



REPORT *and* ACCOUNTS

Year ended 31 March 2022


The Cumberland

Kinder banking. It's in our nature.

FEEFO PLATINUM
SERVICE AWARD

4.8
out of
5.0

CUSTOMER
SATISFACTION*

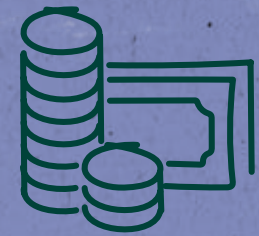
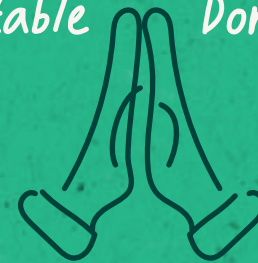
In Cumbria
Business Awards



LARGE BUSINESS
OF THE YEAR

£188k

Charitable Donations



£2.88bn
Total assets

NET
PROMOTER
SCORE

83

Our performance HIGHLIGHTS

£8.6m
Profit before tax*

One of the top
100
companies in the North
West to work for



Source: Best Companies

£422m

Gross mortgage
lending*



Helped more than

500

first-time buyers into a
home of their own



40%

of senior positions
held by women



funds inflow*

£93m

STRATEGIC
REPORT

CORPORATE
GOVERNANCE
REPORT

FINANCIAL
STATEMENTS

OTHER
INFORMATION

* Those figures highlighted with an asterisk are a Group key performance indicator (KPI). For information on how these are calculated, please see page 139.

All information and data correct as at 31 March 2022



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STRATEGIC

Report

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CHAIRMAN'S

Welcome

On behalf of your Board of Directors, I am delighted to present Cumberland Building Society's Annual Report and Accounts for the year ended 31 March 2022.

It has been another challenging and unpredictable period as the pandemic continued to disrupt the lives of our people, our customers and our business for far longer than many might have predicted. Despite this, our team has continued to do an outstanding job under sometimes extremely trying circumstances and our business has grown stronger as a result.

I'm proud to say that the hard work and commitment of our people has not just been recognised by us, but resoundingly by our customers and our industry peers alike, contributing to a range of awards we have received this year.

Values & Purpose

The Cumberland is built upon an authentic set of values that are focused on our customers, our people, and the communities we live and work in. I've never been more proud of the way we do things at The Cumberland. I truly believe this approach is what makes our Society different and unique.

Having previously expressed our purpose through Brighter Banking, we have evolved and refined this to better reflect the needs of our customers and the wider world around us.

We have come through the challenges and tragedies of Covid, with its detrimental effect on many lives and livelihoods, and many in our communities face ongoing hardship. The rising cost of living, including, for example, increasing fuel costs and energy charges, will no doubt have a significant impact on many households and businesses as the year unfolds, and we must continue to provide and enhance our support for those that need it wherever we can. Our communities continue to face difficult social challenges, such as a lack of financial education, mental health issues and discrimination, all of which are areas in which we believe we have a part to play, and we are acutely aware of our impact on the environment.

By embracing our new purpose, which we present on page 16, we will focus on these issues, and we are committing to creating banking experiences that are kinder to people and planet. You can read more about this in the Chief Executive Officer's business review.

Modernisation

The Cumberland is known and loved for its traditional approach and values. But holding onto our traditional values does not mean we are old-fashioned. We are at the end of the first part of an extensive transformation programme that will bring great benefits for all of our customers. Our Cumberland 2025 plan will provide new digital channels, making it easier, quicker and more convenient for you to engage with us and manage your Cumberland accounts, whenever and wherever it suits you. Our branch customers will also benefit from a more streamlined, efficient way of working 'behind the scenes' too.

Financial position & profit expectation

Financially, The Cumberland remains in a strong position. Despite the uncertainties of the pandemic, our arrears and bad debts remain remarkably low. This is because we've maintained focus on our core residential business - lending to people so that they can buy a home.

On the commercial side, our specialist sector expertise is in the hospitality sector. After the challenges many have experienced just trying to keep going during the lockdowns and other Covid-related restrictions, we are pleased to see so many businesses are now back on their feet and thriving again. Using their individual business expertise, they have made the most of the increased trend towards holidaying in the UK. The Cumberland has supported them every step of the way as they have had to pivot and cope with the feast or famine nature of running hospitality and holiday businesses this year. We are looking forward to seeing our commercial customers continue to rebuild and prosper this coming year.

Overall, the next few years are going to be a period of investment for us, with our focus firmly set on the next stage of our transformation journey, building a better building society for the long-term benefit of its members. The Cumberland has been serving the people of Cumbria and the surrounding areas for more than 170 years and the work we do now will ensure we continue to flourish and prosper by improving and enhancing our services and making a real difference in our communities for many more years to come.

John Hooper
Chairman
1 June 2022

I've never been more proud of the way we do things at The Cumberland

JOHN

It is never easy transitioning from a sustained period of instability and constantly changing rules. We all experienced the challenges brought by the considerably longer than expected continuation of the Covid-19 pandemic and its effects on business, personal finances, and people's individual health and wellbeing. Managing a financial institution during this time has been challenging, but dare I say that The Cumberland was perhaps better prepared than some others. We have been able to draw on nearly two centuries of solid financial prudence. However, it is the resilience, outstanding attitude and commitment of a fantastic team of people that has again ensured another strong year for the business.

In the face of some of the strongest challenges our people are likely to experience, they helped deliver another year of growth, established the platform we need for the next stage of our transformation programme, and continued to provide exceptional award-winning service to our customers.

I would like to take this opportunity to sincerely thank each and every member of the Cumberland family for their continued dedication and support.

CHIEF EXECUTIVE

Officer's Business Review

66

We'll continue to do what is kind, not what is easy, and secure a long, strong future for our building society.

KINDER BANKING.
It's in our
NATURE.

Our purpose

Look at what we've got here in our region. We're in perhaps the most beautiful corner of the UK. We have a strong sense of community – and we have creative and exciting businesses you won't find anywhere else.

Community and kindness have been at the heart of The Cumberland since 1850, but what this means to our customers, and how we show it, has continually evolved. As we develop our business to remain sustainable for the future, now is the right time to evolve our Society's purpose to align with the changing needs of our customers, colleagues and communities. The purpose is our 'guiding light' that drives all that we do.

Over the last year, we took time to listen to our colleagues, our customers and a range of other stakeholders in a series of surveys and focus groups to understand what people think and expect of us. I'm pleased to say the results were positive. The feedback suggested both our customers and colleagues alike want to see us continue making a real difference but, in order that what we do not be restricted to our immediate stakeholders, we must consider our impact on our society and the wider world around us.

As a result, we have refined our business purpose and relaunched it as we head into this new financial year. Our goal is to create a banking experience that is kinder to people and planet, and this will drive the decisions we make, the actions we take and the way we measure our impact going forward. The purpose manifests itself in our new strapline 'Kinder banking. It's in our nature.' and I am very much looking forward to seeing the business focus on this as we progress with our plans.

We'll continue to do what is kind, not what is easy, and secure a long, strong future for our building society. This next stage in our journey is a very exciting one, and our new purpose will ensure we're looking out for our customers, communities, and countryside – now and for generations to come.

Supporting our people

It became clear early last year that the new ways of working that were forced upon us during the pandemic, and which our people adapted to so well during 2020 and 2021, would continue in some way.

Ahead of our head office teams returning to the workplace, we made some significant changes to the layout and design in response to keeping people safe and helping them work even better together. Hybrid working has now become our standard practice, with people still working from home part of the time and sharing reconfigured office spaces.

DES

Our head office has a new look, in line with the new ways in which we are using the spaces, with breakout booths, areas for small groups to sit together and mini meeting areas. We understand that for some employees, the anxieties of the last two years will take time to reduce, and for other people, working from home has been convenient and enjoyable, and they have been able to thrive and be as productive as they were in the office. We support hybrid working wherever it is possible for a role and have not issued a prescriptive instruction about who must be in the office and when. As a business, we have experienced the benefits of this, with employees who feel appreciated and respected, trusted to do their best work in the spirit of autonomy and responsibility.

Our people are professional and committed and each team understands their own priorities and processes. We also recognise that in the 'new normal', the opportunity for hybrid working will help us to attract new talent to the business as we continue to grow our teams. This has given us access to some of the best talent in the industry, allowing us to supplement and develop our people to further support us in achieving The Cumberland's business objectives.

Our branches have continued to deliver great service in often adverse conditions. There were times when national restrictions forced us to close or operate shorter hours, but disruption has been

kept to a minimum. Earlier this year – at last – we returned to a place where we felt it safe to reintroduce an element of face-to-face appointment based service, and it has been great to see smiling customer faces back in our branches.

Improving our business for the benefit of our customers

Changing behaviours have meant many of our customers are increasingly opting to telephone us. During the year we have invested in our Carlisle-based Customer Care team, bringing in and training more people to be available on the phones to help customers. We have not changed in our commitment to offering multiple channels of communication, depending on what suits each individual customer, whether that be face-to-face in branch, over the phone and, increasingly now, online.

The hospitality sector is also bouncing back after two very challenging years of lockdowns. We've seen a return to growth in our business within the sector and have now invested in an intermediary channel that will help drive further growth in this area.



Our head office reopened earlier this year after a redesign to provide an improved and more efficient environment for hybrid working.

Alex Windle took up the new role of Chief Transformation Officer during the year, and is responsible for delivering the future digital needs of our customers and our business.



The year saw us continue to build on our reputation for excellence in customer service. In January, we were delighted to earn a Feefo Platinum Trusted Service Award for the second year in a row. Based on the ratings feedback, we ask all our new customers to give us, 9 out of 10* gave us 5 stars out of 5. We also collected the In-Cumbria Best Large Business of the Year award in November 2021.

Earlier this year, we were thrilled to attend OPEX Week, part of the Business Transformation World Summit in Miami, Florida, where members of our Operations team picked up two global Operational Excellence Awards. These were for Best Transformation Project Delivering Customer Excellence and Best Process Transformation Project Under 90 Days category for our end-to-end bereavement process review. To be

recognised on the world stage is quite simply amazing, and testament to the impact of our team as they continue to pursue our goal of providing exceptional customer experiences.

Looking ahead

This year was very much about resetting and responding to the longer-term changes the pandemic brought, but I'm pleased to say that these issues have had relatively little impact on our journey to Cumberland 2025.

As I wrote last year, our business needs to undergo a transformation in order that it can remain a sustainable, viable and vibrant society for our members and for future generations. Our plan, called Cumberland 2025, is predominately focused on the digital needs of both our customers and our business

and is now at the end of the first stage. The groundwork required is complete and this year will see us begin working on delivering the technological change.

Transforming a multi-billion pound financial services business is, unfortunately, not a quick process. The first phase of the programme has seen significant investment in planning, research and bringing in the capability and capacity we need to make it a success, as well as simplifying our business model. I'm minded to consider the old tailor's saying, "Measure twice, cut once." These are wise words, and it was absolutely vital to get the foundations of this programme right. This has involved careful assessment of all of our current processes in order to prepare them for digital transformation.

Based on the ratings feedback we ask all our new customers to give us, 9 out of 10* gave us

5 STARS OUT OF 5



*1,074 out of 1,204 new customers (includes existing customers who take a new product (e.g. mortgage renewals))

This year was very much about resetting and responding to the longer-term changes the pandemic brought, but I'm pleased to say that these issues have had relatively little impact on our journey to Cumberland 2025.

We've spent this year getting everything ready – without having made any changes to our digital infrastructure yet, we've had a phenomenal impact on the most critical of all our customer journeys, the mortgage journey. We've reviewed a process, which used to take 73 days from initial conversation to offer, and reduced that to just 12 days. This is just one example, but by making all of the improvements we can, we will ensure that the digital transformation itself will be optimised and most effective. It can't and shouldn't happen overnight. We are changing and we need to make sure that we, and our customers, are fully prepared for the change in order to get the most out of it.

Cumberland 2025 is predominantly focused on protecting and delivering longevity for the Society. We've built a reputation over 172 years for being reliable, safe and secure, and that's not going to change. But some of the ways we deliver services to our customers must change, in line with what they want from a modern financial service provider.

Our annual financial reviews usually include discussion of strong profits that are shared with our members. This year we have begun spending more of what we earn, investing in the future for our customer's benefit. That means there will be a noticeable reduction in profits over the next few years, but it is absolutely necessary to do this now. To continue to return profits in the way we have over recent years would prevent us from making the changes we must make, to allow the Society to thrive and continue to help customers for the next 170 years. We believe that our members understand this and are supportive of the reinvestment.

Looking at the future, the next few years are going to be very exciting and we look forward to being able to share more details of our progress in next year's report. We are lining up areas of our business and the ways we operate to allow us to provide additional benefits for our customers, so that they can bank the way they want to.

Des Moore
Chief Executive Officer
1 June 2022

CONCLUSION

in context

It is important too, that we consider our own aims and objectives in the context of what is going on in the wider world. We can't ignore the potential impact that the rising cost of living, increased energy and fuel prices, and on-going adjustments to living with Covid are going to have on our customers. It is clear that there will be a long period of recovery for many, before they achieve equilibrium or get close to the normal they knew pre-2020.

We are continuing to build from our solid, strong and stable foundation, ensuring we can continue to deliver the help our customers need in the ways our customers want. In the short term, there is hard work and investment required to achieve this, and this will increase our costs and impact the profitability of our Society over the next three years. However, we have built a sound platform on which we can continue to grow and transform in order to develop a prosperous future for our Society, our customers and our local communities.

We were thrilled to collect two accolades at the OPEX Awards in Miami in January.



David Robinson joined our business in 2021 to head up our brand new intermediary lending team.



In November 2021 we were named Best Large Business of the Year at the In Cumbria Business Awards.



WHAT *we do,* and WHY *we do it*

As a customer-owned organisation, we exist entirely for your benefit. We work hard to provide you with long-term value by operating a financially robust business that offers competitive savings and mortgage products, exceptional customer service, and supports our shared communities and the wider environment.

Our vision, purpose and strategic priorities

As Des wrote earlier in this report, this year we have refined our purpose based on feedback and insight from all our stakeholders. Our new purpose – ‘to create a banking experience that’s kinder to people and planet’ – reflects our belief that our impact must extend beyond just helping people with their financial goals.

We, our colleagues and our customers believe we have a responsibility to play our part in addressing the social and environmental challenges that we all face together.

Our new purpose is our ‘North Star’, helping guide us, and ensuring we remain focussed on what we’re here to do. It will allow us to achieve our ambitions of growth and delivering the next stage of ‘Cumberland 2025’ – our transformation programme to ensure our business remains strong and sustainable for current and future generations.



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.

Forward Thinking
we embrace new ideas to continually improve.

Better Together
we work as one team.

These values, which were developed by our colleagues themselves, 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 all do.

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

Strategic priorities

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

- 1. Deliver the Cumberland 2025 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 lending safely and defend margin** – we will responsibly balance the needs of our customers while ensuring our business remains profitable so we can continue to grow.
- 5. Protect the society and our members** – we will take all necessary steps to ensure we protect our business and our stakeholders whilst we grow and transform.

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



Transforming the business

Three years ago, we set out our ambitions for Cumberland 2025. This is our plan for how the business will be structured and organised, so that it is in the best possible shape for a prosperous future. We have a responsibility to our customers, our people and our local communities to put the right resources in place to ensure The Cumberland remains profitable, sustainable and compliant within the tight regulatory framework required for all financial services.

The pandemic brought unexpected challenges, and we supported our customers and people safely through that time. Despite that, we're still on course to deliver the transformation of the Cumberland, developing the business using investment in technology, in people and in our day-to-day processes and practices so that we can continue to provide great products and service to the people of North West England and South West Scotland and beyond.

Why transform?

Many people now expect an online service that is available round the clock, to suit their needs and lifestyles. Demand for online services accelerated during the pandemic, not just in banking but in all areas, including retail. We need to ensure we can deliver the sort of online service that our customers need and expect of The Cumberland.

However, our customers and research have told us that, despite their need for easy online services, people still want to be able to get in touch with people easily – especially when they need help. Unlike many other banks, this is at the heart of our 2025 transformation. Whilst we will offer our customers the digital services they need, we remain committed to our telephone-based customer care team and our branch service.

By adopting digital solutions that automate mundane processes, we can give our people more time to focus on providing the human touch. This will also make The Cumberland a better experience for our colleagues, as well as providing better service for our customers.

We know that some people are cautious, even mistrustful, of using technology to manage their personal finances. This is an opportunity for us to identify and implement the very highest standards of cyber security, with ongoing strategies and protections that will increase confidence for our customers. It will create greater flexibility for the business to bring out new products faster and more easily. We will also be able to respond to changes in market demands in a more agile way.

How we transform

Every transformation project has to go through a period of getting the foundations right before the visible transformation can begin. We are meticulously evaluating our processes and getting everything in the best possible shape before we embark on the digital shift, in order to make the transition as smooth and seamless as possible. The transition is about technology but, of course, people are at the heart of this change. We have invested in new talent with outstanding skills and experience to help steer us through this period and manage our new processes in future.

Profit

We have a rising balance sheet, which is very important to any growing and prosperous business and, particularly for us this year, necessary in order to fund our transformation process. It is going to require a very significant investment over the next few years, which means our success won't equate to the same profit in the coming years. But in the fairly short-term, this will result in a more efficient operation and more sustainable practises that will help drive business results, the benefits of which will be felt for decades to come.



Our COMMUNITIES

We're proud to be part of our communities.

We believe in doing what's right and part of this means supporting those individuals, businesses and organisations that share our own values and give something back to our region.

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

Here's a small number of some of the activities we've been involved in during the year.>

ANTI-RACIST CUMBRIA

We were a part of this year's Anti Racist Cumbria Summit, hosted at Brewery Arts in Kendal. As event partners, we were able to experience a day full of powerful conversations, inspiration and learning. We have embarked on an anti-racist journey to better understand the part we play, and our Head of Learning and Development, Shelley Hayward, represented The Cumberland on the panel discussion, **'Is Anti-Racism Relevant in All White Spaces?'** The range of practical workshops, inspirational speakers, local topics and panel discussions were invaluable.

We also invited Janett Walker, CEO of Anti Racist Cumbria to host a series of virtual workshops for all colleagues to take part in. Attendees, which numbered over 120, explored a range of themes, and had in-depth discussions on racism and, in turn, how we could establish ourselves as an anti-racist organisation.



PLEDGE FOR VOTES

Local branches of Mind and Support in Mind Scotland were the beneficiaries of our Pledge for Votes scheme last year. We pledged to donate £1 to the charity for every vote we received in our Annual General Meeting. However, as Covid restrictions meant we couldn't take in votes in our branches and voting was down, we matched the previous year's donation of £19,000. The money is being used by Mind to promote understanding of mental health across our region through advice and support to those experiencing issues.

This year, we're pleased to be working with Samaritans, and we're delighted to be increasing the amount of donation to £2 for every vote received, so please ensure you remember to cast your vote!

We matched the previous year's donation of
£19,000



AGE UK LANCASHIRE

We were able to support AgeUK Lancashire launch a series of free workshops to help people plan for their retirement with a grant of £10,000. Local experts run the online workshops and provide advice on topics ranging from wills and pensions to financial planning and wellbeing. AgeUK have an ambition to empower people to make the most of their later years. The three sessions include a Financial Planning and Legal MOT workshop, which is delivered as a blend of presentations and Q&As. The Health and Wellbeing session includes presentations, gentle exercise, and mindfulness activities, and the Using Your Time in Retirement workshops encourage interaction, reflection, and action planning.

Anne Oliver, Community Engagement Manager for Age UK Lancashire, said, "Research shows that those who make plans for later life experience the most fulfilled and healthiest retirements. The workshops support individuals to create action plans and provide information to help people avoid the pitfalls of not acting in a timely manner. The sessions also allow people to focus on health and wellbeing and discussing how to make the most of retirement because hopefully, that can be 30 years or more, which can be quite scary when you go into it without a plan of what you are going to do."



A grant of
£10,000
for a series of free workshops
to help people plan for their
retirement

CARLISLE UNITED

As proud supporters of Carlisle United, we were as pleased as anyone to see the turnaround in the club's form earlier this year, elevating them from a relegation dogfight to football league safety. We sponsor the club's community programme which, as well as providing naming rights of the community stand, provides up to 200 free tickets to each home match which are given to schools and community groups from around the region.

We also offer our Cumberland Blues savings account, which means the club benefits from a donation each year equivalent to 1% of the average balances held in all the accounts.



PRESTON MUSLIM FORUM

We provided Preston Muslim Forum with a grant of £8,300 last year, which helped them provide a wide range of free services and support to disadvantaged people in the city. Their services include everything from guidance around finance, housing and employment, to immigration support and courses teaching people about subjects including budgeting and IT.

In addition, the Forum also runs health and wellbeing activities, such as lunch clubs for elderly people, coffee mornings, fitness classes and social groups for young parents.

Community development officer Ayub Bapu said lockdowns and other restrictions at the height of the pandemic had been particularly hard on isolated and vulnerable people in the community, as well as forcing the forum to suspend many of its face-to-face activities.

"We were getting a lot of enquiries and calls from the community, particularly people who had either been laid off or were being furloughed; people were very anxious," he said.

In response, the Forum collaborated with other local organisations to provide a specific Covid-19 support programme. This involved setting up a telephone chat service and enlisting the help of a bank of up to 80 volunteers to meet the needs of vulnerable clients; whether this was by delivering food and prescriptions or just having a conversation. The Forum also provided a bereavement service and partnered with local businesses to deliver more than 2000 meals.

We provided Preston Muslim Forum with a grant of

£8,300
last year

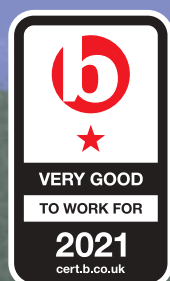
This involved setting up a telephone chat service and enlisting the help of a bank of up to

80
volunteers

STRATEGIC
REPORT



Our PEOPLE



JILL
Chief People Officer

Firstly, I'd like to thank all of our people for their amazing contribution to our business.

After two years of adapting and changing in response to the pandemic, I'm so proud of all our people for the resilience they have shown as the various challenges kept on coming. 2022 continues to bring fresh challenges, but also opportunities, as we transition to new ways of working and continue to build a workplace where our people can thrive.

Throughout the pandemic period, we put the safety of our people first, whilst balancing this with a relentless desire to ensure our customers could access our services.

To do this, we evolved to a model that saw the majority of our head office team working from home, in line with government guidelines, whilst maintaining a core of colleagues on site in our essential services functions. Those colleagues who continued to work from head office in areas such as Customer Care could not have imagined the care and resilience that they would be required to show to one another and our customers in order to keep services running.

Our colleagues in branches have genuinely continued to provide an excellent service to our members, continually reinforcing how important our branch service is to customers. Other than when infection rates prevented it, we endeavoured to keep our branches open as much as possible during the pandemic, even when occasionally we had to operate reduced hours. Our branch colleagues have shown amazing flexibility and resilience and remain the friendly face of the Cumberland. A lot of our customers want to come into a branch and talk to a person, face-to-face.

We remain committed to continuing that – it is a major part of what sets the Cumberland apart from other financial institutions.

The pandemic has certainly made us focus on the future of work and, like many organisations, we better appreciate that collaboration and the need to interact on a human level are fundamental to a healthy culture. This year will be about developing and sustaining new and better ways of working, that keep people safe, protect their health and wellbeing, and allow them to develop their careers, fulfilling their potential as valued members of the Cumberland team.

Wellbeing

The pandemic has also given us an enhanced focus on supporting colleague health and wellbeing, making sure we have assessed and put in place measures to mitigate risk and ensuring our colleagues have the resources and tools they need. We have invested in occupational health and wellbeing resource and programmes, including expanding our network of health champions, and we now have around 20 mental health and wellbeing champions across the business, people from all levels and reflecting the diversity of our teams. It feels crucial that everyone has access to somebody who knows how to listen and how to offer support if they need it. This will be a cornerstone of our people experience moving forward.

Communication and Engagement is key

Communicating effectively with our people, wherever they work, has been crucial to our success over this period and we continue to challenge ourselves as to how best to keep our people informed. We pride ourselves on an engaged workforce, so much so that we annually participate in

the Best Companies B Heard Survey which measures levels of engagement across many different companies; last year, we gained a prestigious 1* accreditation (very good to work for), which was backed up by being named as one of the top 100 companies to work for in the North West.

Digitalising our people experience

This year we invested in a new HR and Payroll system which once fully developed will act as an enabler to streamlining our people processes.

Learning and Development

Having the best available people working at The Cumberland means we can deliver the best possible service to our customers. It makes for a more settled and enjoyable working environment and helps us run an efficient and productive business. We embarked on an ambitious learning and development (L&D) strategy last year, building on our existing commitment to having a framework to develop performance and encourage employee learning experiences. It's an investment in nurturing and supporting our people, helping them to develop new skills and build a fulfilling career with us. We recognise that having a realistic potential career path within our business, supported with the most appropriate education and skills development opportunities, is key to helping us hold onto the best people.

Access to role specific professional qualifications continues to be an area we are able to support on and this last year has seen a range of achievements across many of our professional services functions.

Our investment includes the integration of a new learning management system (LMS),

that will allow our people to access learning online. We operate in a highly regulated industry and it is essential that employees are kept up to date with changes and new legislation in order to remain compliant. The LMS will also support 'softer' skills development and unlock a broader range of topics.

Now that virtual environments have become part of all of our working lives, we can roll out some development opportunities to large numbers of employees at once. We have established Power Hours, where people can focus on key themes, that are delivered remotely, alongside an evolved approach to remote onboarding for new starters through a virtual welcome week. Online delivery also gives us greater flexibility, and offers more scope, to involve external trainers and other experts in our L&D programme, enriching the experience for all of our people.

We were delighted that our work in this area was recognised when our team won the award for "Financial Services Team of the Year" at the British HR awards in April 2022 at a ceremony in London.

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Much of our focus over the last couple of years, therefore, has been on supporting colleague health and wellbeing, making sure they had the resources and tools they needed.

Growing our teams

The proliferation of remote working has given us a fantastic opportunity to have access to talent that we might not have had previously. It has allowed us to bring in some of the very best and diverse talent to serve our Cumberland customers, supplementing and developing our existing, talented people.

Transforming and growing our teams with the best range of diverse talent will better serve us to deliver our future strategy.

Head Office

In order to keep delivering excellent service, we have expanded overall numbers based within head office. We have carefully reconfigured the space to safeguard our people and to harness the benefits of hybrid working. Hybrid working builds on the success of remote working during the pandemic, allowing people to choose whether to work at home or in the office. Implementing a hybrid model means that not everybody is in the office every day. We can accommodate up to 60% of our people at once now, with the rest working from home.

Internally, head office looks quite different. There are no private offices, even the Senior Leadership Team are working in open spaces. We have systems in place for booking meeting spaces for different sized groups and small collaboration pods. There is a desk booking system with hot-desking, so teams can choose to sit near specific colleagues on the days they come in. Overall, the space feels more modern and is suited to the roles in head office and hybrid working.

Although it will be more 'behind the scenes' than at head office, our digital transformation will make work easier for our branch staff, automating and streamlining processes and allowing them to focus on the customers in front of them. We hope that our customers will experience even better levels of service in their local branch.

Senior hires

We have made some changes to our structure to accommodate our future ambitions. At Senior Leadership Team level, our previous Chief Customer Officer, Alex Windle, is now Chief Transformation Officer, leading on the shift to digitise the business. Earlier this year, we also welcomed Ian Stacey, our Chief Information Officer, a new role for the business with a remit for future-proofing the Cumberland and focusing on technological transformation, to help us achieve our key strategic objective.

In other areas of leadership, we have established a new role of Head of Digital and welcomed Joann Titheridge and Matt Gilliver joined us as Head of Strategy.

Building an inclusive workplace

We continue to focus on building an inclusive workplace. Whilst our priority over recent years has been on addressing a sectoral challenge on gender diversity through the commitment we have made to the Women in Finance Charter and our work with Women in Banking and Finance, of which we are a foundation sponsor, we also understand the broader approach we can bring and have begun to work with our teams to develop this. An example of this is the work we have started to do with our teams through Anti Racist Cumbria.



Future

The next year will be a key step in our journey towards Cumberland 2025. It is a critical period for thoroughly examining and assessing all of our processes so that we can streamline them, shaping them to function more efficiently with the adoption of new digital solutions. We will continue to expand our skills base in line with the requirements for the future. This will involve further recruitment and training, alongside upskilling existing employees – there's a lot of talent here and we are committed to helping our people fulfil their potential.

The strength of The Cumberland has always been rooted in its people.

We couldn't deliver the amazing service we do without them.

*Jill Johnston
Chief People Officer
1 June 2022*

Since our founding in 1850, The Cumberland has consistently made our community central to everything we do. This has meant that, as society has evolved, our Society has evolved, and the current evolution of this is presented throughout this report – which explains how we govern the Society for the benefit of our members.

Over the course of the year, this has been reflected in our continued support for our members and community as the UK has navigated through the Covid pandemic. It's also reflected in our long-standing commitment to personal and face-to-face service, helping our members and serving

our communities, sometimes as the sole remaining bank or building society branch in a locality. It's reflected in our commitment to distributing a share of our profits to good causes, and how we develop our governance to ensure the strength of the Society, even in the most difficult of times.

This new section draws together key points from elsewhere in this report that help illustrate how the Society lives its environment, social and governance commitments. We will continue to develop our reporting over time on this critical part of our heritage and strategy.

Our SUSTAINABILITY journey

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The Cumberland has consistently made our community central to everything we do

Our PERFORMANCE in 2022

Social Commitments

At The Cumberland, we are proud of our history of supporting our community and our colleagues, and this year has been no different. The year has seen further Government restrictions brought about by the Covid pandemic. We have recognised the risk of isolation for customers and have been pleased to keep our branches open for their support. As we emerge from these restrictions, we look forward to retaining this service for our customers at the same time as adopting new ways of working to ensure the continued wellbeing of our colleagues.

During the pandemic, we have continued to support our communities through a range of endeavours, including sponsorship, education, and financial support; more details of this are on pages 20 to 23. We have also been proud to announce our new purpose – “to create a banking experience that's kinder to people and planet” – which we are excited to share more about in the coming year. Our ambitious transformation project plans have matured, and these will set us on a journey that will improve service still more for our customers.

Theme	Our progress to date	Our future focus
Charitable donations	Our support for charities is undiminished; during the year, we contributed more than £188k to support amazing organisations. We have formally committed to giving away at least 1.5% of our profits every year.	Through our new purpose, we're building out exciting plans to keep supporting our community and forge further partnerships.
Community Volunteering	Despite Government restrictions, colleagues have been able to commit time across our community where possible.	As Covid restrictions ease, we're looking forward to helping our community even more in the future.
First time buyers	This year, we were proud to help more than 500 customers buy their first home.	We'll continue to develop competitive products for those wanting to take their first steps on the housing ladder – and continue to support our thousands of mortgage customers.
Customer Satisfaction	We are proud to have the happiest savers in the UK and to have achieved a Platinum service award from FEEFO for the second straight year. Borderway, our subsidiary, also received a Platinum award for the first time. We also have industry leading net promoter scores.	Through our commitment to our branch network, our Carlisle based telephone team and our strategic transformation plans, we'll keep enhancing our service for our customers' benefit.
Real Living Wage for colleagues	No colleagues receive anything less than the Real Living Wage, exceeding Government requirements.	We will continue to ensure everyone receives fair wages at The Cumberland.

Good Governance Commitments

Good governance is at the heart of The Cumberland – it ensures we maintain our capital and liquidity strength, our security for our customers, and deliver on our strategic vision. This governance is embedded through our purpose, objectives, and values, against which we benchmark everything we do – more details of our purpose and the ways in which we govern ourselves can be seen on page 16 and from page 50 onwards respectively.

But we never stand still. The Society is owned by its members; some key ways in which we have protected our Society for the benefit of our community, and continued to operate as our members would expect, are highlighted below:

Theme	Our progress to date	Our future focus
Operational Resilience	In addition to carefully managing our liquidity and capital, in the year, we have developed our day-to-day operational resilience, through technology and process based investment, as well as assessing future need. We have formally identified our important business services and set impact tolerances.	We are on track to deliver on all our regulatory obligations – and so ensure our customers will be protected in adverse scenarios for the Society. Our work on operational resilience will progress between now and 2025.
Customer Approach	While we have always put our members at the heart of our business and this is reflected in our FEEFO and NPS ratings, we challenge ourselves to do more where we need to. We have recruited specialist resource to strengthen our Vulnerable Customer team, and have continued to develop our policies to ensure we are considering and supporting the needs of our vulnerable customers.	We will continue to enhance and develop our practices in line with regulatory and industry best practice and aim to support and assist all our customers, including those who are vulnerable, as best we can. This will include due consideration and implementation of the FCA's new Consumer Duty Principle, which will require us to focus on supporting and empowering our customers to make good financial decisions and avoiding foreseeable harm at every stage of our relationship, by, for example, giving customers information they can understand, offering products and service that are fit for purpose and providing helpful customer service, putting customers at the heart of everything we do.
Safe delivery of change	We were delighted to receive international awards at OPEX of 'Best Transformation Project Delivering Customer Excellence' and 'Best Process Transformation Project Under 90 Days'. We safely migrated our core banking platform and supporting services to newer servers, one amongst many successful technology based changes.	We're strengthening our change capability still further as we embark on our ambitious transformation journey, as well as partnering with some of the most trusted and experienced advisors in the industry.
Managing our Suppliers	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 2022, the total amount owed to suppliers was equivalent to 30 days' credit (2021: 35 days)	We will continue to pay our suppliers in line with agreed terms and will focus further on our management of third parties to ensure that the relationship is a successful partnership for both sides.
Women in Finance	Our Charter Target was initially set as 33.3% of senior roles represented by females by April 2021, and we hit this target 6 months early. In September, we increased the target to 50% by April 2025.	We will proactively deliver on our commitment to enhance female representation at senior levels. We have also committed to, as a founding partner, pioneering research led by WIFB, which seeks to research and address gender issues within our sector.
Colleague Wellbeing	Our commitment to colleague wellbeing and learning is reflected in our achieving a place in the Top 100 North West employers, and our Best Companies one star accreditation.	We continue our focus on investment in our colleagues and embrace of new ways of working to suit all as we emerge from the pandemic.



Environmental Commitments

We take our environmental commitments seriously. Over the course of the year, The Cumberland has invested significantly to gain a better understanding of the risks and opportunities we face from climate-related change, and in establishing the proforma tools and governance we'll need to provide the best practice management we desire. Our work this year will be foundational for the steps we'll take in the future.

We recognise climate change will increase the frequency of flooding and subsidence, the rate of coastal erosion and, potentially, drive the government to require that energy inefficient properties be remediated. To support our assessment of likely impact on the Society and our members, we commissioned a report from our partners, Landmark, to review potential effects across a range of climate change scenarios. The findings, which were based on an individual based mortgage property analysis, were reported through our governance and will now inform our strategy and approach, as well as support development of metrics and new data sources to manage and monitor status.

Simultaneously, we have developed a Climate Risk Management Framework. This lays out our response to identifying, managing, disclosing, and mitigating climate risk. It is expected that the framework will evolve over time, as the Society evolves its understanding and strategic direction.

Meanwhile, we have continued our focus on managing our environmental impact through ongoing energy conservation, recycling, and waste reduction across our branches and head office.

Our submission for the Energy Savings and Opportunities Scheme ('ESOS') for the year ended 31 March 2022 is set out in the table below, alongside 2021 figures, to provide some comparative (which we have restated to provide a like-for-like comparison). We note an overall rise in emissions brought about by substantial increase in employee numbers with corresponding increase year-on-year of home-working and the impact of refurbishing and reopening our head office more latterly in the year.

		2020-21			2021-22		
SCOPE 1 - DIRECT EMISSIONS	Unit	Quantity	kWh	Carbon as tCO ₂ e	Quantity	kWh	Carbon as tCO ₂ e
Natural gas	kWh		448,596	91.4		421,236	85.5
Natural gas, Home Working	kWh	761,981	761,981	155.2		845,222	171.6
Diesel – average biodiesel, fuel card	Miles	1,039	1,105	0.3	29,799	33,457	9.2
Petrol – average biodiesel, fuel card	Miles	15,179	17,656	4.3	–	–	–
Total Scope 1			1,229,338	251.18		1,299,915	266.30
SCOPE 2 – INDIRECT EMISSIONS	Unit	Quantity	kWh	Carbon as tCO ₂ e	Quantity	kWh	Carbon as tCO ₂ e
Electricity – National Grid ^b	kWh	434,961	1,125,894*	262.5*		1,140,755	242.2
Electricity, National Grid, Home Working	kWh	45,125	45,125	10.5		82,368	17.5
Total Scope 2			1,171,019*	273.01*		1,223,123	259.70
SCOPE 3 – INDIRECT EMISSIONS	Unit	Quantity	kWh	Carbon as tCO ₂ e	Quantity	kWh	Carbon as tCO ₂ e
Electricity – transmission & distribution	kWh		1,125,894*	22.6*		1,140,755	21.4
Electricity – transmission & distribution, Home Working	kWh		45,125	0.9		82,368	1.5
Employee car – Average Passenger car, Diesel	Miles	14,474	15,391	3.9			
Employee car – Average Passenger car, Petrol	Miles	19,268	22,413	5.4			
Employee car – Average Passenger car, Unknown	Miles	55,543	61,794	15.3	69,008	77,406	19.0
Well-to-tank (WTT) – all car miles	Miles	–	–	–	98,807	–	7.2
Total Scope 3			1,270,617*	48.13*		1,300,529	49.19
Total – Scopes 1, 2, 3				572.32*	575.19		
Total tCO ₂ e per FTE, Scopes 1 & 2				1.26*	0.87		
Total kWh per m ² , Scope 1 Gas				67.16	63.06		
Total kWh per m ² , Scope 2 Electricity				93.29*	94.52		
Total tCO ₂ e per £M gross turnover, Scopes 1 & 2				11.96*	10.49		
Notes							
2020-21 FTE = 416 / 2021-22 FTE = 602							
Floor space: 12,069m ² for electricity calculation, 6,680m ² for gas calculation							
2020-21 Turnover GBP £43,830,000 / 2021-22 Turnover GBP £50,133,000							
*2020-21 Scope 2 and 3 electricity figures and KPIs restated as a result of erroneous exclusion of Head Office usage.							

This report also marks the first time that we have consolidated our climate related disclosures. We have been mindful of the best practice advocated by the Task Force on Climate-related Financial Disclosures (TCFD). We want to be transparent about how we report on our progress, using the metrics and targets set out in the table below; our performance is summarised in the second table.

Themes	What this means
Governance	How we oversee climate-related risks and opportunities.
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.
Strategy	How we manage the impact of climate-related risks and opportunities through our strategy and financial planning.
Disclosure	How we will report on our risks and our actions.

Our performance this year:

Themes	Our progress to date	Our future focus
Governance	<div>✓</div> Our Climate Risk Management Framework launched, and Senior Management Function responsibility assigned. <div>✓</div> The Board received training on new disclosures and commenced oversight of climate risk.	<div>✓</div> Routine reporting under Climate Change Policy will be introduced to help the Board monitor our position. <div>✓</div> We'll further strengthen our tools via embedding of our Climate Risk Management Framework.
Risk Management	<div>✓</div> We assessed our exposure to climate change at an individual mortgaged property level in conjunction with our partner, Landmark. <div>✓</div> We added our first Climate Risk Policy to our Risk Management Framework.	<div>✓</div> We'll implement an annual review of credit risk exposure, focussing on our most vulnerable customers. <div>✓</div> We'll communicate our risk policy more widely in the Society and support its embedding.
Strategy	<div>✓</div> We agreed our new purpose, which includes our commitment to 'Banking that helps our environment flourish'. <div>✓</div> Recruited a new Head of Strategy to lead us on our journey.	<div>✓</div> Further development and roll out of purpose and product strategy. <div>✓</div> We will embed environmental considerations into our annual assessments of our future capital and liquidity adequacy analysis (ICAAP and ILAAP).
Disclosure	<div>✓</div> We've built the right metrics to help us monitor and disclose risk. <div>✓</div> We've enhanced our reporting to drive business focus.	<div>✓</div> Embedding of use of metrics through the Society's governance. <div>✓</div> We want to consider further steps as we embark on our journey of kinder banking.

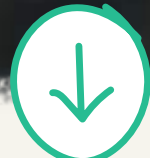


Our work this year will be foundational for the steps we take in the future.

RISK report



**Increasing
level of risk**



**Decreasing
level of risk**



**Stable
level of risk**

Principal risks and uncertainties

This year has continued to be dominated by the Covid-19 pandemic, with our priority, once again, being ensuring the Society protected its colleagues, supported its customers, and continued to operate safely. We have maintained continuity of key services throughout the year.

As we emerged from restrictions imposed by the pandemic, the unexpectedly strong growth in the UK economy in the second half of 2021 has supported strong credit performance and a rapid improvement in arrears performance, with only a small number of customers still in financial difficulty; we continue to support these customers.

We have continued to strengthen our technology infrastructure throughout the year and have completed an exercise to identify our most important business services, how we deliver these services, and where we have identified vulnerabilities, how we are planning to address these.





The Society utilises a risk framework that has been benchmarked against best practice and uses the industry standard '3 lines of defence' approach. This is 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 SLT. The appropriateness of the risk framework, the skill and capability of the CRO and the Risk team, and the successful operation of controls to manage risk are independently overseen by the internal audit team, the 'third line of defence'.

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

The following are the principal, emerging, and significant risks currently facing the Society, the key mitigants that help control those risks and commentary outlining the latest progress in enhancing the Society's approach. The set of risks included are consistent with the risks faced in the prior 12 months and, for the first time, we have specifically segmented out climate change risk as it continues to emerge, in order to outline what action we have taken to better understand the impact this risk has, and will have, on our business.

Risk and impact	Mitigation	Movement in risk profile	Latest progress
Operational Impacts of Covid-19 The direct and indirect risk from the pandemic to the Society, our colleagues, our members and our ability to serve them.	Our incident management processes were deployed in our initial response to the pandemic, with increased levels of governance and more frequent management meetings, communication and enhanced support to colleagues health and wellbeing. Since then, we have adjusted to hybrid working and kept our colleagues and members safe through physical measures and active management of all identified Covid infections in our branch and head office teams.		The risk profile is improving, reflecting the Society's effective handling of the impacts on our staff, customers and operations, and the efficiency of the UK wide vaccination strategy. Over the past 12 months, the Society has: <ul style="list-style-type: none"> • stayed open, serving members throughout; • enhanced the arrears management function to provide support for customers in financial difficulty; • provided a best practice approach to dealing with wellbeing, through the combined approach of our People and Culture Team, Occupational Health, Health and Safety, Mental Health and Wellbeing Champions and our People Managers. This has led to a responsive and colleague centred approach to both physical and mental wellbeing; • protected our most vulnerable colleagues, continually updating our risk assessments in line with government guidelines and ensured that all our colleagues were supported with enhanced sick leave and no detriment to pay where pandemic related self-isolation or work-life balance was important; • continued to see a high level of colleague engagement through dedicated colleague communication and a move to remote learning, underpinned by a change in our learning approach to respond to the need for colleague connection; • continued to enable a core of colleagues to work from home; • implemented enhanced covid protections in branches and at Cumberland House; and • while the trend of the pandemic in terms of numbers affected at any one time has fluctuated driven by external impact of the pandemic at various stages, we have now started to implement new ways of working within our head office environment, supported by colleague re-onboarding and learning interventions. This leads us to a new phase of considering how we will work effectively in a post pandemic environment.
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 inflation, the Covid pandemic's aftermath, Brexit, and the current crisis in Ukraine.	Whilst structural impacts of Brexit and the longer-term consequences of the Covid pandemic are becoming clearer, there remains much uncertainty and volatility in the economy due to the combination of world events and the attendant inflationary pressure and cost of living squeeze. This general economic risk is managed by governance, scenario planning and stress testing.		As we reach the end of the year the risk profile is increasing due to unpredictability of national and world wide economic factors; there remain significant downside risks to the UK economy, volatility in interest rates, and signs of disruption to trade are emerging. Over the past 12 months, the Society has: <ul style="list-style-type: none"> • monitored and responded to changes in the economy and government support schemes as the UK emerges from the Covid pandemic; • monitored the developing legal and regulatory changes required because of the exit from the EU; • maintained observation of global events and considered all potential impacts on the Society; and • responded quickly to interest rate movements.
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. This risk is impacted by unemployment rates, changes in house values and interest rates. In a recession, increasing unemployment and falling house prices may mean it is more likely that the Society would lose money if members failed to keep up to date with their loan payments. The impact of Covid-19 took the UK into recession; on-going recovery speed remains uncertain.	Overall lending standards are controlled by a Board level policy. Lending criteria are agreed at formal credit committees, chaired by the Head of Data & Credit Risk and attended by SLT members. All lending is fully manually underwritten, checked for affordability, suitability and that the lending is responsible. All high value or complex lending is approved by specialist underwriters. Oversight of credit is provided by assessing the quality of underwriting and tracking portfolio performance and concentrations with credit management information summarised at the Board Risk Committee.		The levels of arrears and the use of the Covid forbearance scheme was high during the pandemic, with continued restrictions on trade impacting our specialist lending book performance. Arrears and forbearance levels have improved consistently and rapidly since the relaxation of Covid-19 requirements and we are supporting customers with the appropriate forbearance in particular in relation to our Commercial portfolio, where some customers have accrued additional debt during the pandemic. As the year ended, new risks are emerging driven by inflation. Over the past 12 months, the Society has: <ul style="list-style-type: none"> • recruited additional colleagues to manage Credit Risk across all key products; • continued to develop data and reporting capabilities to enable more insight and internal and external leading indicators to facilitate more informed decision making; and • continued to refine its operational processes to manage arrears and provide forbearance and other forms of support to members; and reviewed lending criteria and procedures to reflect changes in credit risk as a result of the relaxation of Covid-19 restrictions.

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.		Elements of our technology platform require updating; to address this, there has been continued investment to improve Operational Resilience, and to establish requirements for digitalisation that form the core of our transformation programme and strategy. During the year the Society delivered a new operational risk management system which has enhanced the management of operational risk and deepened capability for risk profiling and analysis. We anticipate that the new insight and intelligence provided by the system will draw out previously unrecognised risks. Over the past 12 months, the Society has: <ul style="list-style-type: none"> invested in specialist roles to enhance the capability for managing Technology, Change, Information Security and Financial Crime risks; created new roles with the appointments of Chief Transformation Officer and Chief Information Officer, and supporting teams; and embedded our First Line Risk teams and working practices, maturing our first line of defence risk management practices; and successfully replaced elements of our server infrastructure underlying our core banking platform.
Strategic Risk The risk that the Society fails to adopt an appropriate business model, set appropriate goals and targets in the Corporate Plan, adapt to external events or that the strategy fails to live up to expectations.	All risks are formally assessed as part of the strategy setting process. 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 'The Top Risks' review. Monitoring of strategic risks and changes to our business environment.		Risk profile is stable as despite the worsening macro-economic outlook, the Society continues to deliver against its strategy. Over the past 12 months, the Society has: <ul style="list-style-type: none"> continued to build key aspects of the business to be able to deliver strategic change; adapted the business operating model to manage the ongoing impacts of the pandemic; undertaken a strategic review of our core systems and assessed risk agreeing our over arching plan and level of investment with the Board; reviewed our product strategy; and engaged a third party to assist in assessing the future impacts of climate change; and simplified the operations of the Group through a programme of process review and improvement.
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.	During the year the Society has developed a climate change risk framework that identifies and considers the impact climate change will have across other risk categories (particularly credit risk, operational risk, and strategic risk).		The Society has conducted a portfolio level review of its mortgage and branch portfolio to identify the risks under different climate change scenarios and in early 2022-23 will incorporate this into its capital stress testing process.
Regulatory Risk The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to non-compliance with regulation, legislation, or voluntary codes of practice, potentially leading to unfair outcomes for customers and/or regulatory sanction and/or reputational risks materialising.	Minimum standards are maintained through the Regulatory Risk Policy. Business areas in the Society follow agreed processes and standards for managing compliance. Horizon scanning gives a clear view of upcoming regulatory requirements. This is all supported by agreed standards for proactively managing contact with the regulators.		The outlook for this risk is stable. During the course of the year, some challenges were encountered in delivering regulatory changes in the timescales we wanted, and an issue in one of our internal controls was identified. However, we have worked closely and proactively with the regulator to ensure the closure or remediation of these historic issues. Further, the Society has successfully delivered a number of regulatory requirements and has a number of projects in place to address new regulatory requirements, identified through its horizon scanning function.
Conduct Risk The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to unfair outcomes being created for customers and/or reputational risks materialising.	Managed through a Customer Outcome Testing Framework which looks at all areas of potential customer detriment and tests whether any detriment is occurring. A comprehensive set of management reporting flags areas to investigate, and any issues identified are put right for customers affected. Detailed product governance framework ensures that any new products developed minimise the likelihood of customer detriment.		The outlook for this risk is stable as the necessary processes are in place. We are proactively identifying areas to be investigated and any potential detriment to be put right for our members. Over the past 12 months, the Society has: <ul style="list-style-type: none"> ensured that the customer has been at the core of its Covid-19 response; enhanced its Operational Resilience processes to better understand the processes that are critical to its customers and the potential resilience vulnerabilities in these processes; and commenced work in relation to the FCA's new Consumer Duty and continued to refine its approach to Vulnerable Customers.

Risk and impact	Mitigation	Movement in risk profile	Latest progress
Liquidity Risk The risk of failing to meet demands and commitments to provide funds to customers and other third parties.	Managed through the Assets and Liabilities Committee (ALCO). Liquidity levels stress tested to ensure sufficient liquidity available to meet requirements through a severe stress. Weekly dashboard gives full overview of liquidity levels. The Liquidity Management Committee ensures future lending volumes and funding availability is considered in managing liquidity levels. The ILAAP sets our risk appetite and helps ensure appropriate levels of liquidity are maintained at all times. The LCP, which forms part of the Recovery Plan, ensures that predetermined plans are followed if a liquidity stress was ever to occur.		Risk profile has improved with some improvements in the approach to forecasting and managing liquidity requirements. Over the past 12 months, the Society has: <ul style="list-style-type: none"> increased the frequency of MI to measure and hedge interest rate risk; improved its ILAAP with enhanced analysis, insight, and stress tests based on real world data; repaid all of its TFS funding and drew funds from the TFSME Scheme, subsequently also repaying part of this too, reflecting our continued strong liquidity position; and continued year-on-year growth in levels of liquidity, with significant surplus to both our own risk appetite and regulatory requirements.
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. Risk profile is stable due to the reduced levels of capital the regulator requires the Society to hold.		Over the past 12 months, the Society has: <ul style="list-style-type: none"> delivered ongoing capital monitoring and the production and review of an ICAAP to confirm its capital strength; grown the level of available capital through profitable operation; and considered its strategic plans in light of the level of expenditure and planned intangible capitalisation ensuring that this is fully captured in capital forecasts.
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 ALCO. A financial risk management framework and policy details all the processes and limits for managing interest rate risk. Stress tests are applied as part of the ICAAP, and additional capital is held to cover any unforeseen losses arising from interest rate risk. Interest rates have moved upwards after a relatively static period; the Society maintains an established programme of constant review in order to plan for, and react to, any changes, resulting in a stable risk profile. The Society has also developed strategies to further manage risk utilising the 'Extended' permissions gained.		Generally, a rising interest rate environment is beneficial to banks and building societies. However, significant volatility in swap rates and potentially diverging views of future interest rate paths between the Bank of England and markets creates risks that require careful management. Over the past 12 months, the Society has: <ul style="list-style-type: none"> embedded the 'Extended Approach' for treasury into processes and management of risks, including: <ul style="list-style-type: none"> improved capability to manage interest rate risk and structural risk across the whole balance sheet including profiling of net free reserves and an appropriate proportion of current accounts undertaken increased fixed rate lending in line with our customer's demand; diversifying our investments into new areas such as multi-lateral development bank bonds and covered bonds; and via embedded Governance structures, the Society continues to monitor current money market volatility and uncertainty regarding interest rates and inflation.
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, which is 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.		<ul style="list-style-type: none"> at the date of these accounts, the Society is awaiting the finalisation of its latest triennial actuarial valuation. The rise in inflation creates upward pressure on the Scheme's liabilities. This macro-economic increase in risk has been offset by the Society's own actions, which have increased Scheme funding and reduced investment exposure; over the past 12 months, advised by the scheme's actuary and investment advisers, ISIO, the Society has agreed a long-term journey plan for the scheme with the trustee. This is designed to address the deficit and move the scheme into a self-sustaining basis, in addition to reducing costs to the Society, over a longer time horizon. In November 2021 the Board approved a plan to invest £15m into the scheme with a £1m per annum contribution thereafter, which is expected to reduce our Pillar 2 Capital requirement when coupled with a reduction on the Scheme's anticipated return to Gilts +2.1% (previously Gilts +2.3%), which resulted in further de-risking of the Scheme's investment portfolio; governance has been strengthened to provide greater certainty on the level of committed cashflows and the attendant pathway to low dependency; and scheme advisers will continue to oversee any impacts beyond current assumptions arising from the expected higher inflation in the UK and continued low interest rate environment.

Our financial performance was good

The Cumberland delivered a solid financial performance in a challenging year. We moved quickly from preparing for the potential disruption of negative interest rates as the pandemic raged, to responding to inflation and rising base rates as the UK faced into increasing commodity prices and, most recently, felt the tragic impact of war in Ukraine. Against this backdrop, your Society grew its mortgage lending as planned and you continued to trust us with your savings, transactional banking and deposits.

We continued to invest in our people and our processes, delivering a substantially increased resilience in our underlying technology architecture and setting the foundations in place that will allow us to progress on to the delivery of new technology in line with our stated strategy. Our performance was substantially better than budget, and guided in last year's annual report, reflecting both revenue outperformance and a modestly slower ramp up of investment spend than forecast.

Profit before tax was £8.6m (2021: £10.5m).

RICHARD



Welcome to your
CHIEF FINANCIAL
Officer's review

“

Our performance was substantially better than budget

At an operating profit level, your Society saw a reduction to £5.3m (2021: £9.2m), as revenue rose, but our substantial investments in people and processes continued, as we purposefully reshape how The Cumberland delivers to you, our members.

£2.2bn *Mortgages*

2022	2206m
2021	2173m
2020	2156m
2019	2062m

1.69% *Net Interest Margin*

2022	1.69%
2021	1.61%
2020	1.60%
2019	1.61%

20.1% *HQLA*

2022	20.1%
2021	17.7%
2020	16.0%
2019	14.4%

19.6% *Common Equity Tier 1 ratio*

2022	19.6%
2021	19.5%
2020	19.0%
2019	17.6%

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 139.

£2.4bn *Deposits*

2022	2442m
2021	2342m
2020	2138m
2019	2067m

£8.6m *Profit before tax*

2022	8.6m
2021	10.5m
2020	8.3m
2019	14.3m

90.3% *Cost to income ratio*

2022	90.3%
2021	77.5%
2020	71.8%
2019	62.2%

Income statement

Overview

This year, profits are lower, reflecting our growing level of investment. A robust revenue performance, driven by improved mix within our mortgage books, rises in receipts from our swaps as the market priced in interest rate rises, and members preference for instant access deposits, helped offset the planned increase in operating expenses, as we deliver greater resilience and continue to transform the business.

A summarised Income Statement is set out below.

	2022 £000	2021 £000
Interest receivable	58,121	54,433
Interest payable	(10,455)	(11,679)
Net interest income	47,666	42,754
Other income or charges	724	1,076
Total operating income	48,390	43,830
Management expenses	(43,700)	(33,971)
Provision for bad and doubtful debt	618	(678)
Operating profit (before hedge accounting, other provisions and one off items)	5,308	9,181
Other provisions and charges	(503)	(172)
Gains/(losses) on derivatives and hedge accounting	3,808	1,464
Profit before tax	8,613	10,473
Tax	(1,204)	(2,059)
Profit for the year	7,409	8,414

Net interest income

Net interest income grew by 11%. This reflected three key dynamics. Firstly, a positive mix within our mortgage books. Our letting book continued its growth, our FSOL portfolio returned to growth in the second half of the year after 2 years of decline in the face of the pandemic's impact on hospitality and tourism, and we continued our long term support for first time buyers and home movers. Secondly, depositors continued to show a preference for access over rate, predominantly selecting instant access deposits in preference to term and notice products, leading to a lower cost of funding than planned. Thirdly, and most significantly, after a long period of low and declining base rate expectations, we saw first expectations of rate rises, and then rises themselves, leading to a substantially lower cost of hedging as we received higher variable rate payments on our swaps.

The Society passed on the base rate rises to its variable rate mortgage customers, though the overall impact was modest as the majority of borrowers benefitted from their 2 and 5 year fixed rate deals. On the liability side, in stark contrast to most of the market, the Society quickly increased its rates, including instant access rates, in response to both base rate rises. The exception to upward deposit repricing was a number of historic products, where the rates already being paid were higher than both on sale products and those offered elsewhere in the market.

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

Net interest margin

NIM has increased by 8 basis points year on year to 1.69%. During the year, there was some volatility as we worked to provide good value to customers. The initial part of the year saw strong margin growth as deals agreed during the late part of 2020 and early 2021 completed. During this period, customer demand outstripped supply as other lenders withdrew from many aspects of the market, and so we saw strong growth, particularly in higher LTV products. In the second half of the year, asset margin was squeezed as other lenders returned and competition for lending increased. Our decision not to pursue high volumes of business at low LTV (essentially price led re-mortgages) moderated this impact somewhat. On the liability side, we continued to offer competitive rates, but the mix of deposits selected by customers (current account and instant access) meant our cost of funds has been on a flat trajectory, despite growth and high retention in our term deposit book. This has made a substantial contribution to our margin widening. The impact of swaps on margin is the third key dynamic in the widening and is discussed further below.

	2022 £m	2021 £m
Net interest income	47.7	42.8
Average financial assets	2,818	2,658
	%	%
Net interest margin	1.69	1.61

Defending margin is a key strategic aim, which will remain a focus in 2022-23. Pressure will come from renewed asset pricing compression and volatility in swap rates, which markedly increased in the final quarter and required swift upward pricing in fixed rate deals in late February. While a rising rate environment usually has a positive impact on margin volatility, such as that experienced in the final quarter of the year, it also creates risks that require careful management.

Derivatives and hedge accounting

The Society uses derivative financial instruments solely to manage interest rate risk arising from its mortgage and savings. By 31 March 2022, the Society had successfully completed the transition of all legacy LIBOR swaps to the SONIA fallback approach without issue.

During the year, there has been considerable market volatility impacting swap valuations, particularly in the final few months. Both LIBOR and SONIA reacted to the rising evidence of inflation and expectation of base rate changes, though markets were wrong footed when rates didn't rise in November and then base rate saw its first ever December increase. The expectation of further rate rises in calendar 2022 and 2023 saw the Society's swaps move from a net liability position to a substantial net asset, largely in our final quarter. Throughout this period, the Society's derivative financial instruments have remained effective in economically hedging risks as they were designed to do; however, hedge accounting does not remove all volatility. As a result, gains of £3.8m were recognised in the year. This year's movement was driven by gains on the derivatives, used to economically hedge the mortgage pipeline.

These movements represent timing differences and are expected to reverse over the remaining life of the derivatives and do not reflect the economic reality of the hedge.

As explained in the NII analysis, the Group's income from mortgages has been substantially increased by the sustained rise in variable rate income received from the hedging derivatives and this is expected to continue into the next year. The market is currently predicting a higher rate environment for a sustained period though the Bank of England has indicated that the market's rate view may be too bullish. It is likely that rate volatility will persist in the near term as the actual outcome is worked through. Rising swap rates will result in an increased price for fixed rate mortgages and unexpectedly sharp movements in swap rates may create margin squeeze as the Society honours rates offered to retail customers, which no longer reflect the cost of protection (prior to repricing activity).

Management expenses

Our substantial investment in the Society and its strategy continued as we deliver on our commitment to make the business safe, sound, compliant and ultimately sustainable. This is seen in both our people and administrative costs, which grew at a faster rate than income. Year on year, salaries and staff numbers rose as we brought in new skills, particularly in technology and transformation. We also invested in our distribution and first line risk teams, and we continued to invest in our people through initiatives such as Six Sigma training, mentoring and focused learning, and development activity led by our People and Culture team. The fruits of the Six Sigma initiative were seen by our winning of two global awards in operational excellence.

We also saw some evidence of inflationary wage pressures as staff turnover rose and competition for technical skills intensified, as individual's own appetite for change re-emerged in the light of the pandemic's impact on working patterns.

Operational expenses rose reflecting significant use of third party skills to ensure we safely manage technology upgrade and transformation alongside inflation and initial investment in subscription based technology.

The Society's major change programmes extend over our three year strategic planning horizon into financial year 2025-26, and we expect to support a significantly elevated and growing level of investment over this multi-year period, as we move into the heart of delivery over the next 2-3 years. Reflecting the initial phase of many elements of the transformation, a greater proportion of the investment has been expensed this year than is likely in future years, when we move into the delivery phases of the work.

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 2022, and the benefits of our long term commitment to prudent and responsible lending was demonstrated. Our rigorous underwriting processes ensure that loans are affordable, and our loans continue to be subject to manual underwriting by specialist teams, rather than relying on automated credit scoring. This allowed us to rapidly adjust our lending criteria and appetite, as the pandemic lockdowns occurred, without withdrawing from the market.

Income statement

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 pandemic.

In the year ended 31 March 2021, our levels of forbearance grew sharply, before the vast majority of customers exited payment holidays. After the end of the third lockdown, we have seen across the board improvements in our credit metrics, and a much more modest level of customers have continued to require bespoke support arrangements. In our FSOL book, where a higher level of support had been required throughout the pandemic, the vast majority of customers, who took forbearance, are now on arrangements which see the customer repay more than their contractual amount each month, in order to clear the amounts built up through Covid support measures. The level of customers in forbearance measures at 31 March 2022, none of which are Covid mandated forbearance, are:

No. of cases (% of book)	31 March 2022	31 March 2021
FSRP (All)	41 (0.23%)	233 (1%)
FSRP (Owner Occupied)	32 (0.21%)	165 (1%)
FSRP (BTL and HL)	9 (0.39%)	68 (3%)
FSOL	7 (1.22%)	43 (7%)

The volume of accounts fully secured on residential property (FSRP) and fully secured on land (FSOL) 90 days or more past due (90 DPD) at the balance sheet date are as follows:

Accounts in arrears (≥ 90 DPD) as % of loan book	31 March 2022	31 March 2021
FSRP	0.11%	0.18%
FSOL	2.10%	4.30%

Reflecting the unwinding of forbearance and related arrears as customers have recovered from lockdowns and wider business disruption, we have seen a net release of provision in our secured portfolios. This has been supported by successful conclusion of recovery activities in relation to the single large connection within our historic FSOL arrears discussed last year with no further loss. This reduction in risk, and the related provisions release, has been modestly offset by the raising of new specific provisions. These are on a small number of commercial borrowers who have been unable to trade out of the stresses created by Covid, either due to challenges

the business faced before the pandemic or specific factors that meant that their trade has not reverted to the level hoped. We have also had due regard within our collective provision models to the potential impact of the inflation and the cost of living increase we are all experiencing, as these accounts are published.

The income statement credit for bad and doubtful debts was £618k (2021: £678k charge). More information on forbearance, arrears, provisioning and impairment is included in notes 12 and 28 to the annual report and accounts.

Other provisions and charges

We increased our provision for existing liabilities in 2022. No significant new exposures arose. We continue to provide for the largest of the matters discussed in 2020 as we move into the later stages of resolution, and the further charge of £167k reflects the extended period of the program due to slower than anticipated customer responses this year. A modest loss on revaluation of our investment properties of £15k and an impairment charge of £211k on operating property (2021: £144k (revaluation and loss on sale)) was recognised.

Subsidiary Companies

The Group's financial statements incorporate the assets, liabilities and results of a small, and reducing, number of subsidiaries, as we deliver on our commitment to simplify our business as part of the Cumberland 2025 strategy. The only operationally significant subsidiary is Borderway Finance Limited (BFL). BFL, our motor finance business, contributed a profit before tax of £530k (2021: £453k) to the Group's reported results. BFL traded successfully during the year benefitting from the robust value of used cars and its high touch customer service, which was recognised by the awarding of Feefo's platinum accolade. The balance sheet grew modestly to £22.3m (2021: £21.0m). Credit quality has been good. Pleasingly, the level of arrears has remained subdued.

During the year, or shortly thereafter, all of the Group's other historic trading subsidiaries were wound up and struck off, completing the corporate simplification journey commenced in 2019, leaving a basic Group structure of the Society, Borderway and an intermediary holding company.

Balance sheet

Overview

Loans and advances to customers and liquidity have grown during the year by £70m¹ and £118m respectively. Customer deposit growth was ahead of lending asset growth at £100m. The Society drew down on the Bank of England's TFSME funding scheme in the 3rd quarter of the year, repaying all TFS.

A summarised Balance Sheet is set out below:

	2022 £000	2021 £000
Assets		
Loans and advances to customers	2,228,548	2,194,960
Liquidity	596,372	478,255
Other	60,365	29,243
Total assets	2,885,285	2,702,458
Liabilities		
Retail funding	2,441,984	2,341,686
Wholesale funding	231,702	130,034
Other	6,495	33,958
Total liabilities	2,680,181	2,505,678
Equity		
Profit for the year	7,409	8,414
General reserve	194,684	185,601
Available for sale reserve	3,011	2,765
Total equity	205,104	196,780
Total liabilities and equity	2,885,285	2,702,458

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 Covid-19 pandemic and its impact on the UK market over much of the year. Our high quality owner occupied book grew throughout the year. Mortgage growth was slow in the initial quarter, as the pipeline of business moved slowly under lockdown and its immediate aftermath, before accelerating to a peak in June supported by a surge in holiday let business and, thereafter, growing steadily into the end of calendar 2021. It modestly increased, thereafter, supported by a return to FSOL book growth. Strong levels of retention throughout the year supported our growth trajectory.

Our letting portfolio grew, as growth in holiday let demand more than offset a continued reduction in our buy to let business. Our FSOL lending, which is focused on the hospitality and tourism sectors, stabilised and then returned to growth in the final quarter reaching £168m (2021: £171m), almost £6m higher than the book's pandemic low point, as our commercial team investment showed early fruit.

We advanced £422m of mortgages (2021: £343m) and mortgage balances grew by £68m¹ (2021: £24m).

Liquidity

On-balance sheet liquid assets rose to £596m (2021: £478m), as we drew down on 4 year TFSME funding in September and October immediately prior to closing of the scheme. We concurrently repaid £130m of TFS. Throughout the year, we maintained a prudent buffer given the uncertain economic backdrop, and liquidity benefitted as members deposited new funds. Our TFSME draw down also pre-funded an element of our lending growth for 2023 and 2024, as we prepare for a return to more normal level of retail deposit growth in the current inflationary environment.

The Society's principal measure of liquidity is high quality liquid assets (HQLA) as a percentage of shares, deposits and loans, as this reflects the funds that are immediately and fully available to support the Group's liquidity needs. The level of HQLA remained elevated growing to 20.1% (2020: 17.7%). The Liquidity Coverage Ratio (LCR), which is the primary regulatory measure, continued to be very strong at 268% (2020: 236%), considerably above the minimum regulatory requirement.

Liquid assets are principally held in deposits at the Bank of England. We have continued to diversify a portion of our liquid assets away from the Bank of England reserve account into covered bonds. These deposits, which will largely replace funds that we historically held in unsecured deposits with other UK based financial institutions, are secured by the cashflows of the underlying mortgage assets as well as the guarantee of the issuers, but offer a small increase in the available yield. We have also bought a small number of multilateral development bank bonds. Accordingly at 31 March 2022, included in liquid assets are £55m (2021: £7.1m) of assets held at fair value through other comprehensive income (FVOCI).

¹ Gross exposure excluding hedge accounting adjustments.

Balance sheet

Retail funding

The Society continues to be well funded by its retail depositors, the great majority of whom are located in its branch operating area. We saw a more normalised net inflow of funds of £93m (2021: £194m), which, after the capitalisation of accrued interest, resulted in our total retail funding rising to £2,442m (2020: £2,342m), growth of 4%. As a result, our deposit to loans ratio remained well over 100% and all new lending was fully funded by new deposits.

The extraordinary growth in saving and current accounts in 2021 continued in to the first quarter of this year before reverting to a more normalised pattern, initially in current accounts which were flatter in the second half, and thereafter, in instant access savings. 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. More recently, we have increased our savings rates in response to the rises in UK base rates, ahead of the vast majority of the market, in line with our commitment to long term value for our members.

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, and supports overall cost of funding in this historically unusual rate environment, all of which benefits members.

As a result of the strong retail inflows in 2021 and early this year, our need for new wholesale funding was limited. However, looking forward into our growth plans for the next 3 years, we encumbered a further proportion of our mortgages with the Bank of England and drew down substantial new funding from the Term Funds for SME (TFSME) scheme in the two months prior to its closure to new drawings. This allowed us to repay the residual £130m of TFS prior to its scheduled maturity and has extended the tenor and stability of our funding base. At 31 March 2022, £220m of TFSME funding was outstanding. As a result, we made no use of ILTR during the year and only 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 solid financial results have broadly maintained our gross capital ratio (gross capital expressed as a percentage of total shares and deposits), despite the drawdown of TFSME, at 7.67% (2021: 7.96%). This gives us a very strong base to support the business, as we accelerate investment levels markedly, as we move towards Cumberland 2025. Our current level of surplus will also allow us to grow our level of lending, even as profits are very largely invested in 2023 and beyond.

The Society's regulatory capital position at 31 March 2022 is summarised below. Our CET 1 ratio strengthened further to 19.6% (2021: 19.5%). If 2022's earned profit is included, this ratio improves to 20.4%.

	March 2022	March 2021
Capital resources:	£m	£m
Common Equity Tier 1 (CET 1) capital	202.6	196.7
Total capital	202.6	198.4
Risk weighted assets	994.7	965.5
Capital and leverage ratios:	%	%
Common Equity Tier 1 (CET 1) ratio	19.6	19.5
UK leverage ratio	8.41	7.20

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 2022 was £94.6m.

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

Richard Ellison
Chief Financial Officer
1 June 2022

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 34 to 37. This is the third year where our assessment and business context had been informed by the Covid-19 pandemic and its impact on Society and our business. What started as an unknown, requiring formal crisis management in 2020, is now a well understood aspect of our trading environment. The primary impact has become that on our people and our members wellbeing, as prolonged periods of isolation and working from home have impacted mental health, as well as the normal interactions that a face to face work environment provides. In this regard, we successfully reopened our head office building to all staff on 28 February, encouraging its use as space for collaboration. While uncertainty remains as a result of the pandemic, it has reduced further when compared to that indicated in 2021 and is much lower than in 2020.

Longer term prospects

The Group's business model and strategic priorities are set out on pages 16 to 19. These are regularly reviewed by the Board. In the year ended 31 March 2019, the Group completed a 12 month piece of work, which resulted in our refreshed strategy "Cumberland 2025". Since this work set our direction, the Board has at least annually considered our overarching strategy. In the current year, having reconfirmed our strategic direction early in the year, the Board has considered key elements of both our product suite and technology in a series of more frequent in depth strategic days. As a result, as we move into 2023, the Board has committed to significant technological investment and change utilising a transformation structure that will operate in parallel to our day to day technology teams, to ensure a single minded focus on this crucial work is maintained as we move into the build phase. The Board has acknowledged that the overall timescale of our refreshed strategy has modestly elongated as a result of the pandemic and has committed to a significant rebuild of our core banking platform, but identified no other macro level changes to the course set in 2019. In this context, the Board reflected on another year of change delivery and a solid financial performance, while recognising that the path of the pandemic and regulatory initiatives necessarily saw reprioritisations in some areas.

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.

These reviews considered the strengths of the Group's business model and financial position and the changes the approved 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.

The Board considered and approved The Cumberland's three year budget at the end of March 2022 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 2025. The three year review period is considered to be the most appropriate timeframe for viability for the following reasons:

- increasing uncertainty, regarding the economic, competitive and regulatory environments beyond the three year period, reduces the reliability of a longer assessment of viability;
- a significant proportion of the Group's assets and liabilities are expected to mature within three years, despite a growing book of 5 year fixed rate mortgages;
- key drivers of financial performance, such as net interest income and impairment losses, are heavily influenced by the level of market interest rates, house prices and unemployment, which are increasingly difficult to predict beyond a three year horizon. Even predicting these over a one year time horizon remains fraught, as a result of periodic restrictions on economic activity, the complex interaction of post Brexit trade, the pandemic and significant government responses, alongside war in Ukraine and global supply chain issues, all of which have changed the path of the economy as a whole and seen a re-emergence of significant inflation; 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 recession causing a reduction in market interest rates into negative territory resulting in reduced net interest income; and
- a downturn triggered by a sudden increase in inflation and interest rates, which results in increased credit losses.

The Group's baseline financial forecasts for the next three year period assume a modest series of interest rate rises during 2022 within the context of an ongoing continuation of the historically low interest rate environment seen since March 2020.

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

The financial statements presented alongside this viability discussion incorporate the directors' current best estimate of incurred losses in its lending portfolios at 31 March 2022. The current year has seen a significant unwinding of the forbearance measures offered earlier in the pandemic. While the vast majority of all types of customers have subsequently exited forbearance, returning to loan payments, we continue to support our commercial (FSOL) customers though the varying restrictions on trade. We expect this book to take longer to recover from the pandemic's impacts than our other portfolios. The level of loss crystallised has remained very low, and this is reflected in provision coverage (which has moderated in response to the unwind of forbearance and its subsequent repayment).

While there remains a risk that the level of loan losses ultimately suffered as a result of Covid-19 grows in light of inflation and a sharp squeeze on living standards in 2022, our persistently low levels of loan losses over the last ten years show the strength of our underwriting and quality of our book in relative terms. Our financial budgets have incorporated an appropriate level of loan losses vis à vis our actual historic performance in each of the years forecast, and this risk is also incorporated in our stress testing.

During the year the Group also commenced 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 was conducted at an individual mortgaged property level is further discussed on pages 32 and 33 but has 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.

They 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 war in Ukraine and the macro-economic tools used to control inflation.

The ICAAP was last updated in August 2021 and concluded that the Society maintains sufficient capital resources to meet regulatory requirements under the central planning scenario and also, with management actions, under the modelled economic stress scenarios. The Society's surplus of capital over regulatory requirements is significant and has grown year on year. In the central scenario, our capital surplus is now expected to modestly decrease over the three year period assessed, reflecting loan growth and the concurrent diversion of income into strategic investment, both of which are in the control of the Society's management. The Society considered the economic conditions which existed at 31 March 2022 and concluded that the stress testing remained appropriate.

The stress tests applied were in line with, or more severe than Bank of England scenarios. The stress testing included consideration of negative interest rates (though in management's view this risk has receded) and examined the effects of significant house price corrections. Scenarios with rate rises, which currently appear more likely, have a less severe impact on the Society than those that reduce rates.

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.

Since the ICAAP analysis took place, the FPC has announced an increase in the level of countercyclical capital buffer to 1% (effective December 2022) and noted its desire to return to 2% in normal economic circumstances. While this has increased the absolute capital requirement of the Society, the ICAAP and all internal capital metrics had been produced on an assumption of a 1% CCYB, so it did not impact our plans or expected surplus. In the same period, the PRA also invited the Society to adopt the refined approach to managing its Pillar 2A capital, which allows us, under certain circumstances, to offset the excess conservatism in Pillar 1 credit risk capital against other risks. The current year's post tax profits are also available as capital, shortly after the date of approval of these accounts.

The ILAAP, which addresses the Group's funding and liquidity, was last updated in November 2021 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 high levels of starting liquidity held, reflecting both the level of retail saving during the pandemic (which has outstripped our loan growth) and the drawing of TFSME funding. As a result, the Group has reduced the number of mitigating actions in its regular stress testing to reflect the increased cushion available, though these all remain available reflecting the Society's active management of available unencumbered collateral and other mitigants. Since this date, the Group has updated its funding plans and stress testing to reflect the continued inflow of customer funding.

The Group has seen good inflows from its retail customers in the current year (though substantially lower than the exceptional level of

flow in 2020-21). The Cumberland is an active member of the Sterling Monetary Framework (SMF) but, due to the current level of retail inflows, has not utilised ILTR in the current period, focusing funding on the TFSME Scheme.

During the year ended 31 March 2022, the Group completed repayment of Bank of England funding from the financial crisis. It repaid the final £130m of outstanding TFS, well ahead of its maturity and in line with our Board approved funding plan. In March 2020, the Bank of England announced a new facility (TFSME), which allows members of the SMF to draw down four year funding. Having topped up its mortgage collateral pools, the Group initially drew £190m in line with our funding plan in September 2021. A further tranche was drawn in October to provide strategic optionality. At 31 March 2022, £220m remained outstanding. The TFSME drawdowns markedly extend the tenor and stability of this funding source and the Group does not expect to draw on ILTR funding until it recommences structured repayment of this funding in 2023-24 forward.

Liquidity stress testing, incorporating each of the relevant principal risks on pages 34 to 37, has been performed to understand the ability of the Group to withstand extreme stress scenarios, including unprecedented adverse movements in key economic indicators, major dislocation and volatility in financial markets, significant liquidity outflows and severe operational risk events. This testing has demonstrated that the Group has the resources, measures and controls in place to manage and withstand such extreme events. Liquidity stress testing is conducted monthly.



During March 2020, the Society transitioned the vast majority of head office colleagues to home working in line with government guidelines. These colleagues continued to work from home locations through the financial year having been provided with updated IT and communications equipment and tools. In late February 2022, we reopened our head office to colleagues as part of new hybrid working practices. We also moved early to protect the viability of branch services and wellbeing of our people and have continued to provide services from our branch network, while improving safety for colleagues and customers. These arrangements have been adjusted to the path of the pandemic and we expect to allow a controlled return of more face to face customer appointments in the near future as restrictions continue to ease.

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 in the unique circumstances it continues to find itself.

Early in the pandemic period, the Group put in place a formal logging and capture horizon scanning process for all regulatory and industry body pronouncements and this has been maintained throughout the period.

Suppliers and viability

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

The Group has periodically reassessed both its own critical services, in light of the pandemic, and its supplier base. It is also progressing its program of work to address the operational resilience regulation that now applies and determined its important business services, defined its impact tolerances and agreed a plan of work to enhance its resilience progressively between now and 2025. During the year ended 31 March 2022, the Group began the process of moving some of its non customer facing technology provision to the Cloud and, as part of the Cumberland 2025 journey and increasing our operational resilience, we expect this trend to accelerate over time.

The Group remains in standardised quarterly contact with the PRA, its primary regulator, to discuss the path of the pandemic and its impact.

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 34 to 37, includes ongoing monitoring and reporting of emerging risks and scenario analysis, enabling further enhancements to the control environment to adapt to these risks.

At the date of this report, and after over two years of working within a pandemic impacted operating environment, the Group has not identified any current or emerging supplier issues that would impact its assessment of the Group's own viability.

Conclusion

Based on the above assessments, and having considered each of the principal risks and uncertainties discussed on pages 34 to 37, the directors have concluded that:

- the Group's business model and overarching Cumberland 2025 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; and
- whilst it is accepted that it is not possible to completely eliminate all risk, particularly in the uncharted territory the UK and its economy finds itself, 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 two 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 89.

OUTLOOK

The outlook for the UK economy is highly uncertain. In the immediate term, the impact of the sharp rise in inflation and war in Ukraine is creating a challenging macro-economic outlook with rising rates required to manage inflation before it becomes embedded but, conversely, their imposition risking recession. The last two years have shown that prediction is fraught and while a deep recession has not occurred the pandemic has weakened the resilience of many borrowing households and business. There is an expectation that interest rates will modestly rise over 2022, and that growth may well stall and slow, reflecting supply chain bottlenecks, the second order impact of war and trade frictions that Brexit has bought.

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

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

*John Hooper
Chairman
1 June 2022*

Corporate Governance Highlights of 2021/22

- ✓ Enhanced Board engagement with strategy and transformation.
- ✓ New operating rhythm to improve the effectiveness of our People Remuneration & Culture and Nomination & Governance Committees.
- ✓ Clearer Board Procedures and Delegation of Authority Framework.
- ✓ Appointment of Eric Gunn as new Senior Independent Director.

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Corporate GOVERNANCE Report



JOHN

KELLI

ERIC

JACKIE

VICKY

DES

MARK

RICHARD

JILL

JOHN

SUSANNE

ALEX

IAN

KATH



The Society's Board of Directors is responsible for the governance of the Society

Chairman's Welcome

Dear Member,

Welcome to the Corporate Governance Report for 2021/22 at the end of my third year as your Chairman. This year, as ever, my Board and I remained committed to the highest standards of corporate governance. Although the Society, as a mutual organisation, is not required to comply with the principles in the UK Corporate Governance Code 2018 (the 'Code'), we nevertheless have regard to the Code, along with other legislation and guidance, when establishing and reviewing corporate governance arrangements. This report explains how the Society does that and the table on pages 140-142 sets out the principles of the Code and where in this report you can find how the Society addresses them.

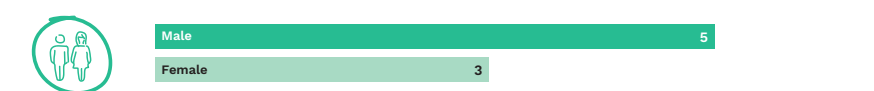
Two highlights of the Board's year were the strategy days held in November and March, when the Board input into and approved plans to safeguard the Society's future as a safe and sustainable, independent, purpose-led business for the years to come. It goes without saying that Board approached these decisions with the care their importance deserved and felt honoured to serve a Society sufficiently strong, both financially and operationally, to embark on this significant and exciting journey.

The Board also worked to improve those areas highlighted for improvement in the Board Effectiveness Review carried out by an independent third party at the end of 2020. The main focus was a new operating rhythm for our People, Remuneration & Culture and Nomination & Governance Committees, which was successfully developed and implemented with input from experts in this area and has already raised the effectiveness of both Committees, enhancing the assistance they provide to the Board in its oversight of these areas. More mundane, but also important, we improved our Board Procedures and Delegation of Authority frameworks to align with our straight forward and responsible values.

At the end of the year, Michael Hulme stood down from the Board for personal reasons. Michael served on our Board for over 6 years and, during that time, made a truly valuable contribution, not only as an effective independent non-executive director, but also as member of our Audit Committee and our People Remuneration & Culture Committee (and its predecessor Remuneration Committee of which he was Chair) and, since 2018, as our Senior Independent Director (SID). I thank Michael for his valuable contribution to the Board and the Society during his dedicated service. Eric Gunn succeeded Michael as SID on 1 April 2022 and a process is currently underway to appoint a new non-executive director to fill the vacancy left by Michael, and we expect to welcome a new member to the Board during 2022.

John Hooper, Chairman, 1 June 2022

Gender split

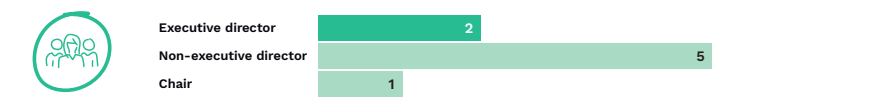


Longevity of Board members (years with the Society since 2015)*

*as at 31 March 2022



Executive and non-executive director split



Committee membership

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

The Board is comprised of 6 non-executive and 2 executive directors. All of the non-executive directors are considered to be independent under the Code; the Chairman was considered independent on appointment.

The Chairman is responsible for leading the Board and ensuring it acts effectively. The Chairman must be a different individual to the CEO and there must be a clear division of responsibilities between the two roles. Eric Gunn is the Senior Independent Director and acts as a sounding board for the Chairman and serves as an intermediary for the other directors and the members from 1 April 2022.

Meet the board of DIRECTORS

The November 2020 Board Effectiveness Review found the Board operates a positive, friendly, constructive culture that encourages transparency and facilitates straight talking; the way non executive directors and executive directors operate within the Board environment is in line with best practices for a unitary board; and the relationship between the Board and the executive team is effective, transparent and productive. This has continued to be the case during 2021/22.



**Nomination
and
Governance
Committee**



**Board Risk
Committee**



**Audit
Committee**



**People,
Remuneration
and Culture
Committee**

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

Skills and experience

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

Current material external positions

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

Previous positions include

Director, National Australia Bank Europe Limited
Director, Clydesdale Bank PLC
Non-Executive Director, The Leasing Industry Philanthropic and Research
Foundation Limited



JOHN HOOPER
*Board Chairman
and Nomination and
Governance Chair*

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

Skills and experience

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

Current material external positions

Co-Founder and CEO, Xigxag Limited

Previous positions include

Chief Operating Officer, Gelato
Business Development and Commercial Director, Whitbread
Hotels and Restaurants
Group Head of Strategy, Whitbread Plc

KELLI FAIRBROTHER
Non-Executive Director



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

Skills and experience

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

Current material external positions

Non-Executive Trustee, Hope and Homes for Children

Non-Executive Trustee, Agitos Foundation

Consultant, International Paralympic Committee

Previous positions include

Global COO for Institutional Wealth Partners, Deutsche Bank Wealth Management

Global Head of Regulatory Change, Deutsche Bank Wealth Management

Executive Director, DB UK Bank Ltd

Head of Change Management, Coutts

VICKY BRUCE
Non-Executive Director



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

Skills and experience

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

Current material external positions

None

Previous positions include

Chief Risk Officer, Clydesdale Bank PLC

ERIC GUNN
Board Risk Chair and Senior Independent Director



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

Skills and experience

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

Current material external positions

Professor of Practice, University of Cumbria

Leader in Residence, Lancaster University

Previous positions include

Head of Strategy, 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

JACKIE ARNOLD MBE
People, Remuneration and Culture Chair



Non-Executive Director since June 2018 (independent), Audit Committee Chair since July 2020

Skills and experience

Mark has over 30 years' experience in the accountancy sector, and is a Senior Partner and Managing Partner with a West Cumbria-based chartered accountancy practice.

Current material external positions

Senior Partner and Managing Partner, Gibbons

Director, Gibbons Wealth Management Limited

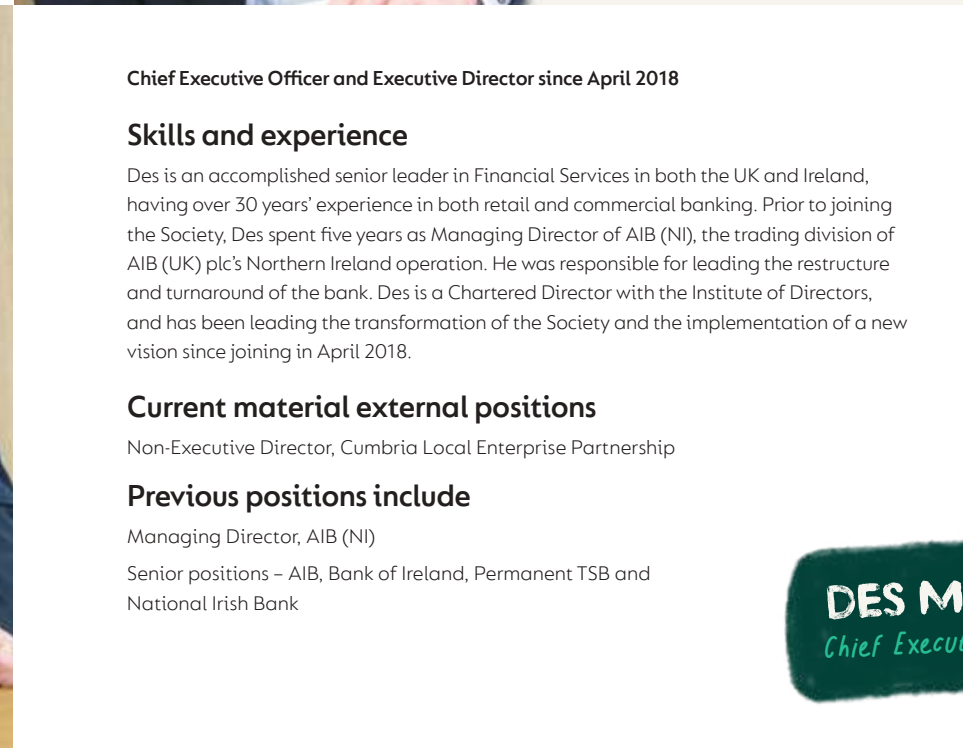
Director, Gibbons Properties Limited

Director, Carleton Properties (Cumbria) Limited

Previous positions include

Chair, Board of Governors, Lakes College, Lillyhall

MARK STANGER
Audit Chair



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Chief Executive Officer and Executive Director since April 2018

Skills and experience

Des is an accomplished senior leader in Financial Services in both the UK and Ireland, having over 30 years' experience in both retail and commercial banking. Prior to joining the Society, Des spent five years as Managing Director of AIB (NI), the trading division of AIB (UK) plc's Northern Ireland operation. He was responsible for leading the restructure and turnaround of the bank. Des is a Chartered Director with the Institute of Directors, and has been leading the transformation of the Society and the implementation of a new vision since joining in April 2018.

Current material external positions

Non-Executive Director, Cumbria Local Enterprise Partnership

Previous positions include

Managing Director, AIB (NI)

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

DES MOORE
Chief Executive Officer



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

Skills and experience

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

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

Current material external positions

Non-Executive Director and Audit Committee 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

RICHARD ELLISON
Chief Financial Officer

Meet the senior LEADERSHIP team

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.



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

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 ensuring entire enterprise operational resilience.

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, University of Cumbria Students' Union Board

Previous positions include

None



SUSANNE PARRY
Chief Operating Officer (COO)

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IAN STACEY
Chief Information Officer (Designate)
(CIO)

Chief Information Officer since January 2022

The CIO is responsible for leading on technology strategy and operations.

Skills and experience

Ian is a technology expert with over 25 years' experience in financial services. Previously Head of International Operations at Barclays, and with experience working as a consultant at major international consultancy firms, recently Ian has held Chief Operating Officer positions at start-up challenger banks in London.

Current material external positions

None

Previous positions include

COO, Vive

COO, LQID

CIO, First Abu Dhabi Bank

Director, Barclays Wealth

Head of International Operations, Barclays



KATH MYERS
*Chief Customer Officer (Interim)
(CCO)*

Chief Customer Officer (interim) since August 2021

The CCO is responsible for ensuring the business provides a differentiated and exceptional customer experience to deliver the business' income objectives. Kath is accountable for overall customer acquisition and retention, overseeing all distribution and customer management, including the branch network, customer care, national lending, brokers, Cumberland Commercial, Borderway Finance and Marketing.

Skills and experience

Kath is an MBA graduate and Chartered Banker, with many years' experience in retail and commercial banking. She was previously a Managing director at Barclays as head of Branch Banking and Community Banking, and a divisional director at National Australia Bank in the UK.

Current material external positions

None

Previous positions include

Head of Branch Banking, Barclays
Divisional Director of Community Banking, Barclays
Divisional Director, National Australia Bank

Chief Transformation Officer since August 2021

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

Skills and experience

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

Current material external positions

None

Previous positions include

Chief Customer Officer, Cumberland Building Society
Global Product and Offer Director, British Petroleum PLC
Marketing Director UK, British Petroleum PLC
Head of Marketing UK and Ireland, LG Electronics



ALEX WINDLE
Chief Transformation Officer (CTO)

Chief People Officer since March 2019

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

Skills and experience

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

Current material external positions

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

Previous positions include

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



JILL JOHNSTON
Chief People Officer (CPO)

How the BOARD works

Leadership & Purpose

The Board has established a purpose, values and strategy for the Society as set out in the Strategic Report on pages 6 to 49. 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 2021/2022. Membership of and attendance at Board Committees are set out in the relevant Committee reports.

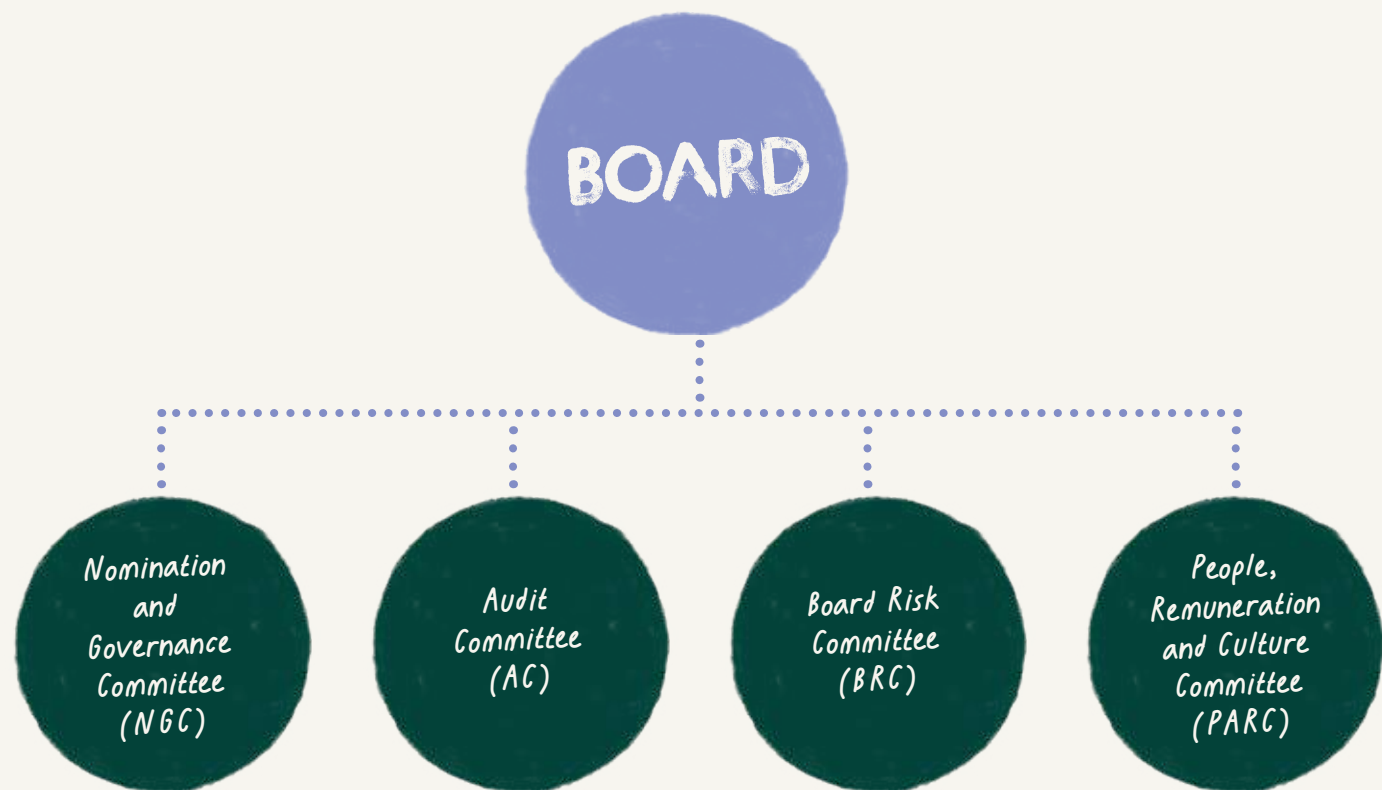
JOHN HOOPER 11/11		
ERIC GUNN 11/11	MARK STANGER 11/11	JACKIE ARNOLD 11/11
KELLI FAIRBROTHER 11/11	VICKY BRUCE 10/11	DES MOORE 11/11
RICHARD ELLISON 11/11		

Michael Hulme 9/11 (resigned 31 March 2022)

The Chairman 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. The November 2020 Board Effectiveness Review found that Board and Committee packs had been "revolutionised" since the last review and that supporting papers were "clearly written and made their points well". 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 annual review of strategy. In 2021/22, the Board held two formal strategy days in November and February, when the Board input into and approved plans to safeguard the Society's future as a safe and sustainable, independent, purpose-led business for the years to come and the Society is now embarking on the next phase of transformation as outlined in the CEO's business review on Page 10.

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 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.

The November 2020 Board Effectiveness Review concluded that the Society's Board provides effective oversight and has a firm grip on the strategic direction of the Society.

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. In 2022, our intention is, for the first time, to provide members with the opportunity to legally attend the AGM by video conference which will also afford members the opportunity to ask questions and vote at the meeting remotely. This follows on from the opportunity we provided to attend (but not formally be present) virtually last year. The Chairman and the CEO are present at the AGM each year and are available 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. This award is given to businesses that have achieved Feefo's Gold standard for three consecutive years and recognises consistently exceptional customer service.

The member perspective has been instrumental in shaping the Society's strategy. "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.

Over the last few years, feedback obtained in these ways has been instrumental in shaping the strategic transformation, which was approved by the Board. The programme is a significant investment in making the Society sustainable and relevant for our members in the longer term.

This year feedback by survey from both members and potential customers has been a key input into the refined purpose discussed from page 16.





LYNETTE
Kendal branch



Our People

The Chair of the People, Remuneration and Culture Committee is the designated non-executive director for workforce engagement; workforce engagement is facilitated by the Chief People Officer utilising a variety of forums.

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

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

In the year, feedback we obtained in these ways has been instrumental in shaping our new ways of working, including the way we have reshaped our head office and moved to a hybrid working model.

Our Communities

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

Our people are active in the business community and our CEO 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 this year, which is to create a banking experience that's kinder to people and planet.

Our Suppliers

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

Feedback we have obtained through discussions with suppliers has helped shape our digital transformation programme.

Environment

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

Regulators

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

Further details on our key stakeholders, and why they are important to us, can be found on pages 20 to 33 of the Strategic Report.

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 2022. 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

JOHN



Who sits on the committee

JOHN HOOPER
(CHAIR)
7/7

JACKIE ARNOLD
7/7

ERIC GUNN
6/6
(see note below)

Michael Hulme 6/7
(resigned 31 March 2022)

Eric Gunn 6/6, Mark Stanger 6/6, Vicky Bruce 5/6,
Kelli Fairbrother 6/6, Des Moore 6/6, and Richard Ellison 6/6 all resigned
on 2 November 2021 when Committee was restructured.
Eric Gunn reappointed 1 April 2022 when appointed SID.

How the committee works

The Committee is chaired by the Chairman of the Board and the Chair of PARC and the Senior Independent Director are also members; their attendance record is set out above. Details of the skills and experience of the committee members can be found in their biographies on pages 55 to 56. The Committee is also attended by the Chief People Officer and the Society's Secretary. Following a review in November 2021 (see below), the Committee meets four times a year in January, April, July and October and, additionally, as and when required and the number of meetings held in the year was seven.

The Committee conducted a deep dive review of its terms of reference, structure, and operating rhythm in November 2021 following the conclusion of the external review of the People Remuneration & Culture Committee. The Committee's remit was aligned with the revised remit of PARC and the Committee now focusses on the orderly succession 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 moving to PARC. The frequency, timing and membership were also streamlined to the position outlined above to allow it to discharge its remit more effectively and align with best practice. 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 2020/2021, this formed part of the external Board Effectiveness Review carried out by an

independent third party, Praesta. As part of the review, all directors and the Senior Leadership Team completed questionnaires and met with Praesta individually. The findings were reported back to the Board and an action plan was agreed to address any material matters identified, which will be monitored by the Committee. No matters relevant to Board composition were raised. As that review concluded towards the end of the prior year and there was a significant resulting activity underway in relation to the Committee and PARC, an internal effectiveness review was not conducted in the year, but a review will be initiated in July 2022.

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 Chairman. The Chairman is evaluated by the Senior Independent Director, after consulting and obtaining the views of the other directors.

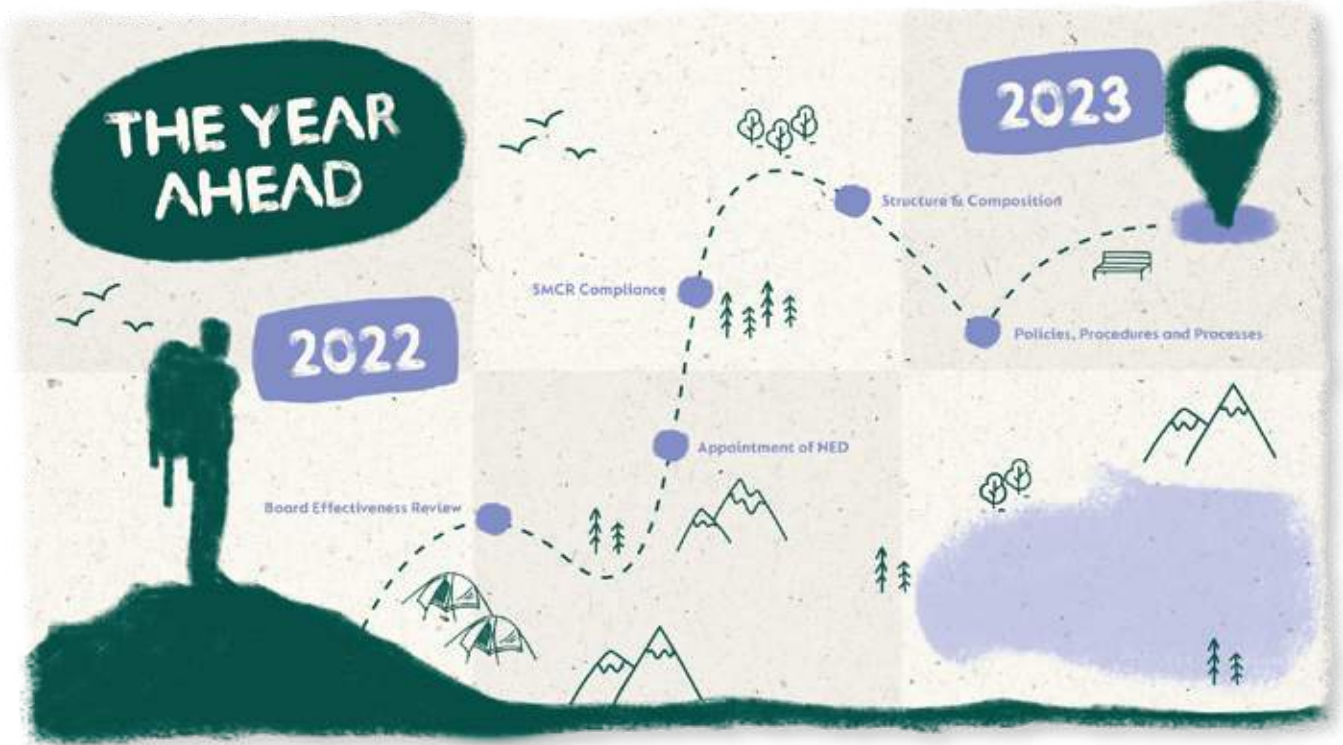
Those non-executive directors, who have served at least six years on the Board, are subject to a particularly rigorous performance evaluation in line with the Code's requirements. All directors were appraised during the year and the Board is of the view that all directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the AGM 2022.

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 82 to 87) 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
NGC Deep Dive Review	The Committee conducted a deep dive review of its terms of reference, structure, and operating rhythm in November 2021 following the conclusion of the external review of the People Remuneration & Culture Committee as outlined above.
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.
Appointments	The Committee oversaw the appointment of Kath Myers as Interim CCO in August 2021 (succeeding Alex Windle), the creation of a new SLT role of and appointment of Ian Stacey to Interim CIO in January 2022, and appointment of Eric Gunn as the SID in April 2022 (succeeding Michael Hulme).
Non-CBS Appointment	The Committee considered and approved the CEO's external appointment to the Cumbria Local Enterprise Partnership.
Succession Planning	The Committee considered and approved an Emergency Succession Plan for SLT roles.
Delegation of Authority Framework	The Committee considered, and recommended to Board for approval, a revised Delegation of Authority Framework.
Board Procedures	The Committee considered and approved revised operating procedures for the Board and the induction of new non-executive directors.



NGC will focus on the following key areas during 2022/2023:

Areas of Focus	Committee's Response
Board Effectiveness Review	The Committee will conduct an internal Board Effectiveness Review beginning in July 2022.
Appointment of new NED	The Committee will follow a process to attract and appoint a non-executive director following the retirement of Michael Hulme.
SMCR Compliance	The Committee will continue to monitor the progress of outstanding applications under the Senior Manager & Certification Regime and consider the Management Responsibilities Map twice in the year.
Structure & Composition	The Committee will consider the structure and composition of the Board and succession planning, in particular in relation to Board Committees following the appointment of an additional non-executive director, to ensure that the Society has the appropriate mix of skills and experience to support the Society's strategy.
Policies, Procedures and Processes	The Committee will consider policies, procedures and processes, including the Delegation of Authority Framework, related to the Board as part of its annual cycle to ensure they remain effective and to drive continuous improvement.

On behalf of the Nomination and Governance Committee

John Hooper

Chair

1 June 2022





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 2022.

At the end of this financial year, we are emerging from the restrictions placed upon us by the Covid pandemic. Throughout this period, the Board Risk Committee has overseen the activity to safeguard our members and employees' interests, managing the avoidance of unfair outcomes. As a result of steps taken over the past two years, the Society has successfully navigated the immediate risks posed by the pandemic. This has included an ability to move many of our impacted retail and commercial customers out of Covid-related forbearance, providing key protections to our Cumberland community, and the adoption and embedding of effective new ways of working for our colleagues.

BOARD RISK committee report



With the easing of the pandemic, the Committee has increased focus on the next phases of The Cumberland's transformation journey. During the year, this has meant oversight of the identification of technology risk matters, and their resolution plans, alongside reviewing the enhancement of key risk processes and tools, including the roll-out of the new Magique risk management system and investment in our first line risk teams. Looking forward, the coming year will deliver increased scrutiny by the Committee of the Society's management of key risks as we progress our transformation agenda.

The war in Ukraine, and the accompanying uncertainty in relation to inflation, interest rates and wider consumer confidence, will prove to be a challenge for the UK economy. The Board Risk Committee will continue to oversee that we have the risk structures, capabilities, and governance in place to be well placed to support you, our members, through these most difficult of times. This will ensure we maintain our critical services while supporting the health and wellbeing of our members and employees.

ERIC

Who sits on the committee

ERIC GUNN
(CHAIR)

4/4

MARK STANGER

4/4

VICKY BRUCE

3/4

How the committee works

The Board Risk Committee comprises independent non-executive directors whose attendance record is set out above. Eric Gunn became Chair of the Committee in August 2019. Details of the skills and experience of the Committee members can be found in their biographies on pages 56 to 57. 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 CEO, CFO, CRO and the Head of Internal Audit and receives a report from the CRO at each meeting. Subject matter experts are also invited to Committee meetings to present on a variety of topics. 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 Board Risk Committee also oversees the Risk Management Committee, which is the executive committee responsible for ensuring a co-ordinated risk management approach across all of the Society's risks.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. 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; and
- sign off of key policies such as the Mortgage Credit Risk and Operational Risk policies under delegated authority from the Board.

The Board Risk Committee receives results of credit risk stress testing and scenario analysis to ensure the corporate plan is within the Board's risk appetite in line with the Risk Management Framework.

Key areas of focus during the year

BRC focussed on the following key areas during the year:

Areas of Focus	Committee's Response
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.	<ul style="list-style-type: none">Enhanced the frameworks that support fair customer treatment, including progress made in operational resilience.Continued to oversee processes to ensure fair outcomes for customers as the UK emerges from the Covid-19 pandemic.
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 and/or reputational risks materialising.	<ul style="list-style-type: none">Supported proactive and positive engagement with our regulators at all times.Oversaw remediation of regulatory risk matters encountered.Reviewed the outputs of regulatory horizon scanning and the delivery of the operational and regulatory changes required.
STRATEGIC RISK The risk that the Society fails to adopt an appropriate business model, set appropriate goals and targets in the Corporate Plan, adapt to external events or that the strategy fails to live up to expectations.	<ul style="list-style-type: none">Supported strategy development by understanding and providing insight into current and future risk levels.Reviewed and ratified a climate change risk framework for Board approval
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.	<ul style="list-style-type: none">Oversaw continued prudent lending standards as we emerge from the Covid-19 pandemic.Tracked portfolio performance and the continued development of detailed management information (MI) particularly in respect of arrears and forbearance.
FINANCIAL RISK The risk of the Society having inadequate earnings, cashflow or capital to meet current or future requirements and expectations.	<ul style="list-style-type: none">Alongside ALCO and the Board, ensured the monitoring of financial performance and the capital and liquidity position of the Society.Oversaw adherence to policy and any breaches of key minimum standards.

Areas of Focus	Committee's Response
OPERATIONAL RISK The risk of loss resulting from inadequate or failed internal (including where provided by a third party) processes, people, and systems, or from external events.	<ul style="list-style-type: none">Oversaw the roll out of our new operational risk management system.Oversaw improved risk management processes and alignment with the growing maturity of the risk capability within the operational areas.Oversaw improved reporting on risk events and associated actions to improve the Society's control environmentSupported further enhancements in the financial crime prevention capability of the Society.Agreed and prioritised investment to improve operational resilience and ensure that regulatory requirements were being met.



During the year ahead, the Committee will continue to focus on ensuring the Society is supporting our members through the economic challenges we face as the repercussions of the war in Ukraine impact the global economy and we enter a period of economic uncertainty with rising interest rates, inflation, and reductions in the standard of living.

Having overseen the delivery of the climate change risk framework, we will continue to monitor and respond appropriately to the financial risks which climate change poses to the Society. The Committee will also oversee the delivery of transformation as the Society invests in building the right infrastructure to deliver against our Cumberland 2025 strategy. The Committee will focus on ensuring the Society's strategy is delivered within agreed levels of risk, minimum standards are adhered to and that, when things go wrong, the lessons are learned, and we always put things right for our members with no fuss or excuses.

On behalf of the Board Risk Committee
Eric Gunn
Chair
1 June 2022

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 2022.

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

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

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

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

AUDIT committee report

MARK



Who sits on the committee

MARK STANGER
(CHAIR)

7/17

JACKIE ARNOLD

7/17

Michael Hulme 6/17
(resigned 31 March 2022)

How the committee works

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

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

Following each Committee meeting, the minutes of the meeting are distributed to the Board and the Committee Chairman 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 Chairman meets with the Head of Internal Audit on a regular basis.

The Committee met on seven occasions during the year. The Committee draws on the expertise of key advisors and control functions, including the internal and external auditors, both of whom are standing attendees of the Committee. The Committee implements the Society's policy on the use of the external auditor for non-audit work, the purpose of which is to ensure the continued independence and objectivity of the external auditor. The external auditor, Deloitte LLP, undertook one non-audit related assignment during the year.

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

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

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

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

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

The Committee has advised the Board that, in its opinion, the Annual Report and Accounts are fair, balanced and understandable. The primary areas of judgement considered by the Committee in relation to these accounts related to loan loss provisions (including the impact of the emerging cost of living squeeze driven by inflation as at 31 March 2022), 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 2021/2022 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 2021/2022 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	<p>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:</p> <p>i) ensuring our approach to hedge accounting under FRS 102 (IAS 39) remained consistent; and</p> <p>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.</p>
Going concern and business viability statement	<p>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 45 to 48 and the Board's Going Concern Statement on page 89.</p>
Fair, balanced and understandable report and accounts	<p>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.</p> <p>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.</p>

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	<p>The Committee oversaw the outcomes of management's assessment of loan loss provisioning at 31 March 2022. It noted that management had used a consistent modelling approach for loans fully secured on residential properties benefiting from last year's work which had significantly increased the granularity of the calculation performed. It also evaluated management's approach to overlays, in light of the reducing impact of the Covid-19 pandemic, and the impact of rising inflation, rising interest rates and the attendant cost of living squeeze, which has occurred since the final quarter of calendar 2021. This latter matter was accounted for by an in-model adjustment to probability of default.</p> <p>It was also noted that the vast majority of customers, who had received forbearance through the pandemic, had returned to and remained in the good book and were making repayments.</p> <p>In relation to loans fully secured on land, which is our commercial portfolio focused on tourism and hospitality, the Committee noted the reduction in collective provisions reflecting a reduction in forbearance and the use of arrangements to overpay by many of the borrowers impacted during the pandemic lockdowns. It also noted the specific provision recorded, based on recent property valuation for a small number of borrowers in arrears who had exhausted the "all customer" forbearance opportunities (provided for in regulation) and who now required tailored support and in some cases managed exit through sale.</p> <p>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 2022, management had calculated a suitable best estimate.</p>
Impairment of Investment Properties and Buildings within Fixed Assets	<p>At 31 March 2022, the Society continued to hold a portfolio of non-operating property, albeit reduced through successful sales in 2020 and 2021. 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 2022, which saw a charge of £15k to the income statement. The Committee noted that one investment property transferred into operational use as part of the reopening of the head office site towards the end of the year and that one property previously considered operational moved to investment property after an impairment of £211k was recognised reflecting the impact Covid has had on future investment plans, which no longer include extension into the property by the adjacent branch. It supported management's decision to remove this matter from the critical accounting estimates and judgments note, on the basis that uncertainty around the value of the buildings due to the Covid-19 pandemic has receded, and property transactions have recommenced.</p>

“

The way NEDs and EDs operate within the Board environment is in line with best practices for a unitary board

Board Effectiveness Review
(November 2020)

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	<p>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.</p> <p>During the year, the Committee, through Internal Audit and other management information and insight, reviewed the controls in operation for: payments, lending, information technology, current accounts, technology and information security, treasury, regulatory reporting and key projects. Internal Audit utilised the services of RSM LLP and PricewaterhouseCoopers LLP for co-sourced internal audits to provide specialist expert support, input and promote knowledge transfer to Internal Audit. Supported by the work of Internal Audit and the opinion of the Head of Internal Audit, the Committee concluded there had been no significant deficiencies which warrant specific mentioning within the Annual Report and Accounts.</p>
Financial and Treasury Controls	<p>The Committee supported Internal Audit in its continued use of data analytics as part of its assurance programme and noted the benefits of its use. It also considered internal control matters raised by the external auditor and management's response.</p>
Information Security	<p>The Committee had a particular focus in the year on information security receiving presentations from the information security team noting the controls in place and ongoing work to enhance them in this critical and dynamic area.</p>
Business Change	<p>The Committee continued its overview of the Society's Change processes to ensure that as upgrades to the technology environment were being made, appropriate controls were in place to manage the change process and ensure that effective risk management and controls were in place once transitioned to service.</p>

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 2021/2022 financial year. The Audit Committee is responsible for overseeing the relationship with the external auditor, and for the effectiveness of the audit process.

To protect the independence of the external auditor, it is normal to rotate the statutory auditor and hence Matthew Bainbridge of Deloitte LLP is The Cumberland's statutory auditor for the 2021/2022 financial year. This is Matthew's first year as The Cumberland's statutory auditor.

Deloitte's report can be found on pages 94 to 102.

Audit quality and materiality

The Committee has a responsibility for reviewing the quality and effectiveness of the external audit. Due to the ongoing focus on audit quality from the Financial Reporting Council (FRC) and societal expectations and the ever more detailed work expected to be carried out by the external auditor, there has been a material uplift in the external audit fee. Despite this uplift and after benchmarking the new fee levels with the experience of its peers, the Committee has decided to stay with its current external auditors. The Committee has asked for a change in process for when it is notified of the external audit fee going forward. 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 2021/2022, overall audit materiality was set by Deloitte at £820k (2020/2021: £787k).

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

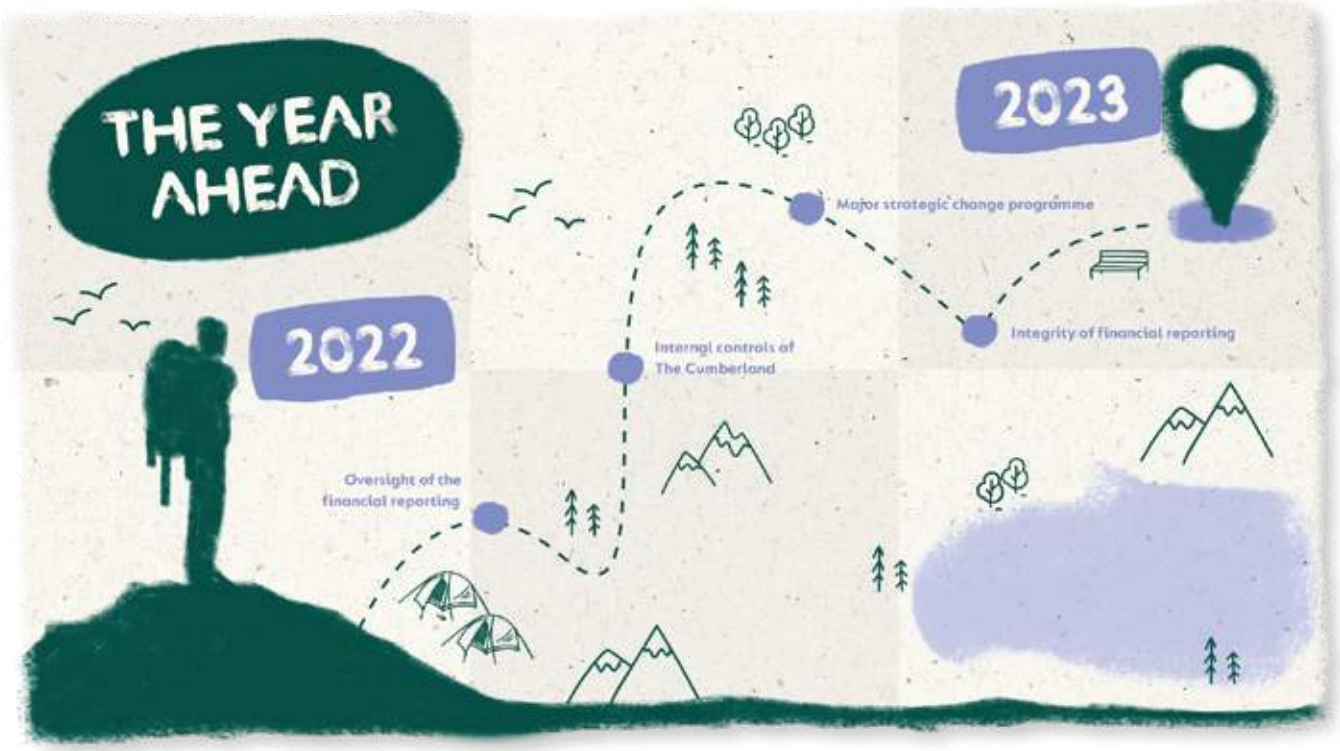
The Committee reviewed Deloitte's year end report for the 2021/2022 financial year and its statutory opinion in respect of the year. The Committee also reviewed Deloitte's planning report and interim updates on its work.

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 2021/2022 financial year, one request to use the external auditor for non-audit services was made. The non-audit service was in response to the need for an external audit firm to conduct Independent Assurance on the Society's quarterly data submission to the Bank of England under the TFSME scheme. The Committee approved the use of Deloitte to complete this work as it was allowable under the Society's auditor independence policy. The fees paid to Deloitte for the year ended 31 March 2022 totalled £334k of which £300k was for audit services and £34k for non-audit services (2020/2021: £129k). The total fees are set out in note 6 to the financial statements.

Audit effectiveness

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



In 2022/2023, 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 the Society has maintained the control environment during a period of significant change; particularly as it rolls out its major strategic change programme. 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
1 June 2022





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 2022. PARC assists the Board with overseeing the Society's people, remuneration and culture matters. I set out below details 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 Code.

JACKIE

PEOPLE,
REMUNERATION
and CULTURE
committee report



Who sits on the committee

JACKIE ARNOLD
(CHAIR)
5/5

KELLI FAIRBROTHER
4/5

Michael Hulme 4/5 (resigned 31 March 2022)

How the committee works

PARC comprises independent non-executive directors, whose attendance record is set out above. Jackie Arnold is Chair of the Committee. Details of the skills and experience of the Committee members can be found in their biographies on pages 55 to 56. The Committee is scheduled to meet four times a year, one week ahead of Board, in January, April, July and October and, additionally, as and when required. The Committee is also attended on a standing basis by the CEO, CFO, and CPO. Following each meeting, a written report is provided to the Board by the Chair of the Committee, summarising activities undertaken, areas where the Committee had challenged management and key decisions taken.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. In the year, the Committee commissioned an external "deep dive" review of its terms of reference, remit and operating rhythm following the findings of the external Board Effectiveness Review in December 2020. New terms of reference and a revised operating rhythm were successfully developed and implemented with input from leaders in this area which has raised the effectiveness of the Committee, enhancing the assistance it provides to the Board. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: cumberland.co.uk.

Report on the year

The purpose of the PARC is to ensure:

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

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

	Male		Female	
	2022	2021	2022	2021
Board	5/8 (62.5%)	6/9 (67%)	3/8 (37.5%)	3/9 (33%)
Senior Leadership Team	5/8 (62.5%)	4/6 (67%)	3/8 (37.5%)	2/6 (33%)
Extended Leadership Team	15/25 (60%)	13/25 (52%)	10/25 (40%)	12/25 (48%)

Report on the year

PARC focussed on the following key areas during the year:

Areas of Focus	Committee's Response
Remuneration	The Committee reviewed and approved a set of Remuneration Principles. The Committee approved the annual cost of living increase.
Performance	The Committee noted the Brighter Performance review process, approved the Senior Managers' Incentive Scheme and the all company bonus, which was updated to allow more people to participate in the success of the Society. The Committee considered the impact of CRD V on the Executive Directors' incentives.
Benefits	The Committee reviewed the benefits provided at the Society and improved the holiday entitlement of those at lower grades, bringing them in line with those at higher grades, to improve wellbeing and work life balance. The Committee also oversaw and noted changes to the Society's group life insurance scheme.
Chair's Fees	The Committee reviewed and set the Society Chair's Fees at a level to attract and retain a Chair with the appropriate skills and experience.
Engagement and Retention	The Committee monitored the Society's attrition rate in view of the challenging labour market post-pandemic and post-Brexit and discussed the results of the "Best Companies" engagement survey.
Terms and Conditions	The Committee oversaw the introduction of a new employment contract and handbook bringing the Society's terms and conditions and working practices further in line with modern working practices.
Diversity and Inclusion	The Committee assumed responsibility for diversity and inclusion from NGC and approved a revised Diversity and Inclusion Policy and agreed that this was a key focus of the Committee.
Regulatory Compliance	The Committee oversaw compliance with the FCA and PRA Remuneration Codes and approved the list of Material Risk Takers.
Effectiveness Review	The Committee commissioned an external "deep dive" review of its remit, structure and operating rhythm following the findings of the Board Effectiveness Review December 2020 and implemented the recommendations where appropriate.
HR and Payroll System	The Committee oversaw the introduction of a new HR and payroll system.
Hybrid Working Policy	The Committee oversaw the introduction of a new policy for hybrid working to ensure the Society's people were able to retain the benefits of more flexible working enjoyed during the pandemic, whilst still collaborating with colleagues in the office. This was designed to improve wellbeing, work/life balance, engagement and retention.
Severance Policy	The Committee reviewed and approved the Severance Policy.
Health & Safety and Fire Policies	The Committee reviewed and approved the Health & Safety and Fire Policies.

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

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

The Committee believes that bonus schemes relating to financial and business performance are an appropriate part of a balanced remuneration package for executive directors, and for the year ended 31 March 2022, agreed a bonus based on key elements of the financial and strategic plan delivered in a way that is consistent with The Cumberland's core values and framework.

Executive directors in office at 31 March 2022 are members of a defined contribution scheme and are entitled to receive contributions towards this, although depending upon their individual circumstances, they may be paid a pension replacement amount. Executive directors are also provided with a car (or car allowance) and membership of a private medical insurance scheme. They are employed under contracts terminable by the Society on nine to twelve months' notice and by the individual on six months' notice.

Full details of individual directors' remuneration, are disclosed on the next page.

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

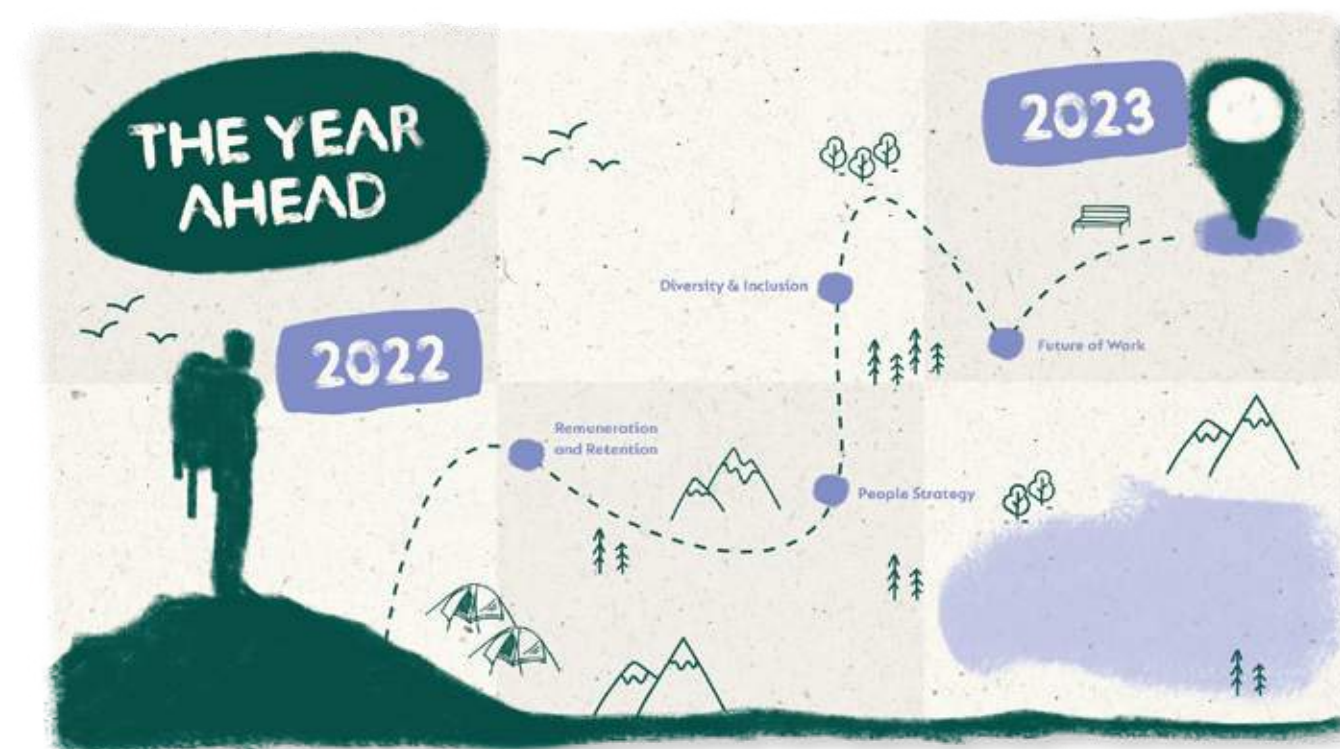


Directors' Remuneration

	2022 £000	2021 £000
Total directors' remuneration	1,044	1,006
Non-executive directors' remuneration		
John Hooper (Chairman)	70	68
Alan Johnston (Chair of the Audit Committee and Vice-Chairman) (resigned 30 Sept 2020)		27
Eric Gunn (Chair of the Board Risk Committee)	48	47
Jackie Arnold (Chair of the People, Remuneration and Culture Committee)	48	46
Michael Hulme	45	44
Mark Stanger (Chair of Audit Committee since July 2020)	52	49
Vicky Bruce (appointed 29 Sept 2020)	42	21
Kelli Fairbrother (appointed 29 Sept 2020)	41	20
	346	322

Executive directors' remuneration 2022

	Salary £000	Bonus £000	Pension Contributions £000	Pension Replacement Amounts £000	Other Allowances £000	Total £000
Des Moore	268	54	–	38	12	372
Richard Ellison	234	47	33	–	12	326
	502	101	33	38	24	698
2021						
Des Moore	263	53	–	37	12	365
Richard Ellison	230	46	31	–	12	319
	493	99	31	37	24	684



PARC will focus on the following key areas during 2022/2023:

Areas of Focus	Committee's Response
Remuneration and Retention	The Committee on behalf of the Board and supported by external input will consider Remunerisation and Retention in support of the Society's strategic agenda.
Diversity & Inclusion	The Committee will oversee the development of an action plan to continue to address diversity and inclusion.
People Strategy	The Committee will ensure alignment of the Society's people strategy with the overarching Cumberland 2025 strategy and in light of the market wide rise in employee turnover.
Future of Work	The Committee will oversee the embedding of post pandemic ways of working for the Society to harness the benefits of changes for our colleagues and customers.

On behalf of the People, Remuneration and Culture Committee

Jackie Arnold

Chair

1 June 2022

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	Chairman
Michael Hulme	Resigned: 31 March 2022
Eric Gunn	Senior Independent Director
Mark Stanger	
Jackie Arnold	
Vicky Bruce	
Kelli Fairbrother	
Des Moore	Chief Executive Officer
Richard Ellison	Chief Financial Officer

Further information on all of the directors in office as at 31 March 2022 is provided in the directors' biographies on pages 55 to 57, and their attendance at the Board and Board Committees is set out in the corporate governance and Committee reports on pages 61 to 87.

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

At 31 March 2022, 2 directors (or persons connected to them) had mortgage loans granted in the ordinary course of business, amounting to £953k (2021: two directors, £1,015m). A register is maintained at the principal office of the Society, containing details of loans, transactions and arrangements between the Society and its directors and connected persons; requisite particulars from it are available for inspection.

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

Mortgage arrears and forbearance

At 31 March 2022, there were 9 accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £1,650k, and the amount of arrears was £182k, which represents 0.01% of mortgage balances. In certain circumstances, the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty. Such measures include agreeing a temporary transfer to interest only payments, or a capitalisation of arrears, in order to reduce the borrowers' financial pressures. We expect borrowers to resume normal payments once they are able. As at 31 March 2022, forbearance measures had been agreed for 32 residential mortgages with a total balance of £3.29m (2021: 233 accounts, balances of £37.2m). 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 34 to 37 and are discussed in more detail in notes 25 to 28 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 2022, the total amount owed to suppliers was equivalent to 30 days' credit (2021: 35 days).

Charitable and political donations

During the year, charitable donations of £188k were made to a number of organisations within our operating area. No contributions were made for political purposes.

Engagement with stakeholders

Please see pages 20 to 30 of the Strategic Report.

Environmental impact and energy efficiency

Please see pages 31 to 33 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 45 to 48.

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
Chairman
1 June 2022

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.

Statement of directors'
RESPONSIBILITIES

FINANCIAL

Statements



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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 2022 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 34.

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 £820k (2021: £787k) 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 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

In the prior year, we identified a key audit matter in relation to effective interest rate ("EIR") accounting. As at the reporting date, we note that the key estimates in EIR accounting, namely the determination of behavioural lives and the accounting for early redemption charges, are not subject to significant estimation uncertainty and as such, we no longer consider EIR accounting to be a key audit matter.

4. Conclusions relating to going concern

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

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

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

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

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

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

5. Key audit matters

Key audit matters and 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

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

The Group currently holds on its balance sheet £2,070m (2021: £2,000m) of loans and advances fully secured on residential property and £168m (2021: £171m) of loans and advances fully secured on land. As at 31 March 2022, the Group held incurred loss provisions of £0.6m (2021: £0.9m) against loans fully secured on residential property and £1.9m (2021: £2.4m) against loans fully secured on land in relation to the incurred losses on these loans.

Loan loss provisioning remains one of the most significant estimates made by management, particularly in light of current economic conditions including the increased cost of living, climate change, cladding remediation requirements and market circumstances in the UK at the reporting date.

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

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

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

The Group's loan loss provision balances are detailed within note 12. The associated accounting policies are detailed on page 109 with detail about the associated critical accounting estimates on page 110.

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

We performed a walkthrough to understand the end-to-end loan loss provisioning process that the Group has in place to manage the risk of inappropriate assumptions being used in the loan loss provisioning models and obtained an understanding of the controls around how the most significant areas of judgement are subject to review, challenge and approval.

With reference to the specific judgement relating to the determination of the specific provision for loans fully secured on land, we focussed our work on ten exposures where the valuation was inherently judgemental. We involved internal real estate specialists to challenge management's estimate of the future cash-flows arising from realising the collateral on which these exposures are secured, with reference to the specialist's own market knowledge and other relevant forecast information.

Our wider procedures over loan loss provisioning included:

- With involvement of internal credit risk specialists, challenging the methodologies and assumptions used within the loan loss provisioning models with reference to the historical experience observed by the Group and evaluating whether the approach generated an output that was compliant with IAS 39;
- Testing the general IT controls over the loan administration systems and evaluating the manner in which data used in the determination of key assumptions is extracted from these systems and testing the completeness and accuracy of this underlying data;
- With involvement of internal economic specialists, challenging the macro-economic forecasts used by management to assess future changes in the valuation of collateral with reference to external forecasts and other third-party sources;

- With reference to the current economic conditions including the increased cost of living, climate change, cladding remediation requirements and market circumstances, evaluating whether any further adjustments were required to the modelled provision; and
- Reconciling the loan book to the general ledger and substantively testing a sample of loans to assess whether the data used in the provision calculation was complete and accurate.

Key observations

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

5.2. Hedge accounting

Key audit matter description

The Society applies hedge accounting using fair value macro hedge relationships in order to minimise the volatility of fair value movements in the income statement. As the macro hedge evolves, hedged items and the associated derivative, are designated to and subsequently de-designated from the hedge relationship. The fair value adjustment to the hedged items at 31 March 2022 was a liability of £30.2m (2021: asset of £6.0m).

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

- The risk that the identification of items that are designated to, and then are subsequently de-designated from, the hedging relationships is not complete and the fair value adjustments on items entering or exiting the hedge are not initially recorded and/or amortised correctly; and
- The accuracy of management's approach for transforming loan data, including cashflow scheduling, behavioural overlays for non-contractual prepayments, and designation of hedging instruments.

The hedge effectiveness assessment criteria must also be met on an ongoing basis, both prospectively and retrospectively, for the hedge relationships to be eligible under IAS 39 "Financial Instruments: Recognition and Measurement" criteria for hedge accounting.

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

The fair value adjustment to hedged items and the fair value of derivatives are detailed within notes 5, 11, 19 and 29. The Group's associated accounting policies are detailed on pages 108-109 with detail about the associated critical accounting estimates on page 110.

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

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

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

We assessed management's prospective and retrospective effectiveness testing results and tested the valuation of derivatives. This included understanding management's methodology for assessing items that have de-designated from the hedge relationship,

and testing a sample of de-designated instruments by creating an expected amortisation profile and comparing that to management's calculation.

Key observations

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

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

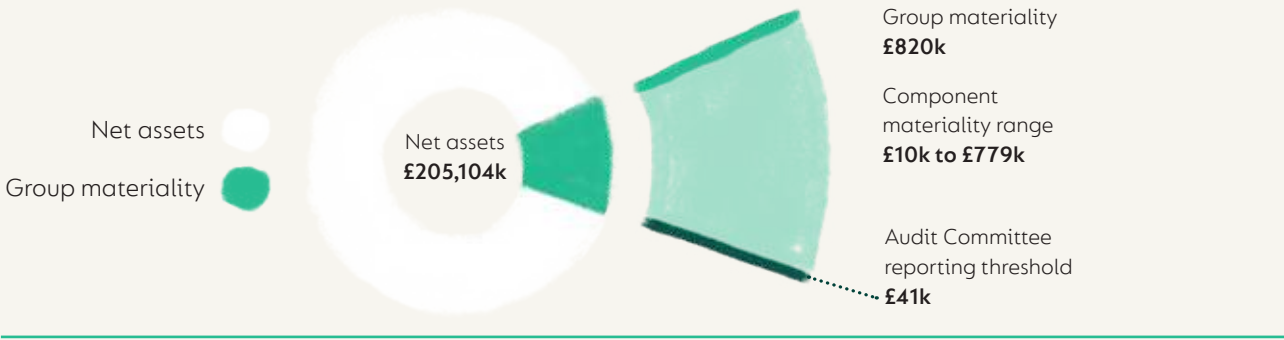
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Society financial statements
Materiality	£820k (2021: £787k)	£779k (2021: £771k)
Basis for determining materiality	0.4% of net assets (2021: 0.4% of net assets)	Society materiality equates to 0.4% of net assets (2021: 0.4% 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. This will also be a more stable benchmark to use in the medium term due to the strategic transformation programme that is occurring within the Society, and the impact that this may have on the profit before taxation of the Society.	



6.2 Performance materiality

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

	Group financial statements	Society financial statements
Performance materiality	70% (2021: 70%) of Group materiality	70% (2021: 70%) of Society materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: <ul style="list-style-type: none">Our risk assessment, including our assessment of the quality of the control environment and that we were able to rely on controls for a number of key business cycles;Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £41k (2021: £39k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and material subsidiaries. This provided 100% (2021: 100%) coverage of revenue, profit before tax and net assets of the Group, executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £779k to £10k (2020: £771k to £0.2k). We, as the Group auditor, were responsible for performing the audit of each subsidiary. At the Group level, we also tested the consolidation process.

7.2 Our consideration of the control environment

Our approach in relation to the Group's business cycles

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

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

We obtain an understanding of these business cycles on an annual basis and undertake a rotational approach to testing the relevant controls over a three year rotational cycle. In the current year, we tested the relevant controls related to the residential and commercial mortgage lending process. With regards to the savings and current accounts process, we updated our understanding of each relevant control. 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. Where we identified changes in the controls, we tested those controls in the current period.

Our approach in relation to the Group's IT systems

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

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of climate change and has reported these on pages 31 to 33.

As a part of our audit, we obtained management's climate risk management framework and 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 and the audit committee about their own identification and assessment of the risks of irregularities;
- 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 following areas: loan loss provisioning and hedge accounting. 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 and hedge accounting as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to 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 33 to the financial statements for the financial year ended 31 March 2022 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 89;
- 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 45-48;
- the directors' statement on fair, balanced and understandable set out on page 76;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 34;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 79; and
- the section describing the work of the audit committee set out on page 74-81.

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.

Group and Society Income Statements

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 8 years, covering the years ending 31 March 2015 to 31 March 2022.

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 (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

01 June 2022

For the year ended 31 March 2022

	Notes	Group 2022 £000	Group 2021 Total £000	Society 2022 £000	Society 2021 £000
Interest receivable and similar income	3	58,121	54,433	56,527	52,888
Interest payable and similar charges	4	(10,455)	(11,679)	(10,455)	(11,679)
Net interest receivable		47,666	42,754	46,072	41,209
Fair value gains on financial instruments	5	3,808	1,464	3,471	1,540
Pension finance charge	24	(201)	(281)	(201)	(281)
Fees and commissions receivable		538	949	538	800
Fees and commissions payable		(2,387)	(2,037)	(2,119)	(1,752)
Other operating income		2,774	2,445	2,771	2,439
Total Income		52,198	45,294	50,532	43,955
Administrative expenses	6	(41,395)	(32,075)	(40,644)	(31,203)
Depreciation, amortisation, impairment and profit on sale of tangible fixed assets		(2,634)	(1,944)	(2,638)	(1,917)
Loss on revaluation and disposal of investment properties	16	(7)	(144)	(7)	(133)
Provisions for bad and doubtful debts	12	618	(678)	646	(622)
Provisions for liabilities and charges	22	(167)	20	(167)	20
Write off of amounts owed by and investments in subsidiaries	13	–	–	(73)	–
Profit on ordinary activities before tax		8,613	10,473	7,649	10,100
Tax on profit	8	(1,204)	(2,059)	(1,043)	(1,966)
Profit for the financial year		7,409	8,414	6,606	8,134

Statements of Comprehensive Income

For the year ended 31 March 2022

	Notes	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Profit for the financial year		7,409	8,414	6,606	8,134
Items that may subsequently be reclassified to income and expenditure:					
Available for sale debt securities (loss)/gain	10	(299)	10	(299)	10
Movement in deferred tax relating to debt securities		79	(2)	79	(2)
Gain/(loss) on equity share investment	31	893	(136)	893	(136)
Movement in deferred tax relating to equity share investment		(427)	26	(427)	26
Items that may not subsequently be reclassified to income and expenditure:					
Actuarial gain/(loss) on retirement benefit obligations	24	892	(6,768)	892	(6,768)
Movement in deferred tax relating to retirement benefit obligations		(223)	1,286	(223)	1,286
Total comprehensive income for the year		8,324	2,830	7,521	2,550

The notes on pages 107 to 132 form part of these accounts.

Group and Society Balance Sheets

As at 31 March 2022

Assets	Notes	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Cash in hand and balances with the Bank of England	9	495,661	431,737	495,661	431,737
Loans and advances to credit institutions	25	45,686	39,436	45,686	39,436
Debt securities	10	55,025	7,082	55,025	7,082
		596,372	478,255	596,372	478,255
Derivative financial instruments	29	34,037	3,166	33,760	3,154
Loans and advances to customers	11				
Loans fully secured on residential property		2,039,669	2,004,710	2,039,669	2,004,710
Other loans		188,879	190,250	166,740	169,399
		2,228,548	2,194,960	2,206,409	2,174,109
Investments in subsidiary undertakings	13	–	–	19,570	19,061
Investment in equity shares	31	6,717	5,824	6,717	5,824
Intangible assets	14	2,462	581	2,462	581
Tangible fixed assets	15	10,771	12,117	10,706	12,067
Investment properties	16	1,802	1,952	1,802	1,952
Other assets	17	2,117	3,462	2,114	3,532
Prepayments and accrued income		2,459	2,141	2,131	1,827
Total Assets		2,885,285	2,702,458	2,882,043	2,700,362
Liabilities					
Shares	19	2,290,603	2,194,563	2,290,603	2,194,563
Derivative financial instruments	29	110	9,008	105	8,931
Amounts owed to credit institutions	25	231,702	130,034	231,702	130,034
Amounts owed to other customers	25	151,381	147,123	151,623	147,792
Other liabilities	20	723	972	2,192	2,467
Accruals and deferred income	21	4,570	4,482	4,434	4,308
Provisions for liabilities and charges	22	483	850	483	850
Pension liability	24	609	18,646	609	18,646
Total liabilities		2,680,181	2,505,678	2,681,751	2,507,591
Total equity attributable to members		205,104	196,780	200,292	192,771
Total Equity and Liabilities		2,885,285	2,702,458	2,882,043	2,700,362

The notes on pages 107 to 132 form part of these accounts.

These accounts were approved by the Board of Directors on 1 June 2022

John Hooper, Chairman

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 2020	191,083	2,867	193,950
Profit for the year	8,414	–	8,414
Other comprehensive income	(5,482)	(102)	(5,584)
Total comprehensive income for the year	2,932	(102)	2,830
Balance at 31 March 2021	194,015	2,765	196,780
Profit for the year	7,409	–	7,409
Other comprehensive income	669	246	915
Total comprehensive income for the year	8,078	246	8,324
Balance at 31 March 2022	202,093	3,011	205,104

Society	General Reserve £000	Available for Sale Reserve £000	Total Equity Attributable to Members £000
Balance at 1 April 2020	187,354	2,867	190,221
Profit for the year	8,134	–	8,134
Other comprehensive income	(5,482)	(102)	(5,584)
Total comprehensive income for the year	2,652	(102)	2,550
Balance at 31 March 2021	190,006	2,765	192,771
Profit for the year	6,606	–	6,606
Other comprehensive income	669	246	915
Total comprehensive income for the year	7,275	246	7,521
Balance at 31 March 2022	197,281	3,011	200,292

Consolidated Cash Flow Statement

For the year ended 31 March 2022

	2022 £000	2021 £000
Cash flows from operating activities		
Profit before tax	8,613	10,473
Adjustments for:		
Depreciation, amortisation, impairment and profit on sale of tangible fixed assets	2,634	1,944
Loss on revaluation and disposal of investment properties	7	144
Changes in fair values of derivatives	(3,808)	(1,464)
Provisions for bad and doubtful debts	(618)	678
Provisions for liabilities and charges	(367)	(56)
Pension finance charge and service cost	201	281
Other non-cash movements	(96)	(103)
Cash generated from operations	6,566	11,897
Movements in operating assets and liabilities		
Loans and advances to customers	(69,008)	(19,962)
Shares	96,276	194,456
Loans and advances to credit institutions and other liquid assets	(2,433)	14,309
Amounts owed to credit institutions and other customers	105,926	(159,578)
Prepayments and accrued income	(356)	(331)
Other assets	38	(1)
Accruals and deferred income	88	1,351
Other liabilities	188	(371)
Payment into defined benefit pension scheme	(17,346)	(2,346)
Taxation paid	(912)	(1,367)
Net cash flows from operating activities	119,027	38,057
Cash flows from investing activities		
Purchase of debt securities	(48,260)	(7,073)
Maturity of debt securities	-	5,000
Purchase of intangible fixed assets	(2,150)	(581)
Purchase of tangible fixed assets	(1,019)	(2,048)
Sale of tangible fixed assets	95	67
Sale of investment property	48	104
Net cash flows from investing activities	(51,286)	(4,531)
Net increase in cash and cash equivalents	67,741	33,526
Cash and cash equivalents at beginning of year	441,931	408,405
Cash and cash equivalents at end of year	509,672	441,931
Represented by:		
Cash and balances with the Bank of England	495,661	431,737
Loans and advances to credit institutions repayable on demand	14,011	10,194
	509,672	441,931

Notes to the Accounts

1. Accounting Policies

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

Basis of Preparation

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

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Society and its subsidiary undertakings for the year ended 31 March 2022. 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 45-48.

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 an identifiable non-monetary asset without physical substance. An intangible asset is recognised if it is probable that future economic benefits attributable to the asset will flow from it and can be measured reliably. During 2021, the Society commenced its strategic investment in technological functionality and purchased software licences and IT development services which qualify for recognition as 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 2022 include software licence costs, external contractor based development costs and professional services. Costs associated with maintaining computer software programmes, research costs and development costs that do not meet the criteria for recognition as intangible assets are recognised as an expense as incurred.

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

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

Fixed Assets and Depreciation

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

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

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

Investments in Subsidiary Undertakings

Investments in subsidiaries are measured at cost less accumulated impairment.

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

Pension Costs

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

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

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

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

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

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

Investment Properties

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

Financial Instruments

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

i) Loans and advances

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

ii) At fair value through income and expenditure

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

Derivatives can be designated as fair value hedges.

iii) Available for sale

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

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

iv) Financial liabilities

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

v) Derecognition of financial assets and liabilities

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

vi) Fair value hedges

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

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

vii) Interest rate benchmark reform

Following the end of Libor as a published index rate on 31 December 2021 the Society has completed its transition to the approved Libor fall back rate on all its remaining Libor linked contracts. At 31 March 2022 the Society did not have material levels of fall back rate contracts outstanding in the context of its derivative portfolio and the remaining fall back derivatives have short remaining maturities. The Society has applied the amendments to IAS39 issued by the IASB and has concluded that the fall-back rate is economically equivalent to the LIBOR rate it replaces. As such given the limited value of the exposures, the transition's immaterial impact on the Society's reported results, and the successful completion of the transition by 31 March 2022 the Society has not updated the detailed disclosures provided in the year ended 31 March 2021.

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 28.

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.

Amounts accrued and settled in relation to payments and receipts which are contractually due on derivatives are recognised within interest receivable and similar income (note 3) for all derivatives which are economic hedges of financial assets regardless of whether or not they are in accounting hedge relationships, and within interest payable and similar charges (note 4) for all derivatives which are hedges of financial liabilities.

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.

Notes to the Accounts

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 2022 the level of judgement and estimation of uncertainty was heightened by the unwinding impact of the Covid-19 pandemic coupled with rising inflation and interest rates.

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 estimates around the future performance of this industry as it emerges from the repeated impact of Covid-19 and trade stops and starts. These estimates are inherently complex.

The Group incorporated its best estimate of the pandemic's declining impact and of the sharp rise in 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	249	(249)
FSRP	548	(175)
Total charge/(credit)	797	(424)

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	75	(75)
FSRP	36	(36)
Total charge/(credit)	111	(111)

Fair Value of Derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Further details on derivatives are in note 30 and on the interest rate risk they manage and its sensitivity in note 26.

Pensions

The Group operates a defined benefit pension scheme. Significant judgements (on areas such as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme. These judgements, which are based upon the Board receiving external advice from the Scheme Actuary, are outlined in note 24 to the Accounts.

Notes to the Accounts

3. Interest Receivable and Similar Income

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
On loans fully secured on residential property	53,646	51,876	53,646	51,876
On other loans	8,386	9,054	6,716	7,413
On debt securities				
Interest and other income	104	34	104	34
On other liquid assets				
Interest and other income	1,043	438	1,043	438
Net expense on derivative financial instruments	(5,058)	(6,969)	(4,982)	(6,873)
Total interest receivable	58,121	54,433	56,527	52,888

All income is derived from operations within the UK.

4. Interest Payable and Similar Charges

On shares held by individuals	9,758	11,188	9,758	11,188
On deposits and other borrowings	858	772	858	772
Net income on derivative financial instruments	(161)	(281)	(161)	(281)
Total interest payable	10,455	11,679	10,455	11,679

5. Fair Value Gains on Financial Instruments

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Change in fair value derivatives in designated fair value hedge accounting relationships	38,279	6,672	38,279	6,672
Change in fair value derivatives not in designated fair value hedge accounting relationships	1,490	837	1,153	913
Adjustment to hedged items in designated fair value hedge accounting relationships	(35,961)	(6,045)	(35,961)	(6,045)
	3,808	1,464	3,471	1,540

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

6. Administrative Expenses

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Staff costs (note 7)	25,251	21,127	24,686	20,434
The analysis of the auditor's remuneration is as follows:				
Fees payable to the Group's auditor for the audit of the annual accounts	300	129	282	111
Other services:				
Other assurance services	34	-	34	-
Other expenses	15,810	10,819	15,642	10,658
	41,395	32,075	40,644	31,203

Group and Society other administrative expenses include £3,653,000 of project based expenditure (2021 - £1,281,000) directly relating to strategic change. This amount is after the impact of capitalisation of certain expenses as intangible assets (note 14).

7. Staff Numbers and Costs

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

	Full time		Part time	
	2022	2021	2022	2021
Society's principal office	307	241	84	86
Society's branches	78	106	98	113
Subsidiaries	12	12	5	6
	397	359	187	205
	Group	Group	Society	Society
	2022	2021	2022	2021
	£000	£000	£000	£000
The aggregate costs of these persons were as follows:				
Wages and salaries	22,157	18,291	21,675	17,712
Social security costs	1,755	1,535	1,711	1,481
Other pension costs (note 24)	1,339	1,301	1,300	1,241
	25,251	21,127	24,686	20,434

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

(a) Analysis of charge in year:

	Group	Group	Society	Society
	2022	2021	2022	2021
	£000	£000	£000	£000
Current tax				
Corporation tax at 19%	500	1,463	340	1,389
Adjustments in respect of prior year	(32)	48	(32)	30
Deferred tax at 19% and 25% (2021 - 19%)	736	548	735	547
Tax on profit on ordinary activities	1,204	2,059	1,043	1,966
Total deferred tax relating to items of other comprehensive income	571	(1,310)	571	(1,310)

(b) Factors affecting tax charge in year:

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

	Group	Group	Society	Society
	2022	2021	2022	2021
	£000	£000	£000	£000
Profit on ordinary activities before tax	8,613	10,473	7,649	10,100
Tax on profit on ordinary activities at UK standard rate of 19%	1,636	1,990	1,453	1,919
Effects of:				
Capital allowances in excess of depreciation	(7)	(22)	(7)	(25)
Tax deductible pension contributions	(1,265)	(504)	(1,265)	(504)
Other differences	39	-	62	-
Expenses not deductible for tax purposes	97	(1)	97	(1)
(Over)/under provision in prior year	(32)	48	(32)	30
Total current tax	468	1,511	308	1,419
Origination and reversal of timing differences (deferred tax)	679	548	678	547
Adjustments for changes in tax rates (deferred tax)	57	-	57	-
Tax on profit on ordinary activities	1,204	2,059	1,043	1,966

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

The Finance Act 2021, which was enacted in May 2021, will increase the rate of tax from 19% to 25% with effect from 1 April 2023. Deferred tax balances 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	Group	Society	Society
	2022	2021	2022	2021
	£000	£000	£000	£000
Cash in hand	5,451	5,992	5,451	5,992
Balances with the Bank of England	490,210	425,745	490,210	425,745
Included in cash and cash equivalents	495,661	431,737	495,661	431,737

Balances with the Bank of England do not include cash ratio deposits of £7.13 million (2021 – £5.71 million) which are not available for use in the Group's day to day operations. Such deposits are included within Loans and Advances to Credit Institutions in the Balance Sheet.

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

	Group	
	2022	2021
	£000	£000
Cash in hand and balances with the Bank of England (as above)	495,661	431,737
Loans and advances to credit institutions	14,011	10,194
	509,672	441,931

10. Debt Securities

	Group and Society	
	2022	2021
	£000	£000
Debt securities		
Covered bonds	29,789	7,082
Certificates of deposit	10,018	-
Supranational floating rate notes	15,218	-
	55,025	7,082

Debt securities are held as available for sale assets and carried at their fair value with movements reported through other comprehensive income. In the year ended 31 March 2021 the Group acquired covered bonds issued by other rated UK based financial institutions. In the year ended 31 March 2022 the Group increased its holding of covered bonds and purchased debt from multilateral development banks.

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

	2022	2021
	£000	£000
At 1 April	7,082	5,036
Additions	48,260	7,073
Maturities and amortisation of premium and discount	(56)	(5,000)
(Losses)/gains from changes in fair value	(299)	10
Movements in accrued interest	38	(37)
At 31 March	55,025	7,082

The remaining maturity of debt securities are noted in note 25.

11. Loans and Advances to Customers

	Group	Group	Society	Society
	2022	2021	2022	2021
	£000	£000	£000	£000
Loans and advances to customers comprise:				
Loans fully secured on residential property before EIR adjustment	2,072,202	2,001,497	2,072,202	2,001,497
Effective interest rate adjustment	(1,749)	(1,937)	(1,749)	(1,937)
Loans fully secured on residential property	2,070,453	1,999,560	2,070,453	1,999,560
Other loans				
Loans fully secured on land	168,048	171,257	168,048	171,257
Other loans	22,972	21,648	678	658
Fair value adjustment for hedge risk	(30,179)	6,018	(30,179)	6,018
	2,231,294	2,198,483	2,209,000	2,177,493
Less: Provisions for bad and doubtful debts (note 12)	(2,746)	(3,523)	(2,591)	(3,384)
	2,228,548	2,194,960	2,206,409	2,174,109

Other loans include £0.678 million (2021 – £0.658 million) of overdraft lending to the Society's current account customers. Other loans of the Group also include £22.294 million (2021 – £20.990 million) of loans and advances to customers of Borderway Finance Limited.

As at 31 March 2022 £629.2 million (2021 – £395.3 million) of loans fully secured on residential property had been pledged as collateral to the Bank of England.

The effective interest rate adjustment of £1.749 million (2021 – £1.937 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 2022				
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 2021				
Collective impairment	868	713	60	1,641
Individual impairment	-	1,734	9	1,743
	868	2,447	69	3,384
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	(343)	(215)	(8)	(566)
Individual impairment	80	(169)	9	(80)
	(263)	(384)	1	(646)
Amount written off during the year				
Individual impairment	-	(146)	(1)	(147)
	-	(146)	(1)	(147)
At 31 March 2022				
Collective impairment	525	498	52	1,075
Individual impairment	80	1,419	17	1,516
	605	1,917	69	2,591

Group provisions for bad and doubtful debts

The table above relates to the Society.
Borderway Finance Limited had individual impairment provisions of £47,000 at 31 March 2022 and £108,000 of collective provisions, and a charge in the year of £28,000.
During the year the Society has continued to work with its customers to ensure that they are supported as the pandemic and attendant lockdowns have disrupted trade and employment. The vast majority have exited forbearance and have paid or are paying arrears, this is reflected in the release of collective provisions across the Society's portfolios. The payment status of the Group's loans at 31 March 2022 and the current level of active forbearance by type are disclosed in note 28. At 31 March 2022 the Group's customers are facing rising inflation and cost of living, this has been considered within the Group's modelled provision calculations which incorporate an element of judgement.

Society 2021				
	Loans fully secured on residential property £000	Loans fully secured on land £000	Other loans £000	Total £000
At 1 April 2020				
Collective impairment	525	899	60	1,484
Individual impairment	39	1,263	28	1,330
	564	2,162	88	2,814
Income and expenditure account				
Charge/(release) for the year				
Collective impairment	343	(186)	-	157
Individual impairment	(40)	509	(4)	465
	303	323	(4)	622
Amount written off during the year				
Individual impairment	1	(38)	(15)	(52)
At 31 March 2021				
Collective impairment	868	713	60	1,641
Individual impairment	-	1,734	9	1,743
	868	2,447	69	3,384

Group provisions for bad and doubtful debts

The table above relates to the Society.
Borderway Finance Limited had individual impairment provisions of £31,000 and £108,000 of collective provisions at 31 March 2021, and a charge in the year of £59,000. Cumberland Estate Agents Limited recovered £3,000 of previously written off bad debt.
During the year ended 31 March 2021 the Society worked with its customers to ensure that they were supported as the pandemic and attendant lockdowns disrupted trade and employment. The Group offered customers up to six months of payment holiday on request. Thereafter the Group continued to support its customers where necessary through individually agreed arrangements and concessions. The vast majority of customers who availed themselves of payment holiday forbearance chose to capitalise their arrears and subsequently returned to the contractual repayment terms of their loans. Others cleared all amounts deferred. Some customers, however, began to build up further arrears and fell into default. The Group continued to support its customers working with them through the period of financial difficulty. The payment status of the Group's loans at 31 March 2021 and the current level of active forbearance by type are disclosed in note 28. The Group accounted for this through its loan loss models, specific provisions and supporting overlays, all of which were updated during the year ended 31 March 2021.

13. Investments in Subsidiary Undertakings	Shares £000	Loans £000	Society Total £000
Cost less impairment at 1 April 2021	870	18,191	19,061
Advances	-	1,009	1,009
Repayments	-	(500)	(500)
Cost less impairment at 31 March 2022	870	18,700	19,570
Cost less impairment at 1 April 2020	870	21,745	22,615
Advances	-	541	541
Repayments	-	(4,095)	(4,095)
Cost less impairment at 31 March 2021	870	18,191	19,061

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

Subsidiary undertakings

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

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

As part of the ongoing simplification of the Group's business model as part of Cumberland 2025, four non-trading subsidiary companies of Cumberland Holdings Limited were dissolved in the year. Cumberland Estate Agents Limited, Cumberland Homes Limited and Cumberland Financial Planning Limited were all dissolved on 15 February 2022. Cumberland Financial Services Limited was dissolved on 22 February 2022. A further subsidiary company, Cumberland Property Services Limited, is in liquidation as at 31 March 2022. Intercompany balances within other debtors of £61,000 and £12,000 owed by Cumberland Estate Agents Limited and Cumberland Homes Limited to the Society were written off as part of this process.

14. Intangible Assets (Group and Society)	Externally acquired £000	Internally developed £000	Total £000
Cost			
At 1 April 2021	485	96	581
Additions	1,182	968	2,150
At 31 March 2022	1,667	1,064	2,731
Amortisation			
At 1 April 2021	-	-	-
Charge for year	191	78	269
At 31 March 2022	191	78	269
Net book value			
At 31 March 2022	1,476	986	2,462
At 31 March 2021	485	96	581

The Group has capitalised internally generated intangible assets as it has moved into the delivery phase of its technology change, as part of Cumberland 2025. The Group capitalised assets to the value of £2,150,000 (2021 - £581,000) 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 prior to the end of the Cumberland 2025 programme.

15. Tangible Fixed Assets (Group)

	Freehold Land and Buildings £000	Equipment, Fixtures and Fittings and Vehicles £000	Total £000
Cost			
At 1 April 2021	15,936	15,209	31,145
Additions	855	164	1,019
Transfer from investment property	245	–	245
Transfer to investment property	(150)	–	(150)
Disposals	(186)	(360)	(546)
At 31 March 2022	16,700	15,013	31,713
Depreciation			
At 1 April 2021	8,212	10,816	19,028
Charge for year	310	1,726	2,036
Impairment	211	–	211
Disposals	(78)	(255)	(333)
At 31 March 2022	8,655	12,287	20,942
Net book value			
At 31 March 2022	8,045	2,726	10,771
At 31 March 2021	7,724	4,393	12,117

Tangible Fixed Assets (Society)

Cost			
At 1 April 2021	15,575	15,395	30,970
Additions	855	123	978
Transfer from investment property	245	–	245
Transfer to investment property	(150)	–	(150)
Disposals	(186)	(301)	(487)
At 31 March 2022	16,339	15,217	31,556
Depreciation			
At 1 April 2021	7,851	11,052	18,903
Charge for year	310	1,705	2,015
Impairment	211	–	211
Disposals	(78)	(201)	(279)
At 31 March 2022	8,294	12,556	20,850
Net book value			
At 31 March 2022	8,045	2,661	10,706
At 31 March 2021	7,724	4,343	12,067

As a result of a change in its development plans primarily driven by the pandemic, the Group recognised an impairment of £211,000 on a property adjacent to its English Street branch, and subsequently moved it to investment property (note 16). One property previously held as investment property has become occupied by Society in the year and was transferred to fixed assets. Disposals of fixed assets are predominantly related to the refurbishment of the head office and subsequent disposal of removed and unused items, together with sale of returned staff vehicles resulting in a loss on sale of £118,000 in the Group's financial statements (2021 – £16,000 gain).

16. Investment Properties

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
At 1 April	1,952	2,175	1,952	2,060
Transfer from tangible fixed assets	150	–	150	–
Transfer to tangible fixed assets	(245)	25	(245)	25
Disposals	(40)	(115)	(40)	–
Revaluation	(15)	(133)	(15)	(133)
At 31 March	1,802	1,952	1,802	1,952

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 2022. During the year ended 31 March 2022 one property was sold and a gain of £8,000 was recognised.

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

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Cost	2,972	2,994	2,972	2,994
Depreciation	(1,530)	(1,571)	(1,530)	(1,571)
	1,442	1,423	1,442	1,423

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

	Group and Society	
	2022 £000	2021 £000
Within one year	124	122
In the second to fifth years inclusive	306	266
After five years	116	13
	546	401

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 2022 amounted to £33,000 (2021 – £8,000).

17. Other Assets

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Deferred taxation asset (note 18)	2,114	3,421	2,103	3,409
Other	3	41	11	123
	2,117	3,462	2,114	3,532

18. Deferred Taxation

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
At 1 April	3,421	2,659	3,409	2,646
(Charge) to income and expenditure account (note 8)	(736)	(548)	(735)	(547)
(Charge)/credit to other comprehensive income	(571)	1,310	(571)	1,310
At 31 March	2,114	3,421	2,103	3,409

Deferred tax assets and liabilities are attributable to the following items:

Difference between accumulated depreciation and amortisation and capital allowances	154	142	145	132
Pension deficit reduction contributions	2,658	223	2,658	223
Pension scheme deficit	152	3,543	152	3,543
Investment in equity shares	(1,072)	(645)	(1,072)	(645)
Debt securities	75	(4)	75	(4)
Differences arising from transition to FRS 102	147	162	145	160
	2,114	3,421	2,103	3,409

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.

The Group's pension deficit reduction contributions (see note 24) are a taxable expense but the tax deduction is limited by statute when the current year's contribution is significantly larger than the prior year's. The tax relief is spread over 4 years, in the current year the tax relief has driven a tax charge below the statutory rate of tax as shown in note 8 and the remaining tax relief from the 2022 contributions will be recognised over the next 3 years.

19. Shares

	Group and Society	
	2022 £000	2021 £000
Held by individuals	2,290,596	2,194,306
Other	7	21
Fair value adjustment for hedged risk	–	236
	2,290,603	2,194,563

20. Other Liabilities

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Other liabilities falling due within one year:				
Corporation tax	(579)	(142)	(626)	(112)
Other creditors	1,302	1,114	2,818	2,579
	723	972	2,192	2,467

21. Accruals and Deferred Income

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Administrative and operating costs	4,369	3,530	4,233	3,356
Interest relating to derivative financial instruments	201	952	201	952
	4,570	4,482	4,434	4,308

22. Provisions for Liabilities and Charges

	Group and Society	
	2022 £000	2021 £000
At 1 April	850	906
Charge/(release) to income and expenditure account	167	(20)
Utilised	(534)	(36)
At 31 March	483	850

Historic know your customer (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. The programme was paused for much of the prior year due to the impact of the Covid-19 pandemic but recommenced during the year to 31 March 2022. Customer responses have been slower than originally forecast and the programme is now expected to continue into the summer of 2022, driving a further charge. At 31 March 2022 £483,000 was provided for this matter (2021: £850,000).

23. Financial Commitments

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

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

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Contracted but not provided for	40	32	40	32
(c) Memorandum items				
Irrevocable mortgage commitments	4,329	7,924	4,329	7,924
Undrawn customer overdraft facilities	8,135	8,576	8,135	8,576
Forward purchase of covered bond	7,000	–	7,000	–

The Group contracted to purchase a covered bond on issuance on 28 March 2022, the £7,000,000 payment was settled on 4 April 2022.

24. Pensions

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

Defined contribution schemes

The Group operates three defined contribution schemes funded by contributions from the Group and its staff. One scheme is open to all new employees. The total expense charged to the income statement as part of staff costs in the year ended 31 March 2022 was £1,230,000 (2021 – £1,183,000).

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 2022 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 2022.

The most recent full actuarial valuation was as at 26 August 2018 and showed a deficit of £6,478,000. At the date of signing these accounts the 26 August 2021 actuarial valuation exercise is ongoing and nearing completion. In respect of the 2018 deficit in the Plan, the Society agreed to make annual payments of £2,346,000 for the next three years. The first of these payments was made in August 2019, the second in August 2020 and the third in August 2021. In November 2021 the Society made an additional contribution of £15,000,000 as part of agreeing a journey plan towards self sufficiency, and subject to the formal outcome of the August 2021 triannual valuation expects to make an annual contribution of £1,000,000 going forward. As part of the journey plan a revised (lower) target investment return was agreed and the scheme's assets were aligned to this change prior to 31 March 2022.

Key assumptions used:

	Valuation at	
	2022 %	2021 %
Rate of increase in pensions in payment	2.35-3.60	2.20-3.10
Discount rate	2.65	2.00
Inflation assumption – RPI	3.75	3.20
– CPI	3.05	2.30

Mortality assumptions:

Post-retirement mortality is based on 95% of the S2PXA tables, with projected improvements based on CMI 2021 with a long-term trend of 1.25% p.a., a smoothing parameter of 7.0, an initial addition of 0.25% and a w2020 parameter of 0%. No allowance is made for pre-retirement mortality.

The number of years' life expectancy, retiring at 62, is as follows:

	2022	2021
Retiring today:		
Males	87.1	87.1
Females	89.2	89.2
Retiring in 20 years:		
Males	88.6	88.5
Females	90.8	90.7

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:

	2022 £000	2021 £000
Present value of defined benefit obligations	(71,713)	(77,045)
Fair value of scheme assets	71,104	58,399
Liability recognised in the balance sheet	(609)	(18,646)

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

	2022	2021
At 1 April	77,045	69,375
Interest cost	1,527	1,504
Service cost	–	–
Benefits paid	(1,441)	(1,995)
Actuarial (gain)/loss	(5,418)	8,161
At 31 March	71,713	77,045

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

At 1 April	58,399	55,432
Actuarial (loss)/gain	(4,526)	1,393
Expected return on assets	1,326	1,223
Contributions from employers	17,346	2,369
Benefits paid	(1,441)	(1,995)
Expenses paid	-	(23)
At 31 March	71,104	58,399

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

Growth assets	18,233	30,416
Diversified credit	35,277	12,406
Liability driven investments (LDI)	12,492	13,013
Cash	3,178	1,124
Other assets	1,924	1,440
	71,104	58,399

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

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

a) Administrative expenses

Service cost	0	0
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The operating charge of £nil (2021 – £nil), plus the Group's contributions to the defined contribution schemes of £1,230,000 (2021 – £1,183,000) and life assurance premiums of £109,000 (2021 – £118,000), comprise the Group's other pension costs total of £1,339,000 (2021 – £1,301,000) shown in note 7.

The Society reimbursed the scheme for expenses paid in the year ended 31 March 2021 of £23,000. Since the closure of the trustee bank account on 9 October 2020, the Society has directly paid administrative expenses of the scheme totalling £216,000 (2021 - £145,000). These costs are included within administrative expenses shown in note 6.

b) Pension finance charge

Expected return on pension scheme assets	1,326	1,223
Interest on pension scheme liabilities	(1,527)	(1,504)
Net charge	(201)	(281)

c) Statement of Comprehensive Income

Actual return less expected return on pension scheme assets	(4,526)	1,393
Actuarial gain/(loss) on defined benefit obligation	5,418	(8,161)
Actuarial gain/(loss)	892	(6,768)
Movement in deferred taxation relating to pension scheme	(223)	1,286
Actuarial gain/(loss) recognised in the Statement of Comprehensive Income	669	(5,482)

d) Movement in the deficit in the scheme during the year

	2022 £000	2021 £000
Deficit in scheme at beginning of year	(18,646)	(13,943)
Movement in year:		
Service cost	-	-
Contributions net of expenses paid	17,346	2,346
Pension finance charge	(201)	(281)
Actuarial gain/(loss)	892	(6,768)
Deficit in scheme at end of year	(609)	(18,646)

History of experience gains and losses

	2022	2021	2020	2019	2018
Actual return less expected return on pension scheme assets (£000)	(4,526)	1,393	(214)	289	(598)
Percentage of opening scheme assets	7.8	2.5	0.4	0.5	1.1
Actuarial gain/(loss) on defined benefit obligation (£000)	5,418	(8,161)	2,230	(1,396)	4,185
Percentage of opening scheme liabilities	7.0	11.8	3.1	1.9	5.5

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

25. Liquidity Risk

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

It is Group policy to ensure that sufficient liquid assets are available at all times to meet the Group's statutory, regulatory and operational obligations. The development and implementation of liquidity policy is the responsibility of the 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. During the year ended 31 March 2021 the Group introduced covered bond into its High Quality Liquid Assets portfolio and will seek to increase its holdings moderately over time.

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.

	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
At 31 March 2022:							
Assets							
Cash in hand and balances with the Bank of England	495,515	-	-	-	-	146	495,661
Loans and advances to credit institutions	14,011	17,632	14,000	-	-	43	45,686
Debt securities	-	10,018	2,002	33,114	9,857	34	55,025
Derivative financial instruments	-	-	-	-	-	34,037	34,037
Loans and advances to customers							
Loans fully secured on residential property and land	3,863	19,607	62,186	403,314	1,751,280	(34,450)	2,205,800
Other loans	678	108	1,131	21,055	-	(224)	22,748
Liabilities							
Shares	1,667,540	393,108	179,381	49,418	-	1,156	2,290,603
Derivative financial instruments	-	-	-	-	-	110	110
Amounts owed to credit institutions	-	11,480	-	220,000	-	222	231,702
Amount owed to other customers	96,890	39,864	14,354	244	-	29	151,381

	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
At 31 March 2021:							
Assets							
Cash in hand and balances with the Bank of England	431,721	-	-	-	-	16	431,737
Loans and advances to credit institutions	10,194	5,712	8,000	15,524	-	6	39,436
Debt securities	-	-	-	7,082	-	-	7,082
Derivative financial instruments	-	-	-	-	-	3,166	3,166
Loans and advances to customers							
Loans fully secured on residential property and land	2,397	20,942	64,201	409,039	1,676,175	766	2,173,520
Other loans	658	168	1,181	19,641	-	(208)	21,440
Liabilities							
Shares	1,568,882	377,922	185,483	60,297	-	1,979	2,194,563
Derivative financial instruments	-	-	-	-	-	9,008	9,008
Amounts owed to credit institutions	-	-	130,000	-	-	34	130,034
Amount owed to other customers	86,846	45,033	14,751	439	-	54	147,123

Included within other loans are balances of £22,294,000 (2021 – £20,990,000) relating to loans and advances to customers of Borderway Finance Limited.

Gross contractual cash flows for financial liabilities

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

	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
At 31 March 2022:							
Shares	1,667,573	393,205	179,965	49,841	–	–	2,290,584
Amounts owed to credit institutions	–	12,145	1,650	226,600	–	–	240,395
Amount owed to other customers	97,036	39,867	14,365	247	–	–	151,515
At 31 March 2021:							
Shares	1,568,882	378,223	186,083	61,119	–	–	2,194,307
Amounts owed to credit institutions	–	–	130,130	–	–	–	130,130
Amount owed to other customers	87,390	45,044	14,766	446	–	–	147,646

The following table details the Group's contractual cashflows 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, and where the amount varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

	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
At 31 March 2022:						
Swap contracts	(1,212)	7,574	27,784	(28)	–	34,118
At 31 March 2021:						
Swap contracts	(649)	(3,894)	(1,272)	58	–	(5,757)

26. Interest Rate Risk

The primary market risk faced by the Group is interest rate risk. The net interest income of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of derivatives and the matching of naturally offsetting instruments. During the prior year the Group enhanced its interest rate risk management through commencing the process of allocating its free reserves over a 63 month profile. This year it also started to profile its current account balances based on expected maturity.

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

The Group uses interest rate stress testing and gap analysis to analyse and manage its interest rate position. The following table provides a summary of the interest rate re-pricing profile of the Group's assets and liabilities. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date.

The table takes account of derivative financial instruments which alter the interest basis of Group assets and liabilities. The table does not capture the use of reserves hedging or use of current accounts as discussed above.

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

	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
At 31 March 2022:						
Assets						
Liquid assets	582,372	7,000	7,000	–	–	596,372
Derivative financial instruments	–	–	–	–	34,037	34,037
Loans and advances to customers	718,100	105,844	205,779	1,198,825	–	2,228,548
Intangible assets	–	–	–	–	2,462	2,462
Tangible fixed assets	–	–	–	–	10,771	10,771
Other assets	–	–	–	–	13,095	13,095
Total assets	1,300,472	112,844	212,779	1,198,825	60,365	2,885,285
Liabilities						
Shares	2,135,464	40,814	56,335	57,990	–	2,290,603
Derivative financial instruments	–	–	–	–	110	110
Amounts owed to credit institutions and other customers	379,083	–	4,000	–	–	383,083
Other liabilities, pension liability, accruals and deferred income	–	–	–	–	6,385	6,385
Reserves	–	–	–	–	205,104	205,104
Total liabilities	2,514,547	40,814	60,335	57,990	211,599	2,885,285
Net assets/(liabilities)	(1,214,075)	72,030	152,444	1,140,835	(151,234)	–
Derivative instruments	1,334,150	(59,650)	(158,200)	(1,116,300)	–	–
Interest rate sensitivity gap	120,075	12,380	(5,756)	24,535	(151,234)	–
Cumulative gap	120,075	132,455	126,699	151,234	–	–

At 31 March 2021:	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	470,250	4,005	4,000	–	–	478,255
Derivative financial instruments	–	–	–	–	3,166	3,166
Loans and advances to customers	943,570	95,346	186,410	969,634	–	2,194,960
Intangible assets	–	–	–	–	581	581
Tangible fixed assets	–	–	–	–	12,117	12,117
Other assets	–	–	–	–	13,379	13,379
Total assets	1,413,820	99,351	190,410	969,634	29,243	2,702,458
Liabilities						
Shares	2,034,236	49,362	61,417	49,548	–	2,194,563
Derivative financial instruments	–	–	–	–	9,008	9,008
Amounts owed to credit institutions and other customers	273,656	500	3,001	–	–	277,157
Other liabilities, pension liability, accruals and deferred income	–	–	–	–	24,950	24,950
Reserves	–	–	–	–	196,780	196,780
Total liabilities	2,307,892	49,862	64,418	49,548	230,738	2,702,458
Net assets/(liabilities)	(894,072)	49,489	125,992	920,086	(201,495)	–
Derivative instruments	1,145,350	(73,850)	(165,150)	(906,350)	–	–
Interest rate sensitivity gap	251,278	(24,361)	(39,158)	13,736	(201,495)	–
Cumulative gap	251,278	226,917	187,759	201,495	–	–

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 2022 £000	Group and Society +250bps 2021 £000	Group and Society -250bps 2022 £000	Group and Society -250bps 2021 £000
Impact on equity reserves	(5,620)	(2,944)	6,265	3,348

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 LIBOR, 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.

27. Wholesale Credit Risk

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

Wholesale lending credit risk is managed through setting limits to each type of investment in relation to time to maturity, credit rating and country of origin. These limits are set by the 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 2022 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. 96% (2021 – 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 2022:

	Group and Society	
	2022 %	2021 %
Aaa	7	1
Aa1-A3	4	4
Sovereign exposure to the UK	85	92
Other	4	3
	100	100

All wholesale exposures are to UK financial institutions. The largest exposure to a single institution other than the UK Government was £10.1 million (2021 – £10.8 million).

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

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Cash in hand and balances with the Bank of England	495,661	431,737	495,661	431,737
Loans and advances to credit institutions	45,686	39,436	45,686	39,436
Debt securities	55,025	7,082	55,025	7,082
Total wholesale credit risk	596,372	478,255	596,372	478,255

Credit risk also arises from the Group's derivatives. The Group's agreements to enter derivatives transactions with counterparties are all documented through the International Swaps and Derivatives Association (ISDA) Master Agreement. In addition, the Group's agreements in respect of repurchase contracts are documented through the Global Master Repurchase Agreement (GMRA). Credit Support Annexes are in place with all of the Group's 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 2022 the Group had no open repurchase transactions (2021 – nil).

28. Credit Risk on Loans and Advances to Customers

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

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

	2022 £000	2021 £000
Loans fully secured on residential property	2,072,202	2,001,497
Loans fully secured on land	168,048	171,257
Other loans	22,972	21,648
Total gross exposure (contractual amounts)	2,263,222	2,194,402
Impairment and hedging adjustments	(32,925)	2,495
EIR adjustment	(1,749)	(1,937)
Total net exposure	2,228,548	2,194,960

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	
	2022 %	2021 %
Geographical distribution		
North West	51	54
Scotland	11	11
London	7	7
South East	9	8
South West	10	8
Yorkshire and Humberside	3	3
East of England	2	2
North East	2	2
West Midlands	2	2
East Midlands	1	1
Wales	2	2
	100	100

Loan to value distribution:

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

	2022 %	2021 %
<70%	85	78
70%-80%	11	13
80%-90%	3	8
>90%	1	1
	100	100

The overall indexed loan-to-value of the residential portfolio is 40% (2021 – 43%).

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, impairment losses and EIR adjustments.

	Group and Society		Group and Society	
Payment due status	2022 £000	2022 %	2021 £000	2021 %
Not impaired:				
Neither past due nor impaired	2,055,903	99	1,978,572	99
Past due up to 3 months but not impaired	14,102	1	17,646	1
Impaired:				
Past due 3 to 6 months	783	–	1,465	–
Past due 6 to 12 months	1,052	–	1,244	–
Past due more than 12 months	362	–	2,570	–
Possessions	–	–	–	–
	2,072,202	100	2,001,497	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. In March 2020, the UK entered its first lockdown as a result of the coronavirus pandemic. The Government asked the Group and other financial service providers to provide payment holidays to its mortgage customers and a series of other measures for those customers with other forms of loans. The primary forbearance offered was a 3-month mortgage holiday and in line with Government and regulatory requests the Group provided this to all customers who requested it, without conducting its usual assessment of a customer's specific circumstances. A second, up to 3 month mortgage holiday was also made available resulting in a total of 6 months forbearance being available to all customers on request in this way up to and including 31 March 2021. As a result, the impact of forbearance offered as part of Covid-19 is not directly comparable in credit risk impact to that provided historically, reflecting both the impact of other Government grants and support and the temporary nature of the arrangements. The vast majority of customers have returned to normal repayment and no Covid forbearance was outstanding at 31 March 2022. Those customers who have required further bespoke support have been offered this and are reported under the relevant concession type below. The Group had no customers with payment holidays prior to the Covid-19 pandemic. The table shows those customers who had forbearance during the years to 31 March 2022 and 31 March 2021 unless they solely had Government mandated payment holidays and subsequently returned to contracted payments.

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

At 31 March 2021:

Neither past due nor impaired	20,832	5,715	1,782	54	28,383
Past due up to 3 months	1,582	2,884	116	–	4,582
Past due more than 3 months	742	3,472	–	–	4,214
Total loans and advances	23,156	12,071	1,898	54	37,179

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 reflecting the Group's focus on tourism related sectors, the impact of Covid-19 on customer cash flows is likely to be greater.

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

	Group and Society	
Industry type	2022 %	2021 %
Leisure and hotel	86	84
Commercial investment and industrial units	8	9
Retail	2	2
Others, including mixed use	4	5
	100	100
Unindexed loan to value distribution		
<70%	94	93
70%-80%	3	4
80%-90%	2	2
>90%	1	1
	100	100

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

	Group and Society		Group and Society	
Payment due status	2022 £000	2022 %	2021 £000	2021 %
Not impaired:				
Neither past due nor impaired	154,973	92	147,742	86
Past due up to 3 months but not impaired	8,412	5	12,361	7
Impaired:				
Past due 3 to 6 months	2,098	1	2,869	2
Past due 6 to 12 months	1,277	1	4,609	3
Past due more than 12 months	1,288	1	3,676	2
	168,048	100	171,257	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.

In March 2020, the UK entered lockdown as a result of the coronavirus pandemic. The Government asked the Group and other financial service providers to provide payment holidays to its mortgage customers and a series of other measures for those customers with other forms of loans. The primary forbearance offered was a 3-month mortgage holiday and in line with Government and regulatory requests the Group provided this to all customers who requested it, without conducting its usual assessment of a customer's specific circumstances. A second, up to 3 month mortgage holiday was also made available resulting in a total of 6 months forbearance being available to all customers on request in this way up to and including 31 March 2021.

As a result, the impact of forbearance offered as part of Covid-19 is not directly comparable in credit risk impact to that provided historically, reflecting both the impact of other Government grants and support and the temporary nature of the arrangements. The vast majority of customers have returned to normal repayment. Those customers who have required further bespoke support have been offered this and are reported under the relevant concession type below. The Group's book is focused on hospitality and tourism and so in many cases businesses have been closed repeatedly over the financial year and have required bespoke support. The table below indicates the account balances that have been subject to forbearance measures during the year to 31 March 2022, unless they only received Covid-19 related payment holidays and have subsequently had no further forbearance.

	Payment holiday £000	Payment concessions including interest only £000	Arrears capitalised £000	Transfer to interest only £000	Total forbearance £000
At 31 March 2022:					
Neither past due nor impaired	-	-	388	-	388
Past due up to 3 months	-	733	-	-	733
Past due more than 3 months	-	1,340	-	-	1,340
Total loans and advances	-	2,073	388	-	2,461
At 31 March 2021:					
Neither past due nor impaired	4,727	5,256	-	-	9,983
Past due up to 3 months	459	6,119	-	-	6,578
Past due more than 3 months	-	4,652	-	-	4,652
Total loans and advances	5,186	16,027	-	-	21,213

29. Derivative Financial Instruments

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

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

Types of derivatives

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

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

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

	Group 2022			Group 2021		
	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	1,128,900	31,598	(9)	1,138,500	2,140	(8,830)
Interest rate swaps not designated as hedges	219,350	2,439	(101)	155,600	1,026	(178)
Total derivatives held for hedging	1,348,250	34,037	(110)	1,294,100	3,166	(9,008)

	Society 2022			Society 2021		
	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	1,128,900	31,598	(9)	1,138,500	2,140	(8,830)
Interest rate swaps not designated as hedges	205,950	2,162	(96)	137,350	1,014	(101)
Total derivatives held for hedging	1,334,850	33,760	(105)	1,275,850	3,154	(8,931)

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

	Group 2022 £000	Group 2021 £000	Society 2022 £000	Society 2021 £000
Interest rate swaps				
Under one year	271,200	289,750	269,200	284,950
Between one and five years	1,077,050	1,004,350	1,065,650	990,900
	1,348,250	1,294,100	1,334,850	1,275,850

30. Fair Values

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

	Group and Society	
	Carrying Value £000	Fair Value £000
At 31 March 2022:		
Financial assets:		
Loans and advances to customers		
Loans fully secured on residential property	2,069,848	2,053,705
Loans fully secured on land	166,131	167,338
Financial liabilities:		
Shares	2,290,603	2,291,142

	Group and Society	
	Carrying Value £000	Fair Value £000
At 31 March 2021:		
Financial assets:		
Loans and advances to customers		
Loans fully secured on residential property	1,998,692	2,028,575
Loans fully secured on land	168,810	170,434
Financial liabilities:		
Shares	2,194,327	2,194,866

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 assets are Level 2 assets, as defined in FRS 102. In addition, the 'investment in equity shares' which is shown in the balance sheet at fair value (see note 31) 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 by the measurement basis:

	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
At 31 March 2022:						
Financial assets:						
Cash and balances with the Bank of England	-	-	495,661	-	-	495,661
Loans and advances to credit institutions	-	-	45,686	-	-	45,686
Debt securities	-	55,025	-	-	-	55,025
Derivative financial instruments	34,037	-	-	-	-	34,037
Loans and advances to customers:						
Loans fully secured on residential property	(30,179)	-	2,069,848	-	-	2,039,669
Loans fully secured on land	-	-	166,131	-	-	166,131
Other loans	-	-	22,748	-	-	22,748
Investment in equity shares	-	6,717	-	-	-	6,717
Non-financial assets	-	-	-	-	19,611	19,611
Total assets	3,858	61,742	2,800,074	-	19,611	2,885,285
Financial liabilities:						
Shares	-	-	-	2,290,603	-	2,290,603
Derivative financial instruments	110	-	-	-	-	110
Amounts owed to credit institutions	-	-	-	231,702	-	231,702
Amounts owed to other customers	-	-	-	151,381	-	151,381
Non-financial liabilities	-	-	-	-	6,385	6,385
General and other reserves	-	-	-	205,104	-	205,104
Total reserves and liabilities	110	-	-	2,878,790	6,385	2,885,285
At 31 March 2021:						
Financial assets:						
Cash and balances with the Bank of England	-	-	431,737	-	-	431,737
Loans and advances to credit institutions	-	-	39,436	-	-	39,436
Debt securities	-	7,082	-	-	-	7,082
Derivative financial instruments	3,166	-	-	-	-	3,166
Loans and advances to customers:						
Loans fully secured on residential property	6,018	-	1,998,692	-	-	2,004,710
Loans fully secured on land	-	-	168,810	-	-	168,810
Other loans	-	-	21,440	-	-	21,440
Investment in equity shares	-	5,824	-	-	-	5,824
Non-financial assets	-	-	-	-	20,253	20,253
Total assets	9,184	12,906	2,660,115	-	20,253	2,702,458
Financial liabilities:						
Shares	236	-	-	2,194,327	-	2,194,563
Derivative financial instruments	9,008	-	-	-	-	9,008
Amounts owed to credit institutions	-	-	-	130,034	-	130,034
Amounts owed to other customers	-	-	-	147,123	-	147,123
Non-financial liabilities	-	-	-	-	24,950	24,950
General and other reserves	-	-	-	196,780	-	196,780
Total reserves and liabilities	9,244	-	-	2,668,264	24,950	2,702,458

31. 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 2022 the preference shares have been recognised at a fair value of £6,343,000. The Society also holds an investment in Ordinary C shares with a fair value of £374,000 (2021 – Visa shares £5,824,000). 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 £3,546,000 fair value of the Series A shares 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 £2,797,000 fair value of Series B preference shares at 31 March 2022 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.

32. 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 – 2022	
	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members £000
Loans and advances to customers	2	953
	Group – 2021	
	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members £000
Loans and advances to customers	2	1,015
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 £339,000 at 31 March 2022 (2021 – £385,000).		
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 24.		

33. 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.

34. 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 2022 was £94.6 million (unaudited). The Group has maintained capital in excess of that required by the regulator throughout the year and in doing so, has complied with the requirements included within the EU Capital Requirements Directive IV (Basel III).

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

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

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

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

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

For the year ended 31 March 2022

	31 March 2022 %	Statutory Limit %
1. Statutory Percentages		
Lending Limit	9.13	25
Funding Limit	14.34	50

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

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

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

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

	Group 31 March 2022 %	Group 31 March 2021 %
2. Other Percentages		
As percentage of shares and borrowings:		
Gross capital	7.67	7.96
Free capital	7.22	7.51
Liquid assets	22.31	19.35
Profit for the financial year as a percentage of mean total assets	0.27	0.31
Management expenses as a percentage of mean total assets	1.58	1.27
	Society 31 March 2022 %	Society 31 March 2021 %
Management expenses as a percentage of mean total assets	1.55	1.24

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.

For the year ended 31 March 2022

3. Information Relating to the Directors as at 31 March 2022

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 Sarhon Developments Limited Together Personal Finance Limited Blemain Finance Limited Spot Finance Limited Stubbers Adventure Centre Stubbers Training Limited
J. Arnold, MBE, FCMA, FGMA	Management Consultant	19/03/18	Jackie at Eastwood Limited
E. R. Gunn, FCIBS	Retired Bank Executive	09/11/16	Nil
M. K. Hulme, MPhil	Company Director	03/09/15	Nil
M. J. Stanger, FCA	Chartered Accountant	01/06/18	Gibbons Wealth Management Limited Gibbons Properties Limited Carleton Properties (Cumbria) Limited
P. D. Moore, MBA, Certified Bank Director (ROI)	Chief Executive Officer	01/04/18	Borderway Finance Limited Cumberland Holdings Limited Cumberland Property Services Limited Cumbria Local Enterprise Partnership
R. B. Ellison, CA, MA Hons	Chief Financial Officer	22/05/19	Kingdom Bank Limited Cumberland Holdings Limited Cumberland Property Services Limited
V. J. Bruce	Company Director	29/09/20	Hope and Homes for Children (Non-Executive Trustee) Agitos Foundation (Non-Executive Trustee)
K. M. Fairbrother	Company Director	29/09/20	Xigxag Limited

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.

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Other INFORMATION

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Glossary

AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
BFL	Borderway Finance Limited
BP(S)	Basis Point(s)
BTL	Buy to Let
CBS	Cumberland Building Society
CCF	Cumbria Community Foundation
CCyB	Countercyclical Capital Buffer
CEAL	Cumberland Estate Agents Limited
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CFSL	Cumberland Financial Services Limited
CRO	Chief Risk Officer
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FSCS	Financial Services Compensation Scheme
FSOL	Mortgages Fully Secured on Land
FSRP	Mortgages Fully Secured on Residential Property
HL	Holiday Let
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFA	Independent Financial Advisor
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Index Long-Term Repo

IMT	Incident Management Team
KPI	Key Performance Indicator
KYC	Know Your Customer
LCP	Liquidity Contingency Plan
LDI	Liability Driven Investment
LMS	Learning Management System
LTV	Loan to Value
Management expenses	Administrative expenses, depreciation and impairment and profit on sale of tangible fixed assets as adjusted by items excluded from operating profit
MBO	Management Buy Out
MI	Management Information
NGC	Nomination and Governance Committee
NIM	Net Interest Margin
NPS	Net Promoter Score
PARC	People, Remuneration and Culture Committee
PRA	Prudential Regulation Authority
RAG	Red, Amber, Green
SLT	Senior Leadership Team
SMCR	Senior Managers & Certification Regime
SME	Small and Medium Enterprise
SMF	Sterling Monetary Framework
TCR	Total Capital Requirement
TFS	Term Funding Scheme
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 with share accounts, but also deposits by our business customers and market counterparties) as a percentage of average financial assets. It reflects the margin earned by the Group.

Cost / income ratio

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

Growth in loans and advances to customers

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

Gross lending during the year

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

Group operating profit

Group operating profit is a non-statutory alternative performance measure. It is Group profit before tax, having excluded the impact of hedge accounting, provisions and other gains and losses determined by management not to reflect the Group's underlying performance. A reconciliation between Group operating profit and statutory profit before tax is included on page 40.

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](https://www.frc.org.uk). Where the Code refers to ‘company’ and ‘shareholder’, for our purposes, you should read ‘Society’ and ‘member’. The Board believes that throughout the year, the Society has had regard to the principles of the Code (in line with the Building Societies Association guidance of July 2018) in establishing and reviewing their corporate governance arrangements as required by PRA Supervisory Statement 19/15 (paragraph 2.17), and has complied with the Code save for the limited aspects explained below.

		Where to read more on how The Cumberland has complied	Pages
Board leadership and company purpose	A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Strategic Report	6-49
		How the Board Works	61-62
	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	6-49
		How the Board Works	61-62
	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	2-3
		Strategic Report – KPIs	39
		Principal Risks and Uncertainties	34-37
		Board Risk Committee Report	70-73
		Audit Committee Report	74-81
	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	20-27
		Stakeholder Engagement	63-65
		Our Sustainability Journey	28-33
	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	24-27
		Stakeholder Engagement	63-65
		PARC Report	82-87
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.	Chairman's Welcome	53
		Meet the Board of Directors	54-57
		Nomination and Governance	66-69
		Committee Report	

		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	54-57
	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	54-57 61, 67, 71, 75, 83
	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	61-62
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	66-69 82-87
	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.	Meet the Board of Directors Board Committee Reports	54-57 66-87
	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	61-62

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	74-81
	N. The Board should present a fair, balanced and understandable assessment of the company's position and prospects.	What We Do and Why We Do It CFO's Review Viability Statement Outlook Audit Committee Report	16-19 38-44 45-48 49 74-81
	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	34-37 70-73 74-81
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	82-87
	Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	PARC Report	82-87
	Compliance explanation: The Society did not plan to and has not engaged in a two-way engagement with employees on executive remuneration during the year. R. Directors should exercise independent judgment and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	PARC Report	82-87



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2022

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