The Cumberland

Kinder banking. It's in our nature.

REPORT and ACCOUNTS

Year ended

31 March 2024

Our performance HIGHLIGHTS

FEEFO PLATINUM SERVICE AWARD

4.9 out of **5.0**

CUSTOMER SERVICE RATING

Ranked **6TH**

Best Company to Work For in the Financial Services category for Large Companies

(Best Companies, 2023)

£3.2bn

Total assets

NATIONALLY COMMENDED REMORTGAGE PROVIDER

at the Moneyfacts Awards 2023

OUTSTANDING EMPLOYER RATING

Two-star rating from Best Companies, recognising ‘outstanding commitment to workplace engagement’

£474m

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 167.

All information and data correct as at 31 March 2024.

85

NET PROMOTER SCORE

Source: Feefo

£203m

deposits growth

£9.6m

Profit before tax*

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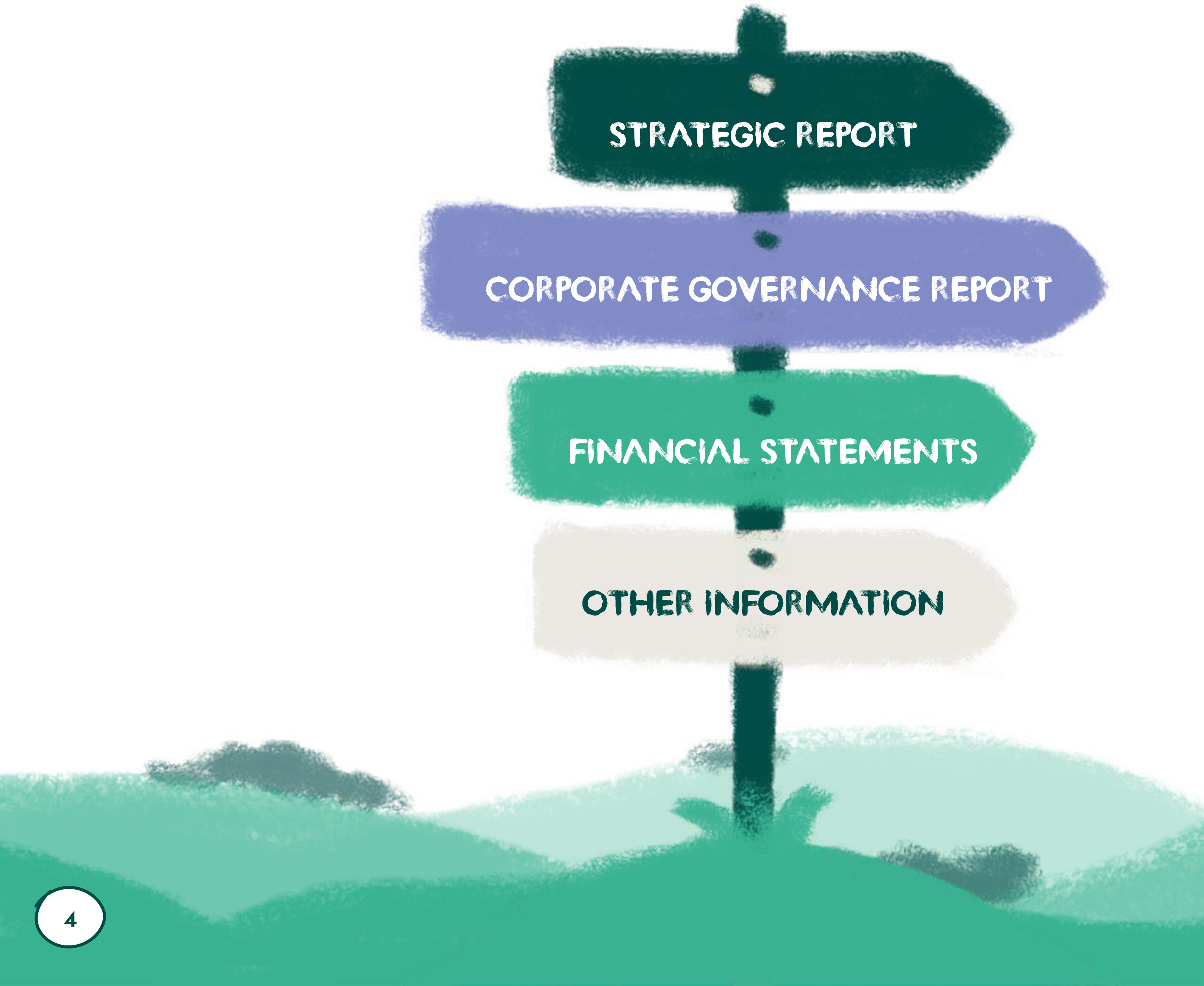
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STRATEGIC Report


STRATEGIC REPORT

CHAIR'S
Welcome

"It is encouraging that over **80%** of our mortgage borrowers stay with us when their fixed term ends, a retention rate comfortably above the industry average.

On behalf of your board of directors, I am delighted to present The Cumberland Building Society's Annual Report and Accounts for the year to 31 March, 2024.

It has, I am pleased to say, been another year of steady progress despite repeated increases in the Bank of England's base rate to a level not seen since early 2008. That spike in rates brought relief for savers but pain for borrowers and it dampened demand in the housing market.

The Cumberland's highly competitive mortgage and savings products enabled us to grow regardless. Mortgage lending and savings balances increased and our balance sheet exceeded £3.2bn at the year-end, an all-time high.

Operating profits rose to £27.4m[(1)] (2023: £21.2m), while statutory profits before tax decreased to £9.6m (2023: £26.6m) as the unwind of last year's hedging gains began as signalled.

We achieved these results thanks to a focus on containing cost increases as net interest income grew.

Our results were boosted as UK base rate increases exceeded our expectations and those of the market, and we benefitted from the interest-rate swaps we take out to protect the Society in the event of sustained rate increases.

Most of our borrowers have fixed-rate mortgages, which shielded them when interest rates began to rise at the end of 2021.

As these fixed-term deals mature, borrowers are seeing an increase in their monthly payments. This has been a financial shock for some, and we have seen a modest rise in mortgage arrears, albeit from a very low base.

However, as part of our 'Kinder Banking' ethos, we have specialists to assist and advise borrowers in difficulty. This has helped to minimise financial distress.

It is encouraging that over 80 per cent of our fixed-rate borrowers stay with us when their fixed term ends, a retention rate comfortably above the industry average. At the same time, we have been successful in winning remortgage business from other lenders.

Our vehicle finance subsidiary, Borderway Finance, performed well, boosted by high residual values for used cars and by winning more fleet business.

Commercial lending to the hospitality sector showed modest growth, although less than we planned. The hospitality industry had to contend with a perfect storm as margins were squeezed by higher staff and food costs and softer demand was seen from consumers struggling with the cost of living.

Our relationship model for commercial loans, which ensures every borrower has a personal contact who knows and understands their business, paid dividends and helped our commercial customers to navigate choppy waters.

We are looking, cautiously, to diversify our commercial lending into other sectors during the next few years while remaining committed to supporting hospitality businesses.

Looking ahead, we anticipate that we are at, or close to, the peak of the interest rate cycle. We expect rates to begin to fall in 2024-25 although not, perhaps quickly or to the ultra-low levels we became used to between 2009 and 2021.

Our customers are changing their behaviour accordingly. The bulk of inflows into savings accounts have been into fixed-interest, fixed-term accounts that enable savers to lock into higher rates.

Similarly, while fixed-rate mortgages remain popular, we've seen a modest pivot towards discounted variable-rate products.

An environment of falling rates presents the Society with a different set of challenges. We expect to see pressure on margins as rates fall.

We also face increased costs associated with the implementation phase of our transformation project, "New Cumberland". This represents a major investment for the Society but is one we need to make to ensure that our systems are as robust and resilient as they can be and to enable us to continue to grow.

I will be stepping down as Chair at the annual general meeting after five years in the role and nearly nine years as a non-executive director. It has been a privilege to serve the Society working alongside an outstanding team, not only at Board and senior management level but throughout the business. Our Cumberland colleagues are amongst the most dedicated and diligent in the financial services industry. I thank them for their support.

My successor as chair, subject to member approval at the AGM, will be Jackie Arnold who has been on our Board since 2018.

I wish her well. She is ideally suited to the role and takes on a Society in excellent shape to meet whatever challenges the future brings.

John Hooper, Chair
4 June 2024

(1) – For details of Operating profits calculation basis see page 167 and a reconciliation to statutory profit on page 57.

> *Transformation has put extra demands on our Cumberland colleagues who have responded magnificently. Change within an organisation is never easy but our colleagues have embraced it.*

DES

CHIEF EXECUTIVE
Officer's Business Review

Progress

The true test of any business is how it performs in turbulent times.

While savers have benefited from higher interest rates, the past few years have been difficult for mortgage lenders and their customers. A low interest rate housing market had to adapt swiftly as The Bank of England raised its base rate 14 times between December 2021 and August 2023.

Given that backdrop, it is pleasing to report on another year of solid progress. Your Society performed well on almost every metric as we attracted inflows from savers and grew our mortgage book and commercial lending.

This progress was achieved through the trust and support of our customers alongside the hard work and dedication of our Cumberland colleagues. I thank them for their mighty efforts. They live our values and embody our purpose 'to create a banking experience that's kinder to people and the planet'. 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.

Service

That purpose was tested again this year as interest rates climbed higher. Our savers benefited because we passed on rate rises promptly. Our borrowers, the majority with fixed-rate mortgages, were offered preferential terms when their fixed-rate term ended. We always aim to offer our best deals to existing borrowers. This goes against the industry norm, which often sees new customers being offered the best rates.

We also looked after owner occupier borrowers on variable-rate products by choosing not to pass on any of the three most recent base-rate increases since May 2023.

Looking forward, we believe we are close to the peak of the interest-rate cycle and expect modest rate cuts in the year ahead.

In anticipation of that, we have reduced the rates on our fixed-rate mortgage products to assist borrowers coming to the end of fixed-rate deals from those seen in parts of 2023.

Inevitably, given the cost-of-living crisis, we have seen a rise in mortgage arrears, albeit modest and at a lower level than predicted.

That's testament to our prudent lending policies and the efforts of our specialist teams who work with borrowers in financial difficulty, even if we have to extend the term of their loan, switch to an interest-only mortgage or offer a temporary payment holiday.

Our specialists sometimes get calls from customers who aren't behind with their mortgage but have other money worries. They see The Cumberland as a trusted friend and their first port of call on financial matters.

That's exactly how we want The Cumberland to be perceived, an organisation to be trusted in a sector where trust is at a premium.

We strive to deliver exceptional customer service and were thrilled to retain our Feefo Platinum Service Award for the fourth consecutive year with an outstanding customer service rating of 4.9 out of 5.0.

Our customers appreciate the option of being able to call into a branch, bank online or phone a local call centre where they are soon through to a real person, not navigating an endless menu or conversing with an AI chatbot. We achieved our target of answering 95 per cent of calls within 60 seconds.

All these instances are practical examples of Kinder Banking in action.

Platinum Trusted Service Award

2024 feefo

4.9 out of 5.0

CUSTOMER SERVICE RATING

We strive to deliver exceptional customer service and were thrilled to retain our Feefo Platinum Service Award for the fourth consecutive year.

Communities

But there's another area that profoundly differentiates The Cumberland from our competitors. We are truly committed to the communities we serve and are determined to do right by them.

As has been the case across our sector, we have seen a decline in the number of customers using our branches. The larger high street banks responded with closures, whereas we are the last financial institution in 16 locations throughout our region.

We've retained our branches because a significant number of customers prefer face-to-face contact.

The branches showed their worth during the Covid-19 pandemic when colleagues would phone to check on regulars they hadn't seen for a while and on occasions even delivered shopping to vulnerable housebound customers.

THAT REALLY IS KINDER BANKING.

Whilst the world changes around us, our commitment to delivering a high standard of customer experience remains the same. We'll always listen to what you tell us about the way you want to use our services and we know it's important for our members to be able to speak to a real person – whether that's in one of our branches, or a member of our Carlisle-based customer care team.

Following the refurbishment of our Maryport branch last year, we are pressing ahead with work on our flagship branch in English Street, Carlisle, which was placed on hold during the pandemic and we will be ready to welcome customers later this year.

We think customers will be delighted with what is going to be an exemplar for 21st century banking on the high street. We are evolving our in-branch customer experience, modernising the way our customers can interact with us.

Wherever possible, we have used local contractors and building materials to support local businesses and reinforce a sense of place. A stained-glass wall inspired by the Lake District is a particular highlight of the English Street branch design.

We've also incorporated solar panels and other measures to minimise the branch's carbon footprint and they are already working for us and our planet. Part of our purpose is to be 'kinder to the planet' and environmental sustainability is a priority as we strive to become operationally carbon neutral by 2030. This year we appointed Jill Johnston, as our first Chief People & Sustainability Officer, demonstrating our commitment to remain on track.

There's another aspect of Kinder Banking that I'd like to touch on.

The Cumberland has long donated 1.5 per cent of profits to worthy causes. To make our community giving more impactful, this year we reviewed our strategy to focus on what matters most to our communities.

Food poverty emerged as a pressing issue right across our area with 30% increase in people using foodbanks in towns and a 75% increase in rural areas.

In response, we have launched the Kinder Kind of Kitchen initiative, a community partnership with FareShare Lancashire & Cumbria. This tackles food poverty head-on by making a six-figure donation to serve hot meals and provide food to people who desperately need it. Despite a lower statutory profit we have agreed to maintain our community funding at a consistent level next year.

Transformation

The Cumberland is an organisation driven by purpose rather than profit but, to deliver on our purpose, we must ensure the Society is fit to face the future. We have alluded to our transformation programme in previous annual reports and now the hard work is starting to bear fruit.

Transformation involves a substantial technology investment as we plan and prepare to migrate to a new banking platform. This will make our systems more robust, resilient, and secure and enable the incremental and fast rollout of new products and services, for example the ability for new customers to open savings accounts online.

You, our members, will start to see some early signs of these changes from next year. For example, we will be improving the customer and colleague Wi-fi in all of our branches and our payments architecture will be more resilient by the end of the year. We will soon have an online portal for mortgage brokers, enabling them to get a quick lending decision for their clients and enabling more people, many in other parts of the country, to access Cumberland products.

At The Cumberland we are not harnessing technology to replace people and reduce costs. Rather we use it to enhance our offer to members. For us, technology is a tool that will increase efficiency but it will never replace human interaction. As we transform, our values will remain unchanged; we will continue our commitment to being a customer-led, straightforward, responsible and forward-thinking organisation.

Transformation has put extra demands on our Cumberland colleagues who have responded magnificently. Change within an organisation is never easy but our colleagues have embraced it.

If we needed confirmation that we are managing change correctly, it came in our improved standing in Best Companies' annual survey, which is based on anonymous feedback from colleagues. We were judged as the best large building society to work for and one of the best large employers in any sector.

I'd like to pay tribute to our outgoing Chair, John Hooper, who has served the Society with distinction since 2015. He has set a standard and momentum that we are determined to follow. At the same time, I'd like to welcome Jackie Arnold as successor (subject to member approval at the AGM), who has been on our Board since 2018.

As we approach our 175th birthday, we have ambitious plans to improve our products and services whilst maintaining our unique Cumberland ethos.

Des Moore
Chief Executive Officer
4 June 2024

We achieved our target of answering **95%** of calls within **60** seconds.

The Cumberland has been recognised as an Outstanding Place to Work.

A sneak preview of our new look English Street branch.

WHAT we do, and WHY we do it

Our purpose
To create a banking experience that's
KINDER TO PEOPLE and PLANET

Mutual building societies owned by their members, the savers and borrowers, have helped successive generations of aspiring homeowners to realise their dreams while providing a safe and secure home for savings.

We can trace our history back to the formation of The Cumberland Co-operative Land and Benefit Building Society in 1850.

While most building societies have limited their activities to the provision of mortgages and savings accounts, The Cumberland is different.

Mortgages and savings are still a big part of what we do but we also provide current accounts for individuals and, uniquely, local businesses – including a comprehensive suite of online banking services. We offer commercial loans to the hospitality and tourism sectors and we have a car finance subsidiary, Borderway Finance.

These are services you might expect from a bank rather than a building society. We offer them because you, our members, told us you value them and that you trust us to provide them.

But while we offer banking services, we are emphatically not a bank.

Banks exist to make profits for their shareholders. As a building society, we have no external shareholders. We are owned solely by you, our customers.

Our primary aim is to ensure that our mortgage and savings products are as competitive as they can be and that our customer service is the best in the UK.

Unlike banks, we see ourselves as an integral part of the communities that we serve and we strive to do the right thing by them.

So, while banks have been closing branches to maximise their profits, we have maintained our branch network because we know that many customers value the face-to-face contact that only branches can provide, supported by our local call centre which you can speak to without fighting endless automated menus.

The profits we do make we reinvest in our business, including our people, our systems and our branches.

That investment, and a willingness to embrace change, is crucial to our continued success.

Over the past five years we have evolved the culture of the organisation to ensure our colleagues feel valued and that their voice is heard. That has led us to being rated by Best Companies as the best large building society to work for and one of the best large employers in the UK period, regardless of sector.

We're currently engaged on the technology part of our transformation to ensure our systems are robust and resilient and enable us to offer new services.

Whatever we do, we adhere to a clear philosophy encapsulated in our purpose 'to create a banking experience that's kinder to people and planet'.

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:

Customer Led
We put customers first in everything we do.

Straight Forward
We work hard to make things simpler.

Responsible
We do the right thing.

Better Together
We work as one team.

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 are 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 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 and transform.

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' (opposite) 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 New Cumberland 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 the balance sheet safely and defend our margin
- Protect the society and our members

Our Values

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

Our COMMUNITIES


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 back to our core operating area.

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 benefiting people in our area.

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

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

KINDER KIND OF KITCHEN

Our Kinder Banking purpose is at the heart of what we do.

Our Kinder Banking purpose is at the heart of what we do. It's why we always donate a percentage of our profits to causes that support people, nurture the countryside and build stronger communities in our region.

To make that giving more impactful, we looked long and hard at the issues our communities face and identified food poverty – aggravated by the soaring cost of living – as the most pressing need.

Our research showed how serious food poverty is with a 30% increase in people using foodbanks in Cumbria's main towns, even more in rural areas.

Our response is Kinder Kind of Kitchen, a partnership with FareShare Lancashire and Cumbria, which is run by Recycling Lives Charity and distributes surplus food in the food industry to those in need. Our funding supports its network of 52 local foodbanks and community food hubs, allowing them to expand their services. We also treated almost 100 volunteers, who work in community food projects, to a celebration in Penrith to thank them for what they do. It was an emotional evening, hosted by Cumbrian TV celebrity, Helen Skelton.

We are proud to be in partnership with FareShare Lancashire and Cumbria, helping to provide food to those in need.

Kinder kind of Kitchen

A community initiative by The Cumberland

In partnership with FareShare Lancashire & Cumbria

In a typical year, we donate 1.5 % of our profits to good causes. This year, due to the scale of the food poverty crisis, we have made a substantially larger donation to support our Kinder Kind of Kitchen initiative, because it is the right thing to do. This will enable more community kitchens to provide food to our communities in need.

We have donated £250,000 to FareShare Lancashire and Cumbria as part of the Kinder Kind of Kitchen initiative, so far. This has supported the delivery of the equivalent of 482,018 meals, preventing more than 202 tonnes of food waste with a retail saving of £521,590.

Here's what some of the volunteers running community food projects have to say about the impact of Kinder Kind of Kitchen.

Caroline Lunny, manager of Oasis Food Pantry in Carlisle: **"This funding couldn't have come at a better time for us. Our weekly fees to FareShare for the trays we receive are covered, plus it has enabled us to purchase essentials for our members that we know rarely appear in the trays. Ultimately, the generosity of The Cumberland is ensuring our members can live their lives rather than worry how they will feed their loved ones."**

Julie Seaton, manager at the Melbourne Food Club in Lancaster: **"We can't thank The Cumberland enough for what they have done for us. We feed 70 families a week with the help of The Cumberland and FareShare Lancashire and Cumbria."**

Ged Pickersgill, business development lead at The Well Communities, which provides weekly food clubs in Barrow: **"Our members can access fresh produce and a variety of cupboard staples each week for just £3. There is also a full package of wellbeing support. We support around 50 families who are experiencing food poverty. The generous donation from The Cumberland means we can put more health and hygiene packs together for our members and purchase additional food goods."**

Stacey Hurley, development manager at Waste into Wellbeing at Kendal's People's Cafe: **"The impact of The Cumberland's donation is tenfold. If we've got more trained volunteers, we can run more café sessions, which means we deliver more meals. So the volume of food will fundamentally go up, and the amount of activities we can run to deliver food will go up. It's crucial."**

We can't thank The Cumberland enough for what they have done for us. We feed 70 families a week with the help of The Cumberland and FareShare Lancashire & Cumbria.

We have donated

£250,000

to FareShare Lancashire and Cumbria so far

This has supported the delivery of the equivalent of

482,018 MEALS

Between 1 June 2023 and 31 March 2024

PLEDGE FOR VOTES

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 FareShare Lancashire and Cumbria with a donation of £18,278 towards its crucial work to support people who are struggling to feed themselves and their families. The money helped buy **66 new fridges**, freezers and chiller cabinets.

This donation is in addition to the £250,000 pledge that the society made to FareShare Lancashire and Cumbria as part of the Kinder Kind of Kitchen initiative to help combat food poverty.

This year we will be supporting FareShare Lancashire and Cumbria once again, this time with cooking equipment.

Thanks to our members, last year we were able to support FareShare Lancashire and Cumbria with a donation of

£18,278

FareShare Lancashire & Cumbria

Our partnership with EVERFI from Blackbaud helps us provide financial education to young people.

EVERFI PARTNERSHIP

We believe it's vital that young people understand financial matters and how to manage their money. We have joined forces with EVERFI from Blackbaud, the leader in powering social impact through education, to launch a pilot project introducing an education resource called Vault: Understanding Money.

In its first year, the programme reached

738

pupils in

26

schools across our region.

In its first year, the project reached 738 pupils in 26 schools across our region.

Vault is aimed at primary school children in years four to six and some older children with special educational needs. Assessments of children on the programme show a 35 per cent increase in their knowledge of key financial terms. Teachers report that children are better able to understand the reasoning behind financial decisions and that Vault shows young people maths can be useful in real life.

The project is continuing for another year.

Our donation to Cumbria Wildlife Trust is helping with conservation of wildlife and wild places in the county.

CUMBRIA WILDLIFE TRUST

Cumbria Wildlife Trust

We donated £25,000 this year as part of our partnership with Cumbria Wildlife Trust, the only voluntary organisation devoted solely to the conservation of the wildlife and wild places of Cumbria. The Trust stands up for wildlife, creates wildlife havens and seeks to raise environmental awareness.

The donation is funding conservation work to protect endangered reds, helping to employ a red squirrel ranger, Joshua Adams, who is working to monitor and protect reds in their Lakeland heartland between Grasmere and Grizedale.

There are promising signs that his hard work is paying off with a significant uptick in red squirrel sightings.

£25,000

donated to Cumbria Wildlife Trust to support conservation in the county.

AFFINITY ACCOUNT DONATION

Each year, The Cumberland donates to three Cumbrian hospices and to Carlisle United on behalf of our 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 we donated more than £40,000 to Hospice at Home West Cumbria, Hospice at Home Carlisle and North Lakeland and Eden Valley Hospice. We marked the donation of the funds during Hospice Care Week in October.

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. Hospice at Home West Cumbria and Hospice at Home Carlisle and North Lakeland provide care in patients' homes, while Eden Valley Hospice offers in-patient and out-patient services from its site in Carlisle.

Thank you to Hospice at Home West Cumbria, Hospice at Home Carlisle and North Lakeland and Eden Valley Hospice for your incredible work supporting our community.

This year we donated more than

£40,000

to Hospice at Home West Cumbria, Hospice at Home Carlisle and North Lakeland and Eden Valley Hospice.

We're proud to have supported Carlisle United's Community Ticket Scheme for over 18 years, giving young people the chance to get involved with their local football club.

CARLISLE UNITED COMMUNITY TICKET SCHEME

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

This provides local primary schools and community groups with up to 200 free tickets for each home match during the football season.

We've supported the scheme for more than 18 years distributing 30,000 free tickets over that time, more than enough to fill Brunton Park.

The youngsters, many of whom may not usually have the chance to attend, enjoy a tour of the ground, meet mascot Olga the Fox and some of the players, and watch the match from The Cumberland Community Stand.

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

200 FREE TICKETS

for every home football match.

CUMBERLAND BRANCH COMMUNITY FUND

This year The Cumberland Branch Community Fund donated almost **£25,000** to support **165** community groups and charitable causes.

Figures from 1 April 2023 to 31 March 2024.

The Cumberland Branch Community Fund is run by our branch network and is a registered charity which supports community groups and charitable causes in our heartland.

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

Examples of donations include:

HEARTBEAT NORTH WEST CARDIAC CARE

towards the cost of cardiac rehabilitation classes for people with heart disease.

MARYPORT RESCUE

an independent lifeboat, flood and swift water search and rescue service with its own lifeboat.

BRAMPTON BUS BUDDY SCHEME

an initiative to support elderly people who would like to get out and about but might be nervous about travelling alone on public transport.

VOLUNTEERING

All our Cumberland colleagues can take a day of paid leave each year to volunteer. It's another example of Kinder Banking in action.

160

colleagues have taken advantage of the scheme this year to volunteer with a wide variety of charities and good causes.

Among them are FareShare Lancashire and Cumbria – our partner for the Kinder Kind of Kitchen initiative – and Cumbria Wildlife Trust, where we are helping to fund a squirrel ranger to protect endangered red squirrels.

Other organisations where colleagues have volunteered include Eden Animal Rescue, Eden Valley Hospice, the advocacy charity People First and Family Action, which supports families in crisis.

Members of the Marketing team help out at Grange over Sands Community Foodshare, a food club run with the support of FareShare Lancashire and Cumbria and the Kinder Kind of Kitchen initiative.

Customer Care colleagues help take care of donkeys at Oak Tree Animals' Charity.

Lyndsey from our Preston branch at the FareShare Recycling Lives distribution centre in Preston.

Colleagues from our Risk team get their hands dirty volunteering with Cumbria Wildlife Trust.

People make The Cumberland. We strive to deliver outstanding customer service with The Cumberland's unique touch.

FINANCIAL SERVICES' TOP 25 BEST COMPANIES TO WORK FOR 2023
cert.b.co.uk

Our PEOPLE

Our people are committed to creating loyal and trusted relationships with our customers. They regularly go the extra mile to do their best for our members, the savers, current account customers and borrowers.

Our people inspire me every day and I want to thank them all for everything they have delivered this year.

We encourage our people to bring their real and authentic selves to work and, in doing so, they can better relate to the daily lives of our customers by striving to always do the right thing. Treating people with kindness and respect is so important to us.

Our aspiration is for a workplace where our people have opportunities to grow, they feel valued and where their voice is heard. A place of work where people feel they belong and can in turn do their very best work.

In short, to show 'Kinder Banking' extends to colleagues, as well as customers.

Although we are a business, with targets and objectives, the way we deliver Kinder Banking is through our commitment to our people and purpose.

Our focus on wellbeing issues, such as mental health and neurodiversity, is an illustration of this as is our willingness to have hybrid working as part of our work pattern where appropriate, always with the interests of our customer and colleague at the forefront.

It can't work for every role but where it suits the individual and the Society we're happy to embrace it. There has been no mandatory 'return to the office' though our people are using our buildings more over time to reconnect and collaborate.

We were highly commended for our approach to wellbeing at the British HR Awards, one of several awards where The Cumberland excelled this year.

We also improved our rankings in the annual Best Companies' survey, which identifies the best businesses to work for right across the UK.

The Cumberland was placed 67th among large employers, up from 96th place last year, and we were ranked 6th in the large financial services companies list, making us the highest placed large building society.

That is quite some achievement. We are judged on eight factors and we improved our score in every category.

Best Companies' findings have added credibility because they are based on feedback from our colleagues who can do so freely in the knowledge that all feedback is anonymous. In all, nearly 600 Cumberland colleagues took part.

Best Companies has also awarded The Cumberland two-star status for workplace engagement, which recognises 'outstanding commitment'. And it singled us out for the way we look after the mental and physical wellbeing of colleagues.

This is very much a vindication of The Cumberland's approach, which we are convinced reaps rewards. By treating colleagues right, they are motivated to do their best, day in day out, delivering exceptional customer experience.

I am proud that we retained our Platinum Trusted Service Award from the customer service platform Feefo for the fourth year in a row. Only those who meet Feefo's criteria of excellence, and whose customers rate their experience highly year after year, achieve Platinum status.

OUTSTANDING TO WORK FOR 2023 cert.b.co.uk

The Cumberland has been awarded two-star status from Best Companies, which recognises 'outstanding commitment to workplace engagement'.

Our subsidiary, Borderway Finance, similarly retained its Platinum Trusted Service Award for the third year in a row.

Finally, The Cumberland was named 'Large Company of the Year' at the in-Cumbria Business Awards while Shelley Hayward, our Head of Development and Talent, was highly commended in the 'Leader of the Year' category at the British Training Awards.

Our approach to our people – how we nurture them and bring the best out of them – is based on what we call our four pillars.

1 Attract and retain

We have been focusing our efforts on ensuring we have the right capabilities and service levels to sustain our future. We have brought in complementary expertise to enhance our capabilities in areas such as cloud computing, transformation and change.

We have also strengthened our teams to ensure we are able to support our customers and communities as they work through the cost-of-living challenge, which can result in higher customer call levels.

We focus on employing colleagues who can relate to our customers daily lives and dreams and who live our values. This means we go the extra mile for customers in ways banks never would.

Recruiting the right people with the right values and capabilities can be challenging for employers at present but The Cumberland's reputation has helped us to recruit the talent we need. People see what we are doing, they see that we are an organisation with purpose, embedded in the communities we serve, and they want to work here.

Staff retention rates are much higher than the industry average. When people join The Cumberland, they want to stay. It is especially beneficial to retain long-serving colleagues who have built up a wealth of experience.

Our willingness to embrace hybrid working has been particularly attractive to some of the technical specialists we have recruited for the transformation programme who may have roots outside of our area. This flexibility means they don't necessarily have to relocate their families, although the natural attraction of Cumbria often means they do choose to move.

Similarly, family-friendly policies such as hybrid working have enabled some colleagues to step-up from part-time to full-time roles whilst still maintaining a work life balance.

2 Reward and recognise

Rising prices affect our colleagues just as they do our members. Once again, we provided colleagues with a cost-of-living pay award to ensure that their incomes keep pace with household bills.

Our willingness to do this is appreciated and was reflected in a jump in our 'fair deal' score in Best Companies' survey.

Our Brighter Performance appraisal process is now fully embedded and gives us an established framework to recognise good performance. Through this process we focus on both what our people have achieved and how they have achieved it, another example of how living our values and doing things in the right way are core to how we go about our business.

Our package of employee benefits now allows colleagues to utilise a salary sacrifice electric car scheme, which provides tax and NI incentives to move away from petrol and diesel vehicles.

And the Our Kind of People Awards, which we introduced last year to recognise outstanding performance, go from strength to strength. Finalists are nominated by colleagues and judged not by managers but by a group of employees we call our Purpose Pioneers, volunteers drawn from across the business. The winners are announced at our Christmas social.

Colleagues at our Kind of People Awards, recognising outstanding performance across the Society.

Colleagues took part in our second annual Wellbeing Day.

3 Support and balance

We take diversity and inclusion very seriously. Ours certainly isn't a tick-box approach. Recognising difference and how we include everyone is central to our processes and systems.

Neurodiversity has been a priority this year. We have worked with the charity Owl Blue enabling us to provide support in the workplace and, equally, celebrate the richness that neurodiversity can bring to our business.

Last year we put in place support for women going through the menopause and this year we have begun to focus on men's health issues. We continue to call on the services of an external occupational therapist, who we first used during Covid.

And we have a well-developed network of wellbeing champions who are volunteers trained by the mental health charity MIND to support colleagues.

We held our second annual Wellbeing Day for colleagues this year. This was coordinated and owned by our Wellbeing Champs with some insightful sessions with partners from Cumbria Mental Health Support Group.

This year input included men's mental health with attendance from our local Andy's Man Club. This event and the discussions held are a key indicator of how far we have come on our cultural journey.

We are fully committed to the Women in Finance Charter, which aims to build a more gender balanced and fair industry, and we work in partnership with the Women in Banking and Finance network to support valuable research in gender diversity in the industry.

I'M DELIGHTED TO REPORT THAT

50% *of roles at executive and board level at The Cumberland are filled by women, up from 19% only five years ago.*

As reported to Women In Banking and Finance at 30 September 2024.

Whilst gender diversity has been a focus for our industry and we are delighted to report on our positive progress, at The Cumberland we have a much more balanced and ambitious approach to diversity and inclusion.

Quite simply we recognise the benefits that a diverse workforce can bring and have sought to create a culture that attracts, retains and encourages talented people to deliver outstanding performance. This is underpinned by our commitment to build a culture of belonging where our people have opportunity, visibility and voice. A place where everyone feels valued.

4 Engage and develop

We are keen to offer opportunities for our people and put great emphasis on having the structures and processes in place to enable colleagues to progress where this is right for them and for your society.

We have continued our 'power hour' sessions on chosen topics to help people pursue their careers, we have developed our managers' fundamentals programme and attendance on women's leadership programmes and have invested in an online learning system used by 96 per cent of colleagues.

We introduced a mentoring scheme and have in place succession plans for senior leadership and board-level roles. And we stepped up training and processes to ensure that The Cumberland is fully compliant with our obligations under the new Consumer Duty regime.

This year we have invested in a wide-ranging roll out of Insights Discovery, a tool that helps us understand individual colleagues better, enabling us to improve collaboration.

Good communication and engagement with colleagues is vital and must be two-way.

We have continued to produce our in-house magazine for colleagues, Our Kind of People, the weekly Straight Talk e-newsletter and the quarterly Town Hall briefing sessions where colleagues can question senior managers.

This year we introduced Pit Stop, an initiative to improve the flow of information between heads of functions and the senior leadership team.

As we move closer to the heart of our technology transformation, we recognise the need to align every colleague around our vision, helping our people understand the role and contribution they make to our legacy.

Our online learning system is used by

96%

of colleagues.


responsible

Our CUMBERLAND STORY

Since May of 2023 we have been working on the development of The Cumberland Story to generate connection and discussion on the transformation ahead.

The Story was developed with input from our people and shared at an all-colleague event. The event gave the Senior Leadership team the opportunity to share their stories and engage with colleagues on theirs. It was a day filled with activities to help colleagues reflect and connect on our journey. You can see elements of our story throughout this document.

Building a sustainable business with its heart in Cumbria

Our transformation journey is now stepping up a gear, transforming our technology and ways of working. Investing in our skills and capabilities is a priority too – making sure our unbeatable customer experience keeps shining as we grow, giving customers the convenience and speed of modern online banking, with a human touch when they want to speak to a real person.

People make The Cumberland

We're proud to be at the heart of our communities, where we've helped them thrive for over 170 years. With a strong share of the local market and reputation for kindness, we've grown deep roots – creating loyal and trusted relationships with our customers.

Together, we'll achieve our bold ambitions

We may be small, but we've got big ambitions. Our aim is to be known across the UK for **creating a banking experience that's kinder to people and planet.**

Our focus on people is in our nature. It shines through in our vibrant, friendly service and is proven by our love of doing right by our customers – we go the extra mile.

Leading the way in doing banking with a difference

Together, we're creating a 21st century business that is built to last. Modernising how we do things will mean that we can be wherever our customers want us to be – giving them choice about how and when they interact with us, whether that be by speaking to a real person, or digitally, while retaining our strong Northern presence.

By achieving all of this, we'll build The Cumberland into a place that makes a positive difference, which we can be proud of for the next 170 years.

Powered by our focus on being the best that we can be

The Cumberland is built on the shoulders of every one of our people. As a team, we really care about each other. We're bound together by our shared values.

We need to continue to harness our strengths and unite behind our shared goal.

APPOINTMENTS

Our board chair, John Hooper, steps down at the annual general meeting in July after five years at the helm. His replacement is **Jackie Arnold, subject to member approval at the AGM.**

Eric Gunn, our previous board risk chair and current senior independent director, retires at the AGM after more than seven years' distinguished service.

We have recruited a new non-executive director, **Cameron Marr,** who has significant international banking executive experience. His knowledge and insight will be invaluable.

OUTLOOK

Our transformation programme continues apace and will bring extra demands and opportunities for our people. Everything we include in our people approach is designed to support the changes we all continue to experience. Building a sustainable business with its heart in Cumbria is key.

For our part, the senior leadership team will continue to support and seek out the best available talent and to nurture and develop the talent we already have. This will enable us to embrace opportunities and always ensure that we listen to our people as we progress. People Make The Cumberland.

Jill Johnston
Chief People & Sustainability Officer
4 June 2024

Our Approach to

SUSTAINABILITY

Sustainability is at the core of The Cumberland's purpose 'to create a banking experience that's kinder to people and planet'.

We are committed to becoming carbon neutral in our operations by 2030, but know that we have work to do if we are to meet that target.

This year we are delighted to announce that, from January 2024, Jill Johnston has broadened her remit to include sustainability to become our first ever Chief People and Sustainability Officer.

The Chief People and Sustainability Officer (CPSO) is responsible for overseeing all aspects of the Society's people strategy and our sustainability initiatives.

With a deep commitment to fostering a positive culture and leading on environmental stewardship, Jill will bring focus at Executive level as to how we will evolve our sustainability approach whilst linking it to our people agenda. Over this calendar year, Jill will develop a sustainability framework whilst also continuing to champion our most important asset, our people.

Jill will continue to play a key role in the development and promotion of a positive and engaging work environment for our employees, while also driving our sustainability efforts.

Our last Best Companies survey indicated there is still more engagement required around the 'giving something back' factor, specifically on how much we do to protect the environment.

We are keen to ensure we show progress in a measured way but always for the right reasons. We will bring together initiatives and align them under an Environmental, Social and Governance (ESG) umbrella, but using our own pillars of People, Planet and Community.

I am really looking forward to harnessing all the work already in place. The Cumberland is geographically situated in an area of natural beauty, with a clear purpose and culture aligned to its people and community.

Against this backdrop, the need to embrace sustainability in an authentic and practical way is crucial.

JILL

Sustainability can mean different things

We are an organisation that has a deep history spanning more than 170 years so it's very important that we continue to build a sustainable business with its heart in Cumbria.

In terms of the environment, and our impact on the planet, there is always more any organisation would wish to do in that we want to help make sustainable thinking a priority for our communities, customers and how we do business. By embracing change and continuing to be resilient we'll ensure that The Cumberland succeeds into the next century.

We are making steady steps to do the right thing when it comes to the environment. It is important for us that we do so in an authentic realistic way.

By sharing some examples, we hope to give context to our achievements and direction of travel. We fitted air-source heat pumps at Cumberland House from the outset and we have continued on this journey. In mid-2022 all our Cumberland buildings moved to renewable energy.

Our next steps have been to install solar panels to provide electricity for our refurbished flagship branch in English Street, Carlisle. We are installing solar panels at Cumberland House in the coming year and the scaffolding is up as I write. Alongside these measures, we take every opportunity to reduce our consumption.

We are keen to ensure we support the environment in other ways. We have installed extra EV charging points at our head office increasing our point in time capacity from 4 to 10 vehicles, and introduced an electric car scheme, which provides tax and NI incentives for colleagues to move away from petrol and diesel vehicles.

In terms of our business offering, we have never lent to businesses engaged in fossil-fuel production and we won't start.

Our definition of sustainability embraces people and communities too. It isn't only about the environment and looking after the planet, vital as that is.

We have a strong branch network firmly routed in our community. This means we reduce the need for our customers to travel, we help to sustain vibrant high streets and we provide small businesses with somewhere to deposit their takings. Again, using the English Street refurbishment as an example, we are utilising local materials and tradespeople wherever possible.

We are committed to distributing 1.5 per cent of our profits to good causes. Our Kinder Kind of Kitchen initiative to tackle food poverty and reduce food waste demonstrates how we use this funding to help sustain communities while our partnership with Cumbria Wildlife Trust helps to protect endangered red squirrels.

We have decided upon a simple framework to demonstrate how we bring Kinder Banking to life across three pillars:

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. You can see our progress later in this section of the report.

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

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.	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 own 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 have a clear roadmap of activity to reduce our emissions with the help of third-party experts and have installed solar panels on the roof at a number of our buildings this year.
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 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 own 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 to 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, over each of the last 3 years we have implemented an annual review of credit risk exposure focusing on our most vulnerable customers • 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	• We have defined 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 SECR (Streamlined Energy and Carbon Reporting) objectives are fulfilled in this Annual Report.

Our own impact on the environment

The main environmental focus for the Society is to gradually reduce its energy consumption and associated emissions. The focus two years ago was to investigate the opportunities for introducing renewable technologies across the estate, including electricity generation and space heating. The switch to REGO (Renewable Energy Guarantees of Origin) backed, zero emission electricity tariffs was completed in early 2023 and the benefit of this approach has started to reach fruition in our 2023-24 reporting cycle which is illustrated here. In reading this data it is important to note the following trends.

Firstly, we continue to see better capacity usage of our office space while still maintaining our hybrid working approach where appropriate for non-customer facing roles. This choice is driven by customer and colleague demand, including collaboration. There is no doubt the cost of domestic fuel for colleagues also impacts working location choice, in the colder months of the year in particular.

Secondly, while this has impacted consumption, we have been deliberate in our moves towards renewable sources, with all our electricity now coming from emission-free tariffs. To supplement this approach, next year we will see the impact of our new solar panel installations in our English Street Carlisle branch and at Cumberland House in Kingstown; the former is already working and the latter will be operational shortly.

Thirdly, the ability of our colleagues to travel for business and social purposes has also increased alongside the number of colleagues we employ. We are aware of this impact and have embraced the need to encourage our colleagues to consider electric cars as a choice, whether or not they are eligible for a company car or a car allowance.

Our submission for the SECR (Streamlined Energy and Carbon Reporting) for the year ending 31 March 2024 is set out in the table overleaf. Last year's figures are provided for comparison purposes. Last year we also submitted a report, developed by an expert third party, under the ESOS (Energy Savings Opportunities Scheme) which provided us with further guidance on how we can further reduce our emissions and conserve energy. In the 12 months to March 2025, the Society will continue to increase its emphasis on sourcing fully 'green' energy across the portfolio, including the potential to switch to a low or zero emission gas tariff.

	2023-24		
SCOPE 1 - DIRECT EMISSIONS	**Unit**	**Total**	**Carbon as tCO_2e**
Natural Gas	kWh	382,449	69.95
Business Mileage, **unknown fuel**	Miles	57,033	15.43
Total Scope 1		**439,482**	**85.38**
SCOPE 2 – INDIRECT EMISSIONS	**Unit**	**Total**	**Carbon as tCO_2e**
Electricity – National Grid, Location based grid average	kWh	1,154,196	-239.15
Electricity – National Grid, Market based, REGO backed	kWh	1,154,196	0.00
Total Scope 2		**1,154,196**	**0.00**
SCOPE 3 – INDIRECT EMISSIONS	**Unit**	**Total**	**Carbon as tCO_2e**
Electricity – T & D, Offices	kWh	1,154,196	20.70
Employee car – Average Passenger car, **Unknown fuel**	Miles	173,632	47.18
Company car, **reimbursed expenses**	Miles	4,254	1.15
Well-to-tank (WTT) – **all car miles**	Miles	234,919	16.51
Total Scope 3		**1,567,001**	**85.54**
Total – Scopes 1, 2, 3			**170.91**
Total tCO_2e per FTE, Scopes 1 & 2			**0.14**
Total kWh per m^2, Scope 1 Gas			**57.25**
Total kWh per m^2, Scope 2 Electricity			**95.63**
Total tCO_2e per £M gross turnover, Scopes 1 & 2			**1.05**

Notes
2023-24 FTE = 623
Floor space 12,069 m^2 for electricity calculations and 6,680 m^2 for gas calculations
2023-24 Turnover £81,510k. (Turnover = total income adjusted for gains / losses on derivatives)
The KWh per m2 calculations are a measure of energy usage in our property footprint and not carbon.

	2022-23		
SCOPE 1 - DIRECT EMISSIONS	**Unit**	**Total**	**Carbon as tCO_2e**
Natural Gas	kWh	372,550	68.01
Business Mileage, **unknown fuel**	Miles	64,945	15.19
Total Scope 1		**437,495**	**83.20**
SCOPE 2 – INDIRECT EMISSIONS	**Unit**	**Total**	**Carbon as tCO_2e**
Electricity – National Grid, Location based grid average	kWh	472,844	91.44
Electricity – National Grid, Market based, REGO backed	kWh	713,875	0.00
Total Scope 2		**1,186,719**	**91.44**
SCOPE 3 – INDIRECT EMISSIONS	**Unit**	**Total**	**Carbon as tCO_2e**
Electricity – T & D, Offices	kWh	1,186,179	20.99
Employee car – Average Passenger car, **Unknown fuel**	Miles	159,605	37.33
Well-to-tank (WTT) – **all car miles**	Miles	224,550	13.87
Total Scope 3		**1,570,874**	**72.19**
Total – Scopes 1, 2, 3			**246.83**
Total tCO_2e per FTE, Scopes 1 & 2			**0.28**
Total kWh per m^2, Scope 1 Gas			**55.77**
Total kWh per m^2, Scope 2 Electricity			**98.33***
Total tCO_2e per £M gross turnover, Scopes 1 & 2			**2.48**

Notes
2022-23 FTE = 631
Floor space 12,069 m2 for electricity calculations and 6,680 m2 for gas calculations
2022-23 Turnover £70,393k (Turnover = Total income adjusted for gains/losses on derivatives)

* Number restated to include REGO backed electricity as now required by regulation to provide a clear year on year comparator.

Scope 1

National Grid gas consumption

Total Scope 1 emissions are calculated as **69.95 tCO_2e.**

Consumption has increased marginally by 2.9%. Whilst some branches still operate reduced hours, typically open for 3 days per week or reduced hours each day, heating schedules may have been adjusted accordingly, with some locations working longer hours. Gas is used primarily for space heating and consumption is predicated on external temperatures and internal set points. As a result, this metric is exposed to the weather patterns experienced year on year.

Company cars / Fuel cards

Total Scope 1 emissions are calculated as **15.4 tCO_2e.**

The Cumberland 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.

There is no significant increase since 2022/23 emissions.

In relation to this metric and the one relating to business mileage in scope 3, below it is worth noting the ongoing activity which will in time contribute to improvements in these metrics. These include The Cumberland's progressive approach to:

- Phasing out all company cars on an ongoing basis, a process which started in 2022, and replacing these with a car allowance for eligible colleagues
- Introduction of a salary sacrifice electric car scheme in 2023, available to any colleague who meets the external criteria through Octopus Energy Ltd
- Several EV charging points were already established and this number has been increased (from 4 to 10) over the last 12 months, along with employee EV usage, to the point we have introduced a booking system
- There is also a salary sacrifice scheme for employees who wish to purchase bicycles to travel to work.

Scope 2

Electricity – National Grid

National Grid electricity consumption within the owned offices is calculated at 1,154,916 kWh, with emissions of 0 tCO_2e.

This is a drop in consumption of 2.7%. All the electricity supply contracts are now EDF REGO backed tariffs, which EDF certify as emission free. Since January 2023, every location has been on the EDF REGO tariff. We have completely eliminated direct carbon use from what used to be our largest source is emissions. The negative number in the table shows the carbon that would have been used on a standard UK energy tariff.

Scope 3

Summary

SECR does not require The Cumberland to report any of its Scope 3 emissions. However, the Society believes it is useful to report the metrics shown below as these Scope 3 emissions can be automatically calculated and they are under our control to some degree.

Scope 3, Category 3 Fuel & Energy

The emissions associated with the transmission and distribution of electricity between the generating site and The Cumberland's offices is proportional to the total National Grid electricity consumed and is calculated as 20.7 tCO_2e. **This has reduced marginally.** This is based on UK DESNZ factors, which may be different to the factor applied to the EDF REGO tariff we use, but we do not have a tariff specific conversion factor.

Scope 3, Category 6 Business Mileage

Emissions associated with colleagues using their own car for business mileage and company car owners who claim business mileage expenses are calculated as 47.18 tCO_2e and 1.2tCO_2e, respectively.

In addition to direct emissions from the fuel combustion, we can also calculate the WTT (Well To Tank) emissions which arise from the extraction, refining and distribution aspects of fuel manufacture. These are calculated at 16.5 tCO_2e.

We believe it is important to report on existing WTT emissions so that as the migration to hybrid and fully electric cars starts to gain traction, underpinned by some of our progressive approaches highlighted above, we will start to see WTT emissions fall. It is too early for us to see a positive impact at this stage though we are seeing growing use of EVs by our employees.

Scope 1 & 2

Scopes 1 & 2 Total tCO_2e per FTE

This metric was 0.14 tCO_2e per FTE in 2023-24, compared to 0.28 tCO_2e per FTE in 2022-23. **All the improvement is a result of the switch to REGO backed, zero emission electricity.**

Scopes 1 & 2 Total tCO_2e per £1 Million of gross turnover

The 2023-24 Scope 1 & 2 emissions per £1 Million of gross turnover is 1.05 tCO_2e, compared to 2.48 tCO_2e in 2022-23. **The significant improvement in this metric reflects the zero emissions reported for the electricity consumed, however it is important to note that our turnover is impacted by interest rates so does not have the same link to energy usage as this standard metric implies. In a falling rate environment this metric could rise even when our usage declines.**

RISK Report

This year has seen some challenging economic conditions for our Society and our members alike. Throughout the period, we have always sought to put the customer at the centre of our activities, be it managing financial resources to offer the best priced mortgage or deposit rates, successfully delivering the Consumer Duty changes, or investing in our transformation programme to enable the Society to keep meeting our members needs into the future.

This couldn't be safely achieved without resolute understanding and control of our risk environment. 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), who is a member of the Senior Leadership Team. The second line of defence risk team ensures consistency using frameworks, tools and policies and provides independent oversight to the Board. The 'first line of defence' is also well supported by embedded first line risk teams, who develop and assure controls locally.

The third line of defence, the internal audit function, provides independent assurance over all elements of the Society under a risk based approach and helps ensure appropriate risk capabilities and approaches.

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 position regarding these risks. The underlying set of risks included are broadly consistent with the risks faced in the prior 12 months, which has seen the Society carefully balance the often intersecting demands of the risks to deliver the best possible outcomes for our business and members.

Increasing level of risk

Decreasing level of risk

Stable level of risk

PRINCIPAL RISKS AND UNCERTAINTIES

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 performance of the UK economy (including the cost of living crisis), Brexit, and the on-going wars in Ukraine and the Middle East.	The key risks to the Society are the second order impacts on the UK economy and our customers. Whilst weaknesses in the UK economy continue to emerge, there remains much uncertainty and volatility due to the combination of domestic and world events and the attendant inflationary pressure and cost of living squeeze. This general economic risk is managed by governance (including review of industry forecasts), scenario planning and stress testing.	↑	The risk profile is increasing due to continuing unpredictability of national and world-wide factors; there remain significant downside risks to the UK economy, and business confidence remains suppressed. Over the past 12 months, the Society has: • monitored and responded to changes in the economy and competition; • stress tested economic impacts through ICAAP and ILAAP processes and credit risk modelling; • 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 'Top Risks' review.	↑	The risk profile has increased over the year as a result of the challenging economic outlook and increased levels of competition in the market. To mitigate this, the Society has utilised its governance structures and effectively worked across team boundaries to remain strategically agile, alongside continuing to invest in its transformation. These approaches will also support us through the anticipated downwards rate environment next year. Over the past 12 months, the Society has: • continued to build key aspects of the business to be able to deliver strategic change; • reviewed product and sector strategy with the Board; • progressed our transformation plan and technology investment with the support of our Board; and • continued to safely simplify the operations of the Group in readiness for transformation.
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 Board Risk Committee.	↑	Risk profile is increasing as the Society is embarking on a significant transformation programme. The Society has evolved governance and processes to oversee and challenge the effective planning and delivery of change, in addition to recruiting a strong set of capabilities to support all components of the transformation programme. Over the past 12 months, the Society has: • examined proposals from industry providers for replacement of our core banking systems on the basis of functionality, sustainability, cultural fit and cost suitability; • prioritised our delivery stack of projects, accepting risks where appropriate; • continued to assess and address technology debts within the organisation, including critical upgrades of our CSR and Authentic systems; • maintained focus on business-as-usual and growth segments of the business; and • continued to embed the capability and processes required to deliver a transformation this significant.

Risk and impact	Mitigation	Movement in risk profile	Latest progress
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 member specific factors and the broader economic environment, captured in metrics such as 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 continued cost of living challenges, together with elevated interest rates creates an enhanced degree of risk and uncertainty for the Society in this area.	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 Chief Risk Officer 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.	⇄	While arrears and forbearance have increased from an historically low base due to the extended period of economic weakness with increased interest rates and softening house prices, this is broadly consistent with industry experience with the overall level of arrears remaining modest and generally lower than peers. No material write-offs have been incurred. 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, given the very real impact on our members this remains an area of high focus for both the Society and regulator alike, reflecting the continued 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; and • reviewed lending criteria and procedures to improve clarity and efficiencies in our processes (including a full review of the Interest Only lending strategies) and to reflect impacts of the current economic environment with related changes to affordability and stress rates.
Information Security Risk The risk of events impacting the confidentiality, integrity and availability of the Society's information and information systems and the data contained therein.	Risk is overseen specifically through the Information Security Forum, with further oversight from the Board Risk Committee. Three policies set the standard for Information Security, Data Retention and Data Protection. Embedded risk management teams undertake threat assessments and testing throughout the year and monitor emerging trends, whilst dedicated 1st line teams manage day-to-day risk. The Society is very aware of the increased sophistication of threat in this area, and is continuously enhancing both colleague and technology capability to manage the risk to the Society and our members.	⇄	Over the past 12 months, the Society has: • completed the build out of our Information Security risk management team and improved Information Security assurance processes; • concluded reviews of the Information Security status of all of our third party suppliers and technology estate; and • restructured our Information Security policy to align with the new version of the ISO27001 standard.
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 initially moved rapidly upwards, but subsequently appear to have plateaued. Customers have shown an increasing preference for fixed-rate deposits across the period as a result, and the majority of our lending remains fixed rate therefore our control environment has been carefully managed to ensure that despite this increase in interest rate risk, our actions and governance result in a stable risk profile. Looking forward, different techniques will be required to manage the anticipated fall in rates in the next financial year, but the strength of our controls and governance means this does not cause undue concern for the Society.	⇄	Over the past 12 months, the Society has: • secured significant inflows of fixed-term deposits some of which can act as a natural hedge for lending, where necessary we have hedged liabilities as well as mortgages; • fully utilised our governance structures to rapidly and proactively manage the market volatility, including our approaches to pricing and hedging strategy; and • Continued to diversify our investments growing our portfolio of Covered Bonds and Supranational Bonds.

Risk and impact	Mitigation	Movement in risk profile	Latest progress
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.	⇄	Risk profile is stable with some improvements in the approach to forecasting and managing liquidity requirements. Whilst we anticipate continued competition in the marketplace next year, the strength of our heartland proposition and governance provides a stable platform to maintain our liquidity position. Over the past 12 months, the Society has: • improved its ILAAP with enhanced analysis, insight, and stress tests based on real world data; • repaid £60m of TFSME borrowed from the Bank of England; • maintained our levels of liquidity, with surplus to both our own risk appetite and regulatory requirements; • reviewed global events such as the collapse of Silicon Valley Bank for any applicable lessons for the Society; and • Successfully applied to be a 'Small Domestic Deposit Taker' in order to take advantage of simplified regulatory reporting requirements for firms of our size.
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 July 2023 and growth in our risk weighted assets, the overall risk profile is stable due to strong surplus over buffers, the Society's products, and control environment. The key future developments that may impact capital requirements (potential changes in regulation through Basel 3.1 and Strong and Simple, and capital requirements arising from transformation) are kept under continual review.	⇄	Over the past 12 months, the Society has: • delivered ongoing capital monitoring and the production of the ICAAP to confirm its capital strength; • grown the level of available capital through profitable operation; • assessed the implications of PRA consultation on both Basel 3.1 and Strong and Simple and consulted directly with the PRA and Building Societies Association regarding our views; • kept the capital requirements of transformation under continual review; and • successfully applied for a modified waiver of consent which means we will adopt SDDT (The Small Domestic Deposit Taker Regime – the recently revised name for Strong and Simple) and will remain on the current capital rules until it is consulted upon and approved.
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 Consumer Duty Framework which looks at all areas of potential customer detriment and tests whether any detriment is occurring ensuring that customers obtain good outcomes. 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. These processes enable us to actively assess customer outcomes and identify potential issues and put them right. Over the past 12 months, the Society has: • successfully implemented the requirements of the Consumer Duty regulations; and • refined its approach to Vulnerable Customers and introduced a comprehensive suite of vulnerable customer MI enabling it to continue to enhance the treatment of 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 New Cumberland transformation programme and strategy. Fraud accounts for 40% of crime in the UK, and we have invested in strengthening our fraud team and controls in response, including enhancing Visa risk rules to prevent suspicious transactions and protect the Society and our customers. The operational risk management system is now embedded enabling greater insight, profiling and management of our operational risks. Over the past 12 months, the Society has continued to: • embed the use of the risk management policies supporting the management of operational risk; • embed knowledge and use of tools within the risk management framework that enable the identification and appropriate treatment of operational risks; • refine the methodology for the assessment of risks to provide greater focus on items of greater risk; • upgrade our infrastructure underlying our core banking platform and therefore supported current resilience and our 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 PRA's supervisory statement SS3/19 and subsequent guidance provided by the PRA in the Dear CEO letters in 2021 and 2022.	⇄	• The Society conducted a review of its mortgage portfolios (as at the end of Dec 2022) to identify the risks under the different climate change scenarios. The outcomes of this review across 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) was assessed. These were communicated through the appropriate risk and board committees in July 2023. • An internal audit (with support from our 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 our portfolio at the end of December 2023 is currently in progress.
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. Horizon scanning and improving liaison with the change function has ensured that changes in regulation are identified and progressed within timescales • As a result 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.	↓	• Whilst rises in inflation over the last 2 years created an upwards pressure on the Scheme's liabilities, the economic risk was offset by the Society's actions which increased Scheme funding and reduced investment exposure as planned. Looking forward, the Scheme is on track to meet its longer-term funding objective, as per the plan committed to by the Society in early 2022. • The Society was exposed to the issues surrounding Liability Driven Investments (LDIs) during the economic turbulence following the 'mini-budget' in Autumn 2022. The investment strategy of the Scheme agreed in June 2023 restored the Scheme's hedge against inflation and interest rates to c.80%. In consultation with the Chair and CFO, the Society brought forward the £1m contribution due in June 2024 to put additional hedging in place, taking the hedge to c.90%. This was further supplemented in January 2024 by a divestment of one of the Fund's investments which has resulted in a 100% hedge of inflation and interest rates being achieved. This hedging reduced the level of volatility the scheme is subject to. • At 31 March 2024 the scheme is in accounting surplus for the first time and the technical deficit has fallen too. • Our advisers will continue to oversee the scheme and manage the position carefully in the current economic environment.

Our operating profit rose as we successfully managed a higher rate environment and controlled cost growth.

Welcome to your CHIEF FINANCIAL Officer's Review

Our financial performance was strong

The Cumberland and its customers successfully weathered a second year of high inflation, a slowing economy and rising interest rates, the outcomes of which can be seen in our operating results. As expectations strengthen that the next Base rate move will be downwards, your Society is now preparing for the challenges of a downward rate trajectory, which is something last seen in the period after the Global Financial Crisis.

Rising, and then, stable interest rates supported income, and allowed us to complete our ongoing investment in the preparatory stages of the New Cumberland transformation programme without a significant reduction in profit. In fact, while statutory profit fell due to a significant charge from our hedging activities, operating profits rose.

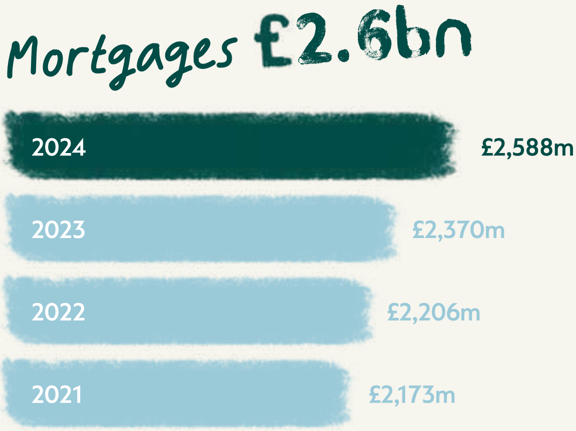
Against this complex economic backdrop, your Society grew its mortgage lending as planned, and you continued to trust us with your transactional banking, savings and deposits, which cumulatively grew modestly ahead of expectations.

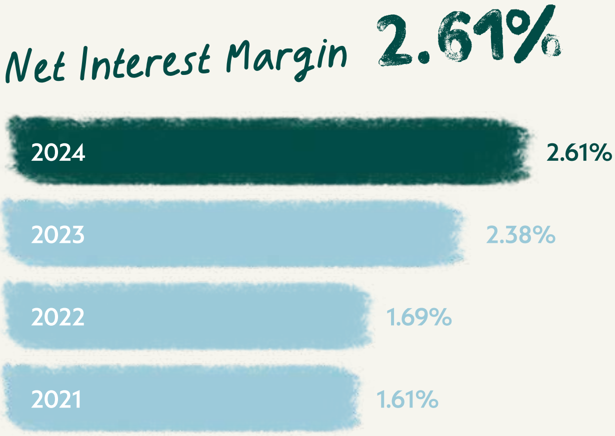
We continued to invest in change, our people and our processes. The pace of delivery rose as planned, resulting in ongoing improvements in our underlying technology architecture and improved cyber security. This included a successful upgrade to our current core banking platform – setting in place more of the foundations that will allow us to confidently progress into our new technology build over the next year.

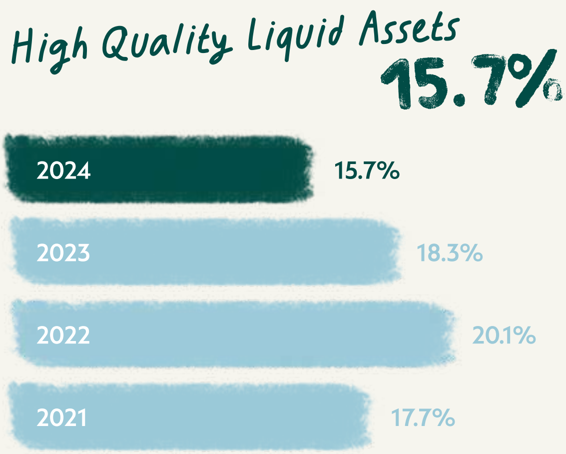
Our performance was substantially better than budget, and guided in last year's annual report, driven by revenue outperformance reflecting the higher than planned rate environment supported by proportionate cost control. This was offset by derivative volatility, including the partial unwind of last year's gains, as we flagged in this report last year.

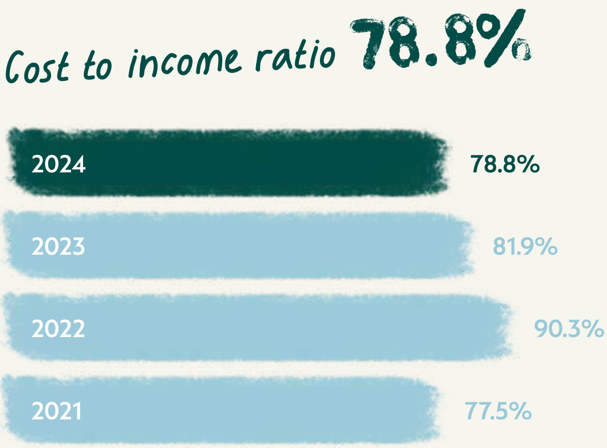
Profit before tax was £9.6m (2023: £26.6m), after a charge of £7.5m (2023: £14.1m gain) on swaps.

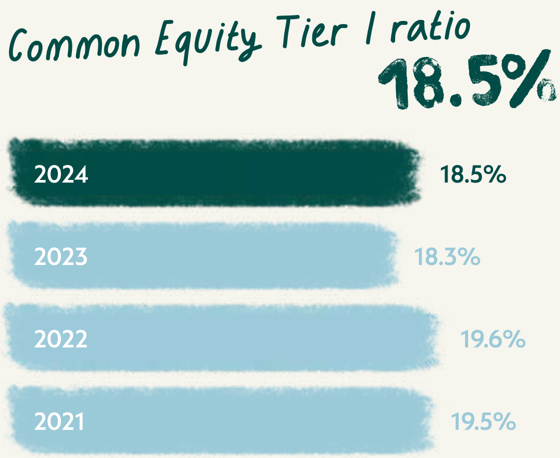
At an operating profit level, which strips out the large fair value hedging loss (much of which was reversing elements of 2023's gain and which will ultimately trend to zero), your Society saw an improvement to £27.4m (2023: £21.2m). This measure also excludes the cost of our New Cumberland programme. 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.











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 167.

INCOME STATEMENT

Overview

Statutory profits fell, and operating profits rose, year on year, with net interest income and fair value volatility being a key dynamic. This was driven by the rising UK base rate and SONIA as the Bank of England and financial markets responded to inflation in the first half of the year. The rising rate environment's impact, which was greater than we had budgeted, more than offset our high level of investment.

Readers will note that we have separately disclosed the element of our costs that relate to the New Cumberland programme below reflecting its strategic significance. Our expenditure on New Cumberland will grow next year as we complete discovery and commence build before peaking in 2025/26 and 2026/27 and we expect this investment in our future to materially impact our results.

The key macroeconomic drivers of our performance discussed above were supported by balance sheet growth and enhanced yield on our liquidity. Funding costs rose substantially, initially as we raised variable saving rates in response to each base rate rise, and more significantly in the later parts of the year as we saw a migration by depositors towards fixed term products.

A summarised Income Statement is set out below.

	2024 £000	2023 £000
Interest receivable	**180,434**	109,859
Interest payable	**(99,700)**	(40,433)
Net interest income	**80,734**	69,426
Other income or charges	**776**	967
Total operating income	**81,510**	70,393
Management expenses excluding New Cumberland	**(54,224)**	(48,753)
Provision for bad and doubtful debt	**79**	(434)
Operating profit (before New Cumberland, hedge accounting, other provisions and one off items)	**27,365**	21,206
New Cumberland costs	**(9,995)**	(8,894)
Other gains/(provisions) and (charges)	**(273)**	213
(Losses)/gains on derivatives and hedge accounting	**(7,501)**	14,054
Profit before tax	**9,596**	26,579
Tax	**(2,216)**	(5,000)
Profit for the year	**7,380**	21,579

Net interest income

Net interest income grew by 16%. This reflected three key dynamics: Firstly, the impact of a rising rate environment in the first half of the year, which positively impacted returns on our historic swap book (successfully protecting the Society from the type of change in rates that we saw) and kept the return for our liquid assets above the cost of funding as our floating rate deposits and instruments responded to moves in base rate and SONIA. Secondly, our mortgage books and FSOL portfolio continued their growth. Thirdly, depositors increasingly responded to the changes in rates and, in a competitive market, we saw substantial growth in those who deposited funds in term accounts. We saw substantial new money into term accounts but also a persistent movement for rate within our books, as instant or notice based access to funds was valued less by existing members than hitherto. This was coupled with drawdown by retail customers from their current accounts as the cost of living crisis bit. Each of these factors led to a rising cost of funds offsetting the growth in income.

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 received at least as good a rate during the year as the equivalent front book offer. These dynamics, as well as our decision not to pass the last three base rate rises (cumulative 1%) on to our owner-occupied mortgage customers on variable rates linked to SVR (protecting them from some of the rising rate environment's impact), saw cost of funds (interest payable) rise more in percentage terms than interest income year on year and reduced the level of margin widening to well below the step up in the external rate environment.

Net interest margin

NIM has increased by 23 basis points year on year to 2.61%, as base rate increased by 100 basis points to 5.25%. NIM improved steadily for the first six months of the year, as the asset side of the balance sheet benefitted from rising rates. This dynamic was driven by the growing return from liquid assets, coupled with a continuation of the back book dynamic discussed last year, namely the significant level of income from historic swaps. In the second half of the year, NIM has been falling back from its peak, reflecting the ongoing maturity of swaps on historic mortgages and their replacement by lower returning new mortgages (also swapped but at lower spreads) which has emerged as a new trend reflecting market competition.

The Society's decision to deliver rate rises, in response to base rate rises, to saving members, without passing all of these on to our variable owner occupier borrowers, also slowed margin growth. Thirdly a marked move in saving customer preferences towards fixed term deposits persisted, which has seen a shift to our flow of deposits (more than 70% of growth was in fixed rate savings), which has, changed the structure of our liability balance sheet towards a more costly funding mix.

In the second half of the year, we also saw retail term deposits pricing well above swap rates for a sustained period, while mortgage fixed rates have led the turn down in pay rates. Term savings rates have lagged this mortgage trend, only beginning to drop in the second half of December. These dynamics have seen spot margin trend down sharply in the later part of the year from its first half peak and are likely to result in lower margins in 2024/2025, as the market prices in rate cuts. Fixed rate mortgages are priced to reflect forward rate expectations inherent in the swaps used to protect the Society, and, at times, have ended up being cheaper than the shorter term fixed deposits flow that funded many of them.

Last year, we described the dynamic of a rising rate market impacted by political turmoil and the adoption of a pre-hedging strategy to allow us to safely offer fixed rate mortgages. We ceased pre-hedging in the aftermath of the Truss government and have returned to a more usual pipeline management approach. In the later part of the year, the drop in swap rates (reflecting market expectations of rate cuts later In 2024) has increased the risks of hedging too early and, for too long, we have used natural balance sheet hedging strategies, where possible. Nevertheless, the Society is more exposed to the impact of customer prepayments in a downward rate environment than in recent economic history. While we are acutely aware of the challenge customers now face 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. Nevertheless, we continued to support 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 consistently rising trajectory. Within this overarching dynamic, the Society has benefitted from its current account book and the funding it provides, though, consistent with the wider market, we have seen a reduction in the balances held in transactional accounts.

During the year, we have seen a reinvigoration of our business account range and we expect this to grow next year.

	2024 £m	2023 £m
Net interest income	**80.7**	69.4
Average financial assets	**3,093**	2,925
	%	%
Net interest margin	**2.61**	2.38

Defending margin is a key strategic aim, which will remain a focus in 2024-25. Pressure has already come from asset price reduction and it is expected to persist. This is likely to be augmented by the dynamic that emerges in a downward rate environment, of variable mortgage pricing reducing before variable liabilities, as the latter requires consumer notice and mailing. This creates point in time margin reduction on top of the squeeze already occurring. While likely to be welcomed by our borrowing members, this dynamic creates risks to the Society that require careful management as we head into next year.

Derivatives and hedge accounting

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

Over the last few years, customers have overwhelmingly opted for fixed rate mortgages. In 2024, this trend softened as commentators have started to discuss a lower rate environment being on the horizon. Fixed rate preference has continued to migrate towards 5 year deals from 2 years, though this directional shift also softened in the second half of 2024.

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, potentially to a level above the interest its mortgage customers are paying. 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 if it has a floating rate liability funding it, this effectively mitigates 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 remaining elevated and significant levels of additional interest income from swaps, though, relative to last year, the values involved have trended down.

On our front book, new risks have emerged as our saving customers have preferred fixed rate savings, requiring us to hedge these too, adding complexity. The downward rate curve also exposes us to the risk that, as mortgage rates reduce, prepayments might increase, potentially leaving the Society, in the absence of economic break costs being payable by customers (due to regulation), with more swaps than mortgages of similar rates and tenors.

During the year, there has been considerable market volatility, impacting swap valuations within an initially rising swap price trend, which was then replaced by oscillating prices, before a clear turn downwards in November forward.

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 volatile and, in the second half, have generated fair value losses.

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 (or loss), and is the reason why the Society removes hedge accounting gains and losses from its operating profit disclosures.

These fair value movements, in the current year, were of lower absolute significance than in 2023 and were predominantly debits. They 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.

Last year significant gains were recognised and, this year, the unwind has commenced as expected and guided and a charge of £5.9m for this is included within the overarching hedging debit of £7.5m. The gross income statement swing from derivatives is over £21m year on year (a gain in 2023 of £14m and a loss of £7.5m in 2024).

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. As these historic deals increasingly mature, and the more recent mortgages predominate and as floating rates themselves are expected to start to move lower, this trend will reverse. Over the recent period of high rates the Society has agreed to pay a relatively much higher fixed rate to protect itself and, so over the later parts of, in particular, 5 year mortgage deals, the variable income it receives from the hedging derivatives may decline substantially, particularly if the UK rate environment falls more quickly than predicted.

The market is currently predicting a series of rate cuts during the remainder of 2024, though not a return to the very low rate environment experienced until 2022. It is likely that rate volatility will persist in the near term, as the actual outcome is worked through.

Management expenses

The Group's management expenses include administrative expenses, depreciation and amortisation and the costs of the New Cumberland transformation programme.

	2024 £000	2023 £000
Administrative expenses before New Cumberland	**(50,445)**	**(45,587)**
Depreciation and amortisation	**(3,779)**	**(3,166)**
Management expenses excluding New Cumberland and one off items	**(54,224)**	**(48,753)**
New Cumberland costs	**(9,995)**	**(8,894)**
Gain on sale of tangible fixed assets	**38**	**77**
Total management expenses	**(64,181)**	**(57,570)**

Represents:

	2024 £000	2023 £000
Administrative expenses	**(60,440)**	(54,481)
Depreciation, amortisation, impact and sale of fixed assets	**(3,741)**	(3,089)
Total management expenses	**(64,181)**	(57,570)

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 £11.4m (2023: £8.9m) in the second year of the New Cumberland programme, £10m of which was expensed, (2023 £8.9m). In addition, a further £5.2m (2023 £7m), a proportion of which was capitalised as tangible and intangible assets, was invested in our current infrastructure, networks, information security management

INCOME STATEMENT

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 level of investment reflects an almost doubling of project based spend in each of the last two years versus historic run rates, and is indicative of, though lower than, the scope of transformation ahead.

Last year, the Society responded proactively to the cost of living crisis by making an extra payment of £1,500 in October (2022) to all employees, who don't pay the UK higher rate of tax. This covered over 82% of colleagues. Recognising that costs wouldn'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 was delivered in addition to the discretionary salary rise of 4%, which we provided to all employees. In March 2024 we paid a further payment of £600 to the same cohort of colleagues as the October 2022 payment reflecting our focus on supporting those who need it most. We have made a further discretionary rise in salaries in April 2024 for all of our people. We also saw significant evidence of inflationary wage pressures in recruitment, as competition for technical, data and risk management skills intensified. All of these factors saw our people costs rise significantly.

Operational expenses rose too, reflecting the impact of persistently high inflation on utilities and the rapidly rising costs of our suppliers, who responded by demanding above inflationary cost increases. Cost increases also reflected our ongoing and 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. We also saw a new levy raised by Bank of England, which resulted in an unbudgeted charge of £300k in March 2024.

The Society's major change programme, "New Cumberland", will continue in 2024-25, entering into discovery early in the year, then into the build phase in the second half. The overall delivery will extend over our three year strategic planning horizon into financial year 2027-28, and we expect to support a significantly elevated and growing level of investment over this multi-year period, as we progress through the heart of delivery and, thereafter, migration. This is expected to challenge overall profitability, as we prioritise long term sustainability through a "fit for the future" core banking platform, and 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.

Arrears and impairment charge

The strong credit performance of the Society's loan books was maintained in 2024, 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 regularly adjust our lending criteria and appetite, as the cost of living crisis persisted and inflation bit, without withdrawing from the market.

While some further tightening of lending criteria has taken place, and affordability has been stretched for some borrowers by higher interest rates, 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 largely concluded in 2023, though, for an element of our FSOL book, this continued into 2024. Where appropriate, we have offered a variety of forbearance measures to borrowers struggling in the current economy, and this modest increase in its use, and our arrears, is reflected in the 31 March 2024 data. The level of customers in forbearance measures at 31 March 2024 are:

No. of cases (% of book)	31 March 2024	31 March 2023
FSRP (Arrears All)	**20 (0.12%)**	18 (0.11%)
FSRP (Arrears Owner Occupied)	**20 (0.14%)**	17 (0.12%)
FSRP (Arrears BTL)	**0 (0.00%)**	1 (0.04%)
FSOL	**13 (2.48%)**	13 (2.40%)

The volume of accounts fully secured on residential property (FSRP) 90 days or more past due (90 DPD) at the balance sheet date has risen, but remains low, despite the pressures that have emerged from high inflation, and the increases in interest rates, a growing proportion of our borrowers have faced. In our FSOL book (loans Fully Secured On Land) a similar dynamic was observed. The volumes are as follows:

Accounts in arrears (≥ 90 DPD) as % of loan book	31 March 2024	31 March 2023
FSRP (90 days)	**0.14%**	0.07%
FSOL (90 days)	**1.90%**	1.64%

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

The income statement credit for bad and doubtful debts was £79k (2023: £434k charge). 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 for the Society in 2024. A modest loss on revaluation of our investment properties of £50k (2023: gain £20k) and a gain of £15k on sale of investment properties was recognised (2023: gain of £116k).

Our vehicle finance subsidiary, Borderway Finance Limited (BFL), has recognised a provision of £277k in relation to the discretionary commission arrangements matter reflecting the costs of processing a higher than previous volume of complaints as a result of the FCA announcement and our expectation of some modest future redress. Our historic controls and the modest levels of commission paid prior to 2021 mean that this matter is not currently expected to be material to the Group, though the eventual outcome is highly dependent on the FCA's future decisions and rules.

Subsidiary companies

The Group's financial statements incorporate the assets, liabilities and results of a holding company and BFL.

BFL, our motor finance business, contributed a profit before tax of £331k (2023: £951k) to the Group's reported results after accounting for the matter noted above. 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. As with the Group, the result was impacted by the unwind of last year's derivative gains and the expectation that rates will trend lower. The balance sheet grew to £27.3m (2023: £26.7m), with the majority of this in the first half, before cost of living challenges and fears of recession dampened demand. Credit quality has been good. Pleasingly, the level of arrears, while modestly increased versus a year ago, has remained subdued.

BALANCE SHEET

Overview

The Society's balance sheet exceeded £3bn for the first time in 2023 and grew to £3.2bn in 2024. Loans and advances to customers have grown during the year by £194m[1] (2023: £198m). Customer deposit growth was modestly higher than lending asset growth at £203m (2023: £169m).

A summarised Balance Sheet is set out below:

	2024 £000	2023 £000
Assets		
Loans and advances to customers	**2,616,609**	2,397,996
Liquidity	**511,068**	581,911
Other	**90,760**	110,179
Total assets	**3,218,437**	3,090,086
Liabilities		
Retail funding	**2,813,649**	2,610,818
Wholesale funding	**151,220**	242,724
Other	**19,355**	9,955
Total liabilities	**2,984,224**	2,863,497
Equity		
Profit for the year	**7,380**	21,579
General reserve	**221,894**	201,497
Available for sale reserve	**4,939**	3,513
Total equity	**234,213**	226,589
Total liabilities and equity	**3,218,437**	3,090,086

[1] Gross exposure excluding hedge accounting adjustments.

BALANCE SHEET

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. Within this growth story we saw outperformance in the first half offset by more subdued growth in the second as affordability became strained reflecting high mortgage rates plus the addition of a stressed rate in our credit assessment (as regulations require) when coupled with the rising cost of living this reduced customer capacity for mortgage payments. This dynamic may start to reverse as rates turn down in later 2024 easing affordabilty concerns and we saw an uplift in our pipeline in the last 2 months of the year.

Our holiday let business grew, benefiting from a strong pipeline built up in the early part of the year. However, growth slowed substantially in the second half, as affordability became a concern and owners worried about new regulation and the risk of recession. Our FSOL book, which is predominantly hospitality and tourism led, grew at a slower rate than planned, reflecting uncertainty around recession and lower consumer spending.

In the final months of the year, we saw the pipeline quality and volume improve as confidence in the UK avoiding a hard economic landing increased. The FSOL book grew to £234m.

We advanced £474m of mortgages (2023: £541m) and mortgage balances grew by £194m (2023: £193m).

Liquidity

On-balance sheet liquid assets reduced to £511m (2023: £582m), as we continued our structured repayment of TFSME as planned, and we diversified our holdings further.

Throughout the year, we maintained a prudent buffer given the uncertain economic backdrop, while unwinding some of the historic conservatism.

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 robust at 15.7% (2023: 18.3%). The Liquidity Coverage Ratio (LCR), which is the primary regulatory measure, continued to be very strong at 207% (2023: 239%), considerably above the minimum regulatory requirement of 100%.

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, 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 but growing number of multilateral development bank bonds. Accordingly at 31 March 2024, included in liquid assets are £141m (2023: £86m) of assets held at fair value through other comprehensive income (FVOCI).

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 a marginally above budgeted inflow of funds of £144m (2023: £138m), which, after the capitalisation of accrued interest, resulted in our total retail funding rising to £2,814m (2023: £2,611m), growth of 8%. As a result, our deposit to loans ratio remained well over 100%.

Our growth in instant access accounts was modest as a reduction in the first half reversed in the second and member behaviour adjusted in the final two months of the year reflecting the reduction in spread between fixed and variable savings rates as the former began to price in likely rate reductions. Current accounts were lower as customers both used funds to respond to the cost of living challenges and 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 throughout the year, reflecting both market positioning, which generated new inflows, and the overarching rate environment, which encouraged existing and new customers to lock in returns at higher rates, by fixing more of their savings. Our long term commitment to savers remains at the forefront of our mind and we passed on the majority of each of the UK Base rate rises in the year.

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 continued repayment of our existing TFSME funding well ahead of its scheduled maturity. At 31 March 2024, we held £140m in TFSME and £0m 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 strong financial results have sustained our gross capital ratio (gross capital expressed as a percentage of total shares and deposits) at 7.90% (2023: 7.94%). This gives us a firm base to support the business, as we accelerate investment levels to deliver the New Cumberland programme over the next couple of years. 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 2025 and beyond. In Early February we applied to early adopt the Small Domestic Deposit Takers regime (SDDT) and the PRA approved our application thus it will be SDDT and its implementation dates and rules rather than Basel 3.1 that will directly impact our capital surplus.

The Society's regulatory capital position at 31 March 2024 is summarised below. Our CET 1 ratio increased slightly to 18.50% (2023: 18.29%). If 2024's earned profit is included, this ratio improves to 19.11%.

	March 2024	March 2023
Capital resources:	**£m**	£m
Common Equity Tier 1 (CET 1) capital	**231.5**	223.6
Total capital	**231.5**	223.6
Risk weighted assets	**1,211.5**	1,104.7
Capital and leverage ratios:	**%**	%
Common Equity Tier 1 (CET 1) ratio*	**18.50**	18.29*
UK leverage ratio	**7.95**	8.43

* 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.

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 2024 was £119.97m.

As a result of its successful application to early adopt the SDDT regime the Society is no longer required to produce or report in line with Pillar 3 disclosures. Further information on the Groups capital position can be found in note 35.

Richard Ellison
Chief Financial Officer
4 June 2024

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 50 to 53.

Longer term prospects

The Group's business model and strategic priorities are set out on pages 14 to 17. 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 Cumberland 2025 strategy. During the current year the Strategy has been reconfirmed but it is now referred to by the title New Cumberland reflecting that and our work in delivering it will persist well after 2025.

Since this work set our direction, the Board has at least annually considered our overarching strategy. In 2023, 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 is now well embedded and has allowed us to increase the quality and cadence of change. Concurrently to the ongoing work of delivery to update our existing infrastructure and enhance our operational resilience, we have successfully completed a second round of RFPs and, with the Board's approval, progressed into detailed commercial negotiations with our preferred technology partners. We expect to sign initial commercial agreements, and move into the detailed discovery phase of work, during the summer of 2024.

One key lesson emerging from other transformations, undertaken in the regulated financial services sector, 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. While being mindful of the need to progress work which supports operational resilience and addresses end of life dates on the horizon for some of our technology, the Board remains committed to a structured and rigorous step by step process, utilising the skills of experienced third parties, wherever this is practical and appropriate, as a key risk mitigation strategy.

In this context, the Board reflected on another year of successful change delivery, substantial strategic progress and a strong financial performance, while recognising that the path of the economy, created volatility and pressures on our business that 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 2024. In April, it considered its ongoing transformation plans in light of the concurrent commercial negotiations 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 2027. 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;
- 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 1% 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 persistent inflation, which moved from the energy driven dynamic of

2023 into a wider range of areas, including wages and food prices, all of which have persisted and 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 scenario based on the Bank of England's recommendation with persistent inflation while concurrently experiencing sharp base rate cuts and a recession 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. Due consideration was given to the learnings from SVB and Credit Suisse which straddled the start of the year.

The Group's baseline financial forecasts for the next three year period assume we have completed the interest rate tightening cycle, a persistence of the current base rate until summer 2024 and, thereafter, a steady series of reductions, as inflation continues to weaken towards the Bank of England's target. It is possible that current rates may persist, reflecting the persistence of inflation in the UK, or that the pace of rate cuts may accelerate, as some elements of the market have priced in.

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 operationally profitable over the three years of their viability assessment. While the shape of our strategic investment remains consistent year on year in terms of its impact changes in accounting rules around capitalisation now mean that we will expense the vast majority of New Cumberland's cost and so statutory losses may occur and they feature in our planning assumptions, as the shape of our strategic investment is balanced between the need to transform at pace and our financial capacity. The Board recognises that a sharper rates down trajectory, in the middle of our peak transformation spend, could challenge this outcome further.

The financial statements presented alongside this viability discussion incorporate the directors' current best estimate of incurred losses in its lending portfolios at 31 March 2024. While we are cautious about the future, and have provided on this basis through our modelled assumptions and judgemental 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 modestly reduced).

While there remains a risk that the level of loan losses ultimately suffered is higher than forecast, as a result of the impact on households and businesses of the squeeze on living standards and relatively higher cost of mortgage and consumer debt, our persistently low levels of loan losses over the last twelve 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 2023, 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 44. However, while the calculated impact grew versus a year ago, 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 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 December 2023 and concluded that the Society maintains sufficient capital resources to meet regulatory requirements under the central planning scenario and, 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, the impact of sharply lower interest rates in the modelled scenario and the concurrent diversion of income into strategic investment, two 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 UK's capital adequacy framework. In the Society's case, this is expected to be the UK's new Strong and Simple regime which was, recently renamed SDDT (Small Domestic Deposit Takers). Basel 3.1 is currently under consultation SDDT is currently unpublished in relation to capital but the PRA has indicated that it will be predominantly based on the finalised Basel 3.1 proposals. The Basel 3.1 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 if there is a change in the planned approach to our transformation or its timescale Alternatively, it would require a change in our strategy in relation to Holiday Let mortgage lending. The Society has responded alongside the BSA to the consultation, reflecting the fact that we have never experienced a loss on holiday let lending so the almost tripling of capital required appears unjustified. The outcome of this matter is unknown at the date of the report.

The Society considered the economic conditions, which existed at 31 March 2024, and concluded that the stress testing remained appropriate. The stress tests applied were in line with Bank of England scenarios, which were markedly more severe in impact than the previous year's rate up 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 July 2023. The current year's post tax profits are also available as capital shortly after the date of approval of these accounts and this was prudently incorporated into our modelling.

The ILAAP, which addresses the Group's funding and liquidity, was last updated in September 2023, 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 always plans to hold more HQLA as a percentage of Shares Deposits and Loans. Since the ILAAP's preparation, the Group has seen significant deposit inflows, widening its surplus liquidity, which was lower at the date of the ILAAP, and it has updated its funding plans and quarterly 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.

At 31 March 2024, £140m of TFSME remained outstanding. The TFSME drawdowns, which were concentrated at the back end of the drawdown window in 2022, markedly extend the tenor and stability of this funding source. During the year, the Group repaid £60m, reducing the outstanding balance as part of its structured repayment plan.

Liquidity stress testing, incorporating each of the relevant principal risks on pages 50 to 53, 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 most 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 since and represent a stable 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.

The Group periodically reassesses both its own critical services, and its supplier base, and has conducted a significant amount of recontacting work this year, which, alongside our transformation work, has included multiple notifications of outsourcing to the PRA in line with regulations. In March 2022, the Board approved its important business services for the first time; these were reassessed in February 2023. The Society has steadily progressed its work and plans to ensure that these services remain within stated impact tolerances by 2025. This assessment was updated and approved again in March 2024, and 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 underlying resilience improvements are linked to and dependent upon our New Cumberland transformation.

During the year ended 31 March 2024, the Group has continued the process of moving some of its non-customer facing technology provision to the Cloud and, as part of the New Cumberland journey, we expect this trend to accelerate over time, including the further use of material outsourcing, as defined under regulation.

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 48 to 53, 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 48 to 53, 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 outcomes of the current Basel 3.1 consultation, and awaited consultation on the Small Domestic Deposit Taker Capital regime which we expect 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 119.

OUTLOOK

The outlook for the UK economy is uncertain. As inflation has moderated (but remains above the Bank of England's target), speculation about rates is significant and has driven swap, and thus mortgage and saving, pricing down from the highs seen during this year. Tragically, the world seems to be at war in multiple locations, with the Middle East joining Ukraine and escalating conflicts further afield. This, coupled with the potential impact of US elections on global politics, creates a challenging macro-economic outlook, with UK growth sluggish. The last two years have shown that prediction is fraught and, while a deep recession has not occurred to date, growth may well continue to stall or reverse.

The Society's profitability is expected to reduce markedly over the coming three years, as it strategically invests in its future in the context of a downward sloping rate environment. This dynamic is occurring while the Society continues to absorb, through its key business lines, the impact on the economy of inflation's long tail, rising costs of wages and supply chain bottlenecks, 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
4 June 2024

Corporate

GOVERNANCE

Report

HIGHLIGHTS OF 2023/24

- Chair succession as John Hooper's term ends at AGM 2024 (to be succeeded by Jackie Arnold MBE)
- External Board effectiveness review found the Board "very well run"
- Cameron Marr joined the Board as Chair of Board Risk Committee


CORPORATE GOVERNANCE REPORT

Our SENIOR TEAM

Executive Director

Non-Executive Director

Senior Leadership

The Society's Board of Directors and Senior Leadership Team are responsible for the governance and management of the Society.

Chair's welcome

Dear Member,

Welcome to the Corporate Governance Report for 2023/24. As a mutual organisation, the Society is not strictly required to comply with the principles in the UK Corporate Governance Code 2018 (the 'Code'), but 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 168-170 sets out the principles of the Code and where in this report you can find how the Society addresses them.

2023/24 will be my final full year as your Chair: I will step down at the conclusion of the AGM 2024 as I am approaching the maximum nine year tenure recommended by the Code. It has been an honour and a privilege to steward an organisation with such a strong purpose and rich history through a period when it has set course to a sustainable future, enabling it to continue to be a key provider of financial services to the people of Cumbria, southern Scotland and surrounding areas.

I will be succeeded by Jackie Arnold. Jackie lives in Cumbria and has played a prominent role in the commercial and business life of the region throughout her career. She has been a director of the Society since March 2018, serving as Chair of PARC and as a member of Audit Committee. Therefore, I am leaving the Society in the safe and capable hands of someone who not only knows the Society well, but also the region in which it operates and the importance of the Society to the economic wellbeing of that area.

I am also confident that I am leaving Jackie with a strong and capable Board. During the year, we commissioned our triennial external Board Effectiveness Evaluation, which is carried out by an independent third party. The report, which was delivered in November 2023, found that the Society's Board and Committees "are working well for a regulated firm of its nature, size and complexity, thanks to its highly competent board members and healthy customer-focused culture."

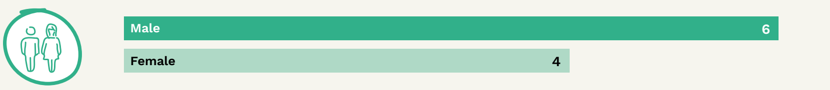
My fellow director, Eric Gunn, is also stepping down from the Board at the AGM this year. Eric has been a director at the Society since November 2016 and served as Board Risk Chair from August 2019 until October 2023 and has been Senior Independent Director since April 2022. Throughout his time at the Society, and in all of his Board roles, Eric's dedication and commitment has shepherded the Society safely through any challenges and I wish to thank Eric on behalf of the Board and the Society for all his hard work.

Eric has been succeeded as Board Risk Chair by Cameron Marr, who joined the Board in November 2023. Cameron is a very experienced non-executive director, and his contribution will steer the Society safely forward as it manages the risks of the next stage of its transformation. Nomination & Governance Committee is currently in the process of appointing a successor for Eric as Senior Independent Director, a role which is even more important in the short term, as the Senior Independent Director will be an invaluable sounding board and advisor for Jackie as she establishes herself in her new role. The Committee is also ensuring an orderly succession to those roles Jackie will vacate on taking the Chair.

I will say again in this my final year, as I have said every year that I have been Chair, it has been a challenging and rewarding year for the Board serving you, our members. I wish Jackie and the Society every success in future.

John Hooper
Chair
4 June 2024

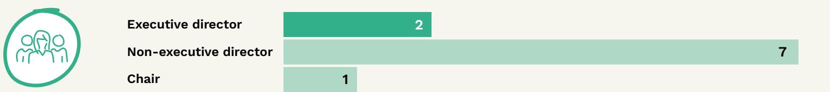
Gender split



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

*as at 31 March 2024

Executive and non-executive director split



Committee membership

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

The Board is comprised of 7 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. The Senior Independent Director acts as a sounding board for the Chair and serves as an intermediary for the other directors and the members.

The November 2023 Board Effectiveness Evaluation found that, "for a firm of its nature, scale and complexity, the CBS Board and its board members [were] highly competent (both as individuals and as a team)," describing directors as "hard-working, collegiate, cognitively-diverse, highly methodical, [and] challenging." Their commitment to the service of the Society and its purpose was particularly noted.

John Hooper and Eric Gunn will step down at the conclusion of the AGM this year. Jackie Arnold has been appointed Chair Elect and is working with Nomination and Governance Committee to ensure an orderly transition to a new Board structure.

Meet the Board of DIRECTORS

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 40 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

ANNA BARSBY
Non-Executive Director

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 the Founder and Managing Partner at Tessiant and previously the CDIO/CTO at Halfords, Morrisons and Asda; she has significantly improved technology capabilities in many organisations.

Current material external positions

- Founder and Managing Partner, Tessiant
- Non-Executive Director, Talent Mapper
- Director, ACR Cars Ltd

Previous positions include

- Group Chief Product and Technology Officer, 888 Holdings / William Hill
- Chief Digital and Information Officer, Asda
- Chief Transformation Officer, Fortum and Mason
- Chief Information Officer, Halfords
- Chief Technology Officer, Morrisons

KELLI FAIRBROTHER
Non-Executive Director

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

Skills and experience

Kelli has over 20 years of experience in consumer and technology businesses. She is currently CEO of technology start-up Xigxag, a digital media technology start-up she co-founded. She previously served as Group Head of Strategy for Whitbread, President of the International Business of Deluxe Entertainment and Chief Operating Officer of Gelato. She earned her MBA from Harvard Business School.

Current material external positions

- Co-Founder and CEO, Xigxag Limited

Previous positions include

- Chief Operating Officer, Gelato
- President, International, Deluxe Entertainment
- 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, Consumer Duty Champion since September 2022 (independent)

Skills and experience

Vicky has worked in international financial services for over 25 years. Her experience spans change, risk, regulation, wealth management and retail banking and she has UK board experience in financial services and the not-for-profit sector.

Current material external positions

- Non-Executive Trustee, Agitos Foundation
- Consultant, International Paralympic Committee

Previous positions include

- Non-Executive Trustee, Hope and Homes for Children
- 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

Senior Independent Director

Non-Executive Director since November 2016, BRC Chair August 2019 to November 2023, 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 and Chair elect

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

Skills and experience

Jackie has over 35 years' experience in business and financial management roles, and has previously held several senior positions with BAE Systems. She also has significant non-executive experience in the public and education sectors most recently being appointed Non-Executive Director at Furness Education Trust.

Current material external positions

- Professor of Practice, University of Cumbria
- Honorary Fellow, University of Cumbria
- Leader in Residence, Lancaster University
- Chair of Trustees, Furness Education Trust
- Consultant Social Purpose, BAE Systems

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 accountancy and financial services. His experience includes risk, audit, regulatory compliance and included a focus on the hospitality sector.

Current material external positions

- Partner, Armstrong Watson LLP
- Director, Gibbons Wealth Management Limited
- Director, Gibbons Properties Limited
- Director, Carleton Properties (Cumbria) Limited

Previous positions include

- Chair, Board of Governors, Lakes College, Lillyhall
- Senior Partner and Managing Partner, Gibbons

CAMERON MARR

Non-Executive Director

Non-Executive Director and BRC Chair since November 2023 (independent)

Skills and experience

Cameron has worked in international financial services for over 35 years. His experience of the sector includes risk, regulation, and sustainability. He also has an extensive background at Board level having chaired Board Audit and Board Risk Committees in other organisations.

Current material external positions

- Non-Executive Director (Chair of Audit Committee), Hewlett Packard International Bank DAC
- Non-Executive Director (Chair), Mars Capital Finance Ireland DAC
- Non-Executive Director (Chair of Audit, Risk and Compliance Committee), AIB Merchant Services
- Non-Executive Director (Chair), Kroo Bank Ltd

Previous positions include

- Chief Risk Officer and Executive Director, KBC Bank Ireland DAC
- Chief Executive Officer, Butterfield Bank (UK) Limited
- Non-Executive Director (Chair of Audit and Risk Committee), Ghana International Bank PLC
- Non-Executive Director (Vice-chair, Chair of Risk Committee and Chair of Audit Committee), National Bank of Kuwait (International) PLC

DES MOORE

Chief Executive Officer

Chief Executive Officer and Executive Director since April 2018

Skills and experience

Des is an accomplished senior leader in the financial services sector in both the UK and Ireland, with extensive experience in both retail and commercial banking. Prior to joining the Society, Des spent five years as Managing Director of AIB (NI) and was responsible for leading the restructure 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

- Non-Executive Director, Cumbria Local Enterprise Partnership
- 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 future of the Society. 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 (Chair of Audit & Risk Committee), Tullie Museum and Art Gallery
- 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, technology operations, and for delivering the Society's change agenda, including its transformation programme.

Skills and experience

Ian is an experienced transformation and technology leader with over 35 years' experience in financial services. He has global transformation experience with major consultancy firms and international banks. He was previously the Head of International Operations at Barclays, Retail CIO at First Abu Dhabi Bank and has held the role of Chief Operating Officer 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 over 20 years' of 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 Society from Virgin Money where she was Head of Stores and Lounges, and prior to this enjoyed success in several senior manager roles within Lloyds Banking Group.

Current material external positions

- Non-executive Director, Cumbria Local Enterprise Partnership

Previous positions include

- Head of Retail Distribution, Cumberland Building Society
- Head of Stores and Lounges, Virgin Money
- Senior Manager, Lloyds Banking Group

JILL JOHNSTON
Chief People & Sustainability Officer (CPSO)

Chief People & Sustainability Officer since January 2024 (Chief People Officer from March 2019 – January 24)

The CPSO is responsible for leading on people and sustainability 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 initiatives, including leadership development, reward, wellbeing, safety, and diversity and inclusion. Jill is also responsible for the development of the Society's sustainability approach bringing together a number of initiatives under the Environment, Social and Governance umbrella.

Skills and experience

Jill has a Marketing degree, is CIPD qualified and has over 25 years' experience working in HR across a range of sectors including retail, media and finance including start ups, scale ups, mergers and acquisitions. She has led HR teams and has been part of the Executive team for organisations including the Guardian Media Group (GMG Radio) and Border Television plc. She also has experience of successfully running her own HR consultancy business.

Current material external positions

- Non-Executive Director (Chair of Remuneration Committee), University of Cumbria
- Women in Finance Board Member and Chair for Building Society and Credit Union Sectors

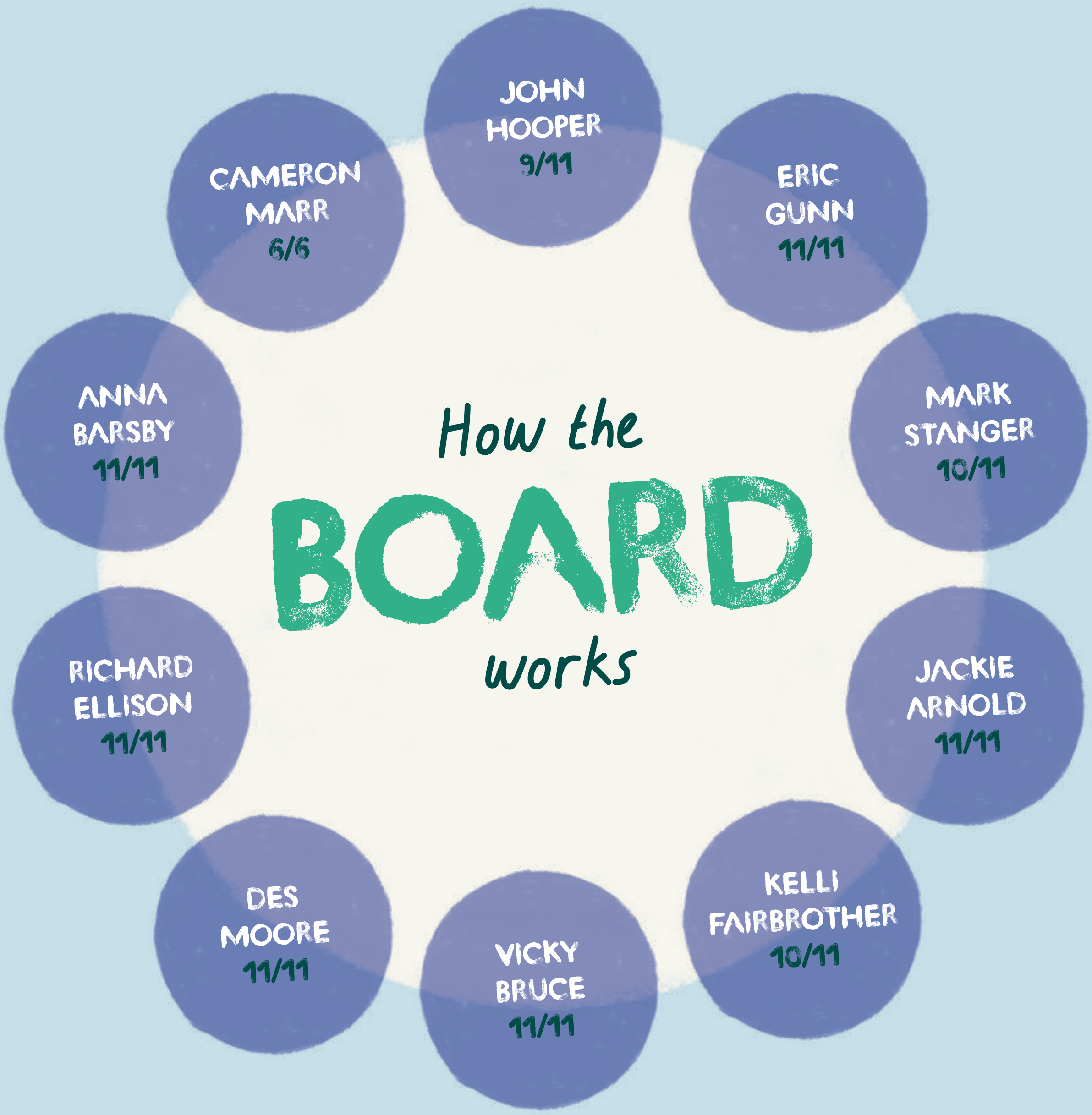
Previous positions include

- Head of HR, Border Television plc/ Border Radio
- Group HR Director, GMG Radio (part of the Guardian Media Group)

Leadership & purpose

The Board has established a purpose, values and strategy for the Society as set out in the Strategic Report on pages 6 to 69. 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.

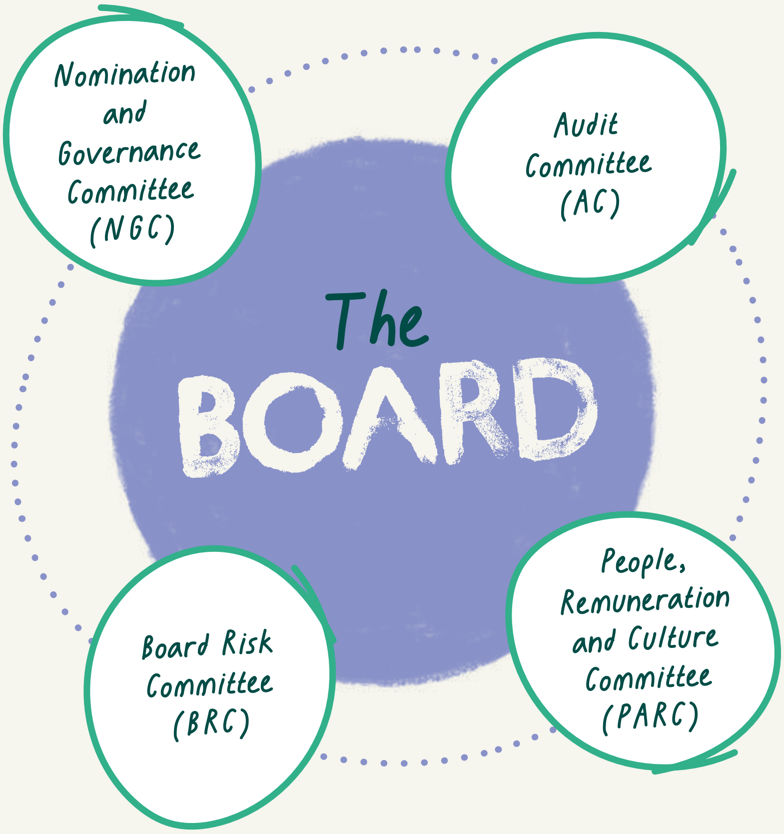
The Board meets at least ten times each year to fulfil its function. The non-executive directors meet without the executive directors present on a regular basis. Set out below are details of the directors' attendance record at Board meetings during 2023/24. Membership of and attendance at Board Committees are set out in the relevant Committee reports.



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 fourth 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.

"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. This focus has been taken into our work on Consumer Duty to ensure consistently good outcomes for our customers.

The Board considered the interests of the customer in having a sustainable society in the long term when setting its strategy and making the decision to invest significantly in transformation.

The Board considered the interests of borrowing customers during the cost of living crisis when it did not pass through all of Bank of England base rate increases to customers on standard variable rate; conversely, the Board considered the interests of saving members by passing through the vast majority of Bank of England base rate increases in its saving rates.

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 & Sustainability Officer utilising a variety of forums. Wider people engagement was a focus of the Board during the year, and the 'Our People' section of the strategic report on page 28 and PARC report on page 104 summarise 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 – we were graded outstanding in June 2023. We supplement this with periodic feedback using Pulse surveys throughout the year and our Pit Stop session with the Heads Of functions and Town Halls with all employees.

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. Our Cumberland story (see pages 34-35) was a particular highlight this year.

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 ongoing 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. 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 launched in 2023, which is to create a banking experience that's kinder to people and planet, and also drove our change in approach to charitable funding discussed on pages 19-27.

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 and 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.

In the year, the Board spent significant time considering the regulator's interests in establishing operationally resilient financial institutions and how the Society could meet these requirements through its transformation or otherwise.

Further details on our key stakeholders, and why they are important to us, can be found on pages 18 to 37 of the Strategic Report.

"Board dynamics are healthy and support effectiveness (including constructive challenge)".

"What is so striking about The Cumberland's Board is its hard work, commitment and engagement across a broad and deep agenda... the depth of board discussions, the skill of the Chair and the determination of all its board members".

"[The] board of directors... is decidedly well-functioning, comprising 'kinder' people who bring their expertise to bear in a way that suits the values of a Mutual organisation with a clear purpose and strong sense of local belonging...".

"The Cumberland's Board (and its supporting Board Committees) are very well run".

"The Cumberland's Board and Committees are working well for a regulated firm of its nature, size and complexity, thanks to its highly competent board members and healthy customer-focused culture".

Source: The Cumberland Board & Board Committees Evaluation (8 November 2023).

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 2024. 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.

NOMINATION *and* GOVERNANCE *Committee Report*

WHO SITS ON THE COMMITTEE

JOHN HOOPER (CHAIR) 4/4

JACKIE ARNOLD 4/4

ERIC GUNN 3/4

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 74-77. 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 2023/24, the Society had an external board effectiveness review carried out by Prin-Gov, an independent third party. As part of the review, all directors and the Senior Leadership Team were interviewed to gather their view on the way the Board operates and the Board's work. The findings were reported back to the Board. No significant matters were identified and no matters relevant to Board composition were raised. The Society will not conduct a board effectiveness review during 2024/25, because of Chair succession and other Board changes, but will do so the following year once these changes have embedded.

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 2024.

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 104-110) 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 Cameron Marr in November 2023.
Succession Planning	The Committee considered and discussed a plan for succession for Board and Board Committee roles, this year focusing on the role of Chair, Chair of PARC and Senior Independent Director. The Committee also considered CEO succession.
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 oversaw the external Board Effectiveness Evaluation and considered its output and agreed action plan.
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.
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 2024/25:

Areas of Focus	Committee's Response
Succession Planning	The Committee will focus on the orderly succession for the roles of Board Chair, PARC Chair and SID. The Committee will continue to plan for CEO succession.
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.
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.
UK Corporate Governance Code 2024	The Committee will oversee the implementation of the new UK Corporate Governance Code published in January 2024 in good time for implementation in 2025/26, but with due regard to its design being for much larger and more complex listed organisations than the Society.

On behalf of the Nomination and Governance Committee
John Hooper
Chair
4 June 2024

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 2024.

This is my first report, having taken over as Chair in November 2023 from Eric Gunn. As such, my first task must be to thank Eric for the enormous contribution he made in his tenure as Chair from August 2019. This period saw The Cumberland navigate both the difficult waters of the Covid pandemic and the prolonged economic uncertainty that arose afterwards. Simultaneously, the committee oversaw the progress of the Society as it modernised and further professionalised its management of risk, and delivered the first phases of our transformation journey.

The Board Risk Committee has this year operated against a backdrop of economic turbulence. To ensure safe stewardship of the Society, the committee has focussed on the financial and credit risks that can arise under these circumstances; monitoring the Society for undue stresses arising from interest rate risk or any customer repayment pressures whilst also assessing the Society's responses to the intensely competitive marketplace. To manage this, a strong internal

CAMERON

control environment is essential. The committee has continued to oversee the embedding of our Risk Management Framework and has been pleased to note the evolving maturity and quality of the processes, culture and teams.

Alongside this, the committee has ensured we continue to protect our customers, particularly our most vulnerable members. We have monitored the implementation of the Consumer Duty for our customers, and the Society is justifiably proud of the strength of this delivery. Economic pressure can also see a rise in those seeking to take advantage of any distress; the committee has therefore kept a careful eye on Information Security and Financial Crime risks.

The above commitments and circumstances reinforce our desire to develop the business still further. This year saw an exciting new phase of transformation as the Society moves closer to initiating the replacement of our core systems through the 'New Cumberland' programme. The committee has played a key role in reviewing this and other crucial change activity, providing challenge over plans and their delivery, including timeliness, quality, and value for money. At times, this has also required a considered balancing of priorities, accepting the possibility of some risks persisting, whilst focussing efforts to remediate more likely or impactful matters; the committee has closely examined such proposals as they have arisen throughout the year.

During this period, regulatory change has continued at pace. This has meant carefully assessing implications of changes to come, such as Basel 3.1, and scrutinising progress against changes that we must soon comply with, most notably Operational Resilience. The committee's actions allow the Society to look forward to the implementation of these vital regulations in the knowledge they are being safely delivered for our customers.

Throughout the last year, the committee has placed our members at the centre of everything we do, achieved through focus on the continued safety and sustainability of the Society's strategy, delivered within our risk appetite. This journey will continue next year, and the Committee and I are very much looking forward to being a part of it.

Throughout the last year, the committee has placed our members at the centre of everything we do.

WHO SITS ON THE COMMITTEE

CAMERON MARR (CHAIR) (APPOINTED 1 NOVEMBER 2023) 2/2

ERIC GUNN 5/5 (RETIRED 30 OCTOBER 2023)

MARK STANGER 7/7

VICKY BRUCE 7/7

HOW THE COMMITTEE WORKS

The Board Risk Committee comprises independent non-executive directors whose attendance record is set out above. Details of the skills and experience of the Committee members can be found in their biographies on pages 74-77.

Cameron Marr became Chair of the Committee in November 2023, taking over from Eric Gunn who fulfilled this role from August 2019 to October 2023. The Committee is scheduled to meet four times a year in January, April, July, and October, and additionally as and when required. The Committee is also attended on a standing basis by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Customer Officer, Chief Operations Officer, Chief Information & Technology Officer and the Head of Internal Audit. The committee receives a report from the Chief Risk Officer 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 the areas of focus 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 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:

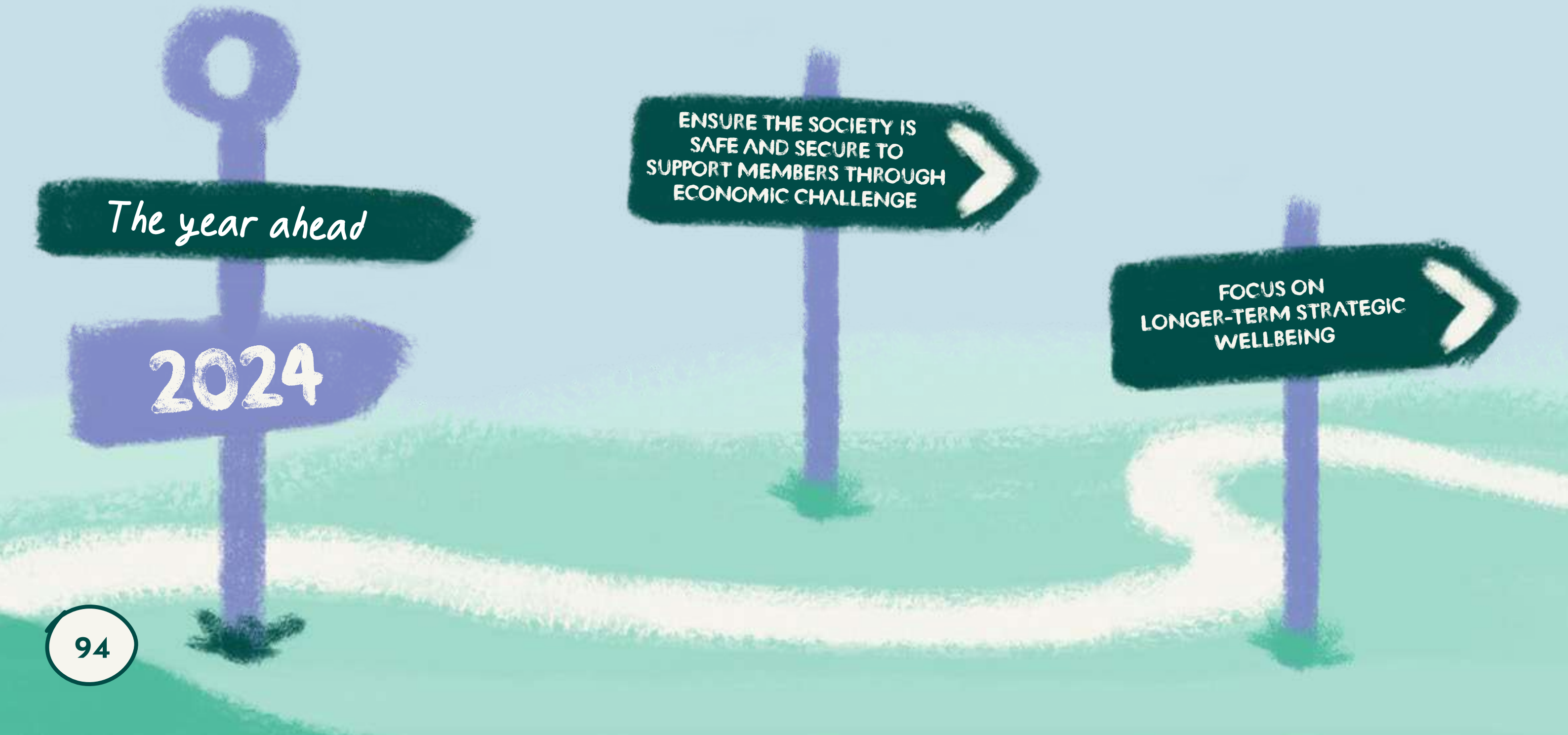
- Oversight and challenge of the Society's significant risks and the controls in place to manage those risks, including a specific transformation section and routine review of Financial and Credit Risk; and
- Sign off of key policies under delegated authority from the Board; and
- Oversight of key annual 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
RISK MANAGEMENT FRAMEWORK **The Cumberland is a prudent business that ensures compliance with all applicable laws and regulations and maintains a robust control environment delivered through a consistently applied Risk Management Framework.**	• Oversight of Risk Management Framework development and embedding in the Society, including self-assessment of Board Risk Committee effectiveness. • Monitored the effectiveness of our Policy Framework. • Agreed appropriate risk appetite measures to continue to inform governance of risk management performance.
TRANSFORMATION RISK **The risk of loss or failure from formally managed project activities that seek to maintain, improve or deliver change in the Society's capabilities.**	• The Committee had a separate session each quarter to oversee risks related to the New Cumberland transformation programme. This included a review of the most material risks within the programme, and the actions to mitigate these risks. • Received a report covering learnings from historic failings in other major transformation programmes in other institutions. This included the FCAs best practice guidance on transformation, and final notices from the PRA and FCA on the TSB falings. This report included details of actions planned to ensure that learnings were built into the governance, structure and processes in place to manage our transformation. • Received a report tracking lessons learned from internal projects and actions planned.
CONDUCT RISK **The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to poor outcomes being created for customers and/or reputational risks materialising.**	• Oversaw delivery of the consumer duty programme. This covered an overall programme of work most notably: – enhancements to our approach to ensure we identified and met the needs of vulnerable customers; – identified and delivered improvements to customer communications; – a review of complaints metrics and deeper understanding of the causes of complaints; and – a close review of our Conduct Risk MI to oversee how well we delivered good customer outcomes.
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, including oversight of Society management of PSM letter feedback. • Assessed the annual Money Laundering Reporting Officer report and monitored implementation of recommendations, including projects. • Reviewed the outputs of regulatory horizon scanning and the delivery of the operational and regulatory changes required to remain compliant.

Areas of Focus	Committee's Response
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.**	• Discussed the quarterly reporting of strategic risks, with particular emphasis on Society navigation of macro-economic risk. • Reviewed our Strategic Risk Register to ensure risks arising in the external environment are well understood with proportionate 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 as well as long-term market trends. • Tracked portfolio performance particularly in respect of arrears and forbearance. • Provided oversight and challenge of lending criteria.
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 Liabilities Committee (our key financial risk meeting) and the Board, maintained oversight of financial risk metrics with focus on interest rate, capital and liquidity risk position of the Society.
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 the continued embedding of our operational risk management system and risk and control processes. • Oversaw and challenged key enhancements of Information Security, Technology and Third Party Supplier risk management. • Monitored progress against key Operational Resilience requirements as the Society further enhanced capability in advance of transformation.



THE YEAR AHEAD

The last 12 months have illustrated that due to the macro-economy and regulatory change, new risks will emerge to be managed alongside our existing portfolio. Next year, the forward-looking role of the Board Risk Committee will continue to be vital, alongside the role of reviewing and challenging the effectiveness of risk management today. This will help safeguard our members and colleagues through the challenges we will face and support the continued strength of the Society.

We anticipate the economic environment to continue to be challenging for our personal and business customers alike. As such, we will continue to closely monitor the financial and credit risk status of the Society, and oversee the actions taken to address any emerging risks.

Oversight of our transformation programme will be a core mission of the committee next year. This will mean on-going assessment of effectiveness of delivery against the strategic objectives it has been set and helping to ensure we get the priority calls right.

The committee will also play a key role in the continued strengthening of our operational resilience processes to protect our members as we approach the important March 2025 regulatory deadline. The embedding of risk management and governance will continue, with the committee overseeing the annual plan set out by Group Risk.

The coming year promises to be no less busy and no less crucial in the development and wellbeing of the Society. Like my fellow committee members, I'm looking forward to upholding the high standards we have set ourselves whilst balancing the competing demands we know we must meet to continue to offer the best support and service to our customers through this next year and beyond.

On behalf of the Board Risk Committee
Cameron Marr
Chair
4 June 2024

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 2024.

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

The Audit Committee plays a key role In overseeing many aspects of the Society's activities and performance. In particular, oversight of financial reporting matters, the working of both Internal and external auditors, and procedures for whistleblowing and monitoring the effectiveness of internal controls.

Key areas of focus for the committee noted within this report include significant accounting judgements, consideration of key accounting policies, review of the Society's Internal Audit function and the re-tender 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.

AUDIT Committee Report

WHO SITS ON THE COMMITTEE

MARK STANGER (CHAIR) 8/8

JACKIE ARNOLD 8/8

VICKY BRUCE 7/8

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 eight 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 attendance of the Chief Risk Officer at Audit Committee facilitates this work.

The Committee meets at least four 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 cost of living squeeze driven by inflation as at 31 March 2024), 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 2023/24 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 2024 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. No new accounting policies were adopted this year.
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 64-68 and the Board's Going Concern Statement on page 119.
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 2024. It noted that management had used a consistent modelling approach for loans fully secured on residential properties, though it had improved the related control environment by transferring the model to a SAS based system from Excel. It also evaluated management's approach to overlays, in light of the impact of inflation, higher interest rates and the attendant cost of living squeeze, which has seen wages growth lag inflation. This was accounted for by an in-model adjustment to probability of default and probability of possession given default reflecting the ongoing 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, though both had modestly increased year on year. 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 for a second year based on successful resolution of customer difficulty or re-banking away from the Society, validating our investment in this area of our commercial team. 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 2024, management had calculated a suitable best estimate.
Impairment of Investment Properties and Buildings within Fixed Assets	At 31 March 2024, the Society continued to hold a portfolio of non-operating property, albeit reduced through successful sale of a further property. 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 2024. The Committee was pleased to note that only a modest impairment charge was 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, operational resilience, information security, ISA transfers In, reconciliations, technology, consumer duty, training & competency, credit risk, 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. Internal Audit also utilised the services of DVCP in relation to its work on New Cumberland. 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.
Risk Management	The Committee had a particular focus in the year on risk management receiving presentations from internal and external Risk 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.
Credit Risk Management	The Committee continued its overview of the Society's lending arrangements by reviewing the outcome of Internal Audit's review of the Society's Credit Risk Management framework. These arrangements were enhanced during the financial year, not only from a process perspective, but also from an ongoing training and development viewpoint.
Consumer Duty	The Committee, in meeting its regulatory responsibilities, continued its overview of the Society's conduct risk management arrangements by reviewing the outcome of Internal Audit's review of the Consumer Duty framework. New arrangements were developed at the Society during the financial year reflecting significant regulatory change which were required to be put in place by 31 July 2023.

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 2023/2024 financial year. The Audit Committee is responsible for overseeing the relationship with the external auditor, and for the effectiveness of the audit process.

Matthew Bainbridge of Deloitte LLP is the Society's statutory auditor for the 2023/2024 financial year. This is Matthew's third year as The Cumberland's statutory auditor.

Deloitte have acted as external auditors to the Society since 2015. In accordance with the requirements of the Financial Reporting Council (FRC), after 10 years as the external auditors, the Society is obliged to go through an exercise to determine whether Deloitte LLP should remain as the statutory auditor for the remaining 10 years. After 20 years as external auditor Deloitte LLP will no longer be able to continue its role as External Auditor.

A formal external audit tender process was undertaken in 2023, with the Audit Committee leading the process and appointing a selection panel comprising of the Chair of the Audit Committee, one other member of the Audit Committee and the Chief Financial Officer. The tender followed a rigorous assessment of excellent written tender documents supported by presentations and interviews with the three tendering firms. A recommendation was made to Audit Committee and the Board to continue with Deloitte LLP as external auditor for the year ended 31 March 2025, subject to Member approval at the 2025 AGM.

Deloitte's report can be found on pages 124-132.

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 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 and through a formal re-tender, the Committee has decided to stay with its current external auditors, noting that and the sustained quality of the Deloitte outcome for FRC reviews were a key factor in their re-engagement. 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 2023/24, overall audit materiality was set by Deloitte at £1,397k (2022/23: £1,138k).

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 2023/24 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 2023/24 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 2024 totalled £430k for audit services (2022/23: £360k). No fees were paid for non-audit services. The total fees are set out in note 6 to the financial statements.

Audit effectiveness

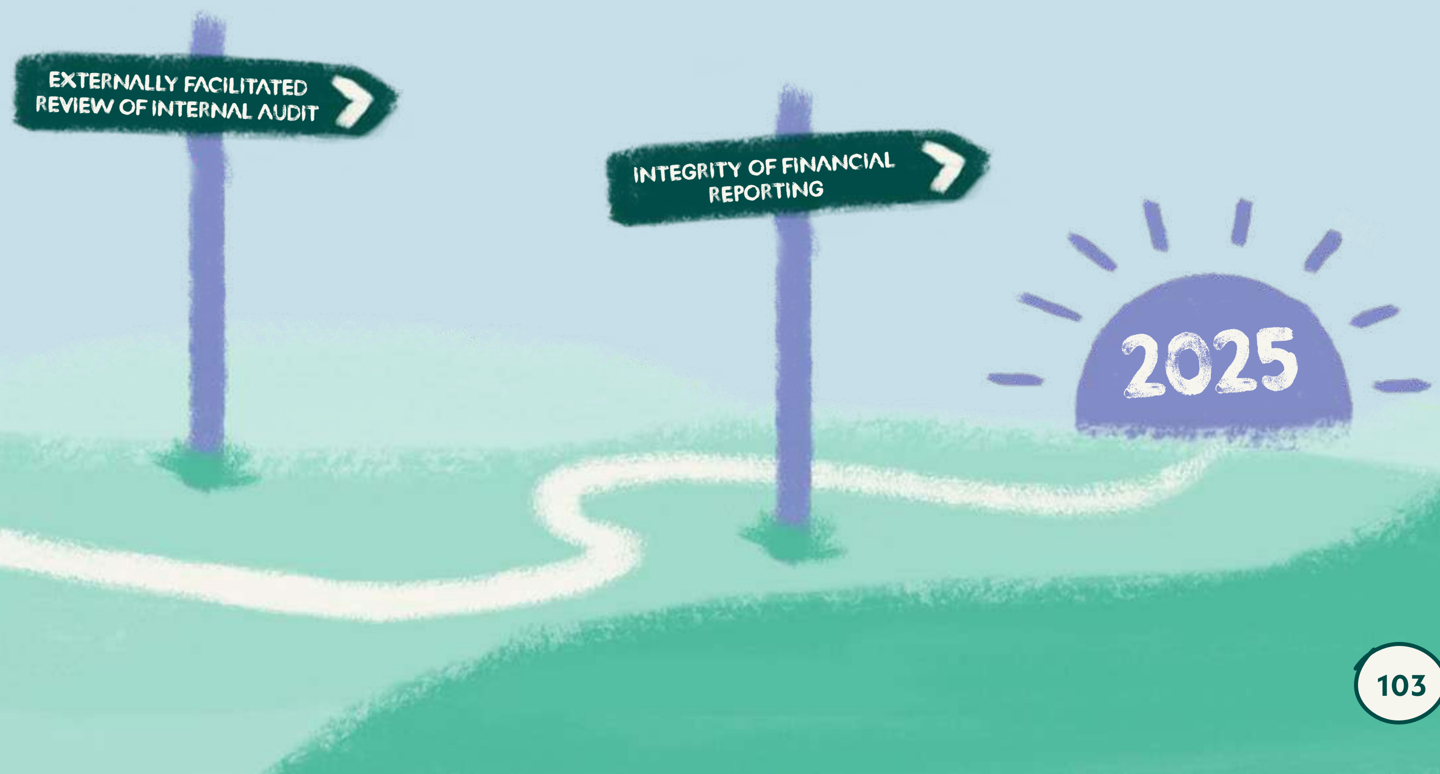
The Committee reviews the effectiveness of the external audit process on an annual basis taking into account management feedback. This review confirmed that the external auditor was performing its duties in an independent and effective manner, with some areas for consideration identified and fed back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

In 2024/25, 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
4 June 2024

The Cumberland's highly competitive mortgage and savings products enabled us to grow in 2023/24. Mortgage lending and savings balances increased and our balance sheet exceeded **£3.2bn** *at the year-end, an all-time high.*

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 2024. 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.

JACKIE

WHO SITS ON THE COMMITTEE

JACKIE ARNOLD (CHAIR) 6/6

KELLI FAIRBROTHER 6/6

ANNA BARSBY 6/6

MARK STANGER 6/6

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 75-77. 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 Chief Executive, Chief Financial Officer and Chief People and Sustainability Officer. 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 continued with its responsibility for diversity and inclusion which had transferred from NGC during 2022 and in addition, undertook a "deep dive" based on engagement with our colleagues to fully understand our ambitions in this field. This resulted in us launching our Belonging strategy to all colleagues which included an in-person keynote presentation delivered by Dr Grace Lordan of the London School of Economics. **The Belonging Strategy**, which is underpinned by a three-year action plan, centres around us continuing to build a culture of belonging where our people have opportunity, visibility and voice – a place of work where everyone feel valued.

While we are proud of the work the Committee has delivered on gender which is reported below as part of our annual cycle, we are keen to establish that while remarkable for our industry, this is not the only story we have to tell on the importance we place on Belonging. We look forward to reporting further progress on this.

PARC has four themed meetings per year on Reward, Talent, Engagement and Diversity and Inclusion. This allows for a focused but progressive People agenda.

The key highlights are given here with more detail in the following pages.

- PARC continued work on reviewing the benefits we offer to our colleagues in line with our purpose and values, continually considering how we might enhance these in a meaningful way. Aligned with this, PARC spent time analysing our Gender Pay Gap to understand what causes this in our organisation, and how our policies and approaches can be monitored to ensure we continue to track in the right direction.

- The Committee was also able to focus on how our people access talent programmes. This linkage to succession planning with a focus on future talent, alongside the core capabilities and regulatory and professional learning, underpin how we can provide the very best service to our customers.

- PARC welcomed and supported the progressive work around the Wellbeing agenda as core to our remit as a responsible employer. What began as a clear and necessary focus during the pandemic has evolved to be part of the strategic focus of the committee.

- PARC continues to consider how best to engage with colleagues; this interest ranges from receiving and understanding the high level Best Companies results, to attending a range of opportunities to interact with our people. PARC particularly welcomed the work on the Cumberland Story as central to helping colleagues celebrate and articulate both legacy and future direction, and were invited to participate in the colleague event.

PARC received an annual update as part of the commitment of the Board to redress the gender balance at senior level. We are a partner in the Women in Banking and Finance network (WIBF) and have committed and exceeded progressive targets for female representation at senior levels as a signatory to the HM Treasury Women in Finance Charter. When we signed up to the Charter in October 2018, we had 19% female representation at Board and Executive Level. Based on our data at 30 September 2023, we were cited in the charter as one of 28 signatories who have met their targets ahead of their deadline with 50% representation at senior level.[1]

As at 31 March 2024, the gender balance of the Society's Board, Senior Leadership Team and their direct reports, is as follows:

	Male		**Female**	
	2024	2023	**2024**	2023
Board[2]	**6/10 (60%)**	5/9 (56%)	**4/10 (40%)**	4/9 (44%)
Senior Leadership Team[2]	**4/7 (57%)**	5/8 (62.5%)	**3/7 (43%)**	3/8 (37.5%)
Extended Leadership Team	**14/28 (50%)**	18/30 (60%)	**14/28 (50%)**	12/30 (40%)

[1]At 31 March 2024 as part of an orderly succession plan, Cameron Marr has joined the Board changing the ratio. We will have reverted to a 50% ratio after completion of the Board transition at the conclusion of AGM 2024.

[2]Des Moore and Richard Ellison are included in Board and Senior Leadership Team.

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 an integrated approach to the annual cost of living increase for all employees and made a recommendation to Board for an Annual Pay Award for all colleagues, effective 1st April 2023, which embedded the £1,500 payment made for all basic rate taxpayers last year into base salary and provided a further 4% base salary rise to all our people. In addition, in February 2024 the Committee considered the continued cost-of-living crisis, the 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 £600 (pro rata for part-time colleagues) payable in March 2024. This approach positively impacted 84% of colleagues. The Committee approved both Remuneration and Retention Principals and considered an approach to assessing the shape of pay scales. 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 2022/23 and setting objectives for 2023/24. The Committee also reviewed the suitability of remuneration in the context of the Society's transformation programme, approving the initial performance period outcomes for 2023/24. This enabled accrual for that performance period within the context of the Long Term Incentive Plan (LTIP) which was introduced in the previous year. It also assessed the outcomes of the 2022/23 scheme at the end of the second performance period. LTIP is available to a number of its senior employees, including executive directors, which is described in the Report on Director's remuneration set out on Pages 110-116.
Benefits	The Committee received and reviewed enhancements to benefits provision to colleagues. PARC approved changes to our Family Friendly policies including enhancements to our approach to maternity and paternity provisions. Changes were approved to holiday entitlement including the introduction of a wellbeing day and entrance criteria to the Group Personal Pension Plan to encompass lower earners, new starters and younger colleagues. During the year, a salary sacrifice electric car purchase scheme was introduced.

Areas of Focus	Committee's Response
Diversity and Inclusion	The Committee instigated a deep dive as part of the annual update, as an enabler to consider the ambitions of the Society with regard to Diversity and Inclusion. In doing so, it agreed a new ambition framework, approach and action plan to be termed as our Belonging Approach. This approach is underpinned by "building a culture of belonging where our people have opportunity, visibility, a voice and feel valued". The deep dive also allowed the Committee to gain a deeper understanding of progress and trends in relation to Diversity and Inclusion. Views of colleagues were sought and built into the development of the new framework to ensure that all themes of Diversity and Inclusion were considered. The Committee also reviewed the available Diversity and Inclusion data on the makeup of the Society and commissioned an external review of our Gender Pay Gap. The importance of our affiliations and partnerships with organisations such as Women in Finance, Charter, Becoming (Female Leadership Programme), WIBF research sponsorship was noted. The Committee also reviewed how we track and progress our diverse talent pool to ensure access to opportunities and the continued refinement of our approach to hybrid and flexible working which continues to serve us well.
Talent & Succession	The Committee oversaw the progress of the learning and talent strategy, receiving quarterly updates on progress and an annual consolidated view of the range of learning and talent interventions deployed at the Society including onboarding, performance management, succession, professional and future leadership development. It also received an update on an online learning portal introduced in 2022, designed to deliver quarterly compliance training to all colleagues, with a target of 95% of colleagues to complete compliance training on time each quarter. The Committee had the opportunity to review the framework and approaches to orderly succession planning and key person dependency. This review included consideration of emerging talents.
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 which saw a colleague response rate of 91% and a 5% year-on-year increase in overall engagement, resulting in the Society achieving an Outstanding Place to Work accreditation. The Committee and the wider Board considered the engagement rhythm and interventions deployed by the Society and had the opportunity to engage with and listen to colleagues. The Committee received updates on The Cumberland is Calling storytelling approach and were represented at the internal event for all colleagues; almost 600 of our colleagues attended.

Areas of Focus	Committee's Response
Wellbeing	The Committee welcomed and supported our progressive approach to the wellbeing of our colleagues which is now embedded as core to our people approach. Updates were received on the continuous development of initiatives in the mental and physical health space, including continued work, supported by our Wellbeing Champions, on neurodiversity and men's mental health. The Committee welcomed partnerships in this space with charitable organisations such as Owl Blue. The Committee tracked progress of colleague support measures which resulted in the Society receiving accolades for its approach to wellbeing at professional and national level, including at the British HR Awards and recognition from our own people through the Best Companies accreditation, where special mention was given on our wellbeing approach. In supporting the wellbeing agenda the Committee was able to endorse the impact this has on colleagues and their families and in doing so approved the introduction of a non-contractual paid Wellbeing Day for our colleagues as part of our colleague benefits offering.
Other People Policies	The Committee considered the Society's people related policies and a roadmap for updating these.

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 116.

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 2024 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 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 2024, 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 continued to focus on 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, PARC completed the first annual appraisal of the Long Term Incentive Plan (LTIP) which was introduced the previous year. The initial performance period outcomes for 2022/23 were approved prior to the issuance of the last year's report, in order to enable accrual for these as part of the LTIP. PARC also approved continuation of the scheme for 2023/24 and assessed outcomes of both years' schemes in April 2024.
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 is best supported by an LTIP provided to executive directors, members of the senior leadership team and a small number of other employees.

It was 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 will operate is set out below:

1. Initial value of award under LTIP determined subject to performance

2. Value of award reassessed

3. Final value of award under LTIP confirmed

	FY 2022/2023	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
LTIP 22/23	← No payments made →			**Calculated award paid**	
	Initial Performance Period	Performance Period	Performance Period		
	Up to 30% of annual basic salary vested				
LTIP 23/24		← No payments made →			**Calculated award paid**
		Initial Performance Period[1]	Performance Period	Performance Period	
		Up to 30% of annual basic salary vested			

[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. For LTIP 23/24, a final value of the award will be assessed and confirmed by PARC in April or May 2026.

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 14% of base salary.	Not applicable

Remuneration Policy for Executive Directors			
Element	**Operation**	**Opportunity**	**Performance Metrics**
Variable Remuneration			
Directors' Annual Incentive Rewards achievement of stretching targets for the Society, team and individual 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, reduced 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.

LTIP 22/23

Objective	Measure	Portion of Award subject to this objective	PARC Assessed Achievement at end of initial performance period	PARC Assessed Achievement at end of second performance period
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%	✓	✓

The Cumberland achieved a 2* B-heard accreditation during the second performance period resulting in this metric moving to achieved.

LTIP 23/24

Objective	Measure	Portion of Award subject to this objective	PARC Assessed Achievement at end of initial performance period
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%	✓

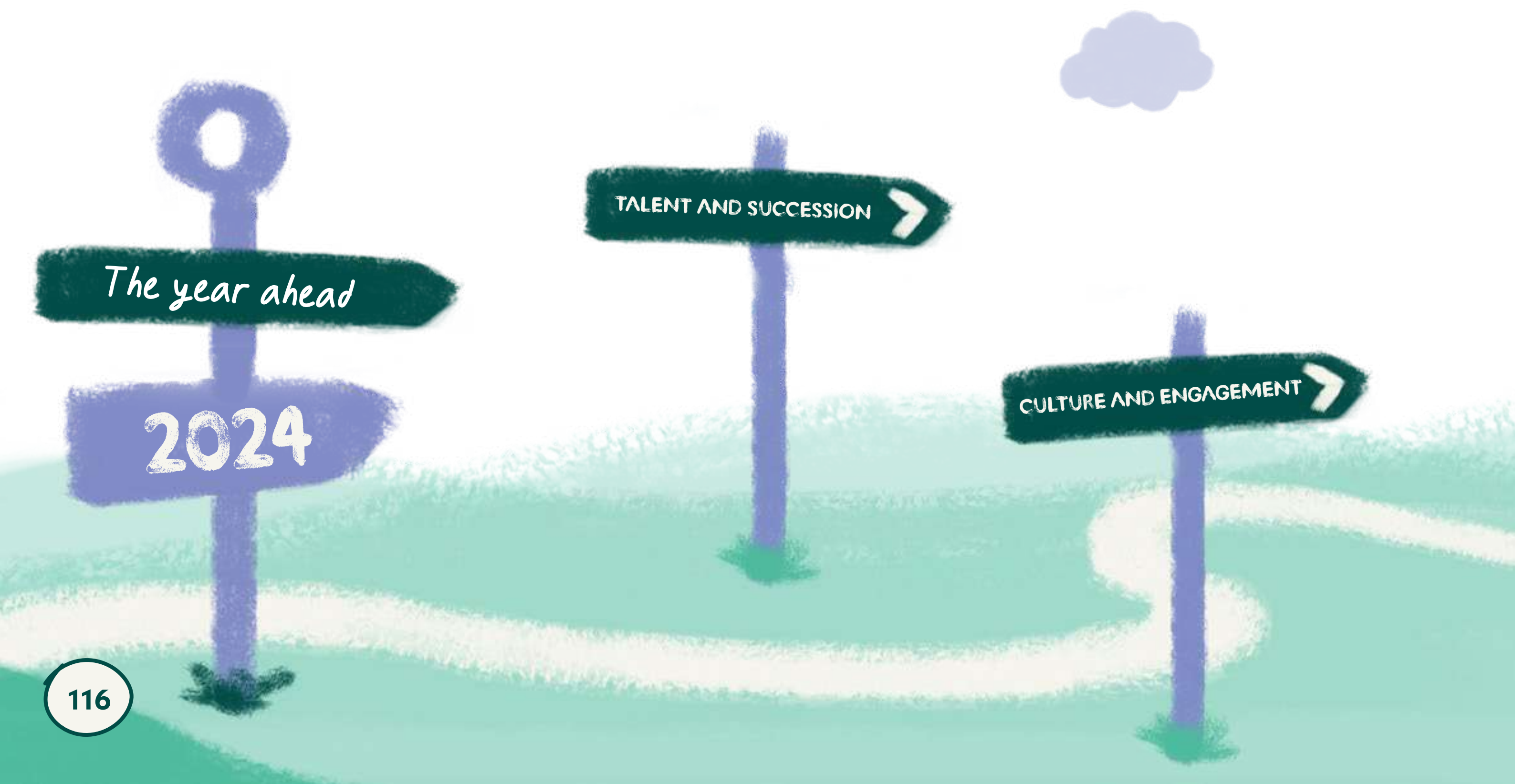
✓ Expectation achieved or exceeded.   = Reasonable outcome against expectation.

Directors' Remuneration

	2024 £000	2023 £000
Total directors' remuneration	**1,286**	1,112
Non-executive directors' remuneration		
John Hooper (Chair)	**81**	72
Eric Gunn (Chair of the Board Risk Committee until October 2023)	**53**	51
Jackie Arnold (Chair of the People, Remuneration and Culture Committee)	**56**	50
Mark Stanger (Chair of Audit Committee)	**50**	55
Vicky Bruce	**47**	45
Kelli Fairbrother	**45**	43
Anna Barsby	**45**	35
Cameron Marr (appointed November 2023)	**21**	–
	398	351

Executive directors' remuneration 2024	**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	**312**	**62**	**60**	**–**	**44**	**13**	**491**
Richard Ellison	**251**	**50**	**48**	**35**	**–**	**13**	**397**
	563	**112**	**108**	**35**	**44**	**26**	**888**
2023							
Des Moore	288	58	12	–	40	13	411
Richard Ellison	246	48	10	34	–	12	350
	534	106	22	34	40	25	761

[1] Pro-rated accrual of value calculated.



PARC will focus on the following key areas during 2024/25:

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 continued focus on succession plans, key person dependencies work and a framework to underpin our knowledge management approach.
Culture and Engagement	Monitor The Cumberland is Calling Storytelling narrative implementation work and review plans to continue the high level commitment to how the Society engages its people, alongside receiving timely colleague survey data to measure and inform this.
Diversity and Inclusion	Monitor progress of the approved Belonging ambition, strategy and action plan together with tracking the regulatory activity and reporting in this area. Review 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
4 June 2024

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	
Cameron Marr	Appointed 1 November 2023
Des Moore	Chief Executive Officer
Richard Ellison	Chief Financial Officer

Further information on all of the directors in office as at 31 March 2024 is provided in the directors' biographies on pages 74-77, and their attendance at the Board and Board Committees is set out in the corporate governance and Committee reports on pages 73-117.

All directors not retiring 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 2024, one director had mortgage loans granted in the ordinary course of business, amounting to £387k (2023: one director, £455k). 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.

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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 2024, there were 6 (2023: 3) accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £1.027m (2023: £387k), and the amount of arrears was £194k (2023: £62k), which represents 0.007% (2023: 0.003%) 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 2024, forbearance measures had been agreed for 20 (2023: 17) residential mortgages with a total balance of £1.945m (2023: £1.24m). 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 48-53 and are discussed in more detail in notes 25 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 2024, the total amount owed to suppliers was equivalent to 25 days' credit (2023: 31 days).

Charitable and political donations

During the year, charitable donations of £369,958 were made to a number of organisations within our operating area.
No contributions were made for political purposes.

Engagement with stakeholders

Please see pages 10-37 of the Strategic Report and pages 83-84 of the Corporate Governance Report.

Environmental impact and energy efficiency

Please see pages 38-47 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 64-68.

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
4 June 2024

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


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 2024 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, excluding the parts of note 35 (capital structure) which are marked as unaudited.

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 £1,397k (2023: £1,138k) 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 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 the prior year 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 the directors' going concern assessment;
- assessing the directors' considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- assessing the reasonableness of the assumptions, such as cash flows, capital and liquidity, used in the forecasts prepared by the directors;
- assessing the historical accuracy of forecasts prepared by the directors by comparing these to the actual results;
- involving prudential risk specialists to assess the information supporting the directors' liquidity and capital adequacy assessment;
- 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 in the financial statements.

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 £2.4bn (2023: £2.2bn) of loans and advances fully secured on residential property and £234m (2022: £209m) of loans and advances fully secured on land, as shown in Note 11. As at 31 March 2024, the Group held incurred loss provisions of £1.3m (2023: £1.2m) against loans fully secured on residential property and £1.4m (2023: £1.6m) 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, the directors recognise an impairment loss within the income statement immediately.

Loan loss provisioning remains one of the most significant estimates made by the directors, particularly in light of the uncertain economic outlook due to the cost of living crisis 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. The directors' 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 139 with detail about the associated critical accounting estimates.

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

We obtained an understanding of the relevant controls over the loan loss provisioning process. This included assessment of 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 and challenge at the credit risk committee.

We worked with our real estate specialists to challenge the collateral valuations used in the specific provision for loans fully secured on land with reference to market data and other relevant information.

Our wider procedures over loan loss provisioning included:

- with the involvement of our credit risk specialists, we independently reperformed the calculation of the residential loan loss provisioning model and challenged the methodologies and assumptions used within the loan loss provisioning models evaluating whether the approach generated an output that was compliant with IAS 39. This included consideration of the Group's historical loss experience and the current economic conditions (including the impact that cost of living increases has had on the Group's customer's ability to make repayments as at the reporting date) to assess whether additional adjustments were required to the modelled provision;
- with the involvement of internal economic specialists, we challenged the macro-economic forecasts used by the directors to estimate future changes in the recoverable valuation of collateral with reference to external forecasts and other third-party sources; and
- we reconciled the loan book to the general ledger and substantively tested 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 concluded that the Group's provisions recorded against loans and advances fully secured on residential property and land are reasonable.

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 2024 is £34.3m (2023: £58.4m).

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 have identified a key audit matter around the appropriateness of fair value adjustments for items designated and de-designated in the hedging relationship, including the subsequent amortisation of the adjustments.

The fair value adjustment to hedged items and the fair value of derivatives are detailed within notes 5, 11, 20 and 30. The Group's associated accounting policies are detailed on pages 138 and 139.

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

We obtained an understanding of the relevant controls over the Group's hedge accounting process.

With the involvement of our financial instrument specialists we:

- obtained an understanding of the hedge accounting process and relevant controls including management's approach for transforming loan data;
- independently assessed the manual adjustments made by management on designation and de-designation fair value adjustments to the hedged items and hedging instruments;
- performed independent valuations over a sample of hedged items and hedge instruments as part of our hedge effectiveness testing, and re-performed hedge effectiveness testing in order to test management's hedge ineffectiveness reporting; and
- assessed the completeness and accuracy of the hedged item and hedging instrument data used in the hedge accounting process by comparing to source documentation and third-party reports.

Key observations

Based on the work performed, we concluded that the Group's fair value adjustments and hedge accounting were appropriate.

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	£1,397k (2023: £1,138k)	£1,366k (2023: £1,113k)
Basis for determining materiality	0.6% of net assets (2023: 0.5% of net assets)	Society materiality equates to 0.6% of net assets (2023: 0.5% of net assets) which is capped at 95% 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.	

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% (2023: 70%) of Group materiality	70% (2023: 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 indicates a low number of both uncorrected and corrected misstatements in previous 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 £69k (2023: £57k), 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 its material subsidiaries executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £1,366k to £41k (2023: £1,113k to £40k).
This provided 100% (2023: 100%) coverage of revenue, profit before tax and net assets of the Group. All audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

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 relied on controls over the following business cycles for the Group:

- residential and commercial mortgage lending and related interest income; and
- savings and current accounts and related interest payable.

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. 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. In the current year, we tested all relevant controls identified in the lending and savings and current accounts business cycles.

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 relevant general IT controls and automated controls related to these systems, and where necessary identified and tested mitigating controls for deficiencies identified. We were able to rely on these controls as 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 44 to 47.

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, the 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 the area of 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 2024 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 119;
- 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 64-68;
- the directors' statement on fair, balanced and understandable set out on page 98;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 50-53;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 100; and
- the section describing the work of the audit committee set out on pages 96-102.

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 10 years, covering the years ending 31 March 2015 to 31 March 2024.

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
04 June 2024

GROUP AND SOCIETY INCOME STATEMENTS

For the year ended 31 March 2024

	Notes	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Interest receivable and similar income	3	**180,434**	109,859	**178,108**	107,862
Interest payable and similar charges	4	**(99,700)**	(40,433)	**(99,700)**	(40,433)
Net interest receivable		**80,734**	69,426	**78,408**	67,429
Fair value (losses)/gains on financial instruments	5	**(7,501)**	14,054	**(7,141)**	13,876
Pension finance income/(charge)	25	**3**	(17)	**3**	(17)
Fees and commissions receivable		**651**	527	**651**	527
Fees and commissions payable		**(2,803)**	(2,608)	**(2,480)**	(2,316)
Other operating income		**2,925**	3,065	**2,924**	3,064
Total Income		**74,009**	84,447	**72,365**	82,563
Administrative expenses	6	**(60,440)**	(54,481)	**(59,461)**	(53,677)
Depreciation, amortisation, impairment and profit on sale of tangible fixed assets		**(3,741)**	(3,089)	**(3,723)**	(3,090)
(Loss)/gain on revaluation and disposal of investment properties	16	**(34)**	136	**(34)**	136
Provisions for bad and doubtful debts	12	**79**	(434)	**118**	(304)
Provisions for liabilities and charges	23	**(277)**	–	**–**	–
Profit on ordinary activities before tax		**9,596**	26,579	**9,265**	25,628
Tax on profit	8	**(2,216)**	(5,000)	**(2,067)**	(4,818)
Profit for the financial year		**7,380**	21,579	**7,198**	20,810

The notes on pages 137 to 162 form part of these accounts.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2024

	Notes	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Profit for the financial year		**7,380**	21,579	**7,198**	20,810
Items that may subsequently be reclassified to income and expenditure:					
Gain/(loss) on available for sale debt securities	10	**364**	(118)	**364**	(118)
Movement in deferred tax relating to debt securities		**(91)**	24	**(91)**	24
Gain on equity share investment	32	**1,538**	795	**1,538**	795
Movement in deferred tax relating to equity share investment		**(385)**	(199)	**(385)**	(199)
Items that may not subsequently be reclassified to income and expenditure:					
Actuarial loss on retirement benefit obligations	25	**(1,426)**	(801)	**(1,426)**	(801)
Amount of surplus that is not recoverable	25	**(150)**	–	**(150)**	–
Movement in deferred tax relating to retirement benefit obligations		**394**	205	**394**	205
Total comprehensive income for the year		**7,624**	21,485	**7,442**	20,716

The notes on pages 137 to 162 form part of these accounts.

GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2024

Assets	Notes	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Liquid assets					
Cash in hand and balances with the Bank of England	9	**332,571**	450,089	**332,571**	450,089
Loans and advances to credit institutions	26	**37,831**	45,631	**37,831**	45,631
Debt securities	10	**140,666**	86,191	**140,666**	86,191
		511,068	581,911	**511,068**	581,911
Derivative financial instruments	30	**60,549**	84,366	**60,318**	83,852
Loans and advances to customers	11				
Loans fully secured on residential property		**2,357,458**	2,165,122	**2,357,458**	2,165,122
Other loans		**259,151**	232,874	**232,088**	206,372
		2,616,609	2,397,996	**2,589,546**	2,371,494
Investments in subsidiary undertakings	13	**–**	–	**23,418**	23,604
Investment in equity shares	32	**9,050**	7,512	**9,050**	7,512
Intangible assets	14	**2,518**	2,853	**2,518**	2,853
Tangible fixed assets	15	**11,765**	10,092	**11,712**	10,051
Investment properties	16	**1,013**	1,212	**1,013**	1,212
Other assets	17	**1,683**	1,283	**1,653**	1,270
Prepayments and accrued income	18	**4,182**	2,861	**3,773**	2,453
Total Assets		**3,218,437**	3,090,086	**3,214,069**	3,086,212
Liabilities					
Shares	20	**2,681,716**	2,460,248	**2,681,716**	2,460,248
Derivative financial instruments	30	**4,453**	136	**4,360**	123
Amounts owed to credit institutions	26	**151,220**	242,724	**151,220**	242,724
Amounts owed to other customers	26	**131,933**	150,570	**132,298**	150,834
Other liabilities	21	**6,363**	973	**7,877**	2,513
Accruals and deferred income	22	**8,262**	7,419	**8,148**	7,335
Provisions for liabilities and charges	23	**277**	–	**–**	–
Pension liability	25	**–**	1,427	**–**	1,427
Total liabilities		**2,984,224**	2,863,497	**2,985,619**	2,865,204
Total equity attributable to members		**234,213**	226,589	**228,450**	221,008
Total Equity and Liabilities		**3,218,437**	3,090,086	**3,214,069**	3,086,212

The notes on pages 137 to 162 form part of these accounts.

These accounts were approved by the Board of Directors on 4 June 2024 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 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
Profit for the year	**7,380**	**–**	**7,380**
Other comprehensive income	**(1,182)**	**1,426**	**244**
Total comprehensive income for the year	**6,198**	**1,426**	**7,624**
Balance at 31 March 2024	**229,274**	**4,939**	**234,213**

Society	General Reserve £000	Available for Sale Reserve £000	Total Equity Attributable to Members £000
Balance at 1 April 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
Profit for the year	**7,198**	**–**	**7,198**
Other comprehensive income	**(1,182)**	**1,426**	**244**
Total comprehensive income for the year	**6,016**	**1,426**	**7,442**
Balance at 31 March 2024	**223,511**	**4,939**	**228,450**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2024

	2024 £000	2023 £000
Cash flows from operating activities		
Profit before tax	**9,596**	26,579
Adjustments for:		
Depreciation, amortisation, impairment and profit on sale of tangible fixed assets	**3,741**	3,089
Loss/(gain) on revaluation and disposal of investment properties	**34**	(136)
Changes in fair values of derivatives and hedged items	**4,230**	(22,111)
Provisions for bad and doubtful debts	**(79)**	434
Provisions for liabilities and charges	**277**	–
Pension finance (income)/charge	**(3)**	17
Other non-cash movements	**72**	45
Cash generated from operations	**17,868**	7,917
Movements in operating assets and liabilities		
Loans and advances to customers	**(194,428)**	(198,007)
Shares	**221,310**	169,645
Loans and advances to credit institutions and other liquid assets	**21,082**	4,481
Amounts owed to credit institutions and other customers	**(110,141)**	10,211
Prepayments and accrued income	**(1,882)**	(736)
Other assets	**1**	(1)
Accruals and deferred income	**843**	2,849
Provisions for liabilities and charges	**–**	(483)
Other liabilities	**4,108**	636
Payment into defined benefit pension scheme	**(3,000)**	–
Taxation paid	**(1,418)**	(4,552)
Net cash flows from operating activities	**(45,657)**	(8,040)
Cash flows from investing activities		
Purchase of debt securities	**(68,689)**	(33,040)
Maturity of debt securities	**15,024**	2,009
Acquisition of intangible fixed assets	**(1,828)**	(1,905)
Purchase of tangible fixed assets	**(3,294)**	(1,002)
Sale of tangible fixed assets	**43**	106
Sale of investment property	**165**	726
Net cash flows from investing activities	**(58,579)**	(33,106)
Net decrease in cash and cash equivalents	**(104,236)**	(41,146)
Cash and cash equivalents at beginning of year	**468,526**	509,672
Cash and cash equivalents at end of year	**364,290**	468,526
Represented by:		
Cash and balances with the Bank of England	**332,571**	450,089
Loans and advances to credit institutions repayable on demand	**31,719**	18,437
	364,290	468,526

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 2024. 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 64-68.

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 2024 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 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%

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.

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

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.

Any resultant deficit is carried on the balance sheet, as is the associated deferred tax. Scheme surpluses are not recognised.

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.

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 2024 the level of judgement and estimation of uncertainty remained elevated due to the potential for a UK recession coupled with the impact high inflation has had on cost of living challenges and the prolonged period of elevated interest rates, all of which combine to create the potential for increased losses. However, whilst directly observable indications of distress in the Group's lending portfolio (such as raised arrears and forbearance requests) have shown a modest increase from a low base, they remain relatively subdued.

Furthermore, the Group's focus on tourism related sectors in the FSOL portfolio, where lending to the hospitality and leisure industry makes up over 75% 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 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	131	(131)
FSRP	115	(115)
Total	246	(246)

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	131	(131)
FSRP	96	(96)
Total	227	(227)

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. Under the Group's incurred loss modelling the current impact of climate change risk is immaterial.

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 reducing as a result of the derisking of the scheme through interest rate and inflation hedging and are outlined in note 25 to the Accounts.

3. Interest Receivable and Similar Income	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
On loans fully secured on residential property	**84,846**	65,601	**84,846**	65,601
On other loans	**19,087**	12,094	**17,308**	10,310
On debt securities				
Interest and other income	**6,762**	1,445	**6,762**	1,445
On other liquid assets				
Interest and other income	**18,533**	10,675	**18,533**	10,675
Net income on derivative financial instruments	**51,206**	20,044	**50,659**	19,831
Total interest receivable	**180,434**	109,859	**178,108**	107,862

All income is derived from operations within the UK.

4. Interest Payable and Similar Charges	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
On shares held by individuals	**83,117**	31,759	**83,117**	31,759
On deposits and other borrowings	**16,445**	8,692	**16,445**	8,692
Net expense/(income) on derivative financial instruments	**138**	(18)	**138**	(18)
Total interest payable	**99,700**	40,433	**99,700**	40,433

5. Fair Value (Losses)/Gains on Financial Instruments	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Change in fair value derivatives in designated fair value hedge accounting relationships	**(29,522)**	26,241	**(29,522)**	26,241
Adjustment to hedged items in designated fair value hedge accounting relationships	**23,904**	(28,192)	**23,904**	(28,192)
Change in fair value derivatives not in designated fair value hedge accounting relationships	**(2,486)**	16,960	**(2,126)**	16,782
Crystalised fair value gain/(loss) on cancelled interest rate swaps	**603**	(955)	**603**	(955)
	(7,501)	14,054	**(7,141)**	13,876

The Group only uses 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 saw a significant gain recorded in the prior year. A consistent but less significant accounting outcome was seen in the year ended 31 March 2024, reflecting less rate volatility. In the current and future years, the fair value movement during the pipeline period has created some ineffectiveness as this unwinds over the life of the underlying. This accounted for the largest portion of this year's charge to the income statement.

6. Administrative Expenses	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Staff costs (note 7)	**33,999**	30,120	**33,277**	29,483
The analysis of the auditor's remuneration is as follows:				
Fees payable to the Group's auditor for the audit of the annual accounts	**430**	360	**406**	337
Other Services:				
Other assurance services	**–**	–	**–**	–
Other expenses	**26,011**	24,001	**25,778**	23,857
	60,440	54,481	**59,461**	53,677

Group and Society administrative expenses include £15,230,000 of project based expenditure (2023 - £15,880,000). £10,411,000 (2023 - £10,754,000) is directly related to our strategic transformation, of which £9,995,000 (2023 - £8,894,000) was spent on the New Cumberland programme. These amounts are all stated after the impact of capitalisation of certain expenses as intangible assets (note 14) and tangible fixed assets (note 15). Gross spend on the New Cumberland programme pre-capitalisation was £11,400,000 (2023 - £8,894,000).

7. Staff Numbers and Costs

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

	Full time		Part time	
	2024	2023	**2024**	2023
Society's principal office	**369**	330	**82**	84
Society's branches	**96**	93	**114**	109
Subsidiaries	**15**	14	**4**	4
	480	437	**200**	197

The aggregate costs of these persons were as follows:	**Group 2024 £000**	Group 2023 £000	**Society 2024 £000**	Society 2023 £000
Wages and salaries	**29,249**	26,108	**28,634**	25,568
Social security costs	**2,870**	2,399	**2,810**	2,344
Other pension costs (note 25)	**1,880**	1,613	**1,833**	1,571
	33,999	30,120	**33,277**	29,483

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 2024 £000	Group 2023 £000	**Society 2024 £000**	Society 2023 £000
a) Analysis of charge in year:				
Current corporation tax at 25% (2023 - 19%)	**722**	4,184	**573**	4,004
Adjustments in respect of prior year	**(20)**	(49)	**(16)**	(49)
Deferred tax at 25%	**1,514**	865	**1,510**	863
Tax on profit on ordinary activities	**2,216**	5,000	**2,067**	4,818
Total deferred tax relating to items of other comprehensive income	**82**	(30)	**82**	(30)

(b) Factors affecting tax charge in year:

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

Profit on ordinary activities before tax	**9,596**	26,579	**9,265**	25,628
Tax on profit on ordinary activities at UK standard rate of 25% (2023 - 19%)	**2,399**	5,050	**2,316**	4,869
Effects of:				
Capital allowances in excess of depreciation	**(97)**	(12)	**(92)**	(12)
Tax deductible pension contributions	**(1,673)**	(816)	**(1,673)**	(816)
Other differences	**84**	(61)	**14**	(60)
Expenses not deductible for tax purposes	**9**	23	**8**	23
Over provision in prior year	**(20)**	(49)	**(16)**	(49)
Total current tax	**702**	4,135	**557**	3,955
Origination and reversal of timing differences (deferred tax)	**1,514**	865	**1,510**	863
Total tax charge for year	**2,216**	5,000	**2,067**	4,818

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, increased 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 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Cash in hand	**5,503**	5,292	**5,503**	5,292
Balances with the Bank of England	**327,068**	444,797	**327,068**	444,797
Included in cash and cash equivalents	**332,571**	450,089	**332,571**	450,089

Balances with the Bank of England do not include cash ratio deposits of £nil (2023 - £7.16 million) which are not available for use in the Group's day to day operations and do not receive interest. Such deposits are included within Loans and Advances to Credit Institutions in the Balance Sheet. The cash ratio deposit was returned to the Group in March 2024 and replaced by a levy which has been provided for at 31 March 2024 as part of administrative expenses.

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

	Group	
	2024 £000	2023 £000
Cash in hand and balances with the Bank of England (as above)	**332,571**	450,089
Loans and advances to credit institutions	**31,719**	18,437
	364,290	468,526

10. Debt Securities

	Group and Society	
	2024 £000	2023 £000
Debt securities		
Covered bonds	**115,101**	60,799
Certificates of deposit	**–**	10,195
Supranational floating rate notes	**25,565**	15,197
	140,666	86,191

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:

	2024	2023
At 1 April	**86,191**	55,025
Additions	**68,689**	33,040
Maturities and amortisation of premium and discount	**(15,139)**	(2,090)
Gains/(losses) from changes in fair value	**364**	(118)
Movements in accrued interest	**561**	334
At 31 March	**140,666**	86,191

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

11. Loans and Advances to Customers

	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Loans and advances to customers comprise:				
Loans fully secured on residential property before EIR adjustment	**2,392,116**	2,224,578	**2,392,116**	2,224,578
Effective interest rate adjustment	**(60)**	(1,278)	**(60)**	(1,278)
Loans fully secured on residential property	**2,392,056**	2,223,300	**2,392,056**	2,223,300
Other loans				
Loans fully secured on land	**233,624**	208,685	**233,624**	208,685
Other loans	**28,228**	27,495	**945**	774
Fair value adjustment for hedge risk	**(34,309)**	(58,371)	**(34,309)**	(58,371)
	2,619,599	2,401,109	**2,592,316**	2,374,388
Less: Provisions for bad and doubtful debts (note 12)	**(2,990)**	(3,113)	**(2,770)**	(2,894)
	2,616,609	2,397,996	**2,589,546**	2,371,494

Other loans include £0.945 million (2023 - £0.774 million) of overdraft lending to the Society's current account customers. Other loans of the Group also include £27.283 million (2023 - £26.721 million) of loans and advances to customers of Borderway Finance Limited.

As at 31 March 2024 £459.7 million (2023 - £531.7 million) of loans fully secured on residential property had been pledged as collateral to the Bank of England.

The effective interest rate adjustment of £0.060 million (2023 - £1.278 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.

Society 2024

12. Provisions for Bad and Doubtful Debts

	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Total £000
At 1 April 2023				
Collective impairment	**1,066**	**734**	**103**	**1,903**
Individual impairment	**155**	**823**	**13**	**991**
	1,221	**1,557**	**116**	**2,894**
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	**34**	**138**	**26**	**198**
Individual impairment	**16**	**(332)**	**–**	**(316)**
	50	**(194)**	**26**	**(118)**
Amount written off during the year				
Individual impairment	**–**	**(6)**	**–**	**(6)**
	–	**(6)**	**–**	**(6)**
At 31 March 2024				
Collective impairment	**1,100**	**872**	**129**	**2,101**
Individual impairment	**171**	**485**	**13**	**669**
	1,271	**1,357**	**142**	**2,770**

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 2024 and £173,000 of collective provisions, and a charge in the year of £39,000.

During the year to 31 March 2024 the Society has continued to work with its customers to ensure that they are supported. This is reflected in commercial lending 90 days past due arrears at 31 March 2024 being broadly consistent with March 2023 with the increase in residential mortgage arrears being modest, reflective of industry experience and generally remaining lower than peers. The payment status of the Group's loans at 31 March 2024 and the current level of active forbearance by type are disclosed in note 29. At 31 March 2024 the Group's customers are facing the higher cost of living caused by the recent period of increased inflation and sustained higher interest rates. This has been considered within the Group's modelled provision calculations, which incorporate an element of judgement, resulting in the increase in the overall level of collective provision in the year to March 2024. We expect this to persist until stronger evidence of the cost of living impacts being fully captured in underlying data is evident and stabilisation of the slight uplift in residential mortgage arrears is seen.

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)
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 to 31 March 2023 the Society continued to work with its customers to ensure that they are supported. This was 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 level of active forbearance by type are disclosed in note 29. At 31 March 2023 the Group's customers were facing rising inflation and costs of living, this was considered within the Group's modelled provision calculations which incorporate an element of judgement.

13. Investments in Subsidiary Undertakings

	Shares £000	Loans £000	Society Total £000
Cost less impairment at 1 April 2023	**870**	**22,734**	**23,604**
Advances	**–**	**1,814**	**1,814**
Repayments	**–**	**(2,000)**	**(2,000)**
Cost less impairment at 31 March 2024	**870**	**22,548**	**23,418**
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

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

14. Intangible Assets (Group and Society)

	Externally Acquired £000	Internally Developed £000	Total £000
Cost			
At 1 April 2023	**1,673**	**2,963**	**4,636**
Additions	**245**	**1,583**	**1,828**
At 31 March 2024	**1,918**	**4,546**	**6,464**
Amortisation			
At 1 April 2023	**735**	**1,048**	**1,783**
Charge for year	**576**	**1,587**	**2,163**
At 31 March 2024	**1,311**	**2,635**	**3,946**
Net book value			
At 31 March 2024	**607**	**1,911**	**2,518**
At 31 March 2023	938	1,915	2,853

The Group has capitalised internally generated intangible assets as it has moved into the delivery phase of its technology change. The Group capitalised assets to the value of £1,828,000 (2023 - £1,905,000) 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 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.

15. Tangible Fixed Assets (Group)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2023	**16,863**	**15,677**	**32,540**
Additions	**1,340**	**1,954**	**3,294**
Disposals	**–**	**(96)**	**(96)**
At 31 March 2024	**18,203**	**17,535**	**35,738**
Depreciation			
At 1 April 2023	**9,074**	**13,374**	**22,448**
Charge for year	**617**	**999**	**1,616**
Disposals	**–**	**(91)**	**(91)**
At 31 March 2024	**9,691**	**14,282**	**23,973**
Net book value			
At 31 March 2024	**8,512**	**3,253**	**11,765**
At 31 March 2023	7,789	2,303	10,092

Tangible Fixed Assets (Society)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2023	**16,510**	**15,888**	**32,398**
Additions	**1,340**	**1,924**	**3,264**
Disposals	**–**	**(96)**	**(96)**
At 31 March 2024	**17,850**	**17,716**	**35,566**
Depreciation			
At 1 April 2023	**8,713**	**13,634**	**22,347**
Charge for year	**617**	**981**	**1,598**
Disposals	**–**	**(91)**	**(91)**
At 31 March 2024	**9,330**	**14,524**	**23,854**
Net book value			
At 31 March 2024	**8,520**	**3,192**	**11,712**
At 31 March 2023	7,797	2,254	10,051

The assets disposed of were returned vehicles from the employee car scheme and the gain of £38,000 reflected the currently elevated second hand vehicle market.

£1.2m of additions relate to the refurbishment of the English Street branch and £1.0m of additions relate to equipment for the branch WAN (future networks).

16. Investment Properties

	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
At 1 April	**1,212**	1,802	**1,212**	1,802
Disposals	**(150)**	(610)	**(150)**	(610)
Revaluation	**(49)**	20	**(49)**	20
At 31 March	**1,013**	1,212	**1,013**	1,212

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 2024. During the year ended 31 March 2024 one property was sold (2023 - five) and a gain of £15,000 (2023 - £116,000) was recognised.

The gain on sale of £15,000 (2023 - £116,000) and revaluation loss of £49,000 (2023 - £20,000 revaluation gain) result in a total income statement loss of £34,000 (2023 - £136,000 gain).

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

	Group 2024	Group 2023	Society 2024	Society 2023
Cost	**2,108**	2,462	**2,108**	2,462
Depreciation	**(1,364)**	(1,356)	**(1,364)**	(1,356)
	744	1,106	**744**	1,106

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

	Group and Society	
	2024 £000	2023 £000
Within one year	**77**	80
In the second to fifth years inclusive	**179**	180
After five years	**1**	11
	257	271

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 2024 amounted to £5,000 (2023 - £41,000).

17. Other Assets

	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Corporation tax	**1,680**	–	**1,653**	–
Deferred taxation asset (note 19)	**–**	1,279	**–**	1,270
Other	**3**	4	**–**	–
	1,683	1,283	**1,653**	1,270

For 2023, the corporation tax debtor has been presented in note 21 (other liabilities).

18. Prepayments and Accrued Income

	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Prepayments	**4,182**	2,861	**3,773**	2,453
	4,182	2,861	**3,773**	2,453

19. Deferred Taxation

	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
At 1 April	**1,279**	2,114	**1,270**	2,103
(Charge) to income and expenditure account (note 8)	**(1,514)**	(865)	**(1,510)**	(863)
(Charge)/credit to other comprehensive income	**(82)**	30	**(82)**	30
Deferred tax (liability)/asset at 31 March	**(317)**	1,279	**(322)**	1,270
Deferred tax assets and liabilities are attributable to the following items:				
Difference between accumulated depreciation and amortisation and capital allowances	**13**	143	**10**	134
Deficit reduction contributions	**923**	1,846	**923**	1,846
Pension scheme	**–**	357	**–**	357
Investment in equity shares	**(1,656)**	(1,271)	**(1,656)**	(1,271)
Debt securities	**8**	99	**8**	99
Differences arising from transition to FRS 102	**54**	105	**53**	105
Other temporary differences	**341**	–	**340**	–
	(317)	1,279	**(322)**	1,270

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 2024 £000	Group and Society 2023 £000
Held by individuals	**2,681,551**	2,460,241
Other	**7**	7
Fair value adjustment for hedged risk	**158**	–
	2,681,716	2,460,248

21. Other Liabilities

	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Other liabilities falling due within one year:				
Corporation tax	**–**	(965)	**–**	(941)
Deferred tax liability (note 19)	**317**	–	**322**	–
Other creditors	**6,046**	1,938	**7,555**	3,454
	6,363	973	**7,877**	2,513

For 2024, the corporation tax debtor has been presented in note 17 (other debtors).

22. Accruals and Deferred Income

	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Administrative and operating costs	**8,262**	7,419	**8,148**	7,335
	8,262	7,419	**8,148**	7,335

23. Provisions for Liabilities and Charges (Group)

	Group and Society 2024 £000	Group and Society 2023 £000
At 1 April	**–**	483
Charge to income and expenditure account	**277**	–
Utilised	**–**	(483)
At 31 March	**277**	–

Provisions for Liabilities and Charges (Society)

	2024 £000	2023 £000
At 1 April	**–**	483
Charge to income and expenditure account	**–**	–
Utilised	**–**	(483)
At 31 March	**–**	–

Discretionary commission arrangements
A provision of £277,000 has been recognised for potential redress and related claims management costs for complaints that may be made against Borderway Finance Limited, our vehicle finance subsidiary, relating to an industry wide matter concerning discretionary commission arrangements (DCAs).

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 2023 the provision had been fully utilised and the matter was substantially resolved.

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 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Contracted but not provided for	**291**	26	**291**	26
(c) Memorandum items				
Irrevocable mortgage commitments	**3,079**	3,209	**3,079**	3,209
Undrawn customer overdraft facilities	**7,405**	7,853	**7,405**	7,853
Defined benefit pension deficit reduction contribution	**–**	1,000	**–**	1,000
Pension scheme liquidity facility	**2,000**	–	**2,000**	–

25. Pensions

The Group operates one defined benefit pension scheme and one 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 2024 was £1,764,000 (2023 - £1,475,000).

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 2024 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 2024.

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. During the year ended 31 March 2024 the Society made three payments of £1,000,000 being the 2022 and 2023 payments that were due and the 2024 payment which was brought forward. This, along with a temporary liquidity facility (running until September 2024) of up to £2,000,000 allowed the scheme to adopt a revised lower risk investment strategy including increasing hedging of inflation and interest rate risk to 100%. No drawdown on the liquidity facility has been made as at or during the period ending 31 March 2024.

Key assumptions used:		**Valuation at**
	2024 %	2023 %
Rate of increase in pensions in payment	**1.95-3.05**	1.90-3.00
Discount rate	**4.80**	4.70
Inflation assumption – RPI	**3.35**	3.40
– CPI	**2.90**	2.90

Mortality assumptions:
Post-retirement mortality is based on 100% of the S3PXA tables (2023 - 100% of S3PXA), with projected improvements based on CMI 2022, with a long-term trend of 1.25% p.a. and a smoothing parameter of 7 (2023 - 7). No allowance is made for pre-retirement mortality and a weight of 0% is applied to 2020 and 2021 and 25% to 2022 experience to mitigate Covid-19 based distortions (100% all other years).

The number of years' life expectancy, retiring at 62, is as follows:	**2024**	2023
Retiring today:		
Males	**86.2**	86.8
Females	**88.8**	89.3
Retiring in 20 years:		
Males	**87.6**	88.2
Females	**90.3**	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:	**2024 £000**	2023 £000
Present value of defined benefit obligations	**(48,657)**	(50,085)
Fair value of scheme assets	**48,807**	48,658
Surplus/(deficit) in plan	**150**	(1,427)
Unrecognised surplus	**(150)**	–
Liability recognised in the balance sheet	**–**	(1,427)

Under FRS102, where a scheme is in surplus according to FRS102 assumptions, the surplus may only be recognised if it is available to the Society. A surplus is only deemed available to the extent that the Society can take a contribution holiday or if the Trustees have agreed to provide a refund to the Society. The Scheme is now closed and has no active members and no agreement has been made with the Scheme Trustees to make any refunds. Accordingly, it has been assumed that none of the surplus is currently available to the Society, unless the Scheme were to be wound up and therefore no asset was recognised at the balance sheet date.

Movements in the present value of defined benefit obligations were as follows:

At 1 April	**50,085**	71,713
Interest cost	**2,305**	1,877
Service cost	**–**	–
Benefits paid	**(2,115)**	(1,810)
Actuarial gain	**(1,618)**	(21,695)
At 31 March	**48,657**	50,085

Movements in the fair value of scheme assets were as follows:		
At 1 April	**48,658**	71,104
Actuarial loss	**(3,044)**	(22,496)
Expected return on assets	**2,308**	1,860
Contributions from employers	**3,000**	0
Benefits paid	**(2,115)**	(1,810)
Expenses paid	**–**	–
At 31 March	**48,807**	48,658
The analysis of the scheme assets at the balance sheet date was as follows:		
Growth assets	**–**	10,854
Diversified credit	**25,074**	21,814
Liability driven investments (LDI)	**20,435**	13,859
Cash	**1,936**	700
Other assets	**1,362**	1,431
	48,807	48,658

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 which was increased during the year, 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	**–**	–

The operating charge of £nil (2023 - £nil), plus the Group's contributions to the defined contribution schemes of £1,764,000 (2023 - £1,475,000) and life assurance premiums of £116,000 (2023 - £138,000), comprise the Group's other pension costs total of £1,880,000 (2023 - £1,613,000) 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 which in 2024 totalled £349,000 (2023 - £183,000). These costs are included within administrative expenses shown in note 6.

b) Pension finance charge

Expected return on pension scheme assets	**2,308**	1,860
Interest on pension scheme liabilities	**(2,305)**	(1,877)
Net income/(charge)	**3**	(17)
c) Statement of Comprehensive Income		
Actual return less expected return on pension scheme assets	**(3,044)**	(22,496)
Actuarial gain on defined benefit obligation	**1,618**	21,695
Actuarial loss	**(1,426)**	(801)
Amount of surplus not recoverable	**(150)**	–
Movement in deferred taxation relating to pension scheme	**394**	205
Actuarial loss recognised in the Statement of Comprehensive Income	**(1,182)**	(596)

d) Movement in the deficit in the scheme during the year	2024 £000	2023 £000
Deficit in scheme at beginning of year	**(1,427)**	(609)
Movement in year:		
Service cost	**–**	–
Contributions net of expenses paid	**3,000**	–
Pension finance income/(charge)	**3**	(17)
Actuarial loss	**(1,426)**	(801)
Unrecognised surplus	**(150)**	–
Deficit in scheme at end of year	**–**	(1,427)

History of experience gains and losses	2024	2023	2022	2021	2020
Actual return less expected return on pension scheme assets (£000)	**(3,044)**	(22,496)	(4,526)	1,393	(214)
Percentage of opening scheme assets	**6.3**	31.6	7.8	2.5	0.4
Actuarial gain/(loss) on defined benefit obligation (£000)	**1,618**	21,695	5,418	(8,161)	2,230
Percentage of opening scheme liabilities	**3.2**	30.3	7.0	11.8	3.1

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 2024:	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	**332,067**	**–**	**–**	**–**	**–**	**504**	**332,571**
Loans and advances to credit institutions	**31,719**	**6,112**	**–**	**–**	**–**	**–**	**37,831**
Debt securities	**–**	**–**	**15,023**	**97,472**	**27,235**	**936**	**140,666**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**60,549**	**60,549**
Loans and advances to customers							
Loans fully secured on residential property and land	**4,867**	**19,895**	**64,246**	**398,242**	**2,138,490**	**(36,997)**	**2,588,743**
Other loans	**945**	**57**	**1,212**	**26,014**	**–**	**(362)**	**27,866**
Liabilities							
Shares	**1,680,807**	**399,603**	**428,516**	**156,694**	**–**	**16,096**	**2,681,716**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**4,453**	**4,453**
Amounts owed to credit institutions	**–**	**9,120**	**–**	**140,000**	**–**	**2,100**	**151,220**
Amounts owed to other customers	**81,527**	**38,186**	**11,822**	**98**	**–**	**300**	**131,933**

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
Amounts owed to other customers	99,361	37,450	13,284	305	–	170	150,570

Included within Other loans are balances of £27,283,000 (2023 - £26,721,000) relating to loans and advances to customers of Borderway Finance Limited.

As at 31st March 2024 £23.6 million (2023: £29.5 million) of loans and advances to credit institutions has been deposited by the Group and Society as initial margin collateral with LCH against derivative contracts.

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 2024:	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
Shares	**1,693,867**	**402,949**	**435,289**	**160,966**	**–**	**–**	**2,693,071**
Amounts owed to credit institutions	**–**	**11,287**	**–**	**140,000**	**–**	**–**	**151,287**
Amounts owed to other customers	**81,751**	**38,394**	**11,896**	**98**	**–**	**–**	**132,139**
At 31 March 2023:							
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
Amounts owed to other customers	99,495	37,459	13,348	314	–	–	150,616

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 2024:	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
Swap contracts	**11,815**	**25,708**	**20,739**	**(33)**	**–**	**58,229**
At 31 March 2023:						
Swap contracts	9,552	31,114	48,245	–	–	88,911

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 2024:	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	511,068	–	–	–	–	511,068
Derivative financial instruments	–	–	–	–	60,549	60,549
Loans and advances to customers	719,998	148,822	255,843	1,491,946	–	2,616,609
Intangible assets	–	–	–	–	2,518	2,518
Tangible fixed assets	–	–	–	–	11,765	11,765
Other assets	–	–	–	–	15,928	15,928
Total assets	1,231,066	148,822	255,843	1,491,946	90,760	3,218,437
Liabilities						
Shares	2,144,108	73,045	308,069	156,494	–	2,681,716
Derivative financial instruments	–	–	–	–	4,453	4,453
Amounts owed to credit institutions and other customers	283,153	–	–	–	–	283,153
Other liabilities, pension liability, accruals and deferred income	–	–	–	–	14,902	14,902
Reserves	–	–	–	–	234,213	234,213
Total liabilities	2,427,261	73,045	308,069	156,494	253,568	3,218,437
Net assets/(liabilities)	(1,196,195)	75,777	(52,226)	1,335,452	(162,808)	–
Derivative instruments	1,405,050	(113,350)	(19,200)	(1,272,500)	–	–
Interest rate sensitivity gap	208,855	(37,573)	(71,426)	62,952	(162,808)	–
Cumulative gap	208,855	171,282	99,856	162,808	–	–

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	–	–

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

The following table details the Group's and Society's 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 2024 £000	Group and Society +250bps 2023 £000	**Group and Society -250bps 2024 £000**	Group and Society -250bps 2023 £000
Impact on equity reserves	**(3,913)**	501	**4,545**	(500)

The above interest rate risk represents the market value movement, calculated using a discounted cash flow basis, on all of the Society's financial assets and liabilities, resulting from an immediate 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 2024 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. 99% (2023 - 97%) 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 2024:

	Group and Society	
	2024 %	2023 %
Aaa	**5**	13
Aa1-A3	**29**	5
Sovereign exposure to the UK	**65**	79
Other	**1**	3
	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 £30.4 million (2023 - £14.8 million). Exposures to supranational institutions total £25.4 million (2023 - £15.2 million).

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

	Group 2024 £000	Group 2023 £000	**Society 2024 £000**	Society 2023 £000
Cash in hand and balances with the Bank of England	**332,571**	450,089	**332,571**	450,089
Loans and advances to credit institutions	**37,831**	45,631	**37,831**	45,631
Debt securities	**140,666**	86,191	**140,666**	86,191
Total wholesale credit risk	**511,068**	581,911	**511,068**	581,911

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 2024 are centrally cleared (2023: 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 2024 the Group had no open repurchase transactions (2023 - 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 loans of Borderway Finance Limited of £27,283k (2023: £26,721k) held within other loans.

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

	Group	
	2024 £000	2023 £000
Loans fully secured on residential property	**2,392,116**	2,224,578
Loans fully secured on land	**233,624**	208,685
Other loans	**28,228**	27,495
Total gross exposure (contractual amounts)	**2,653,968**	2,460,758
Impairment and hedging adjustments	**(37,299)**	(61,484)
EIR adjustment	**(60)**	(1,278)
Total net exposure	**2,616,609**	2,397,996

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	**2024 %**	2023 %
North West	**46**	48
Scotland	**10**	10
London	**9**	8
South East	**11**	11
South West	**11**	11
Yorkshire & Humberside	**3**	3
East of England	**2**	2
North East	**2**	2
West Midlands	**2**	2
East Midlands	**2**	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%	**75**	78
70%-80%	**17**	16
80%-90%	**6**	4
>90%	**2**	2
	100	100

The overall indexed loan-to-value of the residential portfolio is 43% (2023 - 42%).

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	**2024 £000**	**2024 %**	2023 £000	2023 %
Not impaired:				
Neither past due nor impaired	**2,365,399**	**99**	2,209,173	99
Past due up to 3 months but not impaired	**22,897**	**1**	14,677	1
Impaired:				
Past due 3 to 6 months	**2,443**	**–**	422	–
Past due 6 to 12 months	**1,069**	**–**	272	–
Past due more than 12 months	**308**	**–**	34	–
Possessions	**–**	**–**	–	–
	2,392,116	**100**	2,224,578	100

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

Forbearance strategies

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. Such forbearance strategies include the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, and aim to avoid repossession. During the year ended 31 March 2024 the Group increased its use of forbearance in order to support borrowers in the light of the sustained higher interest rate environment and cost of living squeeze. Forbearance strategies were primarily used for customers who are neither past due nor impaired.

At 31 March 2024:	Payment Holiday £000	Payment concessions including interest only £000	Arrears capitalised £000	Transfer to interest only £000	Total forbearance £000
Neither past due nor impaired	**–**	**2,307**	**609**	**1,684**	**4,600**
Past due up to 3 months	**–**	**129**	**144**	**–**	**273**
Past due more than 3 months	**–**	**–**	**–**	**–**	**–**
Total loans and advances	**–**	**2,436**	**753**	**1,684**	**4,873**
At 31 March 2023:					
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

Loans fully secured on land

Credit risk associated with lending fully secured on land is affected by similar factors as for residential mortgages, although on average loans are generally larger and reflect the Group's focus on tourism related sectors. The recent extended period of elevated interest rates, cost of living challenges and variable weather have created volatility in tourism demand impacting customers, however the portfolio continues to show resilience with 90 DPD arrears rates remaining broadly stable during the financial year.

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

	Group and Society	
Industry type	**2024 %**	2023 %
Leisure and hotel	**91**	94
Commercial investment and industrial units	**4**	3
Retail	**–**	1
Others, including mixed use	**5**	2
	100	100
Unindexed loan to value distribution*		
<70%	**95**	93
70%-80%	**1**	3
80%-90%	**4**	1
>90%	**–**	3
	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	**2024 £000**	**2024 %**	2023 £000	2023 %
Not impaired:				
Neither past due nor impaired	**223,283**	**96**	198,475	95
Past due up to 3 months but not impaired	**7,760**	**3**	7,676	4
Impaired:				
Past due 3 to 6 months	**1,220**	**1**	1,967	1
Past due 6 to 12 months	**642**	**–**	214	–
Past due more than 12 months	**719**	**–**	353	–
	233,624	**100**	208,685	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.

A small proportion of the Group's commercial mortgage borrowers continue to make use of forbearance, as some have experienced cash flow challenges as a result of the challenging trading conditions created by the UK's high inflation, rising interest rates and cost of living crisis. The majority of forbearance at 31 March 2024 reflects the seasonal cash flow of our hotel and guest house borrowers, but also includes support required due to other factors such as ill health or material loss of income.

At 31 March 2024:		Payment concessions including interest only £000	Arrears capitalised £000	Transfer to interest only £000	Total forbearance £000
Neither past due nor impaired	**–**	**2,243**	**–**	**–**	**2,243**
Past due up to 3 months	**–**	**1,237**	**–**	**–**	**1,237**
Past due more than 3 months	**–**	**331**	**–**	**–**	**331**
Total loans and advances	**–**	**3,811**	**–**	**–**	**3,811**
At 31 March 2023:					
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

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 book of fixed term deposits. This use of derivatives to hedge the risk of fixed rate deposits continued throughout the year ended 31 March 2024.

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:

	Group 2024			Group 2023		
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	**1,622,550**	**60,131**	**(4,116)**	1,412,400	82,748	(123)
Interest rate swaps not designated as hedges	**230,500**	**418**	**(337)**	114,300	1,618	(13)
Total derivatives held for hedging	**1,853,050**	**60,549**	**(4,453)**	1,526,700	84,366	(136)

	Society 2024			Society 2023		
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	**1,622,550**	**60,131**	**(4,116)**	1,412,400	82,748	(123)
Interest rate swaps not designated as hedges	**204,500**	**187**	**(244)**	88,100	1,104	0
Total derivatives held for hedging	**1,827,050**	**60,318**	**(4,360)**	1,500,500	83,852	(123)

The following table shows the notional principal and their residual maturity.

At 31 March:	Group 2024 £000	Group 2023 £000	Society 2024 £000	Society 2023 £000
Interest rate swaps				
Under one year	**677,000**	303,850	**672,200**	299,850
Between one and five years	**1,153,050**	1,222,850	**1,131,850**	1,200,650
Over five years	**23,000**	–	**23,000**	–
	1,853,050	1,526,700	**1,827,050**	1,500,500

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 2024:	**Carrying Value £000**	**Fair Value £000**
Financial assets:		
Loans and advances to customers:		
Loans fully secured on residential property	**2,390,785**	**2,366,865**
Loans fully secured on land	**232,267**	**234,618**
Financial liabilities:		
Shares	**2,681,558**	**2,681,151**

	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

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 2024:	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	**–**	**–**	**332,571**	**–**	**–**	**332,571**
Loans and advances to credit institutions	**–**	**–**	**37,831**	**–**	**–**	**37,831**
Debt securities	**–**	**140,666**	**–**	**–**	**–**	**140,666**
Derivative financial instruments	**60,549**	**–**	**–**	**–**	**–**	**60,549**
Loans and advances to customers:						
Loans fully secured on residential property	**(33,327)**	**–**	**2,390,785**	**–**	**–**	**2,357,458**
Loans fully secured on land	**(982)**	**–**	**232,267**	**–**	**–**	**231,285**
Other loans	**–**	**–**	**27,866**	**–**	**–**	**27,866**
Investment in equity share	**–**	**9,050**	**–**	**–**	**–**	**9,050**
Non financial assets	**–**	**–**	**–**	**–**	**21,161**	**21,161**
Total assets	**26,240**	**149,716**	**3,021,320**	**–**	**21,161**	**3,218,437**
Financial liabilities:						
Shares	**158**	**–**	**–**	**2,681,558**	**–**	**2,681,716**
Derivative financial instruments	**4,453**	**–**	**–**	**–**	**–**	**4,453**
Amounts owed to credit institutions	**–**	**–**	**–**	**151,220**	**–**	**151,220**
Amounts owed to other customers	**–**	**–**	**–**	**131,933**	**–**	**131,933**
Non-financial liabilities	**–**	**–**	**–**	**–**	**14,902**	**14,902**
General and other reserves	**–**	**–**	**–**	**234,213**	**–**	**234,213**
Total reserves and liabilities	**4,611**	**–**	**–**	**3,198,924**	**14,902**	**3,218,437**
At 31 March 2023:						
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

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 2024 the preference shares have been recognised at a fair value of £8,561,000 (2023 - £7,107,000). The Society also holds an investment in Ordinary C shares with a fair value of £489,000 (2023 - £405,000). 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 £6,868,000 fair value of the Series A shares at 31 March 2024 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 £1,693,000 fair value of Series B preference shares at 31 March 2024 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 – 2024	
	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**	**387**

	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

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 £354,000 at 31 March 2024 (2023 - £308,000).

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.

NOTES TO THE ACCOUNTS

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 required by the regulator as at 31 March 2024 was £119.97 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.

In February 2024, the Group received permission from the PRA to adopt the Small Domestic Deposit Takers (SDDT) regime by way of a modified waiver of consent. As a result, the Group is no longer required to produce or disclose a Pillar 3 report as per Article 433c of the PRA Rulebook.

ANNUAL BUSINESS STATEMENT

For the year ended 31 March 2024

1. Statutory Percentages

	31 March 2024 %	Statutory Limit %
Lending Limit	**11.28**	25
Funding Limit	**9.55**	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 2024 %	Group 31 March 2023 %
As percentage of shares and borrowings:		
Gross capital	**7.90**	7.94
Free capital	**7.49**	7.56
Liquid assets	**17.24**	20.39
Profit for the financial year as a percentage of mean total assets	**0.23**	0.72
Management expenses as a percentage of mean total assets	**2.03**	1.93

	Society 31 March 2024 %	Society 31 March 2023 %
Management expenses as a percentage of mean total assets	**2.01**	1.90

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 2024

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 Digcom UK Holdings Ltd PEXA Limited
J. Arnold, FCMA, FGMA	Management Consultant	19/03/18	Jackie at Eastwood Limited Furness Education Trust
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	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 Talent Mapper
C. Marr	Company Director	01/11/23	Hewlett Packard International Bank DAC Mars Capital Finance Ireland DAC AIB Merchant Services Kroo Bank Ltd

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.

Other
INFORMATION


OTHER INFORMATION

GLOSSARY

AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
BAFO	Best And Final Offer
BFL	Borderway Finance Limited
BP(S)	Basis Point(s)
BRC	Board Risk Committee
BTL	Buy to Let
CBS	Cumberland Building Society
CCyB	Countercyclical Capital Buffer
CCO	Chief Customer Officer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CITO	Chief Information and Transformation Officer
CPSO	Chief People & Sustainability 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
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. It also excludes the Group's investment in the New Cumberland programme. A reconciliation between Group operating profit and statutory profit before tax is included on page 57.

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. This report is based on the principles of the 2018 Code. 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. Nomination & Governance Committee is overseeing the implementation of the 2024 Code from 2025/26.

		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	6-69 81-82
	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	6-69 81-82
	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 56 48-53 90-95 96-103
	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	18-37 83-85 38-47
	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	28-37 83-85 104-117
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 74-77 86-89

		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 Meet the Senior Leadership Team	74-77 78-80
	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	74-77 81, 87, 92, 97, 105
	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	81-82
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	86-89 104-117
	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	72-73 74-77
	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 Nomination and Governance Committee Report	81-82 86-89

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	96-103
	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	14-17 55-63 64-68 69 96-103
	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	48-53 90-95 96-103
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	104-117
	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. **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.	PARC Report	104-117
	R. Directors should exercise independent judgment and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	PARC Report	104-117

Platinum Trusted Service Award

2024 feefo

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The Cumberland

Kinder banking. It's in our nature.