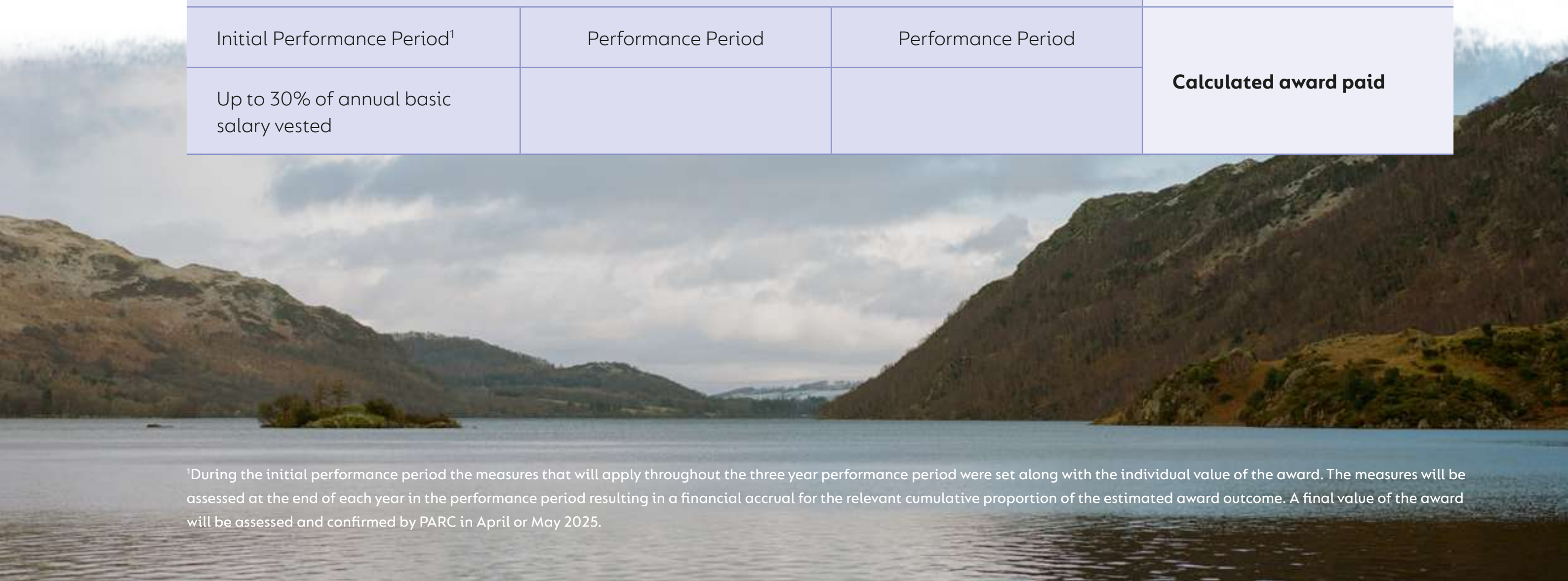
An illustration of how the LTIP for 2022/23 will operate is set out below:

Initial value of award under LTIP determined subject to performance ↓

Value of award reassessed ↓

Final value of award under LTIP confirmed ↓

FY 2022/23	FY 2023/24	FY 2024/25	July 2025
← No payments made →			Payment Made
Initial Performance Period[1]	Performance Period	Performance Period	**Calculated award paid**
Up to 30% of annual basic salary vested			



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[1] During the initial performance period the measures that will apply throughout the three year performance period were set along with the individual value of the award. The measures will be assessed at the end of each year in the performance period resulting in a financial accrual for the relevant cumulative proportion of the estimated award outcome. A final value of the award will be assessed and confirmed by PARC in April or May 2025.

Remuneration Policy for Executive Directors			
Element	**Operation**	**Opportunity**	**Performance Metrics**
Fixed Remuneration			
Base Salary Provides base salary that is market competitive and reflects the size and complexity of the role	Base salary is normally reviewed on an annual basis. Any changes are normally effective from 1 April.	Base salaries are set taking into account market data for similar roles in comparable organisations. Other factors considered include the individual's skills, experience and performance in the role, and the approach being taken on salaries in the wider organisation.	Not applicable
Benefits Provide a market competitive and cost-effective benefits package as part of fixed remuneration	Benefits include a car allowance, healthcare and insurance benefits. Other benefits may be provided to enable recruitment, retention or relocation.	Benefits are reviewed regularly to ensure they remain appropriate to role and location to assist individuals in carrying out their duties effectively. The value of benefits may vary depending on service providers, cost and market conditions.	Not applicable
Pension Provides post-retirement benefits for participants in a cost-efficient manner	Executive directors receive payments into a defined contribution scheme or a cash allowance in place of pension.	Pension or cash allowances are set as a percentage of base salary. The maximum cash allowance payable is currently 15% of base salary.	Not applicable

Remuneration Policy for Executive Directors			
Element	**Operation**	**Opportunity**	**Performance Metrics**
Variable Remuneration			
Directors' Annual Incentive Rewards achievement of stretching Society, team and individual targets for a single financial year	Awards are normally paid in cash following the end of the financial year based on Society performance achieved in the year. This element operates in a manner aligned to the scheme for all employees.	The targets reflected in the Society's Plan need to be achieved to generate a 'target' award against the Society measures, and exceeded to generate the maximum award. The maximum opportunity for the executive directors is 20% of base salary.	The performance measures selected are set on an annual basis by the Committee. These will normally reflect a mix of financial and non-financial measures, relating to the strategic priorities of the Society as well as regulatory obligations and risk performance. Individual performance (including conduct and behaviours) is also assessed.
Long Term Incentive Plan (LTIP) To incentivise sustainable long-term performance and alignment with member interests through the retention of key individuals, awards are made annually and only pay out where challenging performance measures are met, normally measured over a three-year period	LTIP awards are discretionary and normally granted subject to the achievement of satisfactory performance over the year prior to being granted. The first awards under the LTIP were granted in 2022/23. Awards are normally subject to a forward-looking three-year performance period from the start of the financial year in which the grant is made. Payment of the awards will not start until after the end of this three-year performance period and are subject to the achievement of performance conditions. Awards are paid in cash.	For each applicable performance measure for the three-year performance period, the Committee will determine targets by reference to the Society's Plan that need to be achieved to generate a 'partial', 'achieve' and 'outperform' level of award. Performance targets will normally be set annually for each three-year cycle The Committee will determine the extent of achievement based on actual performance against the targets set and any other relevant factors the Committee considers appropriate to take account of.	The Committee will take into consideration performance over the initial performance period prior to the grant when determining whether LTIP grants will be made. The pre-grant conditions will normally include an assessment of both Society and individual performance to ensure that the granting of awards is sustainable according to the financial position of the Society and justified on the basis of individual performance, conduct and behaviours.

Remuneration Policy for Executive Directors			
Element	**Operation**	**Opportunity**	**Performance Metrics**
Variable Remuneration			
Long Term Incentive Plan (LTIP) (cont.)	The Committee may reduce, freeze, suspend or cancel payments under the LTIP if it believes that the plan outcomes are not representative of the overall performance of the Society.	Maximum awards will only be paid where there has been outstanding performance against stretching targets during the forward-looking performance period. The overall maximum opportunity may vary by role. The actual amount awarded in respect of any year is subject to the limit laid down by regulatory standards. The maximum LTIP opportunity for the executive directors is 30% of base salary. Normally, 24% of base salary is payable for target performance and at the threshold level of performance, 15% of the award opportunity will be paid. No portion of the award will be paid where threshold performance is not achieved in the related measure. The award levels above may be varied in exceptional circumstances.	Forward-looking performance will be measured against a long-term scorecard determined by the Committee on an annual basis and set to align with the long-term objectives of the Society. The measures will normally reflect a mix of financial and non-financial measures drawn from the Society's Plan and be subject to the satisfaction of risk performance and regulatory obligations. The measures used will typically comprise: • member outcomes (delivering exceptional customer experience) and growth and defence of margin; • management of risk (protecting the Society and its members); and • transformation (to include delivery of key strategic milestones).

LTIP measures

Our LTIP measures will be assessed annually by the Committee and financial accruals recognised based on those outcomes. These can be reversed or increased based on the subsequent and the final assessment. The final assessment will determine the outcome achieved over the performance period. No payment is made until after the performance period as a result the first time a payment could be made is July 2025.

Objective	Measure	Portion of Award subject to this objective	PARC Assessed Achievement 2022/23
Deliver exceptional customer experience consistently	Measured by Feefo	20%	✓
Embed right culture, talent and skills to enable us to grow and transform	B-heard annual accreditation	20%	=
Deliver the Cumberland transformation with pace and focus	Delivery of transformation (Board approved milestones)	20%	✓
Maintain financial soundness and growth	Cumulative operating profit (versus Board approved budget)	20%	✓
Protect the Society and our members	Compliance with risk appetite over the transformation period	20%	✓

✓ Expectation achieved or exceeded. = Reasonable outcome against expectation. ✗ Expectation not met

Directors' Remuneration

	2023 **£000**	2022 £000
Total directors' remuneration	**1,112**	1,044
Non-executive directors' remuneration		
John Hooper (Chair)	**72**	70
Eric Gunn (Chair of the Board Risk Committee)	**51**	48
Jackie Arnold (Chair of the People, Remuneration and Culture Committee)	**50**	48
Michael Hulme (resigned 31 March 2022)	**–**	45
Mark Stanger (Chair of Audit Committee)	**55**	52
Vicky Bruce	**45**	42
Kelli Fairbrother	**43**	41
Anna Barsby (appointed 1 June 2022)	**35**	–
	351	346

Executive directors' remuneration 2023	**Salary £000**	**Directors' Annual Incentive £000**	**Long-term[1] Incentive Plan £000**	**Pension Contributions £000**	**Pension Replacement Amounts £000**	**Other Allowances £000**	**Total £000**
Des Moore	**288**	**58**	**12**	**–**	**40**	**13**	**411**
Richard Ellison	**246**	**48**	**10**	**34**	**–**	**12**	**350**
	534	**106**	**22**	**34**	**40**	**25**	**761**
2022							
Des Moore	268	54	–	–	38	12	372
Richard Ellison	234	47	–	33	–	12	326
	502	101	–	33	38	24	698

[1] Pro-rated accrual of initial value calculated.

PARC will focus on the following key areas during 2023/24:

Areas of Focus	Committee's Response
Talent and Succession	Oversee how the Society develops capability to include a focus on both current and future skills together with development of succession plans.
Culture and Engagement	Oversee a refreshed approach to how the Society conveys its narrative and engages its people, alongside receiving timely colleague survey data to measure and inform this.
Diversity and Inclusion	Review and challenge the Society's D&I ambition and approach, including leveraging people data to aid workforce understanding.
Reward	Continue with the work on the Society's Reward Roadmap guided by the reward principals.
Wellbeing and Support	Review the Society's Wellbeing Strategy and its commitment to support its people.

On behalf of the People, Remuneration and Culture Committee

Jackie Arnold

Chair

6 June 2023

DIRECTORS' Report

Information on the Group's strategy and its financial and business performance and likely future developments are included within the Strategic Report, which starts on page 6.

Directors

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

John Hooper	Chair
Eric Gunn	Senior Independent Director
Mark Stanger	
Jackie Arnold	
Vicky Bruce	
Kelli Fairbrother	
Anna Barsby	Appointed 1 June 2022
Des Moore	Chief Executive Officer
Richard Ellison	Chief Financial Officer

Further information on all of the directors in office as at 31 March 2023 is provided in the directors' biographies on pages 58 to 61, and their attendance at the Board and Board Committees is set out in the corporate governance and Committee reports on pages 65 to 95.

All directors will submit themselves for election or re-election at the Annual General Meeting. None of the directors had an interest in shares in, or debentures of, any subsidiary undertaking of the Society at any time during the financial year.

At 31 March 2023, one director had mortgage loans granted in the ordinary course of business, amounting to £455k (2022: two directors, £953k). A register is maintained at the principal office of the Society, containing details of loans, transactions and arrangements between the Society and its directors and connected persons; requisite particulars from it are available for inspection.

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

Mortgage arrears and forbearance

At 31 March 2023, there were 3 (2022: 9) accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £387k (2022: £1,650k), and the amount of arrears was £62k (2022: £182k), which represents 0.003% (2022: 0.01%) of mortgage balances. In certain circumstances, the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty. Such measures include agreeing a temporary transfer to interest only payments, or a capitalisation of arrears, in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they are able. As at 31 March 2023, forbearance measures had been agreed for 17 (2022: 32) residential mortgages with a total balance of £1.24m (2022: £3.29m). Where the Society considers that there is a possibility of a loss, a specific provision is made in accordance with the Society's policies, and the level of forbearance undertaken is also an element of the Society's collective provisioning methodology.

Financial risk management policies and objectives

The Society's objective is to minimise the impact of financial risk upon its performance. The financial risks facing the Society are summarised together with an overview of arrangements for managing risk in the Strategic Report on pages 36 to 39 and are discussed in more detail in notes 26 to 29 of the financial statements.

Creditor payment policy

Our policy concerning the payment of trade creditors is to agree terms of payment, to ensure that suppliers fulfil their contractual obligations and to settle invoices for the provision of goods and services within the agreed payment terms. At 31 March 2023, the total amount owed to suppliers was equivalent to 31 days' credit (2022: 30 days).

Charitable and political donations

During the year, charitable donations of £205k were made to a number of organisations within our operating area.
No contributions were made for political purposes.

Engagement with stakeholders

Please see pages 20 to 29 of the Strategic Report.

Environmental impact and energy efficiency

Please see pages 30 to 35 of the Strategic Report.

Events since the year end

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

Going concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future, having taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. For this reason, the annual accounts continue to be prepared on the going concern basis. Further information on how this assessment was performed and its basis is included as part of the Group's viability statement on pages 49 to 52.

Statement of disclosure to auditors

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

Auditor

Deloitte LLP are eligible for re-appointment and have offered themselves for re-election. A resolution to re-appoint Deloitte LLP will be proposed at the AGM.

On behalf of the Board of Directors
John Hooper
Chair
6 June 2023

Statement of Directors' RESPONSIBILITIES

Directors' responsibilities in respect of the Annual Report and Accounts, the Strategic Report, the Directors' Report and the Annual Business Statement

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

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

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

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

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

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

Directors' responsibilities for accounting records and internal control

The directors are responsible for ensuring that the Group:

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

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

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

FINANCIAL Statements

INDEPENDENT AUDITOR'S REPORT

to the members of Cumberland Building Society

Report on the audit of the financial statements

1. Opinion

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

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 March 2023 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986

We have audited the financial statements which comprise:

- the Group and Society income statements;
- the Group and Society statements of comprehensive income;
- the Group and Society balance sheets;
- the Group and Society statements of changes in members' interests;
- the consolidated cash flow statement; and
- the related notes 1 to 35.

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

2. Basis for opinion

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

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and the Society for the year are disclosed in note 6 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Society.

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

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Loan loss provisioning; and
- Hedge accounting.

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

⇄ Similar level of risk

Materiality

The materiality that we used for the Group financial statements was £1,138k (2022: £820k) which was determined on the basis of net assets.

Scoping

We have performed a full scope audit on all entities within the Group which is consistent with the prior year. All full scope audits were executed at lower levels of component or group materiality applicable to each individual entity. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

Significant changes in our approach

There are no significant changes in our approach as compared to prior audit.

4. Conclusions relating to going concern

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

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

- obtaining an understanding of the relevant controls around management's going concern assessment;
- assessing management's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- assessing the Group and Society's compliance with regulation including capital and liquidity requirements;
- assessing the reasonableness of the assumptions, such as cash flows, capital and liquidity, used in the forecasts prepared by management;
- assessing the historical accuracy of forecasts prepared by management by comparing these to the actual results;
- involving prudential risk specialists to assess the information supporting management's liquidity and capital forecasts, including the stress testing and reverse stress testing performed by management;
- consideration of whether there were events subsequent to the balance sheet date which could have a bearing on the going concern conclusion;
- inspecting regulatory correspondence and committee and board meeting minutes to identify events or conditions that may impact the Group's and Society's ability to continue as a going concern; and
- assessing the appropriateness of going concern disclosures.

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

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

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

5. Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Loan loss provisioning

Key audit matter description

The Group currently holds on its balance sheet £2,223m (2022: £2,070m) of loans and advances fully secured on residential property and £209m (2022: £168m) of loans and advances fully secured on land. As at 31 March 2023, the Group held incurred loss provisions of £1.2m (2022: £0.6m) against loans fully secured on residential property and £1.6m (2022: £1.9m) against loans fully secured on land in relation to the incurred losses on these loans.

Under IAS 39 "Financial Instruments: Recognition and Measurement" the directors are required to assess whether there is objective evidence of impairment of any financial assets that are measured at amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the income statement immediately.

Loan loss provisioning remains one of the most significant estimates made by management, particularly in light of the uncertain economic outlook due to the cost-of-living crisis, climate change, cladding remediation requirements and market conditions at the reporting date.

For both portfolios, the provision comprises a collective provision for losses incurred but not reported at the reporting date, and a specific provision for loans where there has been an observable impairment trigger. Management's estimate requires the determination of assumptions relating to potential impairment indicators, customer default rates, the likelihood of repossession occurring and forecast future cash flows.

We consider the most significant areas of judgement within the Group's loan loss provision methodology to be the determination of the specific provision for loans fully secured on land given the judgement in determining the expected realisable values of the collateral on which the exposures are secured.

Given the degree of judgement involved in determining key assumptions, we also identified that there is potential for fraud through possible manipulation of this balance.

The Group's loan loss provision balances are detailed within note 12. The associated accounting policies are detailed on page 117 with detail about the associated critical accounting estimates on page 117.

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

We performed a walkthrough to understand the end-to-end loan loss provisioning process, identified the relevant controls and obtained an understanding of the relevant controls that that the Society has in place to manage the risk of inappropriate assumptions being used in the loan loss provisioning models, including how the calibration of the loss given default parameter is subject to review, challenge and approval.

With reference to the specific judgement relating to the determination of the specific provision for loans fully secured on land, we focussed our work on a sample of exposures where the valuation of the collateral was inherently judgemental and involved internal real estate specialists to challenge the valuations with reference to market data and other relevant information.

Our wider procedures over loan loss provisioning included:

- with the involvement of internal credit risk specialists, challenging the methodologies and assumptions used within the loan loss provisioning models with reference to the historical experience observed by the Group and evaluating whether the approach generated an output that was compliant with IAS 39;
- testing the general IT controls over the loan administration systems and evaluating the manner in which data used in the determination of key assumptions was extracted from these systems and testing the completeness and accuracy of this underlying data;
- with the involvement of internal economic specialists, challenging the macro-economic forecasts used by management to assess future changes in the valuation of collateral with reference to external forecasts and other third-party sources;
- with reference to the current economic conditions, including the increased cost of living as well as other market circumstances, evaluating whether any further adjustments were required to the modelled provision; and
- reconciling the loan book to the general ledger and substantively testing a sample of loans to assess whether the data used in the provision calculation was complete and accurate.

Key observations

Based on our audit procedures, we have concluded that the provisions recorded against loans and advances fully secured on residential property and land are reasonably stated.

5.2. Hedge accounting

Key audit matter description

The Society applies hedge accounting using fair value macro hedge relationships in order to minimise the volatility of fair value movements in the income statement. As the macro hedge evolves, hedged items and the associated derivative, are designated to and subsequently de-designated from the hedge relationship. The fair value adjustment to the hedged items at 31 March 2023 was a liability of £58.4m (2022: liability of £30.2m).

The hedge effectiveness assessment criteria must also be met on an ongoing basis, both prospectively and retrospectively, for the hedge relationships to be eligible under IAS 39 criteria for hedge accounting

We consider the most significant areas of judgement within the Group's hedge accounting to be:

- the risk that the identification of items that are designated to, and then are subsequently de-designated from, the hedging relationships is not complete and the fair value adjustments on items entering or exiting the hedge are not initially recorded and/or amortised correctly; and

- the accuracy of management's approach for transforming loan data, including cashflow scheduling, behavioural overlays for non-contractual prepayments, and designation of hedging instruments.

The fair value adjustment to hedged items and the fair value of derivatives are detailed within notes 5, 11, and 30. The Group's associated accounting policies are detailed on pages 116.

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

We performed a walkthrough to understand the hedge accounting process and obtained an understanding of the relevant internal controls.

We involved financial instrument specialists to perform a review of the hedge accounting process, including management's approach for transforming loan data.

We assessed management's prospective and retrospective effectiveness testing results and tested the valuation of derivatives. This included understanding management's methodology for assessing items that have de-designated from the hedge relationship and testing a sample of de-designated instruments by creating an expected amortisation profile and comparing that to management's calculation.

Key observations

Based on our audit procedures, the fair value adjustments accounted for on hedged items designated to and subsequently de-designated from the hedge relationship, was considered to be appropriate throughout the year.

We concluded the macro-hedge relationship has also remained effective throughout the period, and therefore the hedge relationships continue to be eligible under IAS 39 criteria for hedge accounting.

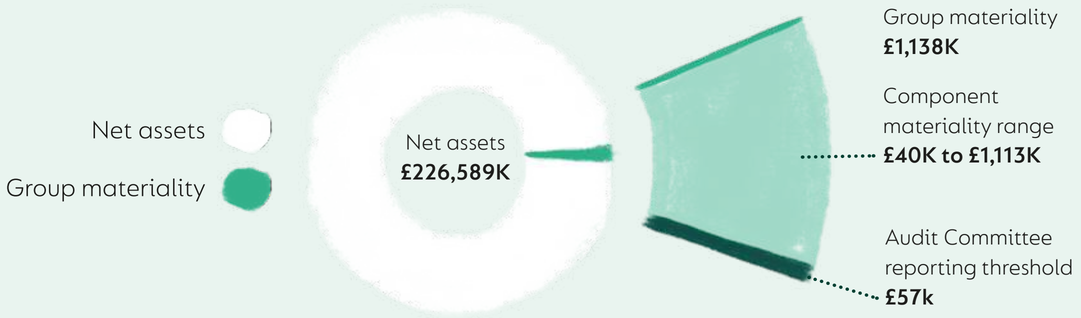
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Society financial statements
Materiality	£1,138k (2022: £820k)	£1,113k (2022: £779k)
Basis for determining materiality	0.5% of net assets (2022: 0.4% of net assets)	Society materiality equates to 0.5% of net assets (2022: 0.4% of net assets) which is capped at 98% of Group materiality.
Rationale for the benchmark applied	We consider that net assets is an appropriate benchmark because the Society's aim is to maintain a strong capital base that will allow the Group to invest in activities for its members including increasing future lending. This will also be a more stable benchmark to use in the medium term due to the strategic transformation programme that is occurring within the Society, and the impact that this may have on the profit before taxation of the Society.	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Society financial statements
Performance materiality	70% (2022: 70%) of Group materiality	70% (2022: 70%) of Society materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • Our risk assessment, including our assessment of the quality of the control environment and that we were able to rely on controls for a number of key business cycles; • Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £57k (2022: £41k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and material subsidiaries. This provided 100% (2022: 100%) coverage of revenue, profit before tax and net assets of the Group, executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £1,113k to £40k (2022: £779k to £10k). We, as the Group auditor, were responsible for performing the audit of each subsidiary. At the Group level, we also tested the consolidation process.

7.2 Our consideration of the control environment

Our approach in relation to the Group's business cycles

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

- residential and commercial mortgage lending; and
- savings and current accounts.

We obtain an understanding of these business cycles on an annual basis and undertake a rotational approach to testing the relevant controls over a three-year rotational cycle. In the current year, we tested any new relevant controls identified in the lending and savings and current accounts business cycles. Where we identified no changes in the controls that would affect the audit evidence obtained in previous audit periods, we used the audit evidence obtained in previous audit periods.

Our approach in relation to the Group's IT systems

We relied on the IT controls associated with the Group's IT systems which support both the residential and commercial lending and the savings and current accounts business cycles. This includes the Group's core banking system which supports both business cycles. With the involvement of IT specialists, we tested the general IT controls related to these systems and relied on the IT controls as planned, where necessary identifying and testing mitigating controls for deficiencies identified. We also tested the relevant automated controls associated with the business cycles noted in the preceding section and relied on these controls as originally planned.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of climate change and has reported these on pages 34 to 35.

As a part of our audit, we held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and did not identify any additional risks of material misstatement.

We have also read the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

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

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

11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, IT, economic, credit risk, real estate and prudential regulatory specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Building Society Act 1986 for the Society and UK Companies Act for the subsidiaries.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulations set by Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA).

11.2 Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter. In addition to the above, our procedures to respond to risks identified included the following:

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

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

Report on Other Legal & Regulatory Requirements

12. Opinions on other matters prescribed by the Building Societies Act 1986

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

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

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

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

In our opinion the information given in note 34 to the financial statements for the financial year ended 31 March 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Corporate Governance Statement

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

- the directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 97;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 49-53;
- the directors' statement on fair, balanced and understandable set out on page 79;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 36-39;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 79; and
- the section describing the work of the audit committee set out on page 78–84.

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

15.1. Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 24 June 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 March 2015 to 31 March 2023.

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

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

17. Use of our report

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

Matthew Bainbridge – FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
06 June 2023

GROUP AND SOCIETY INCOME STATEMENTS

For the year ended 31 March 2023

	Notes	Group 2023 £000	Group 2022 £000	Society 2023 £000	Society 2022 £000
Interest receivable and similar income	3	**109,859**	58,121	**107,862**	56,527
Interest payable and similar charges	4	**(40,433)**	(10,455)	**(40,433)**	(10,455)
Net interest receivable		**69,426**	47,666	**67,429**	46,072
Fair value gains/(losses) on financial instruments	5	**14,054**	3,808	**13,876**	3,471
Pension finance charge	25	**(17)**	(201)	**(17)**	(201)
Fees and commissions receivable		**527**	538	**527**	538
Fees and commissions payable		**(2,608)**	(2,387)	**(2,316)**	(2,119)
Other operating income		**3,065**	2,774	**3,064**	2,771
Total Income		**84,447**	52,198	**82,563**	50,532
Administrative expenses	6	**(54,481)**	(41,395)	**(53,677)**	(40,644)
Depreciation, amortisation, impairment and profit on sale of tangible fixed assets		**(3,089)**	(2,634)	**(3,090)**	(2,638)
Gain/(loss) on revaluation and disposal of investment properties	16	**136**	(7)	**136**	(7)
Provisions for bad and doubtful debts	12	**(434)**	618	**(304)**	646
Provisions for liabilities and charges	23	**–**	(167)	**–**	(167)
Write off of amounts owed by and investments in subsidiaries	13	**–**	–	**–**	(73)
Profit on ordinary activities before tax		**26,579**	8,613	**25,628**	7,649
Tax on profit	8	**(5,000)**	(1,204)	**(4,818)**	(1,043)
Profit for the financial year		**21,579**	7,409	**20,810**	6,606

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2023

	Notes	Group 2023 £000	Group 2022 £000	Society 2023 £000	Society 2022 £000
Profit for the financial year		**21,579**	7,409	**20,810**	6,606
Items that may subsequently be reclassified to income and expenditure:					
Loss on available for sale debt securities	10	**(118)**	(299)	**(118)**	(299)
Movement in deferred tax relating to debt securities		**24**	79	**24**	79
Gain on equity share investment	32	**795**	893	**795**	893
Movement in deferred tax relating to equity share investment		**(199)**	(427)	**(199)**	(427)
Items that may not subsequently be reclassified to income and expenditure:					
Actuarial (loss)/gain on retirement benefit obligations	25	**(801)**	892	**(801)**	892
Movement in deferred tax relating to retirement benefit obligations		**205**	(223)	**205**	(223)
Total comprehensive income for the year		**21,485**	8,324	**20,716**	7,521

The notes on pages 115-140 form part of these accounts.

GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2023

Assets	**Notes**	**Group 2023 £000**	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Liquid assets					
Cash in hand and balances with the Bank of England	9	**450,089**	495,661	**450,089**	495,661
Loans and advances to credit institutions	26	**45,631**	45,686	**45,631**	45,686
Debt securities	10	**86,191**	55,025	**86,191**	55,025
		581,911	596,372	**581,911**	596,372
Derivative financial instruments	30	**84,366**	34,037	**83,852**	33,760
Loans and advances to customers	11				
Loans fully secured on residential property		**2,165,122**	2,039,669	**2,165,122**	2,039,669
Other loans		**232,874**	188,879	**206,372**	166,740
		2,397,996	2,228,548	**2,371,494**	2,206,409
Investments in subsidiary undertakings	13	**–**	–	**23,604**	19,570
Investment in equity shares	32	**7,512**	6,717	**7,512**	6,717
Intangible assets	14	**2,853**	2,462	**2,853**	2,462
Tangible fixed assets	15	**10,092**	10,771	**10,051**	10,706
Investment properties	16	**1,212**	1,802	**1,212**	1,802
Other assets	17	**1,283**	2,117	**1,270**	2,114
Prepayments and accrued income	18	**2,861**	2,459	**2,453**	2,131
Total Assets		**3,090,086**	2,885,285	**3,086,212**	2,882,043
Liabilities					
Shares	20	**2,460,248**	2,290,603	**2,460,248**	2,290,603
Derivative financial instruments	30	**136**	110	**123**	105
Amounts owed to credit institutions	26	**242,724**	231,702	**242,724**	231,702
Amounts owed to other customers	26	**150,570**	151,381	**150,834**	151,623
Other liabilities	21	**973**	723	**2,513**	2,192
Accruals and deferred income	22	**7,419**	4,570	**7,335**	4,434
Provisions for liabilities and charges	23	**–**	483	**–**	483
Pension liability	25	**1,427**	609	**1,427**	609
Total liabilities		**2,863,497**	2,680,181	**2,865,204**	2,681,751
Total equity attributable to members		**226,589**	205,104	**221,008**	200,292
Total Equity and Liabilities		**3,090,086**	2,885,285	**3,086,212**	2,882,043

The notes on pages 115-140 form part of these accounts.

These accounts were approved by the Board of Directors on 6 June 2023 and signed on its behalf by:
John Hooper, Chair
Mark Stanger, Chair of the Audit Committee
Des Moore, Chief Executive Officer

STATEMENTS OF CHANGES IN MEMBERS' INTEREST

Group	**General Reserve £000**	**Available for Sale Reserve £000**	**Total Equity Attributable to Members £000**
Balance at 1 April 2021	194,015	2,765	196,780
Profit for the year	7,409	–	7,409
Other comprehensive income	669	246	915
Total comprehensive income for the year	8,078	246	8,324
Balance at 31 March 2022	202,093	3,011	205,104
Profit for the year	**21,579**	**–**	**21,579**
Other comprehensive income	**(596)**	**502**	**(94)**
Total comprehensive income for the year	**20,983**	**502**	**21,485**
Balance at 31 March 2023	**223,076**	**3,513**	**226,589**

Society	**General Reserve £000**	**Available for Sale Reserve £000**	**Total Equity Attributable to Members £000**
Balance at 1 April 2021	190,006	2,765	192,771
Profit for the year	6,606	–	6,606
Other comprehensive income	669	246	915
Total comprehensive income for the year	7,275	246	7,521
Balance at 31 March 2022	197,281	3,011	200,292
Profit for the year	**20,810**	**–**	**20,810**
Other comprehensive income	**(596)**	**502**	**(94)**
Total comprehensive income for the year	**20,214**	**502**	**20,716**
Balance at 31 March 2023	**217,495**	**3,513**	**221,008**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2023

	2023 £000	2022 £000
Cash flows from operating activities		
Profit before tax	**26,579**	8,613
Adjustments for:		
Depreciation, amortisation, impairment and profit on sale of tangible fixed assets	**3,089**	2,634
(Gain)/loss on revaluation and disposal of investment properties	**(136)**	7
Changes in fair values of derivatives and hedged items	**(22,111)**	(3,808)
Provisions for bad and doubtful debts	**434**	(618)
Provisions for liabilities and charges	**–**	(367)
Pension finance charge and service cost	**17**	201
Other non-cash movements	**45**	(96)
Cash generated from operations	**7,917**	6,566
Movements in operating assets and liabilities		
Loans and advances to customers	**(198,007)**	(69,008)
Shares	**169,645**	96,276
Loans and advances to credit institutions and other liquid assets	**4,481**	(2,433)
Amounts owed to credit institutions and other customers	**10,211**	105,926
Prepayments and accrued income	**(736)**	(356)
Other assets	**(1)**	38
Accruals and deferred income	**2,849**	88
Provisions for liabilities and charges	**(483)**	–
Other liabilities	**636**	188
Payment into defined benefit pension scheme	**–**	(17,346)
Taxation paid	**(4,552)**	(912)
Net cash flows from operating activities	**(8,040)**	119,027
Cash flows from investing activities		
Purchase of debt securities	**(33,040)**	(48,260)
Maturity of debt securities	**2,009**	–
Acquisition of intangible fixed assets	**(1,905)**	(2,150)
Purchase of tangible fixed assets	**(1,002)**	(1,019)
Sale of tangible fixed assets	**106**	95
Sale of investment property	**726**	48
Net cash flows from investing activities	**(33,106)**	(51,286)
Net (decrease)/increase in cash and cash equivalents	**(41,146)**	67,741
Cash and cash equivalents at beginning of year	**509,672**	441,931
Cash and cash equivalents at end of year	**468,526**	509,672
Represented by:		
Cash and balances with the Bank of England	**450,089**	495,661
Loans and advances to credit institutions repayable on demand	**18,437**	14,011
	468,526	509,672

NOTES TO THE ACCOUNTS

1. Accounting policies

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

Basis of Preparation

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

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Society and its subsidiary undertakings for the year ended 31 March 2023. All intra-group transactions are eliminated on consolidation.

Going Concern

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

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements continue to be prepared on the going concern basis. Further details of the directors' assessment and its basis can be found on pages 49-52.

Corporation Tax

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

Deferred Taxation

Provision for deferred tax is made in respect of all timing differences that have originated but not reversed by the balance sheet date. Timing differences represent differences between gains and losses recognised for tax purposes in periods different from those in which they are recognised in financial statements. No deferred tax is recognised on permanent differences between the Group's taxable gains and losses and its results as stated in the financial statements.

Deferred tax assets and liabilities are stated without discounting and are calculated at the tax rates that are substantively enacted at the time the timing differences are expected to reverse.

Intangible Assets

An intangible asset is recognised if control can be identified and it is probable that future economic benefits attributable to the asset will flow from it and can be measured reliably. These include configuration and customisation of developed and purchased software licences, construction of code and build and installation of qualifying intangible assets. The Society also recognised as intangible assets directly attributable internal development costs which are considered to meet the intangible assets criteria. Examples of such development costs which occurred in 2023 include software licence costs, configuration and installation of software, external contractor based development costs and professional services. Costs associated with maintaining computer software programmes, research costs and development costs that do not meet the criteria for recognition as intangible assets are recognised as an expense as incurred.

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

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

Fixed Assets and Depreciation

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

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

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

NOTES TO THE ACCOUNTS

Investments in Subsidiary Undertakings

Investments in subsidiaries are measured at cost less accumulated impairment.

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

Pension Costs

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

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

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

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

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

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

Investment Properties

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

Financial Instruments

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

i) Loans and advances

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

ii) At fair value through income and expenditure

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

Derivatives can be designated as fair value hedges.

iii) Available for sale

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

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

iv) Financial liabilities

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

v) Derecognition of financial assets and liabilities

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

vi) Fair value hedges

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

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

Provisions for Bad and Doubtful Debts

The Group applies the measurement criteria of IAS 39. Provisions are made to reduce the value of loans and advances to the directors' best estimate of the amount that is likely ultimately to be received.

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

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

Loans and advances in the balance sheet are shown net of provisions. The charge or credit to the income statement comprises the movement in the provisions together with losses written off in the year. Further information on the Group's approach is included in notes 12 and 29.

Interest Income and Expense

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

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

Fees and Commission Income

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

2. Critical accounting estimates and judgements

The Group has to make estimates and judgements in applying its accounting policies which affect the amounts recognised in the financial statements. These estimates and judgements are based on the best available information at the balance sheet date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from these estimates. There are no critical accounting judgements.

The Group considers the most significant use of accounting estimates relate to the following areas:

Provisions for Bad and Doubtful Debts

The Group reviews its loan portfolios to assess impairment on a monthly basis, to determine whether an impairment loss should be recorded in the income statement. In undertaking this review, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before such decrease in an individual loan can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status or borrower's position, including forbearance measures such as a transfer to interest only products and term extensions. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Management also assesses the expected loss on loans and advances as a result of the movement in house price indices and the discount on the sale of possession properties. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience. At 31 March 2023 the level of judgement and estimation of uncertainty was heightened by the potential for a UK recession coupled with high inflation and rising interest rates, all of which are likely to increase loss. However, directly observable indications of distress in the Group's lending portfolio (such as raised arrears and forbearance requests) were benign.

Furthermore, the Group's focus on tourism related sectors in the FSOL portfolio, where lending to the hospitality and leisure industry makes up over 90% of the book, requires management to make significant judgements around the future performance of this industry as it is impacted by the UK's cost of living crisis. These judgements are inherently complex.

The Group incorporated its best estimate of the sustained high rates of inflation in its modelling by way of adjustment to its expected loss and probability of default (PD) and probability of possession given default assumptions.

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

Impact of increase/decrease in LGD	+15% £000	-15% £000
FSOL	367	(367)
FSRP	1,124	(498)
Total charge/(credit)	1,491	(865)

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

Impact of increase/decrease in PD	+15% £000	-15% £000
FSOL	110	(110)
FSRP	86	(86)
Total charge/(credit)	196	(196)

The greater impact of LGD than PD arises due to the secured nature of the Group's primary lending portfolios and the generally low LTV of the loans.

Other areas of estimation uncertainty:

Pensions

The Group operates a defined benefit pension scheme. Significant judgements (on areas such as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme. These judgements, which are based upon the Board receiving external advice from the Scheme Actuary, are outlined in note 25 to the Accounts.

3. Interest Receivable and Similar Income

	Group 2023 £000	Group 2022 £000	Society 2023 £000	Society 2022 £000
On loans fully secured on residential property	**65,601**	53,646	**65,601**	53,646
On other loans	**12,094**	8,386	**10,310**	6,716
On debt securities				
Interest and other income	**1,445**	104	**1,445**	104
On other liquid assets				
Interest and other income	**10,675**	1,043	**10,675**	1,043
Net income/(expense) on derivative financial instruments	**20,044**	(5,058)	**19,831**	(4,982)
Total interest receivable	**109,859**	58,121	**107,862**	56,527

All income is derived from operations within the UK.

4. Interest Payable and Similar Charges

	Group 2023 £000	Group 2022 £000	Society 2023 £000	Society 2022 £000
On shares held by individuals	**31,759**	9,758	**31,759**	9,758
On deposits and other borrowings	**8,692**	858	**8,692**	858
Net income on derivative financial instruments	**(18)**	(161)	**(18)**	(161)
Total interest payable	**40,433**	10,455	**40,433**	10,455

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

	Group 2023 £000	Group 2022 £000	Society 2023 £000	Society 2022 £000
Change in fair value derivatives in designated fair value hedge accounting relationships	**26,241**	36,058	**26,241**	36,058
Adjustment to hedged items in designated fair value hedge accounting relationships	**(28,192)**	(36,198)	**(28,192)**	(36,198)
Change in fair value derivatives not in designated fair value hedge accounting relationships	**16,960**	3,948	**16,782**	3,611
Crystalised fair value loss on cancelled interest rate swaps	**(955)**	–	**(955)**	–
	14,054	3,808	**13,876**	3,471

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

During the year ended 31 March 2023 derivatives matching mortgages reserved by customers but not yet advanced, which do not qualify for hedge accounting, saw significant increases in fair value. By the year end these derivatives had largely entered into accounting hedge relationships. The gains in the pipeline period rather than ineffectiveness in hedging accounts for the significant gain recorded. In future years, the fair value movement in the pipeline period will create some ineffectiveness as this unwinds over the life of the underlying.

Prior year comparatives have been updated to conform with current year presentation.

6. Administrative Expenses

	Group 2023 £000	Group 2022 £000	Society 2023 £000	Society 2022 £000
Staff costs (note 7)	**30,120**	25,251	**29,483**	24,686
The analysis of the auditor's remuneration is as follows:				
Fees payable to the Group's auditor for the audit of the annual accounts	**360**	300	**337**	282
Other Services:				
Other assurance services	**–**	34	**–**	34
Other expenses	**24,001**	15,810	**23,857**	15,642
	54,481	41,395	**53,677**	40,644

Group and Society administrative expenses include £15,880,000 of project based expenditure (2022 - £9,106,000). £10,754,000 (2022 - £3,653,000) is directly related to our strategic transformation, of which £8,894,000 was spent on the New Cumberland programme. These amounts are after the impact of capitalisation of certain expenses as intangible assets (note 14) and tangible fixed assets (note 15).

7. Staff Numbers and Costs

The average number of persons employed during the year (including executive directors) was as follows:

	Full time		Part time	
	2023	2022	**2023**	2022
Society's principal office	**330**	307	**84**	84
Society's branches	**93**	78	**109**	98
Subsidiaries	**14**	12	**4**	5
	437	397	**197**	187

The aggregate costs of these persons were as follows:	**Group 2023 £000**	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Wages and salaries	**26,108**	22,157	**25,568**	21,675
Social security costs	**2,399**	1,755	**2,344**	1,711
Other pension costs (note 25)	**1,613**	1,339	**1,571**	1,300
	30,120	25,251	**29,483**	24,686

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

8. Taxation

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
a) Analysis of charge in year:				
Current corporation tax at 19%	**4,184**	500	**4,004**	340
Adjustments in respect of prior year	**(49)**	(32)	**(49)**	(32)
Deferred tax at 25% (2022 - at 19% and 25%)	**865**	736	**863**	735
Tax on profit on ordinary activities	**5,000**	1,204	**4,818**	1,043
Total deferred tax relating to items of other comprehensive income	**(30)**	571	**(30)**	571

(b) Factors affecting tax charge in year:

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

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Profit on ordinary activities before tax	**26,579**	8,613	**25,628**	7,649
Tax on profit on ordinary activities at UK standard rate of 19%	**5,050**	1,636	**4,869**	1,453
Effects of:				
Capital allowances in excess of depreciation	**(12)**	(7)	**(12)**	(7)
Tax deductible pension contributions	**(816)**	(1,265)	**(816)**	(1,265)
Other differences	**(61)**	39	**(60)**	62
Expenses not deductible for tax purposes	**23**	97	**23**	97
Over provision in prior year	**(49)**	(32)	**(49)**	(32)
Total current tax	**4,135**	468	**3,955**	308
Origination and reversal of timing differences (deferred tax)	**865**	679	**863**	678
Adjustments for changes in tax rates (deferred tax)	**–**	57	**–**	57
Total tax charge for year	**5,000**	1,204	**4,818**	1,043

Adjustments in respect of prior year primarily relate to differences between the tax charge in the prior year's financial statements and the finalised tax charge upon completion of the prior year tax return.

The Finance Act 2021, which was enacted in May 2021, will increase the rate of tax from 19% to 25% with effect from 1 April 2023. Deferred tax assets and liabilities are measured at whichever of the enacted tax rates are expected to apply when the related asset is realised or liability is settled.

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

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Cash in hand	**5,292**	5,451	**5,292**	5,451
Balances with the Bank of England	**444,797**	490,210	**444,797**	490,210
Included in cash and cash equivalents	**450,089**	495,661	**450,089**	495,661

Balances with the Bank of England do not include cash ratio deposits of £7.16 million (2022 - £7.13 million) which are not available for use in the Group's day to day operations. Such deposits are included within Loans and Advances to Credit Institutions in the Balance Sheet.

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

	Group	
	2023 £000	2022 £000
Cash in hand and balances with the Bank of England (as above)	**450,089**	495,661
Loans and advances to credit institutions	**18,437**	14,011
	468,526	509,672

10. Debt Securities

	Group and Society	
	2023 £000	2022 £000
Debt securities		
Covered bonds	**60,799**	29,789
Certificates of deposit	**10,195**	10,018
Supranational floating rate notes	**15,197**	15,218
	86,191	55,025

Debt securities are held as available for sale assets and carried at their fair value with movements reported through other comprehensive income.

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

At 1 April	**55,025**	7,082
Additions	**33,040**	48,260
Maturities and amortisation of premium and discount	**(2,090)**	(56)
Losses from changes in fair value	**(118)**	(299)
Movements in accrued interest	**334**	38
At 31 March	**86,191**	55,025

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

11. Loans and Advances to Customers

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Loans and advances to customers comprise:				
Loans fully secured on residential property before EIR adjustment	**2,224,578**	2,072,202	**2,224,578**	2,072,202
Effective interest rate adjustment	**(1,278)**	(1,749)	**(1,278)**	(1,749)
Loans fully secured on residential property	**2,223,300**	2,070,453	**2,223,300**	2,070,453
Other loans				
Loans fully secured on land	**208,685**	168,048	**208,685**	168,048
Other loans	**27,495**	22,972	**774**	678
Fair value adjustment for hedge risk	**(58,371)**	(30,179)	**(58,371)**	(30,179)
	2,401,109	2,231,294	**2,374,388**	2,209,000
Less: Provisions for bad and doubtful debts (note 12)	**(3,113)**	(2,746)	**(2,894)**	(2,591)
	2,397,996	2,228,548	**2,371,494**	2,206,409

Other loans include £0.774 million (2022 - £0.678 million) of overdraft lending to the Society's current account customers. Other loans of the Group also include £26,721 million (2022 - £22.294 million) of loans and advances to customers of Borderway Finance Limited.

As at 31 March 2023 £531.7 million (2022 - £629.2 million) of loans fully secured on residential property had been pledged as collateral to the Bank of England.

The effective interest rate adjustment of £1.278 million (2022 - £1.749 million) represents fees earned and incurred as a result of bringing mortgages onto the balance sheet. These fees and charges are amortised over the effective lives of the related loans.

12. Provisions for Bad and Doubtful Debts

Society 2023

	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Total £000
At 1 April 2022				
Collective impairment	525	498	52	1,075
Individual impairment	80	1,419	17	1,516
	605	1,917	69	2,591
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	541	236	51	828
Individual impairment	75	(596)	(3)	(524)
	616	(360)	48	304
Amount written off during the year				
Individual impairment	–	–	(1)	(1)
	–	–	(1)	(1)
At 31 March 2023				
Collective impairment	1,066	734	103	1,903
Individual impairment	155	823	13	991
	1,221	1,557	116	2,894

Group provisions for bad and doubtful debts
The table above relates to the Society.
Borderway Finance Limited had individual impairment provisions of £12,000 at 31 March 2023 and £207,000 of collective provisions, and a charge in the year of £130,000.

During the year the Society has continued to work with its customers to ensure that they are supported. This is reflected in successful resolution of commercial arrears without loss and the low level of loans in distress. The payment status of the Group's loans at 31 March 2023 and the current level of active forbearance by type are disclosed in note 29. At 31 March 2023 the Group's customers are facing rising inflation and costs of living, this has been considered within the Group's modelled provision calculations which incorporate an element of judgement and this has driven the increase in all collective models, rather than an underlying increase in default and arrears.

Society 2022

	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Total £000
At 1 April 2021				
Collective impairment	868	713	60	1,641
Individual impairment	–	1,734	9	1,743
	868	2,447	69	3,384
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	(343)	(215)	(8)	(566)
Individual impairment	80	(169)	9	(80)
	(263)	(384)	1	(646)
Amount written off during the year				
Individual impairment	–	(146)	(1)	(147)
At 31 March 2022				
Collective impairment	525	498	52	1,075
Individual impairment	80	1,419	17	1,516
	605	1,917	69	2,591

Group provisions for bad and doubtful debts
The table above relates to the Society.

Borderway Finance Limited had individual impairment provisions of £47,000 at 31 March 2022 and £108,000 of collective provisions, and a charge in the year of £28,000.

During the year to 31 March 2022 the Society continued to work with its customers to ensure that they were supported as the pandemic and attendant lockdowns disrupted trade and employment. As at 31 March 2022 the vast majority had exited forbearance and had either paid or were paying arrears, this was reflected in the release of collective provisions across the Society's portfolios. The payment status of the Group's loans at 31 March 2022 and the level of active forbearance by type are disclosed in note 29. At 31 March 2022 the Group's customers were facing rising inflation and cost of living, this was considered within the Group's modelled provision calculations which incorporated an element of judgement.

13. Investments in Subsidiary Undertakings

	Shares £000	Loans £000	Society Total £000
Cost less impairment at 1 April 2022	**870**	**18,700**	**19,570**
Advances	**–**	**4,034**	**4,034**
Cost less impairment at 31 March 2023	**870**	**22,734**	**23,604**
Cost less impairment at 1 April 2021	870	18,191	19,061
Advances	–	1,009	1,009
Repayments	–	(500)	(500)
Cost less impairment at 31 March 2022	870	18,700	19,570

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

Subsidiary undertakings

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

	Company Number	Principal Activity
Direct		
Cumberland Holdings Limited	02332404	Holding Company
Indirect		
Borderway Finance Limited	03048466	Motor Vehicle Finance

As part of the ongoing simplification of the Group's business model as part of Cumberland 2025, four non-trading subsidiary companies of Cumberland Holdings Limited were dissolved in the prior year. Cumberland Estate Agents Limited, Cumberland Homes Limited and Cumberland Financial Planning Limited were all dissolved on 15 February 2022. Cumberland Financial Services Limited was dissolved on 22 February 2022. A further subsidiary company, Cumberland Property Services Limited, was dissolved on 18 October 2022. Intercompany balances within other debtors of £61,000 and £12,000 owed by Cumberland Estate Agents Limited and Cumberland Homes Limited to the Society were written off in the prior year as part of this process.

14. Intangible Assets (Group and Society)

	Externally Acquired £000	Internally Developed £000	Total £000
Cost			
At 1 April 2022	**1,667**	**1,064**	**2,731**
Additions	**6**	**1,899**	**1,905**
At 31 March 2023	**1,673**	**2,963**	**4,636**
Amortisation			
At 1 April 2022	**191**	**78**	**269**
Charge for year	**544**	**970**	**1,514**
At 31 March 2023	**735**	**1,048**	**1,783**
Net book value			
At 31 March 2023	**938**	**1,915**	**2,853**
At 31 March 2022	1,476	986	2,462

The Group has capitalised internally generated intangible assets as it has moved into the delivery phase of its technology change, as part of Cumberland 2025. The Group capitalised assets to the value of £1,905,000 (2022 - £2,150,000) that met the definition of an intangible asset under FRS 102. This included software licences, IT development costs and certain staff costs. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once the asset is brought into use, the useful life of such assets is usually determined to be between three and five years - five years for new core systems and usually three years for system enhancements of existing platforms, reflecting their expected replacement or upgrade prior to the end of the New Cumberland programme.

NOTES TO THE ACCOUNTS

15. Tangible Fixed Assets (Group)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2022	**16,700**	**15,013**	**31,713**
Additions	**171**	**831**	**1,002**
Disposals	**(8)**	**(167)**	**(175)**
At 31 March 2023	**16,863**	**15,677**	**32,540**
Depreciation			
At 1 April 2022	**8,655**	**12,287**	**20,942**
Charge for year	**419**	**1,233**	**1,652**
Disposals	**–**	**(146)**	**(146)**
At 31 March 2023	**9,074**	**13,374**	**22,448**
Net book value			
At 31 March 2023	**7,789**	**2,303**	**10,092**
At 31 March 2022	8,045	2,726	10,771

Tangible Fixed Assets (Society)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2022	**16,339**	**15,217**	**31,556**
Additions	**171**	**826**	**997**
Disposals	**–**	**(155)**	**(155)**
At 31 March 2023	**16,510**	**15,888**	**32,398**
Depreciation			
At 1 April 2022	**8,294**	**12,556**	**20,850**
Charge for year	**419**	**1,219**	**1,638**
Disposals	**–**	**(141)**	**(141)**
At 31 March 2023	**8,713**	**13,634**	**22,347**
Net book value			
At 31 March 2023	**7,797**	**2,254**	**10,051**
At 31 March 2022	8,045	2,661	10,706

16. Investment Properties

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
At 1 April	**1,802**	1,952	**1,802**	1,952
Transfer from tangible fixed assets	**–**	150	**–**	150
Transfer to tangible fixed assets	**–**	(245)	**–**	(245)
Disposals	**(610)**	(40)	**(610)**	(40)
Revaluation	**20**	(15)	**20**	(15)
At 31 March	**1,212**	1,802	**1,212**	1,802

Valuations of all investment properties were carried out on an open market value basis by an independent valuer, I Henderson BSc MRICS of Carigiet Cowen, as at 31 March 2023. During the year ended 31 March 2023 five properties were sold (2022 – one) and a gain of £116,000 (2022 – £8,000) was recognised.

The gain on sale of £116,000 (2022 – £8,000) and revaluation gain of £20,000 (2022 – £15,000 revaluation loss) result in a total income statement gain of £136,000.

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

	Group 2023	Group 2022	**Society 2023**	Society 2022
Cost	**2,462**	2,972	**2,462**	2,972
Depreciation	**(1,356)**	(1,530)	**(1,356)**	(1,530)
	1,106	1,442	**1,106**	1,442

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

	Group and Society	
	2023 £000	2022 £000
Within one year	**80**	**124**
In the second to fifth years inclusive	**180**	**306**
After five years	**11**	**116**
	271	**546**

The Group is additionally contractually obliged to carry out annual repairs and maintenance in respect of investment properties, which in the year ended 31 March 2023 amounted to £41,000 (2022 - £33,000).

17. Other Assets

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Deferred taxation asset (note 19)	**1,279**	2,114	**1,270**	2,103
Other	**4**	3	**–**	11
	1,283	2,117	**1,270**	2,114

18. Prepayments and Accrued Income

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Prepayments	**2,861**	2,459	**2,453**	2,131
	2,861	2,459	**2,453**	2,131

19. Deferred Taxation

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
At 1 April	**2,114**	3,421	**2,103**	3,409
(Charge) to income and expenditure account (note 8)	**(865)**	(736)	**(863)**	(735)
Credit/(charge) to other comprehensive income	**30**	(571)	**30**	(571)
At 31 March	**1,279**	2,114	**1,270**	2,103
Deferred tax assets and liabilities are attributable to the following items:				
Difference between accumulated depreciation and amortisation and capital allowances	**143**	154	**134**	145
Deficit reduction contributions	**1,846**	2,658	**1,846**	2,658
Pension scheme	**357**	152	**357**	152
Investment in equity shares	**(1,271)**	(1,072)	**(1,271)**	(1,072)
Debt securities	**99**	75	**99**	75
Differences arising from transition to FRS 102	**105**	147	**105**	145
	1,279	2,114	**1,270**	2,103

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

20. Shares

	Group and Society 2023 £000	Group and Society 2022 £000
Held by individuals	**2,460,241**	2,290,596
Other	**7**	7
Fair value adjustment for hedged risk	**–**	–
	2,460,248	2,290,603

At 31 March 2023 all historically hedged deposits had matured. In March 2023 the Society recommenced hedging of fixed rate liabilities but had not placed the derivatives into accounting hedge relationships at the year end date.

21. Other Liabilities

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Other liabilities falling due within one year:				
Corporation tax	**(965)**	(579)	**(941)**	(626)
Other creditors	**1,938**	1,302	**3,454**	2,818
	973	723	**2,513**	2,192

22. Accruals and Deferred Income

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Administrative and operating costs	**7,419**	4,369	**7,335**	4,233
Interest relating to derivative financial instruments	**–**	201	**–**	201
	7,419	4,570	**7,335**	4,434

23. Provisions for Liabilities and Charges

	Group and Society 2023 £000	Group and Society 2022 £000
At 1 April	**483**	850
Charge to income and expenditure account	**–**	167
Utilised	**(483)**	(534)
At 31 March	**–**	483

Historic KYC deficiencies
During the year ended 31 March 2020 a provision was established for the estimated cost of remediating historic KYC deficiencies in the Society's business current account portfolio. At 31 March 2022 £483,000 was provided for this matter and the provision had been fully utilised by 31 March 2023. At 31 March 2023 this matter was substantially resolved and all further costs will form part of ongoing operating expenditure.

24. Financial Commitments

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

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

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Contracted but not provided for	**26**	40	**26**	40
(c) Memorandum items				
Irrevocable mortgage commitments	**3,209**	4,329	**3,209**	4,329
Undrawn customer overdraft facilities	**7,853**	8,135	**7,853**	8,135
Forward purchase of covered bond	**–**	7,000	**–**	7,000
Defined benefit pension deficit reduction contribution	**1,000**	–	**1,000**	–

25. Pensions

The Group operates a defined benefit pension scheme and one (2022 - three) defined contribution scheme.

Defined contribution scheme
The Group operates one defined contribution scheme funded by contributions from the Group and its staff. The scheme is open to all new employees. The total expense charged to the income statement as part of staff costs in the year ended 31 March 2023 was £1,475,000 (2022 - £1,230,000).

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

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

The valuation used for FRS 102 disclosures has been prepared by a qualified independent actuary to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 31 March 2023 using the projected unit method with a suitable control period which reflects the expected ageing of the scheme. Scheme assets are stated at their market value at 31 March 2023.

The most recent full actuarial valuation was as at 26 August 2021 and showed a deficit of £11,224,000. In respect of the deficit in the plan, the Society agreed to pay £11,224,000 in November 2021 to settle the deficit in full. In November 2021 the Society made a payment of £15,000,000 and no further recovery plan payments are due. The extra contribution of £3,776,000 made in November 2021 along with annual payments of £1,000,000 from 2022 to 2027 will support the scheme in progressing towards its Long Term Funding objective of self sufficiency. The first of these payments was due in the period of market turmoil which specifically impacted pension schemes using LDI, including the Group scheme, and was withheld. Accordingly at 31 March 2023 the Society has recognised a commitment of £1,000,000 to the scheme (note 24). At the date of this report the specific impact of the LDI volatility which resulted in breaking of an element of the scheme's hedging remains unknown and under investigation by the trustee on the scheme's behalf. It has resulted in a lower level of hedging at 31 March 2023 as leverage has been reduced.

Key assumptions used:		**Valuation at**
	2023 **%**	2022 %
Rate of increase in pensions in payment	**1.90-3.00**	2.35-3.60
Discount rate	**4.70**	2.65
Inflation assumption – RPI	**3.40**	3.75
– CPI	**2.90**	3.05

Mortality assumptions:
Post-retirement mortality is based on 100% of the S3PXA tables (2022 - 95% of S2PXA), with projected improvements based on CMI 2021, with a long-term trend of 1.25% p.a. and a smoothing parameter of 7 (2022 - 7). No allowance is made for pre-retirement mortality and a weight of 0% is applied to 2020 and 2021 experience to mitigate Covid-19 based distortions (100% all other years).

The number of years' life expectancy, retiring at 62, is as follows:	**2023**	2022
Retiring today:		
Males	**86.8**	87.1
Females	**89.3**	89.2
Retiring in 20 years:		
Males	**88.2**	88.6
Females	**90.8**	90.8

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:	**2023** **£000**	2022 £000
Present value of defined benefit obligations	**(50,085)**	(71,713)
Fair value of scheme assets	**48,658**	71,104
Liability recognised in the balance sheet	**(1,427)**	(609)
Movements in the present value of defined benefit obligations were as follows:		
At 1 April	**71,713**	77,045
Interest cost	**1,877**	1,527
Service cost	**–**	–
Benefits paid	**(1,810)**	(1,441)
Actuarial gain	**(21,695)**	(5,418)
At 31 March	**50,085**	71,713

Movements in the fair value of scheme assets were as follows:

At 1 April	**71,104**	58,399
Actuarial loss	**(22,496)**	(4,526)
Expected return on assets	**1,860**	1,326
Contributions from employers	**–**	17,346
Benefits paid	**(1,810)**	(1,441)
Expenses paid	**–**	–
At 31 March	**48,658**	71,104

The analysis of the scheme assets at the balance sheet date was as follows:

Growth assets	**10,854**	18,233
Diversified credit	**21,814**	35,277
Liability driven investments (LDI)	**13,859**	12,492
Cash	**700**	3,178
Other assets	**1,431**	1,924
	48,658	71,104

The scheme's assets are not intended to be realised in the short term and their market values may be subject to significant change before the assets are realised. The scheme's mix of assets is designed to include a significant proportion of hedging so that movements in assets and liabilities are substantially correlated.

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

a) Administrative expenses

Service cost	**0**	0

The operating charge of £nil (2022 - £nil), plus the Group's contributions to the defined contribution schemes of £1,475,000 (2022 - £1,230,000) and life assurance premiums of £138,000 (2022 - £109,000), comprise the Group's other pension costs total of £1,613,000 (2022 - £1,339,000) shown in note 7.

Since the closure of the trustee bank account on 9 October 2020, the Society has directly paid administrative expenses of the scheme. In 2023 these totalled £183,000 (2022 - £216,000). These costs are included within administrative expenses shown in note 6.

b) Pension finance charge

Expected return on pension scheme assets	**1,860**	1,326
Interest on pension scheme liabilities	**(1,877)**	(1,527)
Net charge	**(17)**	(201)

c) Statement of Comprehensive Income

Actual return less expected return on pension scheme assets	**(22,496)**	(4,526)
Actuarial gain on defined benefit obligation	**21,695**	5,418
Actuarial (loss)/gain	**(801)**	892
Movement in deferred taxation relating to pension scheme	**205**	(223)
Actuarial (loss)/gain recognised in the Statement of Comprehensive Income	**(596)**	669

d) Movement in the deficit in the scheme during the year	**2023 £000**	2022 £000
Deficit in scheme at beginning of year	**(609)**	(18,646)
Movement in year:		
Service cost	**–**	–
Contributions net of expenses paid	**–**	17,346
Pension finance charge	**(17)**	(201)
Actuarial (loss)/gain	**(801)**	892
Deficit in scheme at end of year	**(1,427)**	(609)

History of experience gains and losses	**2023**	2022	2021	2020	2019
Actual return less expected return on pension scheme assets (£000)	**(22,496)**	(4,526)	1,393	(214)	289
Percentage of opening scheme assets	**31.6**	7.8	2.5	0.4	0.5
Actuarial gain/(loss) on defined benefit obligation (£000)	**21,695**	5,418	(8,161)	2,230	(1,396)
Percentage of opening scheme liabilities	**30.3**	7.0	11.8	3.1	1.9

Note: all figures in the table above are on the FRS102 basis.

26. Liquidity Risk

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

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

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

Limits on potential cash flow mismatches over defined time horizons are the principal tool used to control liquidity. The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows but with due regard given to the Group's ability to access contingent funding from the Bank of England, for which the Group maintains a pool of prepositioned but unencumbered assets.

Maturity profile of financial instruments

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

Group

At 31 March 2023:	Repayable on demand £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	Over 5 years £000	Derivative fair value and non interest bearing £000	Total £000
Assets							
Cash in hand and balances with the Bank of England	**449,636**	**–**	**–**	**–**	**–**	**453**	**450,089**
Loans and advances to credit institutions	**18,437**	**16,171**	**5,000**	**–**	**5,775**	**248**	**45,631**
Debt securities	**–**	**5,000**	**10,017**	**61,007**	**9,792**	**375**	**86,191**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**84,366**	**84,366**
Loans and advances to customers							
Loans fully secured on residential property and land	**2,182**	**20,703**	**60,531**	**397,104**	**1,952,743**	**(62,427)**	**2,370,836**
Other loans	**774**	**323**	**1,296**	**25,102**	**–**	**(335)**	**27,160**
Liabilities							
Shares	**1,686,556**	**389,197**	**233,965**	**145,310**	**–**	**5,220**	**2,460,248**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**136**	**136**
Amounts owed to credit institutions	**–**	**39,380**	**1,000**	**200,000**	**–**	**2,344**	**242,724**
Amount owed to other customers	**99,361**	**37,450**	**13,284**	**305**	**–**	**170**	**150,570**

At 31 March 2022:	Repayable on demand £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	Over 5 years £000	Derivative fair value and non interest bearing £000	Total £000
Assets							
Cash in hand and balances with the Bank of England	495,515	–	–	–	–	146	495,661
Loans and advances to credit institutions	14,011	17,632	14,000	–	–	43	45,686
Debt securities	–	10,018	2,002	33,114	9,857	34	55,025
Derivative financial instruments	–	–	–	–	–	34,037	34,037
Loans and advances to customers							
Loans fully secured on residential property and land	3,863	19,607	62,186	403,314	1,751,280	(34,450)	2,205,800
Other loans	678	108	1,131	21,055	–	(224)	22,748
Liabilities							
Shares	1,667,540	393,108	179,381	49,418	–	1,156	2,290,603
Derivative financial instruments	–	–	–	–	–	110	110
Amounts owed to credit institutions	–	11,480	–	220,000	–	222	231,702
Amount owed to other customers	96,890	39,864	14,354	244	–	29	151,381

Included within Other loans are balances of £26,721,000 (2022 - £22,294,000) relating to loans and advances to customers of Borderway Finance Limited.

Gross contractual cash flows for financial liabilities

The following tables detail the Group's remaining undiscounted contractual cash flows for its non derivative financial liabilities including interest that will be accrued to those instruments, except where the Group is entitled and intends to repay the liabilities before their maturity. The figures in the following tables will not reconcile to the financial statements because of the undiscounted nature of the cashflows.

At 31 March 2023:	Repayable on demand £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	Over 5 years £000	Total £000
Shares	**1,689,029**	**389,589**	**238,475**	**158,118**	**–**	**2,475,211**
Amounts owed to credit institutions	**–**	**43,380**	**4,500**	**200,000**	**–**	**247,880**
Amount owed to other customers	**99,495**	**37,459**	**13,348**	**314**	**–**	**150,616**
At 31 March 2022:						
Shares	1,667,573	393,205	179,965	49,841	–	2,290,584
Amounts owed to credit institutions	–	12,145	1,650	226,600	–	240,395
Amount owed to other customers	97,036	39,867	14,365	247	–	151,515

The following table details the Group's contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows / (outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows /(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the conditions existing at the reporting date. For example, interest rates have been projected as illustrated by the yield curves existing at the reporting date.

At 31 March 2023:	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	Over 5 years £000	Total £000
Swap contracts	**9,552**	**31,114**	**48,245**	**–**	**88,911**
At 31 March 2022:					
Swap contracts	(1,212)	7,574	27,784	(28)	34,118

27. Interest Rate Risk

The primary market risk faced by the Group is interest rate risk. The net interest income of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of derivatives and the matching of naturally offsetting instruments. During the year ended 31 March 2021 the Group enhanced its interest rate risk management through commencing the process of allocating its free reserves over a 63 month profile and in 2022 introduced behaviouralisation into its treatment of a proportion of current accounts.

The Group only uses derivatives for risk management purposes, principally the management of interest rate risk, and does not run a trading book.

The Group uses interest rate stress testing and gap analysis to analyse and manage its interest rate position.

The following table provides a summary of the interest rate re-pricing profile of the Group's assets and liabilities. The Society's interest rate re-pricing profile is not materially different to the Group's position.

Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date.

The table takes account of derivative financial instruments which alter the interest basis of Group assets and liabilities.

The table does not capture the use of reserves hedging and current account behaviouralisation discussed above.

						Group
At 31 March 2023:	Not more than 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but not more than 5 years £000	Derivative fair value and non interest bearing £000	Total £000
Assets						
Liquid assets	**571,911**	**10,000**	**–**	**–**	**–**	**581,911**
Derivative financial instruments	**–**	**–**	**–**	**–**	**84,366**	**84,366**
Loans and advances to customers	**574,655**	**114,010**	**252,874**	**1,456,457**	**–**	**2,397,996**
Intangible assets	**–**	**–**	**–**	**–**	**2,853**	**2,853**
Tangible fixed assets	**–**	**–**	**–**	**–**	**10,092**	**10,092**
Other assets	**–**	**–**	**–**	**–**	**12,868**	**12,868**
Total assets	**1,146,566**	**124,010**	**252,874**	**1,456,457**	**110,179**	**3,090,086**
Liabilities						
Shares	**2,145,732**	**40,509**	**132,279**	**141,728**	**–**	**2,460,248**
Derivative financial instruments	**–**	**–**	**–**	**–**	**136**	**136**
Amounts owed to credit institutions and other customers	**388,794**	**4,500**	**–**	**–**	**–**	**393,294**
Other liabilities, pension liability, accruals and deferred income	**–**	**–**	**–**	**–**	**9,819**	**9,819**
Reserves	**–**	**–**	**–**	**–**	**226,589**	**226,589**
Total liabilities	**2,534,526**	**45,009**	**132,279**	**141,728**	**236,544**	**3,090,086**
Net assets/(liabilities)	**(1,387,960)**	**79,001**	**120,595**	**1,314,729**	**(126,365)**	**–**
Derivative instruments	**1,393,300**	**(69,350)**	**(168,700)**	**(1,155,250)**	**–**	**–**
Interest rate sensitivity gap	**5,340**	**9,651**	**(48,105)**	**159,479**	**(126,365)**	**–**
Cumulative gap	**5,340**	**14,991**	**(33,114)**	**126,365**	**–**	**–**

						Group
At 31 March 2022:	Not more than 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but not more than 5 years £000	Derivative fair value and non interest bearing £000	Total £000
Assets						
Liquid assets	582,372	7,000	7,000	–	–	596,372
Derivative financial instruments	–	–	–	–	34,037	34,037
Loans and advances to customers	718,100	105,844	205,779	1,198,825	–	2,228,548
Intangible assets	–	–	–	–	2,462	2,462
Tangible fixed assets	–	–	–	–	10,771	10,771
Other assets	–	–	–	–	13,095	13,095
Total assets	1,300,472	112,844	212,779	1,198,825	60,365	2,885,285
Liabilities						
Shares	2,135,464	40,814	56,335	57,990	–	2,290,603
Derivative financial instruments	–	–	–	–	110	110
Amounts owed to credit institutions and other customers	379,083	–	4,000	–	–	383,083
Other liabilities, pension liability, accruals and deferred income	–	–	–	–	6,385	6,385
Reserves	–	–	–	–	205,104	205,104
Total liabilities	2,514,547	40,814	60,335	57,990	211,599	2,885,285
Net assets/(liabilities)	(1,214,075)	72,030	152,444	1,140,835	(151,234)	–
Derivative instruments	1,334,150	(59,650)	(158,200)	(1,116,300)	–	–
Interest rate sensitivity gap	120,075	12,380	(5,756)	24,535	(151,234)	–
Cumulative gap	120,075	132,455	126,699	151,234	–	–

The following table details the Group's and Society's embedded value (EV) sensitivity to a 250 basis point change in interest rates at the year end with all other variables held constant. A positive number indicates an increase to profit and equity reserves.

	Group and Society +250bps 2023 £000	Group and Society +250bps 2022 £000	**Group and Society -250bps 2023 £000**	Group and Society -250bps 2022 £000
Impact on equity reserves	**501**	(5,620)	**(500)**	6,265

The above interest rate risk represents the market value movement, calculated using a discounted cash flow basis, on all of the Society's financial assets an liabilities, resulting from an immediate 250 basis points parallel shift in interest rates.

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

28. Wholesale Credit Risk

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

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

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

There has been no change in the year to the manner in which the Group manages and measures wholesale credit risk. At 31 March 2023 none of the Group's treasury portfolio exposure was either past due or impaired. There are no assets that would otherwise be past due or impaired whose terms have been renegotiated. 97% (2022 - 96%) of the Group's treasury investments are rated A3 or better.

The table below provides ratings details for the Group's treasury investment portfolio as at 31 March 2023:

	Group and Society	
	2023 %	2022 %
Aaa	**13**	7
Aa1-A3	**5**	4
Sovereign exposure to the UK	**79**	85
Other	**3**	4
	100	100

All wholesale exposures are to UK financial institutions or supranational institutions. The largest exposure to a single institution other than the UK Government was £14.8 million (2022 - £10.1 million). Exposures to supranational institutions total £15.2m (2022 - £15.2m).

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

	Group 2023 £000	Group 2022 £000	**Society 2023 £000**	Society 2022 £000
Cash in hand and balances with the Bank of England	**450,089**	495,661	**450,089**	495,661
Loans and advances to credit institutions	**45,631**	45,686	**45,631**	45,686
Debt securities	**86,191**	55,025	**86,191**	55,025
Total wholesale credit risk	**581,911**	596,372	**581,911**	596,372

Credit risk also arises from the Group's derivatives. The Group's agreements to enter derivatives transactions with counterparties are all documented through the International Swaps and Derivatives Association (ISDA) Master Agreement. All derivatives entered into during 2023 are centrally cleared (2022: all derivatives). In addition, the Group's agreements in respect of repurchase contracts are documented through the Global Master Repurchase Agreement (GMRA). Credit Support Annexes are in place with all of the Group's ISDA and GMRA counterparties. These provide the legal basis for measuring the extent of any credit risk exposures and govern how cash is moved as collateral between the Group and the counterparty to offset these exposures, which arise as a result of movements in interest rates. At 31 March 2023 the Group had no open repurchase transactions (2022 - nil).

29. Credit Risk on Loans and Advances to Customers

Experienced credit risk functions operate within the Group and comprehensive management information on movements and performance within the various loan portfolios ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance. The only difference between the Group and Society's exposure is the vehicle finance loans of Borderway Finance Limited of £26,721k (2022: £22,294k) held within other loans.

The Group's exposure to retail credit risk can be broken down as follows:

	Group	
	2023 **£000**	2022 £000
Loans fully secured on residential property	**2,224,578**	2,072,202
Loans fully secured on land	**208,685**	168,048
Other loans	**27,495**	22,972
Total gross exposure (contractual amounts)	**2,460,758**	2,263,222
Impairment and hedging adjustments	**(61,484)**	(32,925)
EIR adjustment	**(1,278)**	(1,749)
Total net exposure	**2,397,996**	2,228,548

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

	Group and Society	
Geographical distribution	**2023** **%**	2022 %
North West	**48**	51
Scotland	**10**	11
London	**8**	7
South East	**11**	9
South West	**11**	10
Yorkshire & Humberside	**3**	3
East of England	**2**	2
North East	**2**	2
West Midlands	**2**	2
East Midlands	**1**	1
Wales	**2**	2
	100	100

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

<70%	**78**	85
70%-80%	**16**	11
80%-90%	**4**	3
>90%	**2**	1
	100	100

The overall indexed loan-to-value of the residential portfolio is 42% (2022 - 40%).

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

	Group and Society		Group and Society	
Payment due status	**2023** **£000**	**2023** **%**	2022 £000	2022 %
Not impaired:				
Neither past due nor impaired	**2,209,173**	**99**	2,055,903	99
Past due up to 3 months but not impaired	**14,677**	**1**	14,102	1
Impaired:				
Past due 3 to 6 months	**422**	**–**	783	–
Past due 6 to 12 months	**272**	**–**	1,052	–
Past due more than 12 months	**34**	**–**	362	–
Possessions	**–**	**–**	–	–
	2,224,578	**100**	2,072,202	100

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

NOTES TO THE ACCOUNTS

Forbearance strategies

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. Such forbearance strategies include the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, and aim to avoid repossession. During the year ended 31 March 2023 customers continued to repair their credit positions having recovered from the impact of the Covid-19 pandemic. Forbearance at 31 March 2023 includes some borrowers impacted by the rising cost of living and rising interest rates, whom the Group are proactively working with.

At 31 March 2023:	Payment concessions including interest only £000	Arrears capitalised £000	Transfer to interest only £000	Total forbearance £000
Neither past due nor impaired	**550**	**1,056**	**–**	**1,606**
Past due up to 3 months	**–**	**212**	**84**	**296**
Past due more than 3 months	**–**	**–**	**–**	**–**
Total loans and advances	**550**	**1,268**	**84**	**1,902**
At 31 March 2022:				
Neither past due nor impaired	1,704	2,452	–	4,156
Past due up to 3 months	1,033	121	–	1,154
Past due more than 3 months	203	–	–	203
Total loans and advances	2,940	2,573	–	5,513

Loans fully secured on land

Credit risk associated with lending fully secured on land is affected by similar factors as for residential mortgages, although on average loans are larger and reflecting the Group's focus on tourism related sectors, the impact of both Covid-19 and more recently the economic downturn on customer cash flows is likely to be greater.

Loans fully secured on land are split by industry type as follows:

	Group and Society	
Industry type	**2023 %**	2022 %
Leisure and hotel	**94**	86
Commercial investment and industrial units	**3**	8
Retail	**1**	2
Others, including mixed use	**2**	4
	100	100
Unindexed loan to value distribution*		
<70%	**93**	94
70%-80%	**3**	3
80%-90%	**1**	2
>90%	**3**	1
*Values represent collateral only (MV3) rather than the value of the trading business (MV1).	**100**	100

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

	Group and Society		Group and Society	
Payment due status	**2023 £000**	**2023 %**	2022 £000	2022 %
Not impaired:				
Neither past due nor impaired	**198,475**	**95**	154,973	92
Past due up to 3 months but not impaired	**7,676**	**4**	8,412	5
Impaired:				
Past due 3 to 6 months	**1,967**	**1**	2,098	1
Past due 6 to 12 months	**214**	**–**	1,277	1
Past due more than 12 months	**353**	**–**	1,288	1
	208,685	**100**	168,048	100

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses. The Group utilises a variety of strategies to support its commercial borrowers, particularly those in hospitality and tourism which have seasonal trading patterns. In doing this it ensures that customers are treated fairly while deploying strategies to minimise credit risk.

While the Group's hospitality and tourism loans made more use of forbearance during the Covid-19 pandemic and for longer, only arrangements (where a customer pays more than the contractual amount due to clear the forbearances impact) remained in place (related to the pandemic) at 31 March 2023. The majority of forbearance at 31 March 2023 reflects the seasonal cash flow of borrowers but also includes support required as a result of the challenging trading conditions created by the UK's high inflation and cost of living crisis.

At 31 March 2023:	Payment concessions including interest only £000	Arrears capitalised £000	Transfer to interest only £000	Total forbearance £000
Neither past due nor impaired	**2,788**	**–**	**–**	**2,788**
Past due up to 3 months	**214**	**–**	**–**	**214**
Past due more than 3 months	**–**	**–**	**–**	**–**
Total loans and advances	**3,002**	**–**	**–**	**3,002**
At 31 March 2022:				
Neither past due nor impaired	–	388	–	388
Past due up to 3 months	733	–	–	733
Past due more than 3 months	1,340	–	–	1,340
Total loans and advances	2,073	388	–	2,461

30. Derivative Financial Instruments

Derivative financial instruments are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates, exchange rates, or stock market indices. These types of instruments tend to have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return as cash flows and are generally settled at a future date.

Derivatives are only used by the Group in accordance with section 9A of the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes.

Types of derivatives

The main derivatives used by the Group are interest rate swaps. The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed using on balance sheet instruments or natural hedges that exist within the Group balance sheet. The Group had not used derivatives to manage the risk of fixed rate savings in recent years reflecting the low interest rate environment and historic derivatives had all matured. In the final quarter of the year to 31 March 2023 the Group recommenced economic hedging of some of its growing book of fixed term deposits.

Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

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

The following table shows the notional principal amounts of the different types of derivatives held, and their positive and negative market values. In 2023 the Group's fair value of derivatives includes £7,102k (Society – £7,051k) of accrued interest. In 2022, the accrued interest in relation to derivatives is shown in note 22.

	Group 2023			Group 2022		
At 31 March:	**Notional principal amount £000**	**Positive market value £000**	**Negative market value £000**	Notional principal amount £000	Positive market value £000	Negative market value £000
Interest rate swaps designated as fair value hedges	**1,412,400**	**82,748**	**(123)**	1,128,900	31,598	(9)
Interest rate swaps not designated as hedges	**114,300**	**1,618**	**(13)**	219,350	2,439	(101)
Total derivatives held for hedging	**1,526,700**	**84,366**	**(136)**	1,348,250	34,037	(110)

	Society 2023			Society 2022		
At 31 March:	**Notional principal amount £000**	**Positive market value £000**	**Negative market value £000**	Notional principal amount £000	Positive market value £000	Negative market value £000
Interest rate swaps designated as fair value hedges	**1,412,400**	**82,748**	**(123)**	1,128,900	31,598	(9)
Interest rate swaps not designated as hedges	**88,100**	**1,104**	**–**	205,950	2,162	(96)
Total derivatives held for hedging	**1,500,500**	**83,852**	**(123)**	1,334,850	33,760	(105)

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

At 31 March:	Group 2023 £000	Group 2022 £000	Society 2023 £000	Society 2022 £000
Interest rate swaps				
Under one year	**303,850**	271,200	**299,850**	269,200
Between one and five years	**1,222,850**	1,077,050	**1,200,650**	1,065,650
	1,526,700	1,348,250	**1,500,500**	1,334,850

31. Fair Values

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

	Group and Society	
At 31 March 2023:	**Carrying Value £000**	**Fair Value £000**
Financial assets:		
Loans and advances to customers:		
Loans fully secured on residential property	**2,222,079**	**2,176,088**
Loans fully secured on land	**207,128**	**208,830**
Financial liabilities:		
Shares	**2,460,248**	**2,461,472**

	Group and Society	
At 31 March 2022:	Carrying Value £000	Fair Value £000
Financial assets:		
Loans and advances to customers:		
Loans fully secured on residential property	2,069,848	2,053,705
Loans fully secured on land	166,131	167,338
Financial liabilities:		
Shares	2,290,603	2,291,142

The fair value and carrying value of balance sheet items not included in the table above are the same, as shown on the balance sheet, due to their short term nature.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms-length transaction.

The carrying value of loans and advances to customers and shares are recognised at amortised cost using the effective interest rate method, less provisions for impairment together with fair value adjustments using discounted cash flow principles set out in IAS 39.

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair value of derivatives is calculated using discounted cash flow models. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties.

The above are Level 2 assets, as defined in FRS 102. In addition, the ‘investment in equity shares’ which is shown in the balance sheet at fair value (see note 32) includes Series A preference and ordinary C shares (which are valued in relation to ordinary A shares of Visa Inc.) which are Level 2 assets and Series B preference shares which are a Level 3 asset, as its valuation includes certain assumptions which are deemed to be unobservable.

Debt securities which are carried at fair value taken from quoted prices in active markets are disclosed in note 10 and are considered Level 1 assets.

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

At 31 March 2023:	**Financial assets/ liabilities at fair value through income statement £000**	**Financial assets available for sale £000**	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**	**Non-financial assets/ liabilities £000**	**Total £000**
Financial assets:						
Cash and balances with the Bank of England	**–**	**–**	**450,089**	**–**	**–**	**450,089**
Loans and advances to credit institutions	**–**	**–**	**45,631**	**–**	**–**	**45,631**
Debt securities	**–**	**86,191**	**–**	**–**	**–**	**86,191**
Derivative financial instruments	**84,366**	**–**	**–**	**–**	**–**	**84,366**
Loans and advances to customers:						
Loans fully secured on residential property	**(56,957)**	**–**	**2,222,079**	**–**	**–**	**2,165,122**
Loans fully secured on land	**(1,414)**	**–**	**207,128**	**–**	**–**	**205,714**
Other loans	**–**	**–**	**27,160**	**–**	**–**	**27,160**
Investment in equity share	**–**	**7,512**	**–**	**–**	**–**	**7,512**
Non financial assets	**–**	**–**	**–**	**–**	**18,301**	**18,301**
Total assets	**25,995**	**93,703**	**2,952,087**	**–**	**18,301**	**3,090,086**
Financial liabilities:						
Shares	**–**	**–**	**–**	**2,460,248**	**–**	**2,460,248**
Derivative financial instruments	**136**	**–**	**–**	**–**	**–**	**136**
Amounts owed to credit institutions	**–**	**–**	**–**	**242,724**	**–**	**242,724**
Amounts owed to other customers	**–**	**–**	**–**	**150,570**	**–**	**150,570**
Non-financial liabilities	**–**	**–**	**–**	**–**	**9,819**	**9,819**
General and other reserves	**–**	**–**	**–**	**226,589**	**–**	**226,589**
Total reserves and liabilities	**136**	**–**	**–**	**3,080,131**	**9,819**	**3,090,086**
At 31 March 2022:						
Financial assets:						
Cash and balances with the Bank of England	–	–	495,661	–	–	495,661
Loans and advances to credit institutions	–	–	45,686	–	–	45,686
Debt securities	–	55,025	–	–	–	55,025
Derivative financial instruments	34,037	–	–	–	–	34,037
Loans and advances to customers:						
Loans fully secured on residential property	(30,179)	–	2,069,848	–	–	2,039,669
Loans fully secured on land	–	–	166,131	–	–	166,131
Other loans	–	–	22,748	–	–	22,748
Investment in equity share	–	6,717	–	–	–	6,717
Non-financial assets	–	–	–	–	19,611	19,611
Total assets	3,858	61,742	2,800,074	–	19,611	2,885,285
Financial liabilities:						
Shares	–	–	–	2,290,603	–	2,290,603
Derivative financial instruments	110	–	–	–	–	110
Amounts owed to credit institutions	–	–	–	231,702	–	231,702
Amounts owed to other customers	–	–	–	151,381	–	151,381
Non-financial liabilities	–	–	–	–	6,385	6,385
General and other reserves	–	–	–	205,104	–	205,104
Total reserves and liabilities	110	–	–	2,878,790	6,385	2,885,285

32. Investment in Equity Shares

The investment in equity shares is mostly in respect of Visa Inc. preference shares. These were originally received as part of the consideration for the sale of the Society's share in Visa Europe in June 2016. At 31 March 2023 the preference shares have been recognised at a fair value of £7,107,000 (2022 - £6,343,000). The Society also holds an investment in Ordinary C shares with a fair value of £405,000 (2022 - £374,000). The gain for the year has been recognised in the available for sale reserve, net of deferred tax.

Series A preference shares were received on partial conversion of Series B preference shares in September 2020. The £5,680,000 fair value of the Series A shares at 31 March 2023 is derived from the share price of Common A shares and the conversion factor.

Series B preference shares are convertible into Visa Inc. common stock or its equivalent at a future date, subject to potential litigation losses that may be incurred by Visa Europe. The £1,427,000 fair value of Series B preference shares at 31 March 2023 is derived from the share price of Common A shares by way of a conversion factor (which reduced upon the partial conversion in September 2020) discounted for illiquidity/lack of marketability and contingent litigation risks.

33. Related Parties

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

	Group – 2023	
	Number of key management personnel and their close family members	**Amounts in respect of key management personnel and their close family members £000**
Loans and advances to customers	**1**	**455**

	Group – 2022	
	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members £000
Loans and advances to customers	2	953

None of the loans to directors are impaired or have any arrears.

Under the Society rules, all Directors are required to hold a savings balance of at least £1,000. These are held on normal commercial terms and were a balance of £307,822 at 31 March 2023 (2022 - £339,000).

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

34. Country by Country Reporting

The Capital Requirements Regulations require the Group to disclose the information below as part of 'Country by Country Reporting'.

- Nature of activities and geographical location: The principal activities of the Group are set out in the Directors' Report. The Group operates entirely in the UK and so no further Country to Country information has been presented.

- Average number of employees: information is disclosed in note 7.

- Turnover is equivalent to operating income items disclosed in the Group Statement of Income, comprising net interest receivable, fees and commissions receivable and payable and other operating (charge)/income.

- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Statement of Income.

- Corporation tax paid: as disclosed in the Group Cash Flow Statement.

- Public subsidies received: none received.

35. Capital Structure

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

The Total Capital Requirement (TCR) required by the regulator as at 31 March 2023 was £103.4 million (unaudited). The Group has maintained capital in excess of that required by the regulator throughout the year and in doing so, has complied with the requirements included within the EU Capital Requirements Directive IV (Basel III).

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

- Lending and business decisions - the use of strict underwriting criteria establishes whether mortgage, current account overdraft, vehicle finance and secured personal loan applications fit within its appetite for credit risk;

- Pricing – pricing models are utilised for all mortgage product launches;

- Concentration risk – product design takes into account the overall mix of products to ensure that exposure to market risk is within permitted parameters;

- Counterparty risk – wholesale lending is only carried out with approved counterparties in line with the Group's lending criteria and limits, which are monitored daily to ensure the Society remains within its risk appetite.

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

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

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

ANNUAL BUSINESS STATEMENT

For the year ended 31 March 2023

1. Statutory Percentages

	31 March 2023 %	Statutory Limit %
Lending Limit	**11.01**	25
Funding Limit	**13.78**	50

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

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

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

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

2. Other Percentages

	Group 31 March 2023 %	Group 31 March 2022 %
As percentage of shares and borrowings:		
Gross capital	**7.94**	7.67
Free capital	**7.56**	7.22
Liquid assets	**20.39**	22.31
Profit for the financial year as a percentage of mean total assets	**0.72**	0.27
Management expenses as a percentage of mean total assets	**1.93**	1.58

	Society 31 March 2023 %	Society 31 March 2022 %
Management expenses as a percentage of mean total assets	**1.90**	1.55

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

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

3. Information Relating to the Directors as at 31 March 2023

Name	Occupation	Date of appointment	Other Directorships (excluding dormant companies)
J. E. Hooper (Member of the Australian Institute of Directors)	Company Director/Advisor	20/11/15	Sarhon Homes Limited Together Personal Finance Limited Blemain Finance Limited Spot Finance Limited Stubbers Adventure Centre Stubbers Training Limited Digital Completion UK Ltd (trading as PEXA UK)
J. Arnold, FCMA, FGMA	Management Consultant	19/03/18	Jackie at Eastwood Limited
E. R. Gunn, FCIBS	Retired Bank Executive	09/11/16	Nil
M. J. Stanger, FCA	Chartered Accountant	01/06/18	Gibbons Wealth Management Limited Gibbons Properties Limited Carleton Properties (Cumbria) Limited
P. D. Moore, MBA, Certified Bank Director (ROI)	Chief Executive Officer	01/04/18	Borderway Finance Limited Cumberland Holdings Limited North Cumbria Integrated Care Foundation Trust
R. B. Ellison, CA, MA Hons	Chief Financial Officer	22/05/19	Kingdom Bank Limited Cumberland Holdings Limited
V. J. Bruce	Company Director	29/09/20	Hope and Homes for Children (Non-Executive Trustee) Agitos Foundation (Non-Executive Trustee)
K. M. Fairbrother	Company Director	29/09/20	Xigxag Limited
A. Barsby	Company Director	01/06/22	Tessiant Limited ACR Cars Limited Barsby Clift Limited

Mr P. D. Moore is employed under a contract terminable by the Society on twelve months' notice or by the individual on six months' notice. Mr P. D. Moore's contract was signed on 30 January 2018.

Mr R.B. Ellison is employed under a contract terminable by the Society on nine months' notice or by the individual on six months' notice. Mr R.B. Ellison's contract was signed on 29 January 2019.

Correspondence to the directors jointly or individually should be addressed 'Private and Confidential' and c/o Deloitte LLP, 1 City Square, Leeds, LS1 2AL.

FINANCIAL STATEMENTS

Other INFORMATION

OTHER INFORMATION

GLOSSARY

AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
BFL	Borderway Finance Limited
BP(S)	Basis Point(s)
BRC	Board Risk Committee
BTL	Buy to Let
CBS	Cumberland Building Society
CCF	Cumbria Community Foundation
CCyB	Countercyclical Capital Buffer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CPO	Chief People Officer
CRO	Chief Risk Officer
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FSCS	Financial Services Compensation Scheme
FSOL	Mortgages Fully Secured on Land
FSRP	Mortgages Fully Secured on Residential Property
HL	Holiday Let
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFA	Independent Financial Advisor
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Index Long-Term Repo
IMT	Incident Management Team

KPI	Key Performance Indicator
KYC	Know Your Customer
LCP	Liquidity Contingency Plan
LDI	Liability Driven Investment
LMS	Learning Management System
LTV	Loan to Value
Management expenses	Administrative expenses, depreciation and impairment and profit on sale of tangible fixed assets as adjusted by items excluded from operating profit
MBO	Management Buy Out
MI	Management Information
NGC	Nomination and Governance Committee
NIM	Net Interest Margin
NPS	Net Promoter Score
PARC	People, Remuneration and Culture Committee
PRA	Prudential Regulation Authority
RAG	Red, Amber, Green
RFP	Request for Proposal
SLT	Senior Leadership Team
SMCR	Senior Managers & Certification Regime
SME	Small and Medium Enterprise
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SVR	Standard Variable Rate
TCR	Total Capital Requirement
TFSME	Term Funding Scheme with Additional Incentives for SMEs

CALCULATION OF THE GROUP'S KPIS

Feefo rating

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

Engagement score

The Engagement Score is based on the responses of our People to the B-heard survey provided by Best Companies and represents the level of employee engagement across a range of workplace factors and commitment to delivering the Group's objectives.

Group profit before tax

Group profit before tax is the net amount earned after taking into account all expenses as shown in the statutory Income Statement.

Group profit before tax as a % of mean total assets

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

Common equity tier 1 capital ratio

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

Net interest margin

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

Cost / income ratio

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

Growth in loans and advances to customers

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

Gross lending during the year

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

Group operating profit

Group operating profit is a non-statutory alternative performance measure. It is Group profit before tax, having excluded the impact of hedge accounting, provisions and other gains and losses determined by management not to reflect the Group's underlying performance. A reconciliation between Group operating profit and statutory profit before tax is included on page 43.

Inflow of funds from customers

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

HQLA ratio

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

UK CORPORATE GOVERNANCE CODE

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

		Where to read more on how The Cumberland has complied	Pages
Board Leadership and Company Purpose	**A.** A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Strategic Report How the Board Works	6-53 65-66
	B. The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Strategic Report How the Board Works	6-53 65-66
	C. The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Our Performance Highlights Strategic Report – KPIs Principal Risks and Uncertainties Board Risk Committee Report Audit Committee Report	2-3 42 36-39 74-77 78-84
	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.	Our Communities and our People Stakeholder Engagement Our approach to sustainability	20-29 67-69 30-35
	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.	Our People Stakeholder Engagement PARC Report	26-29 67-69 86-95
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.	Chair's Welcome Meet the Board of Directors Nomination and Governance Committee Report	8-9 58-61 70-73

		Where to read more on how The Cumberland has complied	Pages
Division of Responsibilities	**G.** The Board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business.	Meet the Board of Directors	58-61
	H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Meet the Board of Directors Attendance Charts	58-61 65, 71, 75, 79, 87
	I. The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	How the Board Works	65-66
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.	Nomination and Governance Committee Report PARC Report	70-73 86-95
	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.	Our senior team Meet the Board of Directors Board Committee Reports	57 58-61 70-95
	L. Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	How the Board Works	65-66

UK CORPORATE GOVERNANCE CODE

		Where to read more on how The Cumberland has complied	Pages
Audit, Risk and Internal Control	**M.** The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	Audit Committee Report	78-84
	N. The Board should present a fair, balanced and understandable assessment of the company's position and prospects.	What We Do and Why We Do It CFO's Review Viability Statement Outlook Audit Committee Report	16-19 41-48 49-52 53 78-84
	O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	Principal Risks and Uncertainties Board Risk Committee Report Audit Committee Report	36-39 74-77 78-84
Remuneration	**P.** Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	PARC Report	86-95
	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.	PARC Report	86-95
	Compliance explanation: The Society did not plan to and has not engaged in a two-way engagement with employees on executive remuneration during the year.		
	R. Directors should exercise independent judgment and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	PARC Report	86-95


The Cumberland
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Free Cash Withdrawals
The Cumberland
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Platinum Trusted Service Award

2023 feefo

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The Cumberland

Kinder banking. It's in our nature.