Celebrating

175

est. 1850

# REPORT and ACCOUNTS

Year ended 31 March 2025


175

The Cumberland

Kinder banking. It's in our nature.

# Our performance HIGHLIGHTS

## WORLD CLASS EMPLOYER RATING

Three-star rating from Best Companies recognising The Cumberland as "a vibrant, purpose-driven organisation that values its colleagues and the communities it serves".

## FEEFO PLATINUM SERVICE AWARD

4.9 out of 5.0

CUSTOMER SERVICE RATING

## Ranked 2ND

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

(Best Companies, 2024)

## £3.3bn

Total assets

## 88

NET PROMOTER SCORE

# £477m

*Gross mortgage lending**

# £1.0m

*Profit before tax**

# £200m

*deposits growth*



* Those figures highlighted with an asterisk are a Group key performance indicator (KPI). For information on how these are calculated, please see page 159.

All information and data correct as at 31 March 2025.

## 2024 Comparatives

£3.2bn total assets, £474m gross mortgage lending, £9.6m profit before tax and £203m deposits growth.

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# CHAIR'S Welcome

> It's an amazing achievement to have thrived for so long when the average lifespan of a business in the UK is just 8.6 years.

On behalf of your Board of directors, I am delighted to present The Cumberland Building Society's Annual Report and Accounts for the year to 31 March, 2025.

**This is my first report as Chair and I'm humbled to be entrusted with the role.**

As someone born in Cumbria, who has spent most of my life in the county, I'm well aware of the important role The Cumberland plays.

We're part of the social fabric, enabling each generation to realise the dream of home ownership and providing a safe and secure home for savings.

**This is a key moment for the Society – our 175th anniversary.**

It's an amazing achievement to have thrived for so long when the average lifespan of a business in the UK is just 8.6 years.

That staying power is thanks to the dedication and hard work of Cumberland colleagues, past and present, and our focus on looking after you, our members, both savers and borrowers.

I'm incredibly proud to be the first woman to Chair the Society.

It took us 66 years to recruit our first female colleagues, back in 1916. In recent times, we've made great strides in addressing gender imbalance and now have many more women in senior roles. We also have our first female senior independent director, Anna Barsby, following the retirement of Eric Gunn.

Anniversaries are a time for reflection. That said, your Board is very much focused on the future. We are custodians with a duty to ensure the Society goes from strength to strength and is well placed to meet coming challenges.

For the last few years my predecessor as Chair, John Hooper, has referred to our New Cumberland project, which is gathering pace.

It includes major investment in a new banking platform that will ensure the Society has resilient technology required to meet your banking needs into the future.

We have been thorough and diligent in the development phase to make certain we get this right when moving to delivery.

We previously stated that the investment in New Cumberland – £15.9m in 2025 alone (2024: £10.0m) – would hit profitability for the next two or three years.

This year's results reflect this. We recorded a modest pre tax profit of £1m this year (2024: £9.6m profit).

This isn't a surprise. Indeed, thanks to the strong performance of the business, we were profitable, avoiding the loss we expected.

Your Board is convinced that the investment in New Cumberland is the right decision and the best way to secure the Society's long-term future.

On other metrics, we performed well.

Operating profit was healthy at £20.0m (2024: £27.4m) even though we faced headwinds from high inflation and falling interest rates, which inevitably squeeze margins.

Residential mortgage lending and savings balances increased, and our balance sheet topped £3.3bn (2024: £3.2bn) a new record.

We are looking to diversify our commercial lending into some other sectors, particularly in our heartland areas, backed by our trusted relationship banking model.

Our 'kinder banking' purpose ensures we do all we can to support members in difficulty. Most of our borrowers have fixed-rate products and those who took out mortgages prior to the sharp rate hikes in 2022 and 2023 have had to contend with higher payments when their fixed-term ends. Most but not all, customers have now faced this payment shock. More than 80 per cent stayed with us, proof that our products are competitive.

Predictably, given that backdrop, mortgage arrears increased slightly. But they remain very low, around half the industry average, and we have almost no bad debt write-offs thanks to the Society's prudent lending policies.

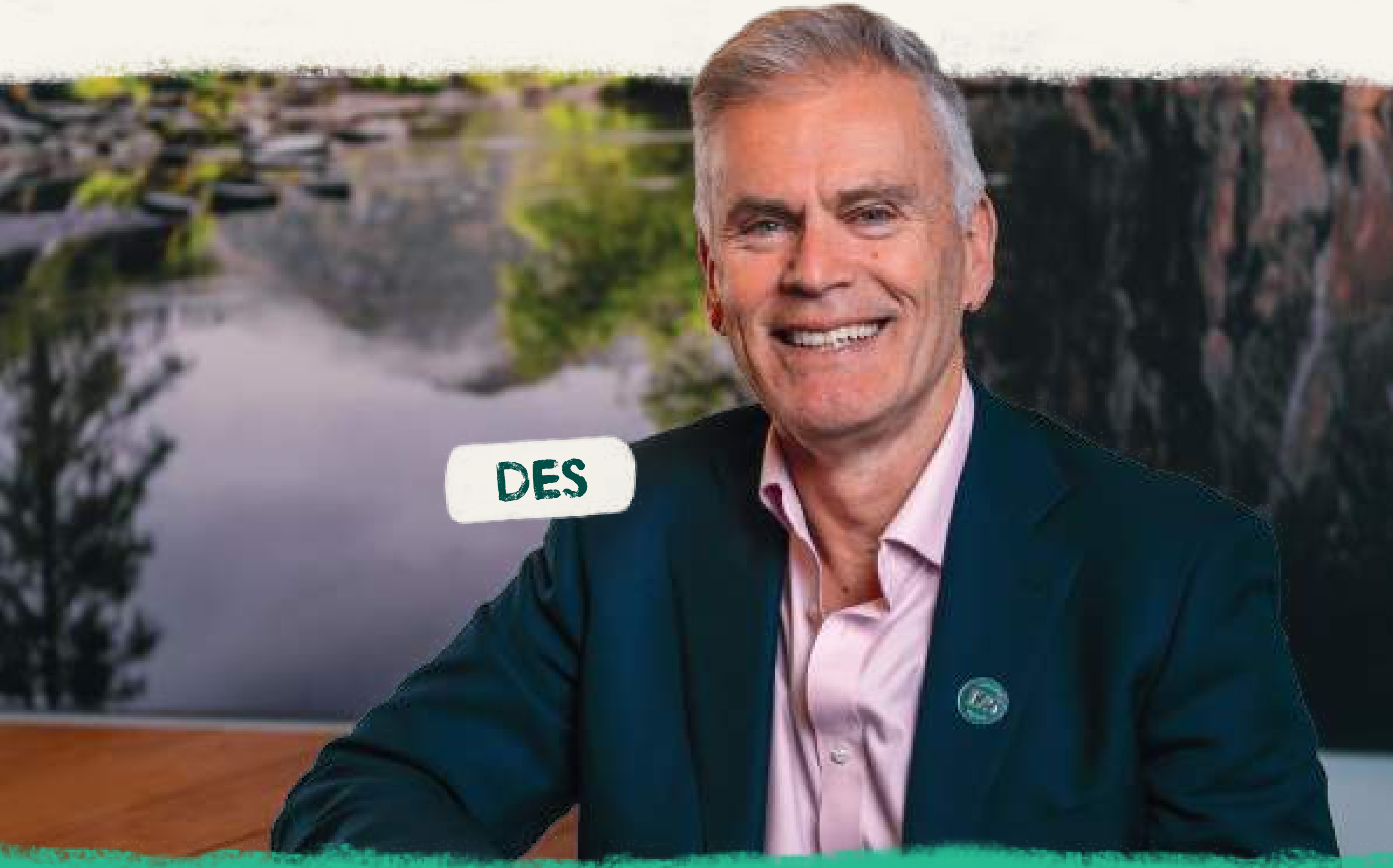
There have been some changes to our Board that I should mention too. Richard Pike has joined the Board as a non-executive director, bringing a wealth of experience in financial services. And following my election as Chair of the Society, I have stepped down as Chair of PARC – the People, Remuneration and Culture Committee – to be succeeded by the excellent Kelli Fairbrother.

**Your Board is confident that the Society remains in good shape and ready to face the next 175 years.**

Jackie Arnold, Chair
3 June 2025

*It's no exaggeration to say that The Cumberland is an integral part of the social fabric in our heartland of Cumbria, Lancashire, Northumberland and Dumfries and Galloway.*

*...But there is more to come.*




# CHIEF EXECUTIVE
## Officer's Business Review

## Historic

I feel privileged to serve as Chief Executive of The Cumberland as we reach this historic milestone – **175 years.**

I want to thank Cumberland colleagues, past and present, who have guided us to this point. Your contribution has been immense.

And I want to thank successive generations of our members who have trusted us to provide mortgages and a home for their savings.

In truth, 2025 is a triple celebration. We have just elected our first female chair, Jackie Arnold, a development that's long overdue.

And not only is it 175 years since the formation of the Cumberland Co-operative Land and Benefit Building Society, 2025 marks 250 years since the very first building society was founded in Birmingham in 1775.


**The aim then, as it is now, was to enable ordinary people to own their own home. Members paid a monthly subscription to a central pool of funds, which was used to finance the building of houses.**

Before that, property ownership was open only to the wealthy few.

Building societies have endured for two-and-a-half centuries, which is extraordinary when we think about how the world has changed.

The longevity of The Cumberland, and building societies in general, is down to the resilience of this mutual model where we are owned by you, our savers and borrowers, and our focus is wholly and exclusively on your needs.

When we make profits, we plough them back into the business, as we are currently doing through our New Cumberland transformation.

Between 1989 and 2000 there was a wave of demutualisations as some of the largest building societies became banks.

Tellingly, none have survived as independent businesses: all have been swallowed by bigger banks or have vanished completely.

**In contrast, I'm proud to say that The Cumberland is one of the oldest building societies still in existence; the oldest predates us by only two years.**

## Investment

One of the benefits of the mutual model is that we have no external shareholders demanding a quick return on capital. This enables us to take long-term decisions in the best interests of members. It's why we have prospered for so long. We're at this point again.

For the last few years, I have touched in the annual report on our transformation programme, New Cumberland.

As part of this, we are investing in a new banking platform to ensure The Cumberland continues to thrive for many years to come.

It will make our systems more secure and resilient, as robust as any in the financial services industry.

**Reflecting on our history: The Cumberland's Annual Reports 1851-1870.**

The new platform will also allow for faster and more reliable payments for our current account customers, and enable us to offer new services online, and to expand our savings products beyond our core area.

Crucially, it will speed up and simplify many back-office functions, freeing colleagues from manual, time-consuming tasks to spend more time helping customers.

We've spent years working on this to make sure we get it right, recruiting the necessary talent and evaluating different systems.

We're now at the point where we're ready to proceed. As part of our New Cumberland programme we have signed a 12 year contract with Tata Consultancy Services (TCS). This covers two years of implementation and the first 10 years of operation from early 2027.

It is the biggest investment your Society has ever made – almost £16m this year and between £80m and £100m in total over the next decade – a substantial commitment for an organisation of our size.

I advised last year that investment in New Cumberland would hit our profitability, and that has been the case.

This year we reported a modest profit and we expect to incur losses for the next two years. I want to be clear – this is not a cause for concern.

Operating profits, which exclude investment costs, are healthy. We continue to grow our mortgage book and savings balances, and our assets stood at a record £3.3bn at the year end. The Cumberland is in good shape.

New Cumberland is a major undertaking, but we are convinced it's the right thing to do to secure the Society's long-term future.

## Kinder

Please don't think that this investment in technology is going to change the nature of The Cumberland.

We aren't about to replace people with robots. Whenever you deal with us, you will have the option to talk to a real person.

We pride ourselves on customer service – it's part of our 'kinder banking' purpose – and we're thrilled to retain our Feefo Platinum Trusted Service Award for the fifth consecutive year. Our net promoter score, which measures how likely customers are to recommend us, is one of the best in the industry.

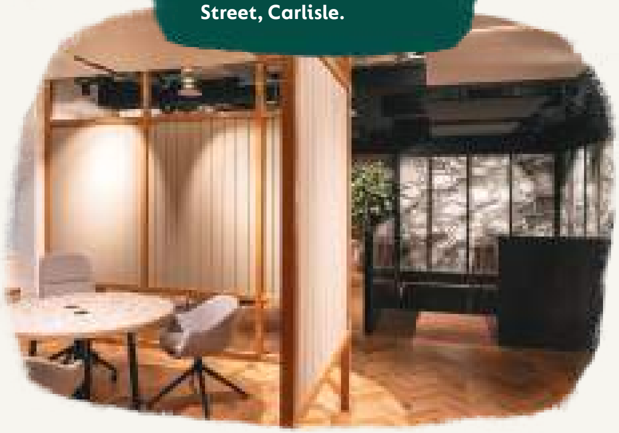
Kinder banking means doing the right thing by our members, our Cumberland colleagues and by the communities we serve.

It's exemplified by our commitment to the branch network. While other bank closures continue apace, we continue to invest in our branches.

Conventional counters have gone. Customers are greeted at the door and then directed to the right person. This is very much the future of branch banking. It's revolutionary and the feedback we've had has been positive.

**The reopening of our flagship branch in English Street, Carlisle, following a wholesale refurbishment, was one of the highlights of the year.**

Our newly refurbished flagship branch on English Street, Carlisle.



*"It looks amazing. I love all the plants and it feels so welcoming. I use The Cumberland all the time for my savings and it's so much better to be able to do it face to face."*

**Customer, Shirley Thomson, on the new English Street branch.**

*"It has a very relaxing atmosphere, very contemporary. I like the video screens with the local views on. We have got a beautiful city to show off."*

**Customer, Derrick Bates, on the new English Street branch.**


Andrew Bailey (fourth from the left), Governor of the Bank of England, visited Cumberland Head Office in November.

We also refurbished our branches in Egremont and Preston this year. In addition, we're rolling out wi-fi across our branch network; 18 branches have benefited from this upgrade as at 31 March 2025. Customer wi-fi will also be improved which will be free to use by our customers when visiting our branches.

Our Egremont branch re-opened in March following refurbishment.

We've also done more to protect members from fraud and scams. Working with our debit card provider, Visa, we've been able to block many more fraudulent transactions preventing the distress these would cause.

Kinder banking means kinder to our planet too. Our Electricity National Grid Consumption has decreased by 15.2% year on year. Our aim is to be carbon neutral in our operations by 2030 and our overarching approach to sustainability is discussed by our Chief People & Sustainability Officer (CPSO), Jill Johnston, later in this report.

Kinder means treating our colleagues with dignity and respect. We do, and we're proud to have been rated by Best Companies as one of the best large employers to work for in the UK, having been awarded the highest possible three-star accreditation, given only to organisations that "truly excel" and provide "world-class levels of workplace engagement".

And kindness extends to the communities we serve. Our colleagues marked World Kindness Day in November by handing out tasty treats to customers in branches, passers-by and employees in nearby businesses.

The recipes for these treats were taken from the *Kinder Cookbook,* a spin-off from our Kinder Kind of Kitchen initiative in partnership with FareShare Lancashire & Cumbria, and FareShare Glasgow & the West of Scotland which helps tackle food poverty.

The partnership is now in its second year and has been hugely successful in supporting foodbanks and hubs to provide supplies and hot meals to those in genuine need. This year, we have donated £250,000 to the initiative and extended its scope into southwest Scotland.

**Andrew Bailey, Governor of the Bank of England, was keen to hear about our kinder banking ethos when he visited in November – the first visit by a Bank Governor in our history and another notable highlight.**

We have donated another **£250,000** to our KINDER kind of KITCHEN initiative

## Potential

The Society has achieved a great deal in 175 years.

We've enabled successive generations to buy a home of their own, a place to put down roots and raise a family.

It's no exaggeration to say that The Cumberland is an integral part of the social fabric in our heartland of Cumbria, Lancashire, Northumberland and Dumfries and Galloway.

But there is more to come.

Our investment will enable us to grow further.

We are unusual among building societies in that we offer current accounts to individuals and businesses, we have a car finance subsidiary – Borderway Finance – and we have provided lending to businesses operating in Hospitality and Tourism for over 25 years.

These are services more likely to come from a bank than a building society. We provide them because our members want them. We listen.

Looking forward, we will expand business lending into other carefully-chosen sectors – to support small businesses and through them, the wider community.

Our new broker portal has streamlined the way we engage with mortgage brokers and is enabling us to reach new customers too.

**I am genuinely excited by the potential of the Society to do good and achieve more. We have a promising future as well as an illustrious past.**

*Des Moore*
*Chief Executive Officer*
*3 June 2025*

## FEEDBACK FROM BROKERS WE WORK WITH...

*"We continue to be impressed with The Cumberland as a lender and look forward to continuing to work with you all. The calculator and portal are straightforward and easy to use, and a great addition to your dedicated relationship managed service."*

**PBS, Lancaster**

*"The Cumberland Broker Portal is very intuitive and I particularly like the chat function, which is direct with my named relationship support, not an automated robot!"*

**Fong Dawson Mortgages, West Cumbria**

Sunnyside Guest House, Keswick.

Amanda and Steve White, owners of Market Cross Guest House, Northumberland.

*We are proud to have supported Hospitality & Tourism businesses for*

# 25+ YEARS

Sue Grundy, owner of Brooklands Guest House, Penrith.

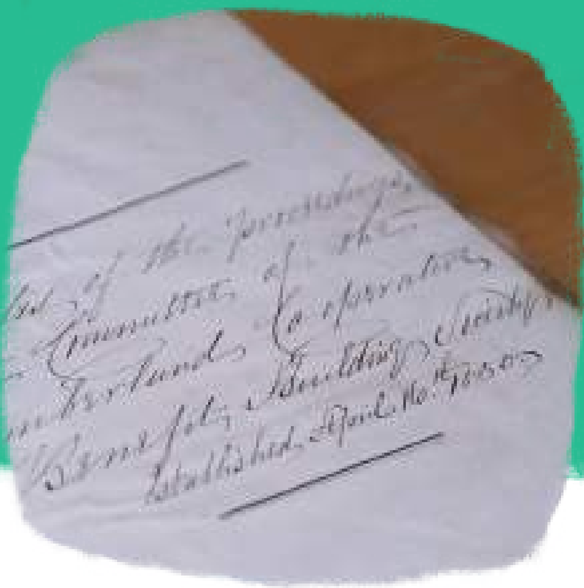
Monachyle Mhor, Lochearnhead.

# WHAT we do, and WHY we do it

**Our purpose**

*To create a banking experience that's*

**KINDER TO PEOPLE and PLANET**



**Our 175th anniversary this year is an opportunity to reflect on how we started and evolved into the organisation we are today.**

The Cumberland Co-operative Land and Benefit Building Society came into being in Carlisle on April 16, 1850. The Society's aim was to enable ordinary people to buy their own home and to "alleviate the distressing shortage of acceptable housing". Before building societies were established, only the wealthy few could own property.

A lot has happened since 1850.

Inventions such as mains electricity, the telephone, the motor car, radio, TV and latterly the internet have changed the world out of all recognition.

The Society has changed too. We shortened our name to 'The Cumberland' in 1954, opened our first branch outside Carlisle, in Preston, in 1973 and absorbed the West Cumbria Building Society in 1996.

Since the 1980s we have also provided current accounts for individuals and businesses, including online banking services, in our operating area allowing us to meet all of the day to day financial needs of our members. We offer commercial loans to the Hospitality and Tourism sectors and have a car finance subsidiary.

But fundamentally, our purpose hasn't changed at all. Our aim is still to help people buy a home and provide a safe and secure home for their savings.

We remain a mutual organisation owned by our members – the savers and borrowers – that reinvests profits back into the business rather than paying them out as dividends to external shareholders.

It's a way of operating that has worked well for 175 years and promises to serve our members for many years to come.

We remain rooted in the communities we serve, exemplified by our Kinder Kind of Kitchen initiative to help tackle food poverty and our commitment to keeping branches open. Other bank closures mean that in 16 of our locations we are the only financial institution still offering banking services.

Our philosophy is encapsulated in our purpose 'to create a banking experience that's kinder to people and planet'.

It's a statement that recognises we have a responsibility to play our part in addressing social and environmental challenges, as well helping customers achieve their financial goals.

# WE'RE DRIVEN BY OUR VALUES

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

## Our values are:

### Customer Led

We put customers first in everything we do.

### Straight Forward

We work hard to make things simpler.

### Responsible

We do the right thing.

### Better Together

We work as one team.

### Forward Thinking

We embrace new ideas to continually improve.

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

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

# STRATEGIC PRIORITIES

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

1. **Deliver New Cumberland 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 plans.
4. **Grow safely and defend margin** – we will responsibly balance the needs of our customers while ensuring our business remains financially strong so we can continue to grow while investing in our future.
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' summarises our purpose and strategic priorities, as well as our values. In fact, we use this model to set the objectives of all our colleagues, ensuring everyone's contribution is aligned to our strategic direction.**

# OUR STRATEGIC PARTNER



**This year, as part of our wider New Cumberland programme, we entered a long-term strategic partnership with Tata Consultancy Services (TCS) to modernise our core technology system. This collaboration marks a pivotal step in our transformation plans that will ensure we continue to meet your evolving needs for years to come.**

The New Cumberland programme will provide the Society with a modern digital infrastructure, ensuring our business remains sustainable and secure for years to come.

**For our customers this means:**

- A modern banking platform offering services online, by phone or in branch.
- Real people remaining at the heart of our service, alongside new digital options.
- Enhanced security, resilience, and reliability – a modern platform will improve speed, security, and efficiency while reducing manual processes.

**And for our colleagues:**

- More reliable systems and automated processes, thereby helping them to focus on meeting our customers' needs and maintaining our exceptional levels of customer service.
- Career growth opportunities for colleagues, including training and up-skilling.

Tata Consultancy Services (TCS) is a global leader in IT services, consulting, and business solutions. It is the UK's largest IT services provider by revenue (£3.8 billion, PAC TechMarketView 2023) where it employs over 24,000 people.

We selected TCS for their deep experience in financial services, having successfully partnered with major UK banks and building societies. Their industry leadership is reinforced by awards for Diversity & Inclusion, Sustainability, and Workplace Excellence.

*"This partnership is about more than technology – it's about aligning with a company that shares our values and commitment to customers, colleagues, and communities. For 175 years, our customers have been at the heart of everything we do. Ultimately, this transformation ensures we remain a strong and sustainable Society for the next 175 years.*

*Our colleagues are excited to be working with TCS to provide a resilient modern banking solution for the benefit of our customers."*

**Des Moore, Chief Executive Officer**

*"This is an exciting partnership for The Cumberland, its members and colleagues. TCS has a proven reputation for delivering secure, modern and scalable banking solutions across the globe and their expertise makes them the ideal partner for our transformation.*

*By adopting their leading banking technology, our strategic partnership will enhance the customer and colleague experience with a banking solution that is modern, secure, and aligned with our long-term vision."*

**Ian Stacey, Chief Information & Transformation Officer**

IAN STACEY

*Chief Information and Transformation Officer (CITO)*



# Our COMMUNITIES

**We're proud to be part of our communities.**

We support the people, businesses and organisations that give back to communities in our core area – it's part of our kinder banking purpose.

Every year we donate to charitable causes with most of our financial support going to projects that directly benefit people.

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

*Here are some of the activities we have supported this year.*

# KINDER KIND OF KITCHEN

*This is our headline initiative, which we started last year to help tackle food poverty.*




**Initially, we worked closely with FareShare Lancashire and Cumbria, delivered by Recycling Lives Charity & Social Enterprise, which distributes surplus food from the food industry to those in need.**

Our funding supports its network of local foodbanks and community food hubs allowing them to deliver and expand their services.

We donated £250,000 this year, continuing the partnership with FareShare Lancashire and Cumbria and expanding into Dumfries and Galloway through FareShare Glasgow and the West of Scotland.

Kinder Kind of Kitchen has been a resounding success, supporting delivery of the equivalent of 1,348,618 meals and preventing more than 105 tonnes of food waste in its second year.*

To commemorate the partnership renewal and expansion, we published the *Kinder Cookbook*, which features recipes contributed by organisers and volunteers at the food projects we support.

On World Kindness Day, 13 November 2024, Cumberland colleagues in Carlisle, Kendal, Preston and Annan handed out tasty treats – made from *Kinder Cookbook* recipes – to customers, passers-by and employees in local businesses in the hope they would pay it forward by doing a kindness for others.

*We supported the delivery of the equivalent of*

**1,348,618**

*meals this year*

*Figures from 1 June 2024 – 31 March 2025.

"The Cumberland has helped us a lot."

**Carly Hodgson, general manager at Northside Community Centre**

"We're grateful to The Cumberland because we wouldn't be able to start this initiative without their help."

**Gemma McManus, joint manager at The Lookout**

Members of the team at The Lookout in Carlisle.

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

Our Charitable Foundation supported CancerCare North Lancashire and South Cumbria's Santa Dash.

# PLEDGE FOR VOTES

**We donate £2 to good causes for every vote cast at our AGM, whether in-person or online.**

This year the pledge raised £15,252, which we used to buy equipment for food groups in our Kinder Kind of Kitchen initiative. This is in addition to the £250,000 we gave directly to Kinder Kind of Kitchen.

33 groups benefited, receiving more than 300 items including 75 air fryers, 53 slow cookers, 5 catering-size urns, 3 bread makers, 2 cookers, 2 freezers and 1 fridge as well as microwaves, toasters, kettles, a panini maker and a smoothie maker.

Examples include The Lookout in Carlisle, which took delivery of 6 air fryers and 6 slow cookers to enable it to start cookery courses while Northside Community Centre, in Workington, received an urgently-needed replacement when the cooker it relies on for its soup kitchen broke down.

In 2025 the pledge for votes will support **FareShare Lancashire & Cumbria and FareShare Glasgow and the West of Scotland.**

*This year the pledge raised*

**£15,252**

*which was used to buy equipment for food groups in our Kinder Kind of Kitchen initiative*

# EVERFI PARTNERSHIP

**It's more important than ever that young people understand financial matters and how to manage their money.**

To help them, we joined forces with EVERFI, an international education technology company, to launch a pilot project introducing a mobile-first education resource called Vault: Understanding Money.

This is aimed at primary school children in Years 4 – 6 and some older children with special educational needs.

*The three-year partnership is in its third year and has so far benefited*

**2,408** *students at* **67** *schools,* *delivering* **69** *workshops* *and* **1,088** *hours of learning*

# CUMBERLAND CHARITABLE FOUNDATION

**Our Foundation, which is a registered charity, supports requests for funding from charitable organisations in our operating area.**

This year the Foundation donated £23,602 shared by 172 organisations. Donations are considered and awarded by our branch teams while larger donations are considered by the Foundation's board of trustees.

Beneficiaries include Allerdale Girls' Football Club, Kendal Community First Responders – to purchase a defibrillator – and CancerCare North Lancashire and South Cumbria to support its Santa Dash fundraising event.

*This year the Foundation donated*

**£23,602**

*shared by* **172** *organisations*

# CARLISLE UNITED COMMUNITY TICKET SCHEME

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

This provides up to

**200 FREE TICKETS**

to local primary schools and community groups at each home league match at Brunton Park.

**More than 30,000 young fans have benefited over 19 years,** many of whom would not otherwise be able to attend.

They enjoy a tour of the grounds, meet mascot Olga the Fox and the players and watch the match from The Cumberland Community Stand.

Carlisle United also benefit from an annual donation from us equivalent to 1% of the total average balance of all Cumberland Blues savings accounts during the year.



# AFFINITY ACCOUNT DONATION

**Each year, The Cumberland donates to three Cumbrian charities within the hospice care sector on behalf of our affinity account savers.**

The amount donated is equivalent to one per cent of the total average balance of all Cumberland Hospices savings accounts during the year.

This year Hospice at Home West Cumbria, Hospice at Home Carlisle and North Lakeland and Eden Valley Hospice received more than

**£44,000**

between them

The charities provide vital care for people across Cumbria who are living with life-limiting illnesses, as well as palliative care and support for families.

# CUMBRIA WILDLIFE TRUST

**We donated £21,500 in what was the second year of a three-year partnership with Cumbria Wildlife Trust.**

The donation is funding conservation work to protect endangered red squirrels and helping to employ a red squirrel ranger, Joshua Adams, who is working to monitor and protect reds in their Lake District heartland.

Cumbria Wildlife Trust

*As part of our volunteering programme, Cumberland colleagues spent a day helping Joshua install*

**100 SQUIRREL NEST BOXES**

*which are specially designed for native reds.*


Cumbria Wildlife Trust lead a tree planting day for Cumberland colleagues.

# VOLUNTEERING

**All Cumberland colleagues can take a day of paid leave each year to volunteer.**

*A total of*

**189**

*colleagues took advantage of the scheme this year to volunteer with a wide variety of charities and good causes*

Among them are FareShare – our partner for Kinder Kind of Kitchen – Cumbria Wildlife Trust, Longtown Primary School, Uncovering Roman Carlisle's archaeological dig, Dumfries and Galloway Canine Rescue Centre and Well Suited, an initiative that provides clothes for job hunters to wear at interview.

# Our PEOPLE

“We say that ‘people make The Cumberland’ and it’s absolutely true.

# This has been a momentous year for the Society as we mark our 175th anniversary.

**We wouldn't have come close to that milestone without the dedication of our people – past and present – who readily go the extra mile for members.**

The last few years have reshaped the working lives of our colleagues as we successfully emerged from the pandemic embracing societal changes. Colleagues have had to contend with the rising cost of living while, at the same time, adapting to changes in the workplace such as hybrid working.

These shared experiences have helped colleagues to empathise with members, who faced similar difficulties in their own lives, and it required us as a business to step up to ensure our people feel supported by managers and by colleagues in their teams. This is something the Society prides itself on.

We say that 'people make The Cumberland' and it's absolutely true.

The hard work and determination of colleagues was borne out yet again as the we retained the Feefo Platinum Trusted Service Award for a fifth year.

This recognises outstanding customer service and, in our case, is based on more than 2,000 verified reviews from customers.

Borderway Finance also retained its platinum status.

We improved our ranking in the annual Best Companies survey, which identifies the best engagement scores of employers in the UK. We were rated 17th among large employers nationally – up from 67th the year before – 24th in Northwest England, regardless of size, and 2nd nationally in financial services.

Best Companies described us as a "world-class company to work for" and awarded us its top three-star accreditation, given only to organisations that "truly excel" and provide "world-class levels of workplace engagement".

These findings are based on anonymous feedback from colleagues. Eighty-one per cent said the experience they get at work is valuable for their future while 92 per cent agreed that their manager "talks openly and honestly with me" and said colleagues "go out of their way" to help each other.

**I'm immensely proud of this result, which shows that all the efforts we've made around colleague wellbeing and engagement are bearing fruit.**

**I like to think we have nurtured a culture where people are valued, feel they can speak freely and, when they do, are heard.**

We feel passionately that everyone should have a voice. Susanne Parry, our Chief Operating Officer, has led work to foster diversity of opinion, eliminate group think and ensure that everyone participates at meetings.

This is more important than ever as the Society embarks on a major investment in a new banking platform. It's vital that people approach this transformational change in the right frame of mind. We want them to have the confidence to speak out if they feel that something isn't right.

Our Belonging diversity and inclusion strategy was shortlisted in the diversity and inclusion category at the in-Cumbria Business Awards.

And, as the Society celebrates its 175th anniversary, we have our first female chair, Jackie Arnold, with women now holding almost half of Board and Senior Leadership roles (increased from 19% in October 2018). This is a clear demonstration of the progress we have made in ensuring everyone belongs.

Platinum Trusted Service Award 2025 feefo

*We have retained the Feefo Platinum Trusted Service Award for a fifth year*

The UK's Top 25 Best Large Companies to Work For 2024

*We were rated 17th among large employers nationally – up from 67th the year before*

Financial Services' Top 5 Best Companies to Work For 2024

*We also finished 2nd nationally in the Financial Services category*

## Our approach to our people, to bring the best out of them, is based on what we call the 'four pillars'.

### 1 ATTRACT AND RETAIN

**We work with trusted recruitment partners and have been able to attract high quality candidates whenever we need to recruit.**

This year we have had to grow our capabilities as we prepare for the implementation of our banking platform, taking on people with the necessary skills who have been through a similar process within other organisations.

The Cumberland is recognised as a good employer with a supportive working environment. Our family-friendly policies and flexibility around hybrid working – allowing people to work from home where this meets their needs and the needs of the Society – have helped us to attract good people.

Daniel Palmer, Branch Cluster Manager.

### 2 REWARD AND RECOGNISE

**We awarded an annual salary increase of four per cent to colleagues, together with a cost of living payment, to enable colleagues to help manage the spike in living costs.**

Once again, we saw an increase in our 'fair deal' score in the Best Companies survey. This measures how happy colleagues are with their pay and benefits.

We continued the Our Kind of People Awards, introduced two years ago, which recognise outstanding performance. Finalists are nominated by colleagues and judged by our 'Purpose Pioneers' drawn from across the business.

Likewise, our Brighter Performance appraisal process recognises good performance – not only what people do but how they go about it.

Our Kind of People Awards 2024.

## 3 SUPPORT AND BALANCE

**We developed our wellbeing programme further, building on the work on neurodiversity the year before and the toolkit developed with the charity, Owl Blue. Financial services businesses often have a higher proportion of neurodiverse colleagues and we find that the thought processes and perspectives they bring can be hugely beneficial.**

We continue to employ an occupational health adviser and offer all colleagues an annual 'wellbeing day', on top of their leave entitlement, to take for whatever the reason when they feel they need it.

We also hosted a one-day resilience retreat for colleagues with classes on meditation, reiki and a creative art workshop.

For International Women's Day, we focused on women in technology to celebrate and reflect on progress and to help foster the narrative that technology roles offer great opportunities for all. We also welcomed the role our male allies play in supporting our progress.

As part of our Belonging diversity and inclusion strategy, we began to collect colleague data on all protected characteristics, including socio economic diversity, to better understand our workforce and to measure the progress of our policies. Around 60 per cent of colleagues have supplied this information so far.

And we have joined Progress Together, a national organisation that focuses on progression, retention and socio-economic diversity in financial services.

Colleagues gather for Resilience Retreat.

On International Womens' Day we focussed on women in technology.

## 4 ENGAGE AND DEVELOP

Enabling our people to develop their skills is vital for their career progression and to strengthen us as a business.

This year, for example, **Katie Cronin in our people team attained the CIPP Payroll Technician Certificate**, an amazing achievement given that she had to juggle work, learning and the responsibilities of a young family.

**Hannah McCaul, in our engagement and learning team, achieved a distinction in the Foundation Diploma in Internal Communications while Megan Jenkinson in customer care, and Alison Elliot and Jessica Graves in our branches, achieved the CMI Level 3 Diploma in Management and Leadership.**

Also, two young members of our finance team, **Charley Fawkes (Level 3) and Emily Burrow (Level 2), passed their AAT Apprenticeship** with flying colours.

We have invested further in our 'power hour' scheme where we have introduced learning sessions on subjects such as building resilience, giving feedback to colleagues and writing papers for the Board.

And we continue to produce our in-house magazine for colleagues, Our Kind of People, our weekly Straight Talk e-newsletter and the quarterly Town Hall briefing sessions where colleagues have the opportunity to not only receive strategic and operational information, but also to ask questions and give feedback to our leadership team.

# Our CUMBERLAND STORY

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

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


## Building a sustainable business with its heart in Cumbria

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


## People make The Cumberland

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

## Together, we'll achieve our bold ambitions

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

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



## Leading the way in doing banking with a difference

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

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


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

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

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

# APPOINTMENTS

**Jackie Arnold** was elected chair at the AGM, taking over from John Hooper who has retired from the Board after five years as chair and nearly nine years as a non-executive director.

Jackie's appointment as chair means she steps down as chair of the People, Remuneration and Culture Committee to be succeeded by **Kelli Fairbrother.**

**Anna Barsby** has become senior independent director, succeeding Eric Gunn who has retired from the Board after seven years' service.

**Richard Pike** has joined the Board as a non-executive director. He brings extensive knowledge drawn from a varied international career of more than 30 years in corporate and entrepreneurial environments. His areas of expertise include strategy, technology, innovation and risk management.

Beyond the Board, we continue to recruit and develop a range of talented individuals to ensure we can effectively balance our day-to-day business delivery alongside our transformation.






# PEOPLE OUTLOOK

The New Cumberland transformation programme will require us to ensure our people continue to be confident and competent in the use of our systems to support their roles. As we move to its implementation phase, we will be supporting our colleagues with comprehensive training. This will ensure a successful transition for our colleagues. Good communication and engagement will be key to ensure colleagues stay fully informed and are able to continue to provide a supportive service to our members.

Given the dedication and flexibility of our Cumberland colleagues, I have no doubt we can achieve the transition required as we continue to thrive. People make The Cumberland a business that has evolved over the last 175 years; this next chapter feels timely.

*Jill Johnston*
*Chief People & Sustainability Officer*
*3 June 2025*

# SUSTAINABILITY

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

# This is my second sustainability report since taking on the remit last year, alongside my role as Chief People Officer.

**Sustainability is at the core of the Society's purpose 'to create a banking experience that's kinder to people and planet'. The Board felt that a designated member of the Senior Leadership Team should have oversight to ensure we deliver on our pledge to reach carbon neutral in our operations by 2030.**

It was a challenge and responsibility I was delighted to take up, building on the work in place to embrace sustainability in a practical way.

We are determined not to fall into the trap of 'greenwashing' where an organisation talks the talk but fails to implement meaningful change.

Our objective is to integrate sustainability and other ESG – Environmental, Social and Governance – factors into how we operate our business.

To ensure that we have the necessary processes and systems, we need external verification and a framework of standards to adhere to. For us, this has to be a framework that our people can align around, that is authentic and intentional and can deliver awareness and engagement. It's really important that this links to and builds on our overall purpose.

**We will, therefore, strive to attain B Corp certification.**

This is a trusted measure used by thousands of businesses across the world to show they meet high standards of verified performance, accountability and transparency on factors from colleague benefits and charitable giving to supply chain practices and input materials.

## To achieve B Corp certification, we must:

- Demonstrate high social and environmental performance
- Consider all stakeholders, and have a material positive impact on society and the environment (this will require members' approval at the AGM)
- Exhibit transparency by allowing information about our performance, measured against the B Corp standards, to be publicly available

We start from a strong position in that we already have a high level of focus on colleague culture and engagement, underpinned by our approach to benefits and welfare for our people. We also have a long track record of supporting our community which includes our charitable causes such as our Kinder Kind of Kitchen initiative and our work with Cumbria Wildlife Trust to protect red squirrels.

In terms of sustainability, we are masters of our own destiny in that we own and maintain the buildings we operate from. This differentiates us from most of our sector and means that by carefully selecting energy tariffs and deliberately considering how best to maintain and invest in our valuable buildings, we have already made significant progress transitioning to renewable energy. **Our Electricity National Grid Consumption has decreased by 15.2% year on year.**

When we refurbished our English Street branch in Carlisle, for example, we incorporated measures to minimise the carbon footprint such as solar panels, low-energy lighting, a heat recovery system and new windows to cut heat loss.

We have also installed solar panels at our head office, Cumberland House, and have used air-source heat pumps there from the outset.

**New solar panels installed at Cumberland House.**

All our buildings are powered by renewable energy.

And we have progressively installed Electric Vehicle (EV) charging points at Cumberland House and introduced an electric car scheme for colleagues.

We can't save the planet on our own but steps like these – and other initiatives we're doing such as minimising the volume of waste that the business produces – can make a significant impact.

I will report on our progress towards B Corp certification next year.

In the meantime, we are so proud that our business continues to thrive and be sustainable 175 years from its inception. The organisation has achieved this by evolving and adapting, supporting the communities it serves and providing employment and growth opportunities to our colleagues.

*Jill Johnston*
*Chief People and Sustainability Officer*
*3 June 2025*

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

## PEOPLE

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

## PLANET

- We use your money to support local communities and businesses
- We are committed to reducing our emissions and will be carbon neutral in our operations by 2030
- 100% of the electricity we use in our business comes from renewable sources

## COMMUNITY

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

# Our THREE SUSTAINABILITY Pillars

## PEOPLE

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

# PLANET

| Our Commitment | What it means | How we prove it |
|---|---|---|
| **We use your money to support local communities and businesses.** | Customer deposits in current and savings accounts are not used to invest in harmful fossil fuel. | We only lend funds to help other customers buy homes, support UK-based Hospitality and Tourism, or finance small businesses and their vehicles within our core operating area. |
| **We are committed to reducing our emissions and will be carbon neutral in our operations by 2030** | The Society is committed to reducing our Scope 1 and 2 emissions by at least 50% compared to our baseline year 2019/20 through positive actions. Any remaining emissions will be offset using high quality and visible offsetting schemes. | We have a clear roadmap of activity to reduce our emissions with the help of third-party experts and have installed solar panels on the roof at a number of our buildings this year. |
| **100% of the electricity we use in our business comes from renewable sources** | All of the electricity used by the Society comes from renewable sources such as solar power or onshore/offshore wind. | Our electricity supplier has contractually committed to providing electricity from renewable sources. |

# COMMUNITY

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

## Monitoring the risks of climate change

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

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

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

| Theme | Our progress |
|---|---|
| **Governance**<br>How we oversee climate-related risks and opportunities | • Our climate change policy means that we regularly report our position to the Board<br>• Having embedded our climate risk management framework we are in a strong position to monitor and report back on how climate change impacts the Building Society |
| **Risk Management**<br>How we identify and manage climate-related risks, which include both risks emerging from the UK's energy transition and the risk of climate change itself, and how these are integrated into the way we manage risk overall | • Having assessed our physical risks against each and every mortgaged property, over each of the last 3 years we have implemented an annual review of credit risk exposure focusing on our most vulnerable customers<br>• We continue to work with suppliers and the wider industry and regulators to understand the transition risks of climate change |
| **Strategy**<br>How we manage the impact of climate-related risks and opportunities through our strategy and financial planning | • We have defined our Kinder Banking commitments which help embody how we will deal with our own impact on the environment<br>• In terms of managing the risks within our strategy, we have embedded environmental considerations and scenario planning into our annual assessments of our future capital and liquidity adequacy analysis (ICAAP and ILAAP) |
| **Disclosure**<br>How we identify and manage climate-related risks, which include both risks emerging from the UK's energy policy and changing climate conditions | • We report our risk management progress through considered metrics to the Board on a regular basis<br>• Our Kinder Banking commitment reporting is made available to all of our stakeholders<br>• Our SECR (Streamlined Energy and Carbon Reporting) objectives are fulfilled in this Annual Report. |

## Our own impact on the environment

We have continued our efforts to reduce our own emissions this year through a focus on electricity supply, energy conservation and waste management. In reading this data, it is important to note three trends. Firstly, our office usage has progressively risen post-pandemic, both as our people choose to work more in the office for business reasons and wellbeing and also in response to their own heating and electricity costs. Secondly, while we report our electricity consistently, our supply is from renewable sources only, reducing the climate impact of the energy used. Thirdly, we are seeing an upward trend in business mileage aligned with commercial business activity, this impacts associated emissions and we are reviewing any mitigating actions aligned to this.

Our submission for the SECR (Streamlined Energy and Carbon Reporting) for the year ended 31 March 2025 is set out in the table on the following page. The commentary on pages 40-41 provides a year-on-year comparison. We have utilised third party experts to provide the necessary guidance on how we can further reduce our emissions and conserve energy under the Energy Savings Opportunities Scheme (ESOS) and in March 2025 we submitted our ESOS Action Plan.

| | 2024-25 | | |
|---|---|---|---|
| **SCOPE 1 - DIRECT EMISSIONS** | **Unit** | **Consumption** | **$tCO_2e$** |
| Natural Gas | kWh | 388,145 | 70.99 |
| Business Mileage, **known fuel** | Miles | 58,064 | 15.54 |
| **Total Scope 1** | | **446,209** | **86.53** |
| | **Unit** | **Consumption** | **$tCO_2e$** |
| Scope 2 – Electricity, National Grid, Location based average | kWh | 978,727 | 202.65 |
| **Scope 2 – Electricity, National Grid, Market Based*, REGO backed** | kWh | 978,727 | 0.00 |
| *(The market-based measure is reported to show our progress in transitioning our entire estate to a renewable tariff) | | | |
| **SCOPE 3 – INDIRECT EMISSIONS** | **Unit** | **Consumption** | **$tCO_2e$** |
| Electricity – T & D, Offices | kWh | 978,727 | 17.91 |
| Employee car – Average Passenger car, **unknown fuel** | Miles | 212,723 | 57.14 |
| Company car, reimbursed expenses, **unknown fuel** | Miles | 8,670 | 2.33 |
| Well-to-tank (WTT) – **all car miles** | Miles | 279,457 | 19.83 |
| **Total Scope 3** | | **1,479,577** | **97.21** |
| **Total – Scopes 1, 2, 3 (market-based emissions)** | | | **183.74** |
| **Total $tCO_2e$ per FTE, Scopes 1 & 2 (market-based emissions)** | | | **0.12** |
| **Total kWh per $m^2$, Gas** | | | **58.11** |
| **Total kWh per $m^2$, Electricity** | | | **81.09** |
| **Total $tCO_2e$ per £M gross turnover, Scopes 1 & 2 (market-based emissions)** | | | **1.15** |

**Notes**
2024-25 FTE = 699.67
Floor space: 12,069 $m^2$ for electricity calculation, 6,680 $m^2$ for gas calculation
Turnover 2024-25 was GBP £75,125.00k
**Location-based emissions:** A method to quantify scope 2 GHG emissions based on average energy generation emission factors for defined geographic locations, including local, subnational, or national boundaries.
**Market-based emissions:** A method to quantify scope 2 GHG emissions of a reporter based on GHG emissions emitted by the generators from which the reporter contractually purchases electricity bundled with contractually instruments, or contractually instruments on their own. This is how we choose to report our scope 2 electricity.

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

**Notes**
2023-24 FTE = 623
Floor space: 12,069 $m^2$ for electricity calculation, 6,680 $m^2$ for gas calculation
Turnover 2024-25 was GBP £81,510.00k
**Location-based emissions:** A method to quantify scope 2 GHG emissions based on average energy generation emission factors for defined geographic locations, including local, subnational, or national boundaries.
**Market-based emissions:** A method to quantify scope 2 GHG emissions of a reporter based on GHG emissions emitted by the generators from which the reporter contractually purchases electricity bundled with contractually instruments, or contractually instruments on their own. This is how we choose to report our scope 2 electricity.
*The comparative disclosure has been updated to conform to the current year's presentation.

## Scope 1

**National Grid gas consumption**

Based on a total consumption of 388,145 kWh the gas related Scope 1 emissions are calculated as **70.99 $tCO_2e$.**

Consumption has increased from 382,449 kWh in 2023/24 to 388,145 kWh in 2024/25, an increase of 1.5%.

**Company cars / Fuel cards**

Total emissions are calculated as **15.54 $tCO_2e$** based on a 1.8% increase from 57,033 to 58,064 miles year on year

CBS has direct control over the choice of company cars and fuel type, so these emissions are classed as Scope 1. We have applied specific fuel factors to calculate the emissions.

Emissions associated with transport, including company cars and employee 'grey fleet' mileage, may reduce if employees accept the salary sacrifice offer from Octopus Energy to purchase EV's. Installation of 15# EV charge points (free to use for our employees) at Head Office may encourage further uptake.

## Scope 2

**Electricity – National Grid**

For the purposes of this report, the calculation was based upon meter readings submitted by CBS.

National Grid electricity consumption within the owned offices is calculated at 978,727 kWh, which is down from 1,154,196 kWh the previous year.

This is a drop in consumption of 15.2%. Most branches saw a reduction in consumption.

Several sites saw large falls in consumption – including Dumfries, Appleby, Dalston and Brampton.

We're continuing to report our market-based emissions for scope 2 as our entire estate is on a renewable energy tariff. Therefore, emissions for the year are 0.00, which is the same as the previous year.

## Scope 3

**Summary**

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

**Scope 3, Category 3 Fuel & Energy**

The emissions associated with the transmission and distribution of electricity between the generating site and the CBS offices is proportional to the total electricity consumed and is calculated as **17.91 $tCO_2e$.** This compares to **20.70 $tCO_2e$** in 2023/24, reflecting the drop in electricity consumption.

This is based on UK DESNZ factors, which may be different to the factor applied to the EDF REGO tariff, but we do not have a tariff specific conversion factor.

**Scope 3, Category 6 Business Mileage**

Emissions associated with colleagues using their own car for business mileage and company car owners who claim business mileage expenses are calculated as **57.14 $tCO_2e$** and **2.33 $tCO_2e$,** respectively.

Employee mileage was 212,723, an increase of 22.5% on the 173,632 miles driven in 2023/24.

Company car mileage based on reimbursed costs covered 8,670 miles. This is a 103.8% increase on the 4,254 miles recorded in 2023/24.

In addition to direct emissions from the fuel combustion, we can also calculate the 'Well to Tank (WTT)' emissions which arise from the extraction, refining and distribution aspects of fuel manufacture. These are calculated at **19.83 $tCO_2e$,** a 20% increase on last year.

CBS will continue to report WTT emissions to measure the impact the migration to hybrid and full EV cars will have.


# RISK REPORT

**The past 12 months have seen some positive signs in the UK economy, albeit conditions generally remain tough.**

However, significant political and economic uncertainty remains. These circumstances mean we have to be as focussed as ever in managing a range of risks to safeguard our Society for the benefit of our members – including looking forward to identify emerging risks to make sure we are on a secure and sustainable footing.



**Increasing level of risk**

**Decreasing level of risk**

**Stable level of risk**

Critical to our approach is to always seek to put the customer at the centre of our activities. This might be day-to-day as we carefully monitor our portfolio for signs of adverse impact or customers needing our help; or in how we manage our financial resources to offer the best possible competitive mortgage or deposit rates. It is also over the longer-term - during the year we have invested considerable time in understanding the risks associated with our ambitious transformation programme, and creating the right checks and balances to lead a successful delivery.

Consistent with industry best practice, the Society uses a '3 lines of defence' approach whereby all risks are owned in the most appropriate business area, because that is the area that will best understand the most suitable way to control and mitigate these risks. This means whether the risk is being considered in branches, operational teams or the finance department, all colleagues understand their role in risk management, and this helps ensure there is real 'strength in depth' across the Society.

The risk framework ensures that we consider the various different risks as we design and deliver our strategy to deliver the best possible outcomes for our Society and members. We review and maintain this framework, and take into account our agreed risk appetite levels, and all applicable regulation and legislations. The risk framework aims to ensure that risks are defined, measured, and controlled in a consistent way across the Society. We also look forward and stress-test our framework to put the Society in the best possible place to manage through any future severe, but plausible, shocks.

The risk framework is owned, developed, and overseen by the 'second line of defence' Risk function, led by the Chief Risk Officer (CRO), who is a member of the Senior Leadership Team. The second line of defence risk team enables consistency through the use of frameworks, tools and policies and provides independent oversight to the Board.

The 'first line of defence' is also well supported by embedded first line risk teams, who develop and assure controls locally. The third line of defence, the internal audit function, provides risk based independent assurance over all elements of the Society and helps ensure appropriate risk capabilities and approaches.

The following are the principal and significant risks currently facing the Society, the key mitigants that help control those risks, and commentary outlining the latest position regarding these risks.

# PRINCIPAL RISKS AND UNCERTAINTIES

| Risk and impact | Mitigation | Movement in risk profile | Latest progress |
|---|---|---|---|
| **Macro-economic Impacts**<br>The risk that the economic, political, or regulatory changes arising from the wider environment cause detriment to the Society, including emerging impacts from the performance of the UK economy. | The key risks to the Society are the second order impacts on the UK economy and our customers. Over the past 12 months we have seen some encouraging signs in the UK economy, including an easing of inflation and a reduction in the Bank of England base rate. However, global economic uncertainty is increasing, particularly due to shifting trans-Atlantic circumstances and long-understood partnerships. Impacts of these changes on all of us will likely be felt over the next year and beyond – we manage this general economic risk through governance (including review of industry forecasts), scenario planning and stress testing. | | The risk profile is increasing due to continuing unpredictability of national and world-wide factors, which have seen some seismic shocks in the first months of 2025. These create significant downside risks to the UK economy, and affect business and consumer confidence.<br>Over the past 12 months, the Society has:<br>• monitored and responded to changes in the economy and competition;<br>• stress tested possible economic impacts through ICAAP, ILAAP and credit risk modelling processes;<br>• monitored global events and considered their potential impacts on the Society;<br>• responded quickly to interest rate and swap movements, and carefully assessed inflationary impacts. |
| **Strategic Risk**<br>The risk of current or prospective impact on the Society's earnings, capital, reputation or standing arising from changes in the environment the Society operates in. It may further arise from adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic or technological changes. | All risks are formally assessed as part of the corporate strategy setting process. In addition, an annual review of the Society's strategic risk register is undertaken, and a quarterly monitoring report presented to BRC. The acceptable levels of risk that can be taken when delivering the strategy are clearly stated in risk appetite. Outcomes against risk appetite and triggers are presented monthly to Board. | | As a result of the volatile economic outlook and decreased consumer and business confidence, the risk profile has increased. The Society mitigates this via utilising its established governance structures and working across team boundaries to remain strategically and tactically agile, alongside continuing to invest in its transformation.<br>Over the past 12 months, the Society has:<br>• leveraged scope of our committees to monitor and design mitigant approaches for strategic risk;<br>• reviewed product and sector strategy with the Board;<br>• progressed our transformation plan and technology investment with the Board;<br>• continued to safely simplify the operations of the Group in readiness for transformation. |
| **Transformation and Change**<br>The risk that the Society fails to deliver successfully against our strategic change objectives. | All risks are formally assessed as part of the change process in line with industry best-practice. The acceptable levels of risk that can be taken when delivering change is clearly stated in risk appetite. Review of transformation progress and risk is formally overseen by steering committees, which in turn report to Board Risk Committee and Board. | | Risk profile is increasing as the Society is embarking on the implementation phase of a significant transformation programme. The Society has evolved its governance framework and processes to oversee and challenge the planning and delivery of change, in addition to recruiting a strong team with the skills and capabilities to support all components of the transformation programme.<br>Over the past 12 months, the Society has:<br>• selected a world class provider for our core banking systems on the basis of functionality, customer experience, sustainability, cultural fit and cost suitability, inclusive of an extensive 'Discovery' phase to understand new capability and business requirements;<br>• signed a MSA, (Master Service Agreement) for the core banking platform with TCS with a fully defined scope and fixed costings agreed for the TCS build and run cost elements of the New Cumberland programme;<br>• prioritised our delivery stack of projects, accepting risks where appropriate to create the capacity for our core transformation;<br>• continued to assess and address technology debts within the organisation;<br>• maintained focus on business-as-usual and growth segments of the business; and<br>• continued to embed the capability and processes required to deliver a transformation this significant. |

| Risk and impact | Mitigation | Movement in risk profile | Latest progress |
|---|---|---|---|
| **Information Security Risk**<br>The risk of events impacting the confidentiality, integrity and availability of the Society's information and information systems and the data contained therein. | Risk is overseen specifically through the Information Security Forum, with further oversight from the Risk Management Committee and the Board Risk Committee. Three policies set the overarching standard for Information Security, Document Retention and Data Protection. Embedded risk management teams undertake threat assessments and testing throughout the year and monitor emerging trends, whilst dedicated first line teams manage day-to-day risk. The Society is very aware of the increased sophistication of cyber crime and is continuously enhancing both colleague and technology capability to manage the risk to the Society and our members. | | Over the past 12 months, the Society has:<br>• continued embedding of our Information Security risk management team and Information Security assurance processes;<br>• concluded reviews of the Information Security status of all of our third party suppliers;<br>• implemented new technologies and embedded supporting processes to mitigate identified risks;<br>• initiated a series of Data Protection Impact Assessments for the systems and processes our transformation programme will deliver, ensuring that the concept of data protection by design and by default is embedded throughout. |
| **Operational Risk**<br>The risk of loss resulting from inadequate or failed internal (including where provided by a third party) processes, people, and systems, or from external events. This includes losses from fraud. | Minimum standards are set through the Operational Risk Policy. Further policies support the management of risks arising from failures by third parties, the management of financial crime risk and the management of information security risk. Risk teams in the business follow agreed processes to identify, measure, manage and mitigate risk. These teams also report any incidents or policy or regulatory breaches. Independent reporting by the risk team helps understand any trends and tracks overall operational risk losses against the agreed risk appetite. | | There has been continued investment and progress to improve operational resilience within our technology platform. Further improvements and increased digitalisation form the core of our New Cumberland transformation programme and strategy.<br>The operational risk management system is now embedded enabling greater insight, profiling and management of our operational risks.<br>Over the past 12 months, the Society has continued to:<br>• embed the use of the risk management policies supporting the management of operational risk;<br>• embed knowledge and use of tools within the risk management process that enable the identification and appropriate treatment of operational risks;<br>• refine the methodology for the assessment of risks to provide greater focus on items of greater risk;<br>• upgrade our infrastructure underlying our core banking platform and therefore support future transformation. |
| **Interest Rate Risk**<br>The risk of fluctuations in interest rates and changes in the value of contracts we use to manage interest rate risk, impacting the Society's earnings or capital. | Managed through the Assets and Liabilities Committee (ALCO). A financial risk management framework and policy details all the processes and limits for managing interest rate risk; stress tests are applied as part of the ICAAP, and additional capital is held to cover any unforeseen losses arising from interest rate risk. UK interest rates have fallen by 75bps over the course of the last financial year, and in response customers have shown a continued preference for fixed-rate loans and deposits across the period. As such, our control environment has been carefully managed to ensure our actions and governance result in a stable risk profile. Looking forward, we anticipate similar techniques will be required to manage the market expectation for a similar sized base rate reduction over the next financial year. The strong governance and controls in place mean that despite the current economic and political uncertainty (which can have substantial influence on base rate) we can continue to operate with confidence. | | Over the past 12 months, the Society has:<br>• managed its fixed-term deposit maturities to balance commerciality with natural hedging;<br>• fully utilised our governance structures to rapidly and proactively manage the market volatility, including our approaches to pricing (of mortgages and savings) and hedging strategy;<br>• continued to diversify our HQLA investments completing the build out of our covered bond portfolio;<br>• maintained focus on and where necessary adjusted when we hedge with interest rate swaps on the mortgage journey reflecting the downward rate curve and risk of offered deals not completing. |

STRATEGIC REPORT

| Risk and impact | Mitigation | Movement in risk profile | Latest progress |
|---|---|---|---|
| **Liquidity Risk**<br>The risk of failing to meet demands and commitments to provide funds to customers and other third parties. | Managed through ALCO supported by the Liquidity Management Committee, which ensures future lending volumes and funding availability is considered in managing liquidity levels. Liquidity levels are stress tested as part of the ILAAP to ensure sufficient funding is available to meet requirements through a severe stress. The ILAAP also sets our risk appetite, and a weekly dashboard gives full overview of liquidity levels versus the defined triggers and limits. The Liquidity Contingency Plan, which forms part of the Recovery Plan, ensures that predetermined steps are established to follow if a liquidity stress was ever to occur. This is also subject to routine tests. | ⇄ | Over the past 12 months, the Society has made a conscious decision to utilise some of its excess liquidity to enable increased lending to support its members. This has been supported by improvements in forecasting and managing liquidity requirements, and the Society retains a very healthy position versus industry regulations. Whilst we anticipate continued competition in the marketplace next year, the strength of our heartland proposition and governance provides a stable platform to maintain our liquidity position.<br>Over the past 12 months, the Society has:<br>• improved its ILAAP with enhanced analysis, insight, and stress tests based on real world data;<br>• repaid £85m of TFSME borrowed from the Bank of England;<br>• maintained suitable levels of liquidity, with surplus to both our own risk appetite and regulatory requirements;<br>• adopted the new simplified 'Small Domestic Deposit Taker' regulations to simplify our regulatory reporting. |
| **Capital Risk**<br>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 175 years of retained profits. | Our capital position is overseen by ALCO. The annual budgeting and ICAAP processes help ensure appropriate levels of capital are maintained at all times and allow the Society to effectively test and set risk appetite. Looking forward, two key future developments will impact our capital position; these are the changes in regulation through Basel 3.1 and SDDT which are scheduled to come into force at the beginning of 2027, and our investment in transformation, which will utilise an element of our retained profits in each of the next two years. In both instances, the likely impacts are carefully modelled to support Society decision making and are kept under continual review, with maintenance of a robust buffer paramount. Separately, a project is being established to enable the smooth transition into the new capital rules. | ↑ | Over the past 12 months, the Society has:<br>• delivered ongoing capital monitoring and the production of the ICAAP to confirm its capital strength;<br>• grown the level of available capital through profitable operation;<br>• assessed the implications Basel 3.1 and SDDT and continued to consult with the PRA and Building Societies Association regarding our views;<br>• kept the capital requirements of transformation under continual review, including modelling continuity of delivery during a severe capital stress scenario over the next two years. The planned investment in our new core banking platform means that our capital buffers will reduce; this increases the level of risk from the historically very strong capital position we have and that we report in this Annual Report & Accounts. |
| **Conduct Risk**<br>The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to poor outcomes being created for customers and / or reputational risks materialising. | Managed through the Conduct Risk policy and a Consumer Duty Framework which looks at all areas of potential poor customer outcomes across the customer journey and tests whether any detriment is occurring. Comprehensive Management Information flags areas to investigate, and any issues identified are corrected for customers affected. A detailed Product Development and Governance policy ensures that any new products developed minimise the likelihood of customer detriment. | ⇄ | The outlook for this risk is stable as the necessary processes are in place. These processes enable us to actively assess customer outcomes and identify potential issues and put them right.<br>Over the past 12 months, the Society has:<br>• continued to embed the requirements of the Consumer Duty regulations;<br>• continued to enhance our approach to identifying and the treatment of vulnerable customers;<br>• refreshed our approach to outcome testing by reviewing and updating the outcome testing framework and updating the tests to focus on areas where potential greatest harm exists;<br>• continued to monitor developments in the historic, industry wide, vehicle finance Discretionary Commission Arrangement (DCA) matter. This has resulted in an update to the level of provisioning held within our subsidiary Borderway Finance Limited. It is discussed further within the Chief Financial Officer's report and the Audit Committee's report. |
| **Regulatory Risk**<br>The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to non-compliance with regulation, legislation, or voluntary codes of practice, potentially leading to unfair outcomes for customers and / or regulatory sanction and / or reputational risks materialising. | Minimum standards are maintained through the Regulatory Risk Policy. Business areas in the Society follow agreed processes and standards for managing compliance. Horizon scanning gives a clear view of upcoming regulatory requirements. This is all supported by agreed standards for proactively managing contact with the regulators. | ⇄ | • The outlook for this risk is stable. Horizon scanning and improving liaison with the change function has ensured that changes in regulation are identified and progressed within timescales.<br>• As a result, the Society has successfully delivered a number of regulatory requirements and has projects in place to address new regulatory requirements, identified through its horizon scanning function. |

| Risk and impact | Mitigation | Movement in risk profile | Latest progress |
|---|---|---|---|
| **Climate Change Risk**<br><br>The risk climate change could create for the Society as a result of physical impacts and the transition of the UK economy to lower carbon activities. | The Society has embedded its Climate Risk Management Policy within the existing Risk Management Framework, ensuring the policy and requirements therein are governed effectively. The policy identifies and considers risk through defined monitoring and specific stress testing approaches consistent with the Climate Biennial Exploratory Scenario used by the Bank of England. The climate risk exposure is managed in accordance with the regulatory requirements outlined in the PRA's supervisory statement SS3/19 and subsequent guidance provided by the PRA in the Dear CEO letters in 2021 and 2022. | ⇄ | • The Society conducted a review of its mortgage portfolios (as at the end of Dec 2023) to identify the risks under the different climate change scenarios. The outcomes of this review across both physical risks (e.g. flooding, subsidence or coastal erosion) and transitional risks (i.e. adjustments to a low carbon economy, e.g. target EPC ratings for property) were communicated through the appropriate risk and board committees in July 2024.<br>• The annual review for year ending 31 December 2024 is currently in progress. |
| **Credit Risk**<br><br>The risk that a borrower fails to pay interest or to repay capital on a loan and / or that a counter party fails to meet their contractual obligations to repay the Society or fails to perform their obligations in a timely manner. This risk is impacted by member specific factors and the broader economic environment, captured in metrics such as unemployment rates, changes in house values and interest rates. In a recession, increasing unemployment and falling house prices may mean it is more likely that the Society would lose money if members failed to keep up to date with their loan payments and collateral values fall below the value of the loan. The current economic environment and the continued cost of living challenges, together with interest rates only reducing slowly from their elevated levels creates a slightly elevated degree of risk and uncertainty for the Society in this area. | Overall lending standards are controlled by a Board level policy. Lending criteria and our Arrears and Forbearance management policy are agreed at formal credit committees, chaired by the Chief Risk Officer and attended by SLT members. All lending is fully manually underwritten, checked for affordability, suitability and that the lending is responsible. All high value or complex lending is approved by specialist underwriters. Oversight of credit is provided by assessing the quality of underwriting, tracking our portfolios and concentrations and our collections and forbearance performance with credit management information summarised at the Board Risk Committee. | ⇄ | While arrears and forbearance have increased from a historically low base pre the cost-of-living crisis due to the extended period of economic weakness with elevated interest rates, this is broadly consistent with industry experience with the overall level of arrears having generally stabilised, remaining modest and generally lower than peers. No material write-offs have been incurred. Whilst no adverse performance has been seen across our portfolios to date due to the current economic environment with the prolonged 'cost of living crisis', tax increases and National Insurance and Living Wage pressures on businesses, this remains an area of high focus for both the Society and regulator alike, reflecting the continued uncertainty.<br><br>Over the past 12 months, the Society has:<br>• continued to develop data and reporting capabilities to enable more insight of internal and external leading indicators to facilitate more informed decision making, and;<br>• reviewed lending criteria and procedures to provide greater support for members where the risk is acceptable, improved clarity and efficiencies in processes, updated affordability assessment to reflect the economic environment and reduced stress rates and interest rates as they have fallen and are expected to fall further. |
| **Pension Risk**<br><br>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 any additional funding required by the Society is overseen by an independent trustee board who are advised by the scheme actuary and investment managers. The approach is stress tested against standard requirements set out by the PRA. Capital is held by the Society 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. | ↓ | • The Society maintains a fully hedged position regarding the Scheme's assets and liabilities, investing in instruments which ensure that if the projected liabilities of the Scheme rise (due to, for example, higher-than-expected inflation) so do the Scheme's assets, in order to match and neutralise the effect of such rise in liabilities.<br>• Additionally, as the implementation of the Scheme recovery plan continues, the Scheme is now fully funded on a technical provisions basis, and is forecast to become self-sufficient within two years as the recovery plan implementation is completed. Being self-sufficient, coupled with the stability from the fully hedged position, ensures that severe but plausible impacts on the scheme assets and / or liabilities from external stresses are substantially neutralised.<br>• This year, due to the increase in the proportion of poor-quality credit instruments in the market, the Trustees recommended minor changes to assets to maintain expected rates of return to maintain the time to self-sufficiency at the expense of a minor increase in risk. The Scheme also completed the consolidation of investments onto one platform to improve liquidity and reduce management costs and complexity. Our advisers will continue to oversee the scheme and manage the position carefully as the Scheme approaches self-sufficiency. |

Welcome to your

# CHIEF FINANCIAL

Officer's Review

> Our operating profit was healthy at £20.0m as we managed slowly lowering rates and controlled cost growth. On a statutory level after absorbing the cost of New Cumberland we saw a modest profit of £1m.

## Our financial performance was satisfactory

**As we guided in last year's Annual Report & Accounts this was the first of three years where our elevated investment in transforming The Cumberland through a New Core Banking platform was expected to result in a statutory loss. We in fact significantly outperformed our budget projection and after the cost of New Cumberland, and a further charge in Borderway for the DCA commissions matter, the Group recorded a small statutory profit of £1m. Our operating profit, which is stated prior to New Cumberland's costs of £15.9m and hedging gains and losses, was a healthy £20.0m (2024: £27.4m).**

I am pleased to report that The Cumberland and the vast majority of its customers have successfully weathered the UK's period of high inflation and higher interest rates and pressure has begun to ease for many, but not all, borrowers. As a result, we saw a small increase in our levels of arrears but a release in the extra collective provisions we had held since the Covid-19 pandemic and on through the period of high inflation, high interest rates and cost of living pressures in case of a more significant impact on The Cumberland and its members.

Falling interest rates have reduced our income substantially. We are immediately impacted by lower wholesale rates (effecting our liquid assets and swaps) when the Bank of England lowers base rate. Next our borrowers linked to variable rates usually see lower rates too before finally our variable savers are impacted, as the latter have regulatory notice periods that do not apply to lowering of borrower rates. This margin and income squeezing dynamic which operates alongside the more general impact of lower net interest income and net interest expense in lower interest rate environments has impacted us each of the three times the Bank of England has lowered its rate. Our income has also been impacted by a greater level of owner occupied lending than planned and lower levels of Commercial and Holiday Let growth.

Against this complex backdrop, your Society grew its overall mortgage lending above the level planned, and you continued to trust us with your transactional banking, savings and deposits, which also cumulatively grew ahead of expectations.

We continued to invest in change, our people and our processes. The pace of delivery rose as forecast, resulting in ongoing improvements in our underlying technology architecture and improved cyber security. The New Cumberland programme successfully moved through a period of discovery and we have recently entered into a master service agreement with our core supplier, TCS, allowing 2025/2026 to be a year of design and build as we move closer to delivering on this element of our strategy.

## Mortgages

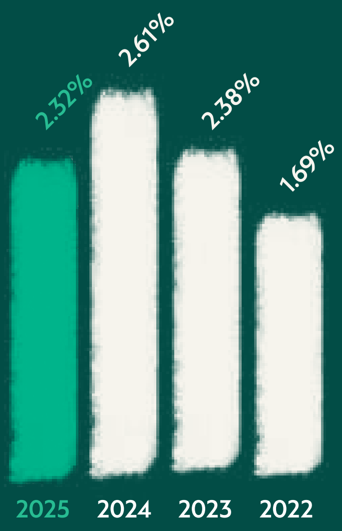
**£2,758m**


## Deposits

**£3,013m**

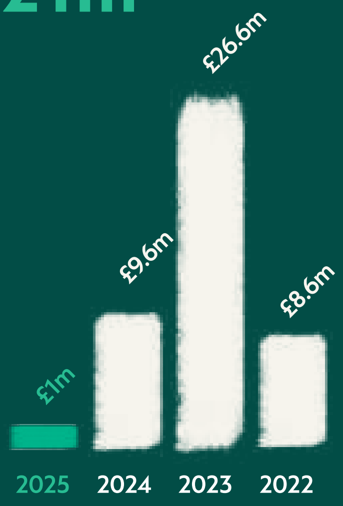

## Net Interest Margin

**2.32%**



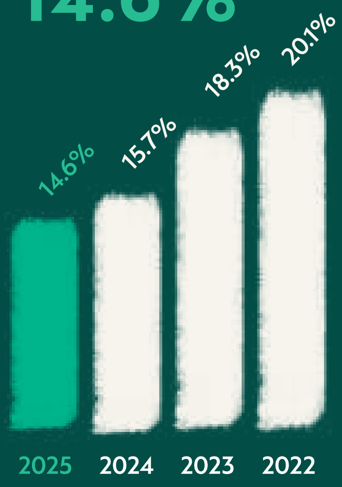

## Profit before tax

**£1m**



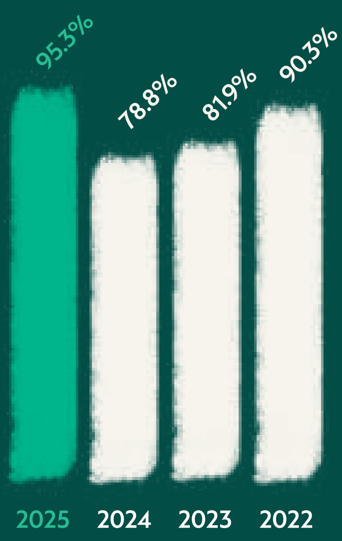

## High Quality Liquid Assets

**14.6%**



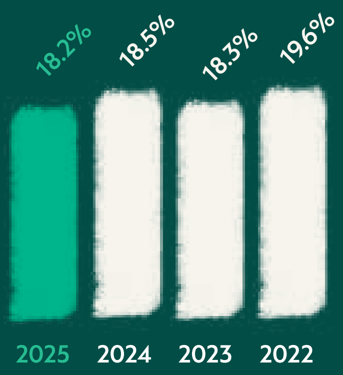

## Cost to income ratio

**95.3%**




## Common Equity Tier 1 ratio

**18.2%**




### 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 159.

# INCOME STATEMENT



## Overview

Our statutory results fell and we recorded a profit before tax of £1m, operating profits fell, year on year too but remained healthy at £20.0m and both measures delivered well ahead of our plan.

Readers will note that we have separately disclosed the element of our costs that relate to the New Cumberland programme below reflecting its strategic significance. This year that investment, which when delivered ensures our future resilience and ability to respond more effectively to customer and market dynamics, resulted in a modest profit. Our expenditure on New Cumberland is likely to peak next year as we complete design and build, and remain elevated in 2026/27 before returning to a more normalised level post go live. We expect this investment in our future to materially impact our results over the next two years.

The key macroeconomic drivers of our performance discussed above were supported by balance sheet growth and good cost control. Funding costs remained high as we saw a continued preference of depositors towards fixed term products and retail savings rate reductions lagged swap and mortgage pricing falls.

**A summarised Income Statement is set out below.**

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Interest receivable | **184,036** | 180,434 |
| Interest payable | **(109,297)** | (99,700) |
| **Net interest income** | **74,739** | 80,734 |
| Other income or charges | **386** | 776 |
| **Total operating income** | **75,125** | 81,510 |
| Management expenses excluding New Cumberland | **(55,668)** | (54,224) |
| Provision for bad and doubtful debt | **569** | 79 |
| **Operating profit** (before New Cumberland, hedge accounting, other provisions and one off items) | **20,026** | 27,365 |
| New Cumberland costs | **(15,857)** | (9,995) |
| Other gains/(provisions) and (charges) | **(1,017)** | (273) |
| (Losses)/gains on derivatives and hedge accounting | **(2,141)** | (7,501) |
| **Profit before tax** | **1,011** | 9,596 |
| Tax | **(398)** | (2,216) |
| **Profit for the year** | **613** | 7,380 |

## Net interest income

Net interest income fell by 7%. This reflected three key dynamics: firstly, the impact of a falling rate environment, which reduced returns on our swap book and mortgages.

Secondly, our mortgage books and FSOL portfolio continued their growth but versus our planned growth this was skewed to owner occupied mortgages as our higher yielding FSOL and holiday let portfolios underperformed our targets. Thirdly, depositors benefitted from retail cost of funds lagging falls in market rates throughout the year. We saw substantial new money into term accounts but also a return of appetite for instant access based funds. Our current account balances stabilised. These factors led to a rising cost of funds more than offsetting the growth in income from our larger balance sheet.

The Cumberland looks to provide value to members over the long term, and this approach remained at the heart of our pricing decisions.

## Net Interest Margin

Net Interest Margin (NIM) has decreased by 29 basis points year on year to 2.32%, as base rate fell by 75 basis points to 4.5%. NIM has spent the year on a downward trajectory reflecting the three key dynamics touched on above: the mix of our new lending, the mix of our deposits and the wider context of falling swap and UK base rates.

The squeeze in margin we have seen was planned for but was exacerbated by Fixed Term deposit rates remaining higher for longer than expected when both swap and mortgage rates had already fallen. This sticky and high level of offered interest saw customers opting in particular for 1 year fixed rates. In this context; a slowing of customer demand in the first half of the year for Holiday Let mortgages and Commercial Mortgages saw our lending mix change to lower returning owner occupied assets accelerating the margin fall. This squeeze dynamic also reflects a reduction in return from liquid assets which fall immediately on rate movements while the retail liabilities that they arise from lag this dynamic for between 2 and 3 months.

We also saw a continuation of the unwinding of the swap back book dynamic discussed last year meaning that the significant level of income from historic swaps we benefitted from in the previous two years was no longer present in 2024/2025. In the second half of the year, NIMs falling trajectory has slowed as our performance in Holiday Let and Commercial picked up and pricing actions by our product team helped to ensure a return to a more balanced mix of growth in liabilities with variable rate saving growing in volume.

# INCOME STATEMENT

Members will recall that last year the Society made a decision to protect borrowing members by not passing on any of the last three base rate rises (cumulatively 1%) to its variable rate owner occupier borrowers. Now that rates have turned downwards we have recognised that choice in our passing on of the reductions this year and so we have passed on most but not all of each of the UK base rate reduction to these same borrowers. We have taken a similar judgement with our variable rate savings where we have passed on most but not all of the base rate reduction. We will continue to balance the need to fund the Society's strategic resilience and transformation which is for the long term benefit of members with the individual rate decisions we make as we move through 2025 with an expectation that further rate cuts will be made by the Bank of England.

On the liability side, we continued to offer competitive rates throughout the year and, we have seen steady growth delivering inflows above the level budgeted. Within this overarching dynamic, the Society has benefitted from its current account book and the funding it provides. After an initial fall, we have seen consistent rather than increasing levels of balances held in transactional accounts, which ended this year £6m lower than last.

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

| | 2025 £m | 2024 £m |
|---|---|---|
| Net interest income | **74.7** | 80.7 |
| Average financial assets | **3,220** | 3,093 |
| | **%** | % |
| Net interest margin | **2.32** | 2.61 |

Defending margin is a key strategic aim, which will remain a focus in 2026. Pressure has already come from asset price reduction leading rates down more swiftly than the equivalent savings rates and it is expected to persist. This is likely to continue to be augmented by the dynamic that repeats throughout a downward rate environment, of variable mortgage pricing reducing before variable liabilities, as the latter requires consumer notice periods. This creates point in time margin reduction. While likely to be welcomed by our borrowing members, this dynamic creates risks to the Society that require continued careful management as we head into a second year of this cycle.

## Derivatives and hedge accounting

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

Over the last few years, customers have overwhelmingly opted for fixed rate mortgages. In 2024, we explained that this trend softened as commentators started to discuss a lower rate environment being on the horizon. In 2025 customers worried more about the persistence of higher rates in light of geo-politics and the UK's persistent inflation challenges and they swung decisively back towards fixed rate preference including in our letting books. Our owner occupied advances have continued to be weighted towards 5 year deals. Our letting book fixed rates are more balanced between the two terms we offer (2 and 5 year fixes).

Offering a fixed rate mortgage exposes the Society to the risk that interest rates rise and, in turn, the rates it pays to depositors rise, potentially to a level above the interest its mortgage customers are paying. The Society mitigates this risk by entering swaps, where it pays a fixed rate and agrees to receive a floating rate of interest in return. Once the swap is in place, the Society has floating rate income, and if it has a floating rate liability funding it, this effectively mitigates this sub element of interest rate risk.

On our back book originated before 2022, customers have benefitted from the low fixed rates agreed historically, and the Society too has benefitted as the floating leg of the swaps have paid it more interest than would have been the case if rates hadn't risen. This resulted in the value of our historic portfolio of derivatives remaining elevated and significant levels of additional interest income from swaps in the last two years. This year that dynamic has substantially, if not completely, unwound as only 5 year deals remain and so the values involved have trended down significantly.

On our newer books, other risks have persisted as our saving customers have preferred fixed rate savings, requiring us to hedge these in increasing volumes too, adding complexity and costs. The downward rate curve also exposes us to the risk that, as mortgage rates reduce, prepayments might increase, potentially leaving the Society, in the absence of economic break costs being payable by customers (due to regulation), with more swaps than mortgages of similar rates and tenors. During 2025 this dynamic did not emerge and prepayment rates were relatively moderate and not out of line with plan. However, as I write and the world responds to Trump tariffs, this risk has re-emerged.

During the year, there has been considerable market volatility, impacting swap valuations within a broadly lowering swap price trend, this has been caused by regular revisions in forecasts of inflation alongside global events (such as the war in the middle east) and the impact of the UK and US election cycles. Nevertheless the volatility in the year just ended has not been as great as experienced in the recent past and the derivatives have operated as expected.

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

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

These fair value movements, in the current year, were of lower absolute significance than in 2023 and 2024 and were predominantly debits. They represent timing differences and, unless the derivatives are closed out, are expected to reverse over the remaining life of the derivatives, and do not reflect the economic reality of the hedge.

The unwind of 2022 and 2023 gains has continued as expected and guided, and a charge of £4.3m (2024: £5.9m) for this is included within the overarching hedging debit of £2.1m (2024: £7.5m).

As explained in the NII analysis, the Group's historic deals have increasingly matured, and as the more recent mortgages predominate and as floating rates themselves have moved lower, derivative income is reducing. Over the recent period of high rates the Society has agreed to pay a relatively much higher fixed rate to protect itself and, so over the later parts of, in particular, 5 year mortgage deals, the variable income it receives from the hedging derivatives may decline substantially, particularly if the UK rate environment falls more quickly than predicted.

The market is currently predicting a series of rate cuts during the remainder of 2025, though not a return to the very low rate environment experienced until 2022. It is likely that rate volatility will persist in the near term, as the actual outcome is worked through and the world responds to the volatility created by US policy decisions.

## Management expenses

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

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Administrative expenses before New Cumberland | **(52,548)** | (50,445) |
| Depreciation and amortisation | **(3,120)** | (3,779) |
| Management expenses excluding New Cumberland and one off items | **(55,668)** | (54,224) |
| New Cumberland costs | **(15,857)** | (9,995) |
| Gain on sale of tangible fixed assets | **41** | 38 |
| **Total management expenses** | **(71,484)** | (64,181) |

| Represents: | 2025 £000 | 2024 £000 |
|---|---|---|
| Administrative expenses | **(68,405)** | (60,440) |
| Depreciation, amortisation, impact and sale of fixed assets | **(3,079)** | (3,741) |
| **Total management expenses** | **(71,484)** | (64,181) |

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, along with the persistent impact of inflation, seen in both our people and administrative costs, which grew. Year on year, salaries and colleague numbers rose, as we continued to bring in further skills, particularly in technology and transformation.

We invested £16.3m (2024: £11.4m) in the third year of the New Cumberland programme, £15.9m of which was expensed, (2024: £10.0m). In addition, a further £4.7m (2024: £5.2m) was invested in our current infrastructure, networks, information security management and operating systems. This included our ongoing work related to delivering enhanced operational resilience in line with the FCA and PRA framework and many other regulatory driven initiatives alongside continuing investment in cyber security and our fraud defenses.

Following on from our extra investments in 2023 and 2024 through one off payments to our people (the most significant of which we also embedded in base salaries), alongside our usual cost of living approach to base pay, 2025's pay increase has been more normalised as inflation has subsided. We paid a discretionary increase of 4% to colleagues in April 2024. We have also made a further discretionary rise in salaries in April 2025 reflecting the persistence of inflationary pressure and our commitment to our people. Next year's costs will also be impacted by the substantial rise in employers National insurance. We also saw significant evidence of inflationary wage pressures in recruitment, as competition for technical, data and risk management skills remained fierce. All of these factors saw our people costs rise year on year.

Operational expenses rose too, reflecting the impact of persistently high inflation pass through and rapidly rising costs from our suppliers, who responded by demanding above inflationary cost increases.

Cost increases also reflected our ongoing and significant use of third party skills to ensure we safely manage technology upgrade and transformation, and the Society's widening use of more modern subscription based technology. These dynamics were mitigated by careful cost control in our ongoing operations.

The Society's major change programme, "New Cumberland", will continue in 2025-26, delivering the detailed design in the first half of the year, then moving into the build phase in the second half. The overall delivery and post migration bedding in period will extend over our three year strategic planning horizon into financial year 2027-28, and we expect to support a significantly elevated and sustained level of investment over this multi-year period, as we progress through the heart of delivery, migration and hyper care. This is expected to challenge overall profitability in the next two years, as we prioritise long term sustainability through a "fit for the future" core banking platform, and it will require tight control of other costs to ensure its affordability. Further information regarding management expenses is included in notes 6 and 7 to the accounts.

## Arrears and impairment charge

The strong credit performance of the Society's loan books was maintained in 2025, and the benefits of our long term commitment to prudent and responsible lending was demonstrated. Our rigorous underwriting processes ensure that loans are affordable, and our loans continue to be subject to manual underwriting by specialist teams, rather than relying on automated credit scoring. This allowed us to regularly adjust our lending criteria and appetite, as the cost of living crisis subsided and inflation fell.

Reflecting the recent history of the UK with first the pandemic swiftly followed by the cost of living crisis, persistently high inflation and rising UK rates, management included overlays in its impairment models to account for the expected difference in arrears and loss rates that were predicted to emerge verses the benign periods that immediately proceeded them and which we had used to build our model. Thankfully our borrowing members have been resilient supported by both our careful underwriting and our sustained focus on helping those who do fall into difficulty.

This positive change in the UK environment and the absence of other relevant factors like rising unemployment within our members has required us to release this extra provisioning this year leading to a credit from our collective provision models. We have also seen a number of specifically provided cases resolve without loss resulting in a release of some provisions held last year here too. This has been modestly offset by some limited growth in arrears which are automatically captured in the collective and specific calculations we perform.

The level of customers in forbearance measures at 31 March 2025 are:

| No. of cases (% of book) | 31 March 2025 | 31 March 2024 |
|---|---|---|
| **FSRP (Arrears All)** | **25 (0.15%)** | 20 (0.12%) |
| **FSRP (Arrears Owner Occupied)** | **23 (0.16%)** | 20 (0.14%) |
| **FSRP (Arrears BTL)** | **1 (0.04%)** | 0 (0.00%) |
| **FSOL** | **13 (2.54%)** | 13 (2.48%) |

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

| Accounts in arrears (≥ 90 DPD) as % of loan book | 31 March 2025 | 31 March 2024 |
|---|---|---|
| **FSRP (90 days)** | **0.18%** | 0.14% |
| **FSOL (90 days)** | **1.96%** | 1.90% |

Reflecting the underlying trends described above, the forward trajectory of UK rates and HPI alongside our long run loss experience which is extremely low, the income statement credit for bad and doubtful debts was £569k (2024: £79k credit). More information on forbearance, arrears, provisioning and impairment is included in notes 13 and 30 to the annual report and accounts.

## Other provisions, charges and gains

Our vehicle finance subsidiary, Borderway Finance Limited (BFL), has recognised a further provision of £1,287k in relation to the discretionary commission arrangements matter and the linked Court of Appeal judgment. This reflects the expectation that redress if and when paid will be calculated by comparison of interest rate differentials rather than reflect the commission paid itself. It also reflects the passage of time (which increases the level of penalty interest that will accrue) as well as our updated interpretation of the likelihood of complaint volumes and the FCA's approach which may be proactive. The modest levels of commission paid prior to 2021 mean that this matter is not currently expected to be material to the Group, though the eventual outcome remains highly dependent on the FCA's future decisions, as well as the ruling of the High Court.

No significant new exposures arose for the Society in 2025. A modest gain on revaluation of our existing portfolio of investment properties of £25k (2024: loss £50k) and a loss of £9k on sale of investment properties was recognised (2024: gain of £15k). In addition, three formerly operational properties were transferred into the investment property portfolio during the year resulting in a further gain on revaluation of £213k (2024: nil).

## Subsidiary companies

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

BFL, our motor finance business, contributed a loss before tax of £707k (2024 profit: £331k) to the Group's reported results after accounting for the provisioning matter noted above. BFL traded successfully most of the year, benefitting from the robust value of used cars and its high touch customer service, which was recognised by the retention of Feefo's platinum accolade. The exception to this was a short period in October 2024 when all lending via vehicle dealers was ceased to manage the risk of the Court of Appeal judgment. As with the Group, the result was also impacted by the ongoing unwind of derivative gains and the expectation that rates will trend lower. The balance sheet fell to £26.8m (2024: £27.3m). Credit quality has been good. Pleasingly, the level of arrears, while modestly increased versus a year ago, has remained subdued.

# BALANCE SHEETS

## Overview

The Society's balance sheet exceeded £3bn for the first time in 2023 and grew to £3.3bn in 2025. Loans and advances to customers have grown during the year by £148m (2024: £194m)[1]. Customer deposit growth was modestly higher than lending asset growth at £200m (2024: £203m).

**A summarised Balance Sheet is set out below:**

| | 2025 £000 | 2024 £000 |
|---|---|---|
| **Assets** | | |
| Loans and advances to customers | 2,785,602 | 2,616,609 |
| Liquidity | 475,864 | 511,068 |
| Other | 67,619 | 90,760 |
| **Total assets** | 3,329,085 | 3,218,437 |
| | | |
| **Liabilities** | | |
| Retail funding | 3,013,184 | 2,813,649 |
| Wholesale funding | 63,609 | 151,220 |
| Other | 15,924 | 19,355 |
| **Total liabilities** | 3,092,717 | 2,984,224 |
| | | |
| **Equity** | | |
| **Profit for the year** | 613 | 7,380 |
| General reserve | 229,273 | 221,894 |
| Available for sale reserve | 6,482 | 4,939 |
| **Total equity** | 236,368 | 234,213 |
| **Total liabilities and equity** | 3,329,085 | 3,218,437 |

## Loans and advances to customers

The Cumberland's lending strategy remains consistent, but the year's performance is best understood in the light of the macro-economic environment of the UK. Our high quality, owner occupied book grew throughout the year. Within this growth story we moderated our level of outperformance in the second half of the year as we sought to balance this growth with our commercial and letting business lines.

Our holiday let business declined in the first half of the year returning to growth in Q3 ending the year modestly higher than at 31 March 2025. This reflected worries about housing regulation amongst holiday let landlords as some chose to sell up and others sought to address market changes by revising their approach to this sector. Concurrently our much smaller Buy to Let book continued to paydown.

In the final months of the year, we saw the pipeline quality and volume improve as improvements in our processes and market confidence firmed up reflecting understanding of both new capital rules and the wider political narrative. The FSOL book grew modestly throughout the year to reach £250m as hospitality borrowers appetite gradually increased and economic confidence improved. While we have opened our book to a small number of other business sectors, these loans will only start to be advanced in impactful volume next year.

We advanced £477m of mortgages (2024: £474m) and mortgage balances grew by £148m (2024: £194m).

## Liquidity

On-balance sheet liquid assets reduced to £476m (2024: £511m), as we continued our structured repayment of TFSME as planned, and we diversified our holdings further.

Throughout the year, we maintained a prudent buffer given the uncertain economic backdrop, while unwinding some of the historic conservatism. This reflects both our own approach but also the quantitative tightening currently being conducted by the Bank of England as it fully unwinds its long term support of Banking through closure of the TFSME scheme and sale of the GIlts it holds.

The Society's principal measure of liquidity is high quality liquid assets (HQLA) as a percentage of shares, deposits and loans, as this reflects the funds that are immediately and fully available to support the Group's liquidity needs. The level of HQLA remained robust at 14.6% (2024: 15.7%). The Liquidity Coverage Ratio (LCR), which is the primary regulatory measure, continued to be very strong at 217% (2024: 207%), considerably above the minimum regulatory requirement of 100%.

Liquid assets are principally held in deposits at the Bank of England. We have continued to diversify a portion of our liquid assets away from the Bank of England reserve account into covered bonds having reached the target size of this portfolio in the later parts of the year. These deposits, are secured by the cashflows of the underlying mortgage assets as well as the guarantee of the issuers, but offer a small increase in the available yield. We have also held a small number of multilateral development bank bonds. Accordingly at 31 March 2025, included in liquid assets are £173m (2024: £141m) of assets held at fair value through other comprehensive income (FVOCI).

[1] Gross exposure excluding hedge accounting adjustments.

## Retail funding

The Society continues to be well funded by its retail depositors, the great majority of whom are located in its branch operating area. We saw a marginally above budgeted inflow of funds of £136m (2024: £144m), which, after the capitalisation of accrued interest, resulted in our total retail funding rising to £3,013m (2024: £2,814m), growth of 7%. As a result, our deposit to loans ratio remained well over 100%.

Our growth in instant access accounts improved year on year as member behaviour adjusted to the falling rate environment and the reduction in spread between fixed and variable savings rates as the former slowly began to price in both actual and likely rate reductions. Current accounts outperformed forecast but were still slightly lower as customers used funds in the first half of the year before a period of stability as customers in our operating area joined us in response to Bank branch closures.

Our retention of fixed rate term deposits that passed through a maturity date was usually well over 90%, validating our long term commitment to support savers. However we targeted a reduction in the term deposit maturity peaks in November and December which had arisen from excess growth in 2022 and 2023. In these months we retained closer to 80%. Growth in fixed term deposits outside of the two months mentioned was strong, particularly in ISAs, reflecting both market positioning, which generated new inflows, and the overarching rate environment, which encouraged existing and new customers to lock in returns at higher rates, by fixing more of their savings. Our long term commitment to savers remains at the forefront of our mind as we manage the rate down environment.

## Wholesale funding

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

As a result of the strong retail inflows this year, our need for new wholesale funding was limited. Reflecting this, we continued repayment of our existing TFSME funding ahead of its scheduled maturity. At 31 March 2025, we held £55m (2024: £140m) in TFSME and £5m in ILTR, the latter arising from a test trade requested by the Bank of England. We maintained a modest presence in the interbank 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 financial results have broadly sustained our gross capital ratio (gross capital expressed as a percentage of total shares and deposits) at 7.7% (2024: 7.9%). This gives us a firm base to support the business, as we maintain elevated investment levels to deliver the New Cumberland programme over the next couple of years. Our current level of surplus should allow us to grow our level of lending, even as profits are very largely invested in 2025 and beyond. Last year we highlighted the risk inherent in the Basel 3.1 consultation. Substantive changes were made in response to multiple layers of feedback and the revised policy statement looks relatively neutral when modelled for our business though the detailed gap analysis work remains ahead of us. We will adopt the SDDT capital regime which is currently scheduled to be in place from 1st January 2027 in line with the adoption date of Basel 3.1.

The Society's regulatory capital position at 31 March 2025 is summarised below. Our CET 1 ratio decreased slightly to 18.18% (2024: 18.50%). If 2025's earned profit is included, this ratio modestly improves to 18.23%.

| | March 2025 | March 2024 |
|---|---|---|
| **Capital resources:** | **£m** | £m |
| Common Equity Tier 1 (CET 1) capital | **234.9** | 231.5 |
| Total capital | **234.9** | 231.5 |
| Risk weighted assets | **1,288.9** | 1,211.5 |
| | | |
| **Capital and leverage ratios:** | **%** | % |
| Common Equity Tier 1 (CET 1) ratio* | **18.18** | 18.50 |
| UK leverage ratio | **7.69** | 7.95 |

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

The Prudential Regulation Authority (PRA) provides the Society with a Total Capital Requirement (TCR). This sets the minimum capital which the Society must hold under Pillar 1 and Pillar 2A requirements and is driven by both balance sheet growth and risk factors determined by the PRA. The Society comfortably meets this requirement using CET 1 capital alone. The Group's TCR at 31 March 2025 was £118.16m.

As a result of its adoption of the SDDT regime for liquidity and disclosure which is already in place, the Society is no longer required to produce or report in line with Pillar 3 disclosures. Further information on the Group's capital position can be found in note 36.

Richard Ellison
Chief Financial Officer
3 June 2025

# 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 44-47.

## Longer term prospects

The Group's business model and strategic priorities are set out on pages 16-19. 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 Cumberland 2025 strategy. During 2024 the Strategy was reconfirmed but became referred to by the title New Cumberland reflecting that our work in delivering it will persist well after 2025. In 2025 the Board considered the why behind our existing Kinder Banking purpose and confirmed that our strategy remains enduring, focused on organic growth with a clear priority of delivering our transformation for the benefit of our community and members.

During 2025 we continued to increase the quality of change delivery, progressing on our Cyber, operational resilience and transformation goals which are closely interrelated.

Concurrently to the ongoing work of delivery to update our existing infrastructure and enhance our operational resilience, we have moved substantially forward in the New Cumberland programme itself. Having completed a BAFO (Best and FInal Offer Process) we next completed a 5 month discovery period successfully working with our chosen partners to bring greater clarity to what will be delivered. This resulted in the signing of a Master Service Agreement (MSA) in March allowing us to move into detailed design and then build during 2025-2026. The Board and management have consistently prioritised understanding, clarity and quality over pace as illustrated by the 5 months of discovery (a more standard period is 2-3 months).

One key lesson emerging from other transformations, undertaken in the regulated financial services sector, is that sufficient time must be given to each stage of a major programme and planning must not be based on a set delivery date. While being mindful of the need to progress work which supports operational resilience and addresses end of life dates on the horizon for some of our technology, the Board remains committed to a structured and rigorous step by step process, utilising the skills of experienced third parties, wherever this is practical and appropriate, as a key risk mitigation strategy. This has included use of all 3 lines of defence with both the first and second line supported by external experts and the third line having employed specialists in this work. In this context, the Board reflected on another year of successful change delivery, substantial strategic progress and a better than planned financial outcome, while recognising that the path of the economy, and events like the Court of Appeal's judgement on commissions impacting our subsidiary Borderway created volatility and pressures on our business that we had to carefully manage through.

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

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

The Board considered and approved The Cumberland's latest three year budget on 1 April 2025. It considered our ongoing transformation plans in light of its MSA approval and subsequent signing and the updated financial forecast for the life of the programme that accompanied it which incorporates substantial contingency. It has incorporated that analysis in its assessment of viability presented here.

## Assessment period for viability

The directors have considered the viability of the Group and Society over a three year period to 31 March 2028. The three year review period is considered to be the most appropriate timeframe for viability for the following reasons:

- increasing uncertainty, regarding the economic, competitive and regulatory environments beyond the three year period, reduces the reliability of a longer assessment of viability;
- a significant proportion of the Group's assets and liabilities are expected to mature within three years;

- key drivers of financial performance, such as net interest income and impairment losses, are heavily influenced by the level of market interest rates, house prices and unemployment, which are increasingly difficult to predict beyond a three year horizon. Even predicting these over a one year time horizon remains challenging, quite aside from the global volatility from politics, war and our changing climate and;
- the three year period aligns with the period over which the Group conducts its annual budgetary forecasts.

## Viability assessment activities

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

- a scenario based on the Bank of England's recommendation with sharp base rate cuts (to 0.1%) and a recession driving unemployment and sharp HPI falls before recovering;
- Our own rates down scenario which also swiftly dropped rates but persisted this "lower for longer" which resulted in a greater impact on our business than the Bank of England stress both pre and post mitigating actions;
- a liquidity stress as a result of an idiosyncratic event coupled with a market wide stress in the banking sector triggered by unemployment and cost of living pressures driving withdrawals of saving and current account balances. Due consideration was given to the learnings from events over the last 2 years which have impacted other global and UK banks.

The Group's baseline financial forecasts for the next three year period assume a steady series of base rate reductions, as inflation continues to weaken towards the Bank of England's target. It is possible that current rates may persist, reflecting the persistence of inflation in the UK, or that the pace of rate cuts may accelerate, as some elements of the market have priced in and our ICAAP scenario analysis has tested.

As a building society owned by its members, the directors believe that short term profitability is not the only, or indeed the primary, driver of its viability. Nevertheless, the directors currently expect the Group to remain operationally profitable over the three years of their viability assessment. In 2025 we did, and in 2026 and 2027 we expect to expense the vast majority of New Cumberland's cost and so statutory losses are likely to occur. They feature in our planning assumptions, as the shape of our strategic investment is balanced between the need to transform at pace and our financial capacity which includes the substantial capital surplus we have built up in recent years through our profitable operation which now plan on using. The Board recognises that a sharper rates down trajectory, in the middle of our peak transformation spend in the next and the following year, could challenge this outcome further.

The financial statements presented alongside this viability discussion incorporate the directors' current best estimate of incurred losses in its lending portfolios at 31 March 2025. While we are cautious about the future, and have provided on this basis through our modelled assumptions and judgemental overlays, the level of loss crystalised has remained very low. This tension between observed experience which has been much better than most predicted including our regulators and the continuing risk of loss is reflected in provision coverage (which has modestly reduced).

While there remains a risk that the level of loan losses ultimately suffered is higher than forecast, as a result of the impact on households and businesses of the embedded squeeze on living standards and relatively higher cost of mortgage and consumer debt, our persistently low levels of loan losses over the last thirteen 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 2024, the Group conducted an analysis of the susceptibility of its lending books to the risk of climate change and the transition to a non/lower carbon economy. This analysis, which is currently being refreshed, was conducted at an individual mortgaged property level. It is further discussed on page 47. While the calculated impact unexpectedly fell versus a year ago, climate change 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 (as well as through our update to our Recovery Plan which combines both stresses). These processes assess the Society's ability to withstand severe capital and liquidity stresses, in line with regulatory requirements, including new and emerging regulation where sufficient information is known about future requirements.

The ICAAP and ILAAP assessments take into account potential management actions and consider the impact and credibility of those actions in mitigating the potential impacts of the stresses applied. An example of a capital stress would be a significant growth in the level of loan losses or a reduction in net interest income, both of which could occur as a result of a recession and the macro-economic tools used to respond to the stress.

The ICAAP was last updated in December 2024 and concluded that the Society maintains sufficient capital resources to meet regulatory requirements under the central planning scenario and, with management actions, under the modelled economic stress scenarios. The Society's surplus of capital over regulatory requirements is currently significant, but will reduce as we deliberately invest in New Cumberland to secure our operational resilience and future.

Therefore, in the central scenario, our capital surplus is expected to decrease over the three year period assessed, reflecting loan growth, the impact of sharply lower interest rates in the modelled scenario and the concurrent diversion of income into strategic investment, two of which are in the control of the Society's management.

One additional factor, that will impact capital in the later part of our forecasting period, is a change in the UK's capital adequacy framework. In the Society's case, this is expected to be the UK's new Strong and Simple regime ("SDDT" (Small Domestic Deposit Takers") which we have opted into. SDDT adopts the Pillar 1 treatment of Basel 3.1 which will drive the primary RWA calculation. However, SDDT itself remains under consultation.

Last year in our viability statement we indicated that the Basel 3.1 proposals, as consulted on, would materially increase the level of the Society's RWAs and reduce the currently significant capital headroom available. The policy statement published earlier this year included material changes in response to industry feedback which included our own. Based on indicative calculations under the new policy the total capital required may be modestly lower though uncertainty remains. The implementation date for the SDDT regime has also moved to 1 January 2027 and we expect to remain on existing rules until this point. This represents a relative reduction in the risk of this matter though we need to conduct the work required to obtain the detailed data necessary to solidify the calculations and where necessary change business processes to continuously capture this data. A further risk is that we are yet to have sight of the revised SDDT stress testing regime. We expect to conduct the data driven part of this work next year and the reporting template work in the following in response to what represents a major change to this key prudential requirement.

The Society considered the economic conditions, which existed at 31 March 2025, and the volatility from US tariff threats and actions and nevertheless concluded that the stress testing conducted remained appropriate. The stress tests applied were in line with Bank of England scenarios.

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.

The ILAAP, which addresses the Group's funding and liquidity, was last updated in July 2024, and concluded that the Group is able to meet both internal risk capacity requirements and regulatory requirements under modelled stress scenarios. The ILAAP noted our plans to continue repayment of TFSME in the years of the assessment, as well as the differing growth trajectory of the loan and savings book over the next two years. Reflecting on both our own and other institutions experience we adjusted our risk appetite metrics including increasing our minimum funds at the Bank of England and available collateral there. Since the ILAAP's preparation, the Group has successfully managed through its peak retail term deposit refinancing without issue and seen significant deposit inflow. In addition to its existing liquidity tools and regulatory metrics the Group has also recalculated its OLAR monthly to ensure that within the book and its healthy trajectory unexpected dynamics do not emerge.

The Cumberland is an active member of the Sterling Monetary Framework (SMF) but, due to the current level of retail inflows, it has not utilised ILTR in the current period except for a test trade of £5m.

At 31 March 2025, £55m (2024: £140m) of TFSME remained outstanding. The TFSME drawdowns, which were concentrated at the back end of the drawdown window in 2022, markedly extend the tenor and stability of this funding source however this is now coming to an end. During the year, the Group repaid £85m (2024: £60m), reducing the outstanding balance as part of its structured repayment plan which we expect to conclude without incident.

Liquidity stress testing, incorporating each of the relevant principal risks on pages 44-47, has been performed to understand the ability of the Group to withstand extreme stress scenarios, including unprecedented adverse movements in key economic indicators, major dislocation and volatility in financial markets, significant liquidity outflows and severe operational risk events. This testing has demonstrated that the Group has the resources, measures and controls in place to manage and withstand such extreme events. Liquidity stress testing is conducted monthly.

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

This form of flexible and agile operation has become a new normal enhancing its inherent resilience. The Group has planned, and is confident, that it can offer the critical services required by its members, even if 50% of colleagues are unable to work.

This leaves the directors satisfied that the business can continue to operate safely and soundly, even if it were to see a repeat of the type of circumstances it found itself in during the pandemic.

## Suppliers and viability

In our interconnected modern world, the Group relies on third party suppliers for the provision of both goods and services this reliance is increasing over time and as part of the New Cumberland programme it will increase further as we partner with TCS and a number of other ecosystem providers.

The Group periodically reassesses both its own critical services, and its supplier base, and has conducted a significant amount of recontracting work in recent periods which materially concluded this year. This alongside our transformation work, has included multiple notifications of outsourcing to the PRA in line with regulations.

In March 2022, the Board approved its important business services for the first time; these were reassessed in February 2023 and March 2024. The Society has steadily progressed its work and plans to ensure that these services remain within stated impact tolerances. This assessment was updated and approved again in March 2025, and progress continues to be made, enhancing our resilience and our understanding of the matters that could breach our tolerance. Nevertheless a number of underlying resilience improvements are linked to and dependent upon our New Cumberland transformation which will complete after the immediate regulatory deadline.

During the year ended 31 March 2025, the Group has continued the process of moving some of its non-customer facing technology provision to the Cloud and, as part of the New Cumberland journey, we expect this trend to accelerate, including the further use of material outsourcing, as defined under regulation.

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

The Group's overarching risk management process, as detailed on pages 43-47, includes ongoing monitoring and reporting of emerging risks and scenario analysis, enabling further enhancements to the control environment to adapt to these risks.



Cumberland colleagues celebrate the re-opening of Egremont branch.

## Conclusion

Based on the above assessments, and having considered each of the principal risks and uncertainties discussed on pages 44-47, the directors have concluded that:

- the Group's business model and overarching strategy remain appropriate, and actions have been identified which are intended to enable it to remain relevant as the markets in which it operates evolve;
- the Group maintains an appropriate level of liquidity, sufficient to meet both the normal demands of the business and requirements, which might reasonably arise in modelled stressed circumstances. The availability and quality of liquid assets are structured so that funds can reasonably be expected to be available to repay maturing wholesale funds and to cover exceptional demand from retail investors;
- the Society has sufficient current capital resources, in excess of regulatory requirements, and credible plans to meet known future requirements, under both central and modelled stressed scenarios, including the delivery of the New Cumberland programme while noting the currently incomplete understanding of some elements of the Small Domestic Deposit Taker Capital regime which we expect to apply to the Society from 1 January 2027; and
- whilst it is accepted that it is not possible to completely eliminate all risk, the Society has taken reasonable steps to put in place suitable operational capabilities to manage and mitigate the impacts of risk events to within reasonable tolerances, showing over the last three years that it can safely operate under highly unusual and stressed circumstances.

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

The Group's going concern statement is included on page 129.

**Colleagues celebrate the 40th birthday of our Dumfries branch.**

# OUTLOOK

The outlook for the UK economy is uncertain. As inflation has moderated, speculation about rates and the pace and limits of any fall continues with swap volatility as the driving factors change both domestically and globally. We expect a downward sloping rate environment and as a result to see mortgage and savings, pricing down from current levels. Tragically, the world remains at war in multiple locations, including the Middle East and Ukraine, with escalating conflicts further afield. This, coupled with the impact of US tariffs rhetoric and other nation's responses on global politics and trade, creates a challenging macro-economic outlook, with UK growth remaining sluggish. The last two years have shown that prediction is fraught. While a significant recession has not occurred to date and our central projection is for a stable UK economy, growth may well stall or reverse.

The Society's statutory profitability is expected to reduce markedly over the coming two years, as it strategically invests in its future in the context of a downward sloping rate environment. This dynamic is occurring while the Society simultaneously operates in the highly competitive environment that characterises UK mortgage lending and retail savings.

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, its clear purpose and consistent strategy which has been highly successful in differing economic climates, will continue to allow the Society to thrive well into the future.

Jackie Arnold, Chair
3 June 2025

# Corporate GOVERNANCE REPORT

## HIGHLIGHTS OF 2024/25

- Jackie Arnold appointed as first female Chair of the Board
- Anna Barsby appointed Senior Independent Director
- Richard Pike joined the Board and Board Risk Committee

Our

# SENIOR TEAM

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













Executive Director

Non-Executive Director

Senior Leadership


## Chair's welcome

**Dear Member,**

**Welcome to the Corporate Governance Report for 2024/25. Although the Society, as a mutual organisation, is not strictly 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 160-162 sets out the principles of the Code and where in this report you can find how the Society addresses them.**

This year saw the publication of the revised 2024 UK Corporate Governance Code. You can be assured that your Chair and Board remain committed to the highest standards of corporate governance. The 2024 Code is relevant to the Society in part from 2025-26, and in full from 2026-27. As testament to the stewardship of your Society, only a small number of minor changes will need to be made to comply with the 2024 Code, all of which are being overseen by the Board and its Committees. Our proportionate response to the Code, which was formerly designed for large listed businesses, will be guided by the updated Building Society Association (BSA) guidance on the applicability of the Code to building societies. This report is the final year in which the Society will be reporting against the 2018 Code.

This year also marked my first year as your Chair, following the retirement of John Hooper at the 2024 AGM. It has been a significant year for the Society, concluding the New Cumberland Request for Proposal and Discovery processes and signing a Master Services Agreement with TCS, allowing the Society to commence the next phase of the New Cumberland programme. I and your Board have been focused on scrutinising the recommendations of the SLT, to ensure that the programme can achieve the Society's ambitions.

There have also been other changes to your Society's governance following retirements at the 2024 AGM. Kelli Fairbrother, a Non-Executive Director and member of PARC since 2020, has taken over my previous role as Chair of PARC, as well as joining AC and NGC. Kelli's contributions to PARC during my time as Chair were invaluable, and she has been an excellent appointment to the role. Additionally, Anna Barsby, an Independent Non-Executive Director since 2022, was appointed to the role of Senior Independent Director following the retirement of Eric Gunn at the 2024 AGM. Anna has also joined BRC and NGC this year.

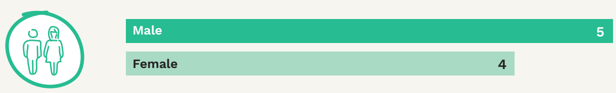
The retirement of Eric Gunn and John Hooper meant that the Board was at risk of losing significant skills in banking, financial services and risk and treasury management. However, your Board acted proactively to recruit Richard Pike as an Independent Non-Executive Director in June 2024, and he additionally sits as a member of BRC. Richard has great experience from both Executive and Non-Executive roles in financial services, as well as in the social housing sector and with a mutual insurer. Alongside Cameron Marr (appointed in November 2023), he will ensure critical banking and treasury challenge continue to be provided by the Board to the SLT, to continue to ensure the Society acts in the best interest of its members for the long term. With the changes to senior positions, committee memberships and a new appointment, your Board has been focused on ensuring we continue the strong corporate governance culture evidenced in the previous triennial external Board Effectiveness Evaluation.

This year has been a significant year for your Society, but you can remain assured that we have maintained a strong Board that is focused on the stewardship of your Society. As we move forward into 2025, our focus remains, as always, on ensuring the Cumberland is prepared for the future, whilst upholding the high standards of corporate governance our members expect from the custodians of their Society.

*Jackie Arnold, Chair*

*3 June 2025*

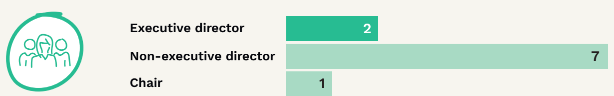
### Gender split




### Longevity of Board members (years with the Society since 2018)*

*as at 31 March 2025


### Executive and non-executive director split




### Committee membership

| | NGC | BRC | Audit | PARC |
|---|---|---|---|---|
| **Jackie Arnold** | Chair | | | |
| **Anna Barsby** | Member | Member | | Member |
| **Kelli Fairbrother** | Member | | Member | Chair |
| **Mark Stanger** | | | Chair | Member |
| **Richard Pike** | | Member | | |
| **Vicky Bruce** | | Member | Member | |
| **Cameron Marr** | | Chair | | |
| **Des Moore** | | | | |
| **Richard Ellison** | | | | |

**The Board is comprised of 7 non-executive, and 2 executive directors. One non-executive director serves as the Chair of the Board, and one as the Senior Independent Director. The non-executive directors are considered to be independent under the UK Corporate Governance Code; the Chair was considered independent on appointment.**

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

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

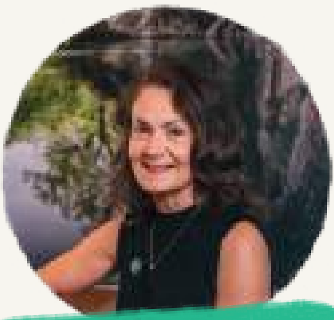
# Meet the Board of DIRECTORS

**Nomination and Governance Committee**

**Board Risk Committee**

**Audit Committee**

**People, Remuneration and Culture Committee**



## JACKIE ARNOLD MBE

*Board Chair and Nomination and Governance Chair*

**Non-Executive Director and a member of NGC since March 2018, PARC Chair May 2019 to July 2024, Audit Committee member September 2020 to July 2024, Board Chair and NGC Chair since July 2024 (independent on appointment)**

### Skills and experience

Jackie has over 35 years' experience in business and financial management roles, and has previously held several senior positions with BAE Systems and Edison Mission Energy. She also has significant non-executive experience in the public and education sectors most recently being appointed Chair at Furness Education Trust and Workstream Director with Team Barrow Delivery Board.

### Current material external positions

- Workstream Director, Team Barrow Delivery Board
- Professor of Practice, Lancaster University
- Strategic Advisor, University of Cumbria
- Leader in Residence, Lancaster University
- Chair of Trustees, Furness Education Trust
- Consultant Social Purpose, BAE Systems

### Previous positions include

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

## ANNA BARSBY

*Senior Independent Director*

**Non-Executive Director since June 2022, PARC member since July 2022, SID, BRC and NGC member from July 2024 (independent)**

### Skills and experience

Anna is one of the UK's top transformation and technology leaders, used to delivering large scale change across different industries. She is currently the Founder and Managing Partner at Tessiant, a boutique consultancy, and has previously worked with a number of FTSE 100, FTSE 250 and regulatory organisations at a senior level.

### Current material external positions

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

### Previous positions include

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

## VICKY BRUCE

*Non-Executive Director*

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

### Skills and experience

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

### Current material external positions

- Non-Executive Trustee, Agitos Foundation

### Previous positions include

- Global COO for Institutional Wealth Partners, Deutsche Bank Wealth Management
- Global Head of Regulatory Change, Deutsche Bank Wealth Management
- Head of Change Management, Coutts
- Non-Executive Trustee, Hope and Homes for Children
- Consultant, International Paralympic Committee

## RICHARD ELLISON

*Chief Financial Officer*

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

### Skills and experience

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

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

### Current material external positions

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

### Previous positions include

- Interim Finance Director, Newcastle Building Society Group
- Deputy Chief Financial Officer and Chief Data Officer, CYBG PLC
- Director Banking and Capital Markets, PwC

## KELLI FAIRBROTHER

*People, Remuneration and Culture Chair*

**Non-Executive Director and PARC member since September 2020, PARC Chair, Audit and NGC member since July 2024 (independent)**

### Skills and experience

Kelli has over 25 years of experience in consumer and technology businesses. She is currently CEO of xigxag, a digital media technology start-up she co-founded. She previously served as Group Head of Strategy for Whitbread, President of the International Business of Deluxe Entertainment and Chief Operating Officer of Gelato. She earned her MBA from Harvard Business School.

### Current material external positions

- Co-Founder and CEO, xigxag Limited
- Non-Executive Director, Liberty Wines Limited

### Previous positions include

- Chief Operating Officer, Gelato
- President, International, Deluxe Entertainment
- Business Development and Commercial Director, Whitbread Hotels and Restaurants
- Group Head of Strategy, Whitbread PLC

## CAMERON MARR

*Board Risk Committee Chair*

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

### Skills and experience

Cameron has worked in international financial services for over 40 years. His experience of the sector includes risk, regulation, and sustainability. He also has an extensive background at Board level having chaired Board Audit and Board Risk Committees in other organisations.

### Current material external positions

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

### Previous positions include

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

## DES MOORE

*Chief Executive Officer*

**Chief Executive Officer and Executive Director since April 2018**

### Skills and experience

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

### Current material external positions

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

### Previous positions include

- Non-Executive Director, Cumbria Local Enterprise Partnership
- Managing Director, AIB (NI)
- Senior positions – AIB, Bank of Ireland, Permanent TSB and National Irish Bank



## RICHARD PIKE

*Non-Executive Director*

**Non-Executive Director since June 2024, BRC Member since July 2024 (independent)**

### Skills and experience

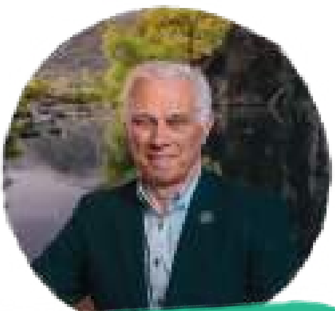
Richard has been involved in the financial services sector for over 30 years and is a Certified Bank Director at the Institute of Banking. He was the co-founder of Ci3 which provided risk-management software and IT services to financial institutions and the founder of Governor Software which assists institutions in complying with new governance and risk regulations. He also has an extensive background at Board level having chaired Board Risk Committees both within financial services and non-profit organisations.

### Current material external positions

- Non-Executive Director and Chair, FBD Insurance PLC
- Non-Executive Director and Chair, Citadel Securities (Europe) Ltd
- Non-Executive Director and Chair, Citadel Securities (Ireland) Ltd
- Non-Executive Director (Chair), Tuath Housing
- Non-Executive Director (Chair of the Board Risk Committee) Monzo Bank EU

### Previous positions include

- Non-Executive Director (Chair of Board Risk Committee), Starling Bank International
- Non-Executive Director, J.P. Morgan Admin Services and J.P. Morgan Hedge Fund Services (Ireland)
- Non-Executive Director, Permanent TSB PLC
- Non-Executive Director, National Cybersecurity Society



## MARK STANGER

*Audit Chair*

**Non-Executive Director since June 2018, Audit Committee Chair since July 2020, BRC member January 2019 to July 2024, and PARC member since July 2022 (independent)**

### Skills and experience

Mark has over 35 years' experience in accountancy and financial services. His experience includes risk, audit, regulatory compliance and included a focus on the hospitality sector.

### Current material external positions

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

### Previous positions include

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

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

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

# Meet the Senior LEADERSHIP Team

## JOHN HUNT

*Chief Risk Officer (CRO)*

**Chief Risk Officer since December 2020**

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

### Skills and experience

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

### Current material external positions

- None

### Previous positions include

- CRO, Oodle Car Finance
- CRO, Together Personal Finance
- Director of Compliance Advisory, Nationwide Building Society

## SUSANNE PARRY

*Chief Operating Officer (COO)*

**Chief Operating Officer since March 2019**

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

### Skills and experience

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

### Current material external positions

- Trustee (Chair of Audit & Risk Committee), Tullie Museum and Art Gallery

### Previous positions include

- Senior leadership positions at Cumberland Building Society, including:
- Head of Change & Technology
- Head of Operations
- Head of HR
- Vice Chair, University of Cumbria Students' Union Board

## IAN STACEY

*Chief Information and Transformation Officer (CITO)*

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

The CITO is responsible for the direction and control of the Cumberland's information and communications technology (ICT) systems and services and directing and delivering the Society's change portfolio. In addition, he is responsible for defining and delivering the Society's New Cumberland programme to transform the Society's technology infrastructure, applications and Target Operating Model.

### Skills and experience

Ian is an experienced transformation and technology leader with over 35 years' experience in financial services. He has global transformation experience with major consultancy firms and international banks. He was previously the Head of International Operations at Barclays, Retail CIO at First Abu Dhabi Bank and has held the role of Chief Operating Officer at two start-up challenger banks in London.

### Current material external positions

- None

### Previous positions include

- Chief Information Officer, Cumberland Building Society
- Chief Operating Officer, Vive
- Chief Operating Office, LQID
- Chief Information Officer, First Abu Dhabi Bank
- Digital Director, EY
- Head of International Operations, Barclays

## CLAIRE DEEKES

*Chief Customer Officer (CCO)*

**Chief Customer Officer since August 2022**

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

### Skills and experience

Claire is a member of the Chartered Institute of Bankers with over 20 years' of experience in the retail banking sector. Prior to moving into the role of CCO, she had held the role of Head of Retail Distribution since 2019. Claire moved to the Society from Virgin Money where she was Head of Stores and Lounges, and prior to this enjoyed success in several senior manager roles within Lloyds Banking Group.

### Current material external positions

- None

### Previous positions include

- Head of Retail Distribution, Cumberland Building Society
- Head of Stores and Lounges, Virgin Money
- Senior Manager, Lloyds Banking Group
- Non-executive Director, Cumbria Local Enterprise Partnership (CLEP)

## JILL JOHNSTON

*Chief People & Sustainability Officer (CPSO)*

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

The CPSO is responsible for leading on people and sustainability strategy. Jill oversees the development of people and culture across the business, providing support across the People function including recruitment, performance, retention, talent development, engagement and internal communications. In addition to this, Jill provides organisational development initiatives, including leadership development, reward, wellbeing, safety, and diversity and inclusion. Jill is also responsible for the development of the Society's sustainability approach bringing together a number of initiatives under the Environment, Social and Governance umbrella.

### Skills and experience

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

### Current material external positions

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

### Previous positions include

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

## Leadership & purpose

**The Board has established a purpose, values and strategy for the Society as set out in the Strategic Report on pages 6-63. 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 current directors' attendance record at Board meetings during 2024/25. Membership of and attendance at Board Committees are set out in the relevant Committee reports.

## How the BOARD works

| | | |
|---|---|---|
| CAMERON MARR 9/10 | ANNA BARSBY 9/10 | RICHARD PIKE 7/8 |
| RICHARD ELLISON 10/10 | JACKIE ARNOLD 10/10 | MARK STANGER 10/10 |
| DES MOORE 10/10 | VICKY BRUCE 10/10 | KELLI FAIRBROTHER 8/10 |

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

Each year, at least one Board meeting includes an in-depth review of strategy.

The Board also meets informally, as required, to provide support and challenge to management in the development of strategy before it is formally presented to the Board and to provide input to the agenda for the reviews of strategy. The Board held two formal strategy days in April and December, when the Board reviewed plans for the Society's transformation and considered proposals for growth during and following the implementation of the transformation programme.

**The Board is assisted in its work by four Board Committees:**


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

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

Cumberland colleague, Sophie Parker, at our newly refurbished English Street branch.


# STAKEHOLDER ENGAGEMENT

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

## Our customers

Members are invited to attend the AGM, where they can ask questions and voice their opinions. We have previously provided members with the opportunity to attend, ask questions and vote at the AGM by video conference, as a convenient alternative to attending in person. However, given the cost, low numbers of virtual attendees, and the wider move across corporate governance to have either an in-person or virtual AGM, the Board has decided to revert to an in-person meeting this year. The Chair, Board Committee Chairs and the CEO are present at the AGM each year to answer questions, along with other members of the Board, as appropriate.

The Society actively seeks customer engagement feedback daily through its partnership with Feefo, achieving the much sought-after Platinum Trusted Service Award for the fifth year running. To achieve platinum status, an organisation must attain Feefo's gold standard for three consecutive years. Therefore, the Cumberland's five platinum awards represent eight years of outstanding customer service. The Society actively monitors social media to ensure that customer feedback is captured and addressed.

The Society also seeks customer feedback through market research, focus groups and website surveys. We monitor our NPS score and in 2025 our average score was 88 among the highest in the industry. The output is used to shape the Society's strategy and business model, as well as in the design of the Society's product and service offering.

"Customer Led" has been adopted as one of the Society's core values underpinning the strategy and the customer perspective is considered as part of our decisions making process, as a key factor for consideration in all Board papers. This focus has been taken into our work on Consumer Duty to ensure consistently good outcomes for our customers, and Vicky Bruce acts as the Board's designated Consumer Duty champion.

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

The Board continued to consider the interests of borrowing customers when it did not pass through all of Bank of England base rate increases to customers on standard variable rate; conversely, the Board considered the interests of saving members by passing through the vast majority of Bank of England base rate increases in its saving rates. Now that rates are moving down, a similar customer focused approach has been taken while protecting our commercial performance which funds our transformation which is in the longer term interests of our members.

## Our people

The Chair of the People, Remuneration and Culture Committee is the designated non- executive director for workforce engagement; workforce engagement is facilitated by the Chief People & Sustainability Officer utilising a variety of forums. Wider people engagement was a focus of the Board during the year, and the 'Our People' section of the strategic report on page 26 and PARC report on page 98 summarise just some of the activity undertaken.

We also participate in the Best Companies B Heard engagement survey, which measures levels of engagement across the Society – we were graded world class in July 2024. We supplement this with externally benchmarked analysis, drop-in sessions, meetings with the Heads of Functions, and gatherings that include all colleagues.

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. This year, we introduced an additional paid "wellbeing day" which all our people can use to promote and care for their health and wellbeing.

In the year, feedback we obtained in this way has been instrumental in shaping the way in which the Society continues to support its people and further their development.

## Our communities

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

The perspective of our community stakeholders was a key consideration for the Board in setting our refined purpose launched in 2023, which is to create a banking experience that's kinder to people and planet, and also drove the second year of our change in approach to charitable funding discussed on pages 20-25.

## Our suppliers

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

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

## Environment

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

## Regulators

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

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

Mark McManus, Direct Relationship Manager for Holiday Let lending.

# NOMINATION and GOVERNANCE Committee 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 2025. 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 transformation programme.

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

# WHO SITS ON THE COMMITTEE

| JACKIE ARNOLD (CHAIR) | ANNA BARSBY (appointed July 2024) | KELLI FAIRBROTHER (appointed July 2024) |
|---|---|---|
| 4/4 | 2/2 | 2/2 |



# HOW THE COMMITTEE WORKS

The current Committee is chaired by the Chair of the Board; the Chair of PARC and the Senior Independent Director are also members. Following the retirement of John Hooper and Eric Gunn at the 2024 AGM, Jackie Arnold assumed the role of Chair and Kelli Fairbrother and Anna Barsby were appointed to the Committee to the positions of Chair of the Board, Chair of PARC and SID respectively. The number of meetings held in the year was four.

The Committee's attendance record is set out above. Details of the skills and experience of the Committee members can be found in their biographies on pages 69-71. The Committee is also attended by the Chief People & Sustainability Officer, the Chief Executive Officer, the Chief Financial Officer and the Society's Secretary. The Committee meets four times a year in January, April, July and October and, additionally, as and when required.

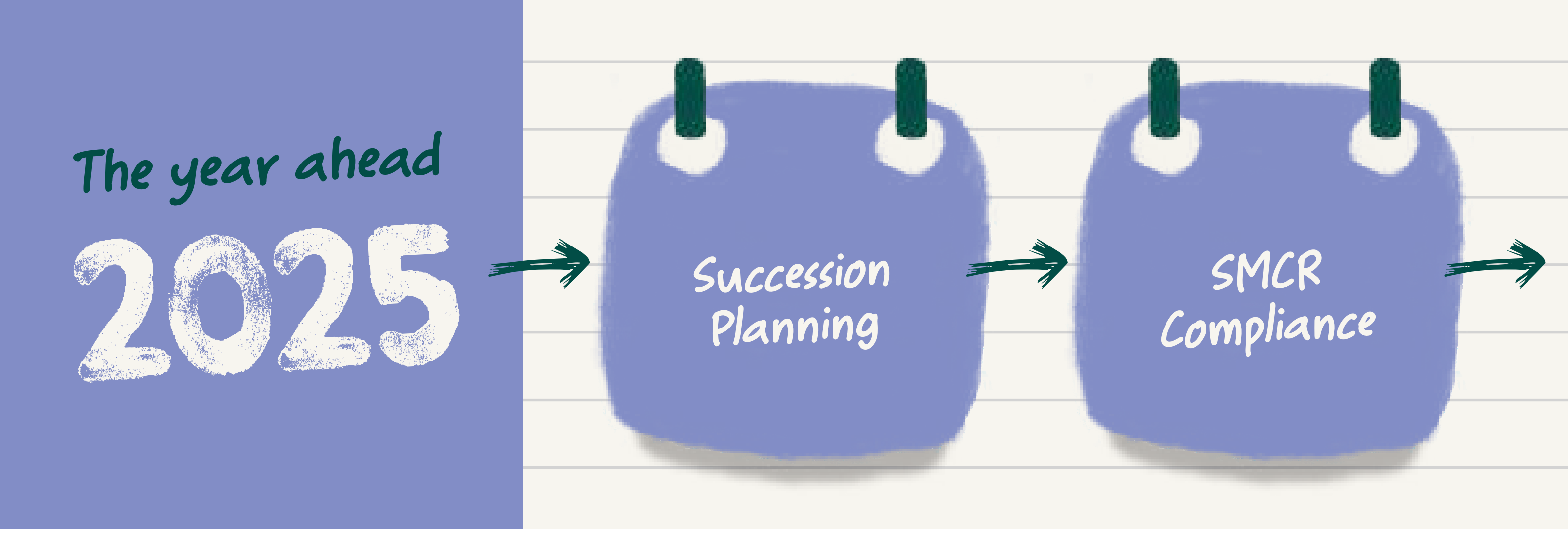
The Committee focusses on the orderly succession of and appointments to the Board, Board related policies, SMCR compliance and the continuing effectiveness of the Society's governance framework with diversity and inclusion and wider succession planning being considered by PARC. More detail on the Committee's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

The Board conducts an annual assessment exercise to review the effectiveness of the Board and the Board Committees and highlight any areas which should be improved. During 2025, given the significant changes to Board and Committee Chairs, and to the position of SID, the Committee considered a formal Board effectiveness review would not give sufficient time to allow the changes in corporate governance to become effective. The Committee therefore considered the effectiveness of the Board using feedback from directors, the CPSO, and the Secretary. No significant matters were identified and no matters relevant to Board composition were raised.

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

Those non-executive directors, who have served at least six years on the Board, are subject to a particularly rigorous performance evaluation in line with the Code's requirements. All directors were appraised during the year and the Board is of the view that all directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the AGM 2025.

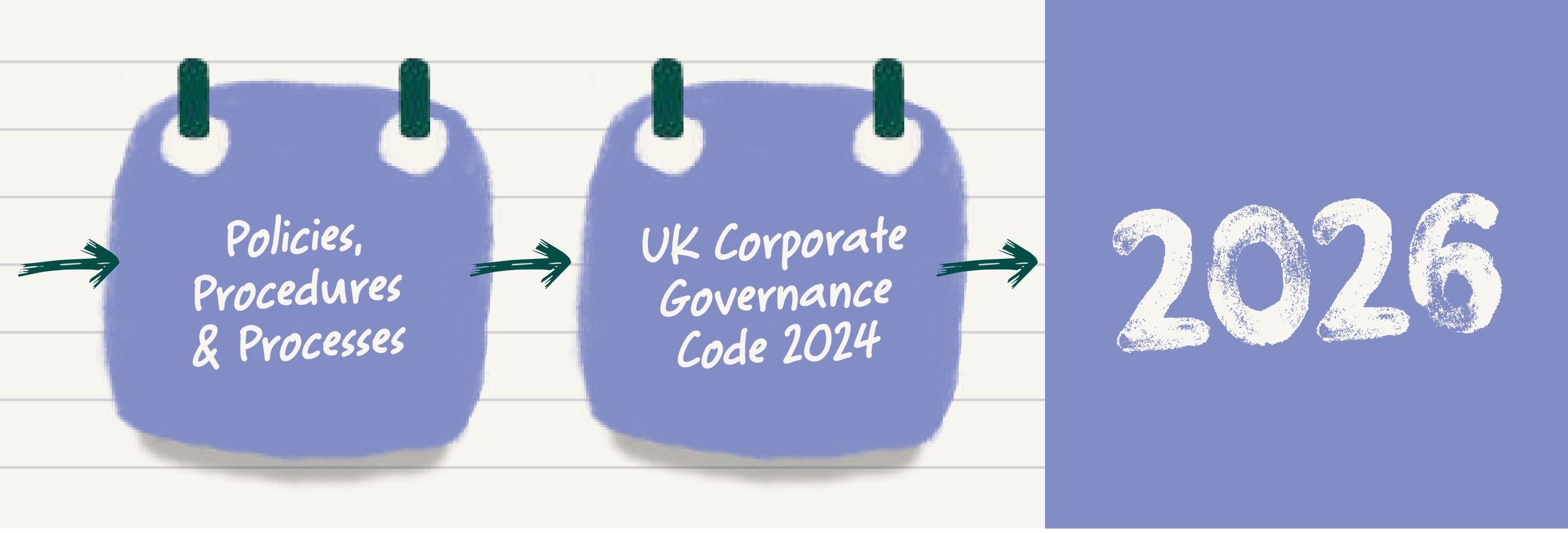
In relation to diversity and inclusion, the Committee works closely with PARC, which oversees diversity and inclusion throughout the organisation (see Report of PARC on pages 98-111) and all appointments to the Board comply with the Society's diversity and inclusion policy.




# REPORT ON THE YEAR

**NGC focussed on the following key areas during the year:**

| Areas of Focus | Committee's Response |
|---|---|
| **Appointments** | The Committee oversaw the appointment of Richard Pike in June 2024. |
| **Succession Planning** | The Committee considered and discussed a plan for succession for Board and Board Committee roles, this year focusing on Board Committee membership following the appointment of Richard Pike and the changes in Chair positions and SID. The Committee also considered CEO succession. |
| **Board Procedures** | The Committee considered and approved revised operating procedures for the Board and the induction of new non-executive directors. |
| **Board Skills and Experience** | The Committee facilitated a review of the skills and experience of Board members and those required to support the Society's strategy and considered the results. |
| **Fee Benchmarking** | The Committee conducted an independent external review of Non-Executive fees, which highlighted that the Society provided appropriate remuneration to Non-Executive Directors. |
| **Status of Directors** | The Committee considered the independence status of directors and whether they were eligible for election at the AGM. |
| **SMCR Compliance** | The Committee monitored the progress of applications and allocation of responsibilities under the Senior Manager & Certification Regime and approved the Society's Management Responsibilities Map each time it was updated. |
| **UK Corporate Governance Code 2024** | The Committee considered the changes to the UK Corporate Governance Code, and the changes the Society would need to make in order to continue to have regard to the Code in line with updated BSA Guidance. |
| **Delegation of Authority Framework** | The Committee considered, and recommended to Board for approval, a revised Delegation of Authority Framework. |






**NGC will focus on the following key areas during 2025/26:**

| Areas of Focus | Committee's Response |
|---|---|
| **Succession and CEO Succession Planning** | The Committee will focus on the effective embedding of the new Chair and Committee memberships and Chairs. Following the announcement of the retirement of the current CEO in the summer of 2026, the Committee will also ensure the CEO succession process is robust to ensure the appointment of a suitable candidate and a smooth transition. |
| **SMCR Compliance** | The Committee will continue to monitor the progress of outstanding applications under the Senior Manager & Certification Regime and consider the Management Responsibilities Map twice in the year. |
| **Policies, Procedures and Processes** | The Committee will consider policies, procedures and processes, including the Delegation of Authority Framework, related to the Board as part of its annual cycle to ensure they remain effective and to drive continuous improvement. |
| **UK Corporate Governance Code 2024** | The Committee will oversee the Society having regard to the UK Corporate Governance Code 2024, which is applicable in part from 2026 and in full from 2027. In line with BSA Guidance, the Society will adopt a proportionate approach and utilise the existing comprehensive control and monitoring frameworks it has in place as a dual-regulated financial services firm. |

**On behalf of the Nomination and Governance Committee**

**Jackie Arnold**

**Chair**

**3 June 2025**

# BOARD RISK Committee Report


## CHAIR'S INTRODUCTION

**Dear Member,**

As Chair of the Board Risk Committee, I am pleased to present the Committee's report for the financial year ended 31 March 2025.

This year the Board Risk Committee has focussed on overseeing an evolving set of risks. This includes balancing the safe risk management of the Society's day to day activities with the risks of our transformation plans, and ensuring the right level of control and governance is in place to deliver the incredible opportunity this venture presents for the Society, our customers, and colleagues alike. In addition, in a period of economic and regulatory change we have taken opportunities for growth, and overseen Cumberland's exciting expansion into new FSOL sectors.

To keep perspectives fresh, a Board Risk Committee should refresh its membership periodically. After a number of years as a BRC member, Mark Stanger has left this role; he remains chair of the Audit Committee. We were delighted to welcome Anna Barsby and Richard Pike as new Non-Executive Director members, and have already benefitted from their wealth of transformation, credit risk and trading experience.

In every decision we make, we place the customer at the centre of our thinking – the ethos of the committee is geared towards the safe stewardship of the Society day-to-day. Challenges we saw in the previous financial year have continued, therefore we have retained focus on monitoring any emerging economic or competitor pressure, protecting our customers from fraud and financial crime risk, and overseeing the continued strengthening of the Society's operational resilience as we approached the important March 2025 regulatory deadline. We have been pleased to note how the maturity and quality of the risk processes, culture and teams have helped protect the Society and given the transparency that underpins us overseeing risk management effectively.

A further focus in the year has been our oversight of our vehicle financing business, Borderway, as we consider implications for the whole industry from the FCA review and UK Court judgements. Here we have ensured our investigation has been thorough, and where risk exists that we may not have always got things right, we have put into place the foundations and processes to respond to the FCA's findings swiftly and if necessary make things right for our customers ensuring any issues are not repeated going forward.

There has been regular and welcome engagement with the regulators throughout the year. This has included two visits from the PRA covering governance, and capital and liquidity, and a visit from the FCA focused on our transformation plans in January. As transformation progresses and key regulatory deadlines for Basel 3.1 / SDDT come closer, we anticipate further engagement and welcome the feedback opportunity this provides.

The past year has been exciting and challenging, and we fully expect next year to be even more so. The decisions the committee must make often need careful thought to get the balance right, but the remarkable strength and depth of experience and knowledge amongst committee members helps ensure we can oversee these complex matters effectively.

I look forward to working with the team to help deliver the next stage of The Cumberland journey.

# WHO SITS ON THE COMMITTEE

| CAMERON MARR (CHAIR) 7/7 | MARK STANGER (resigned July 2024) 3/3 | VICKY BRUCE 7/7 | ANNA BARSBY (appointed July 2024) 5/5 | RICHARD PIKE (appointed July 2024) 4/5 |
|---|---|---|---|---|

# HOW THE COMMITTEE WORKS

The Board Risk Committee comprises independent Non-Executive Directors whose attendance record is set out above. Details of the skills and experience of the Committee members can be found in their biographies on pages 69-91. The Committee is scheduled to meet four times a year in January, April, July, and October, and additionally as and when required. The Committee is also attended on a standing basis by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Customer Officer, Chief Operations Officer, Chief Information & Transformation Officer and the Head of Internal Audit. The committee receives a report from the Chief Risk Officer at each meeting, with subject matter experts also invited to present on a variety of topics.

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

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

# REPORT ON THE YEAR

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

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

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

***The Committee also delivers the following:***

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

## KEY AREAS OF FOCUS DURING THE YEAR

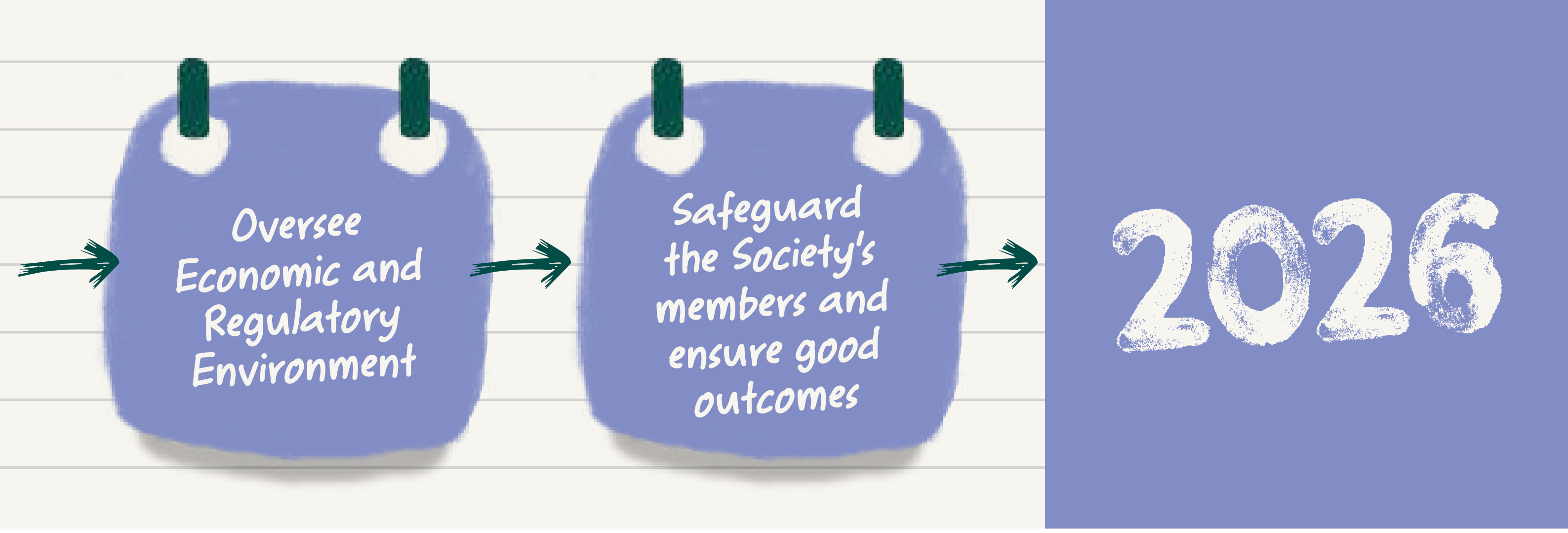
BRC focussed on the following key areas during the year:

| Areas of Focus | Committee's Response |
|---|---|
| RISK MANAGEMENT FRAMEWORK<br>**The Cumberland is a prudent business that ensures compliance with all applicable laws and regulations and maintains a robust control environment delivered through a consistently applied Risk Management Framework.** | • Continued oversight of Risk Management Framework embedding in the Society, including self-assessment of Board Risk Committee effectiveness and identifying training requirements, such as Artificial Intelligence.<br>• Reviewed and approved key risk management policies.<br>• Agreed appropriate risk appetite measures to continue to inform governance of risk management performance. |
| TRANSFORMATION RISK<br>**The risk of loss or failure from formally managed project activities that seek to maintain, improve or deliver change in the Society's capabilities.** | • Separate Board Risk Committee section to oversee progress and risks of the New Cumberland transformation and the programme governance.<br>• Receive feedback from 2nd Line and 3rd Party assurance reports into transformation, including programme risks and lessons learned from TSB, Co-operative Bank et al.<br>• Oversight of each critical programme milestone in agreeing vendor, requirements, and delivery plan.<br>• Assessment of BAU change prioritisation and risk. |
| CONDUCT RISK<br>**The risk that poor customer outcomes arise or may arise, from the operations of the Society and/or its third party contractors.** | • Oversaw continued embedding of the Consumer Duty.<br>• Close review of our Conduct Risk MI to ensure strength of frameworks in place to oversee customer outcomes.<br>• Received and discussed reports on customer outcome testing. |
| REGULATORY RISK<br>**The risk that the Society makes errors or exercises inappropriate judgement in the execution of its business activities, leading to non-compliance with regulation or legislation or voluntary codes of practice potentially leading to unfair outcomes for customers and/or regulatory sanction and/or reputational risks materialising.** | • Supported proactive and positive engagement with our regulators, including oversight of feedback following FCA and PRA visits.<br>• Assessed the annual Money Laundering Reporting Officer report and monitored implementation of recommendations, including projects.<br>• Considered potential impact on Borderway of current FCA and Court examination of discretionary commissions in the motor finance industry.<br>• Reviewed the outputs of regulatory horizon scanning and FCA and PRA business plans, alongside oversight of delivery of the operational and regulatory changes required to remain compliant.<br>• Continued oversight of data protection at the Society. |

# The year ahead 2025

Monitor risks arising from New Cumberland → Re-assess Risk appetite →

| Areas of Focus | Committee's Response |
|---|---|
| **STRATEGIC RISK**<br>**The risk of current or prospective impact on the Society's earnings, capital, reputation or standing arising from changes in the environment the Society operates in.** | • Received quarterly reports examining strategic risks, with particular emphasis on Society navigation of macro-economic risk.<br>• Reviewed our Strategic Risk Register to ensure risks arising in the external environment are well understood with appropriate monitoring and actions in place. |
| **CREDIT RISK**<br>**The risk that a borrower fails to pay interest or to repay capital on a loan and/or that a counterparty fails to meet their contractual obligations to repay the Society or fails to perform their obligations in a timely manner.** | • Oversaw continued prudent lending standards as we manage the impact of the UK economic position and long-term market trends.<br>• Tracked portfolio performance particularly in respect of arrears and forbearance.<br>• Provided oversight and challenge of lending criteria.<br>• Reviewed the annual Climate Risk Portfolio Analysis report. |
| **FINANCIAL RISK**<br>**The risk of the Society having inadequate earnings, cashflow or capital to meet current or future requirements and expectations.** | • Working closely with the Assets and Liabilities Committee (our key financial risk meeting) and the Board, BRC maintained oversight of financial risk metrics and regulator engagement, with particular focus on changing prudential regulation, and the liquidity and funding position of the Society. |
| **OPERATIONAL RISK**<br>**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.** | • Considered the continued embedding of our risk and control processes, including the annual Risk and Control Self-Assessment and oversight outcomes.<br>• Oversaw and challenged key enhancements of Information Security, Technology and Third Party Supplier risk management.<br>• Monitored progress against key Operational Resilience requirements as the Society further enhanced capability in advance of transformation.<br>• Assessed Fraud control effectiveness and steps being taken to continually develop in order to keep our members safe. |






# THE YEAR AHEAD

Over the next two years, the forward-looking role and experience of the Board Risk Committee will continue to be crucial as we move through the design and build phase of our New Cumberland transformation. This will be a demanding balancing act, to robustly oversee the risks of transformation whilst also retaining the strength of controls in our day-to-day activities and guiding our risk management strategy.

The committee will continue to play a key role in transformation and other vital change, providing oversight of plans and their delivery, including timeliness, quality, and value for money. We will also continue to seek specialised support from 3rd party assurance firms. Combined, this will deliver on-going assessment of effectiveness of delivery against the strategic objectives that have been set and help ensure we get the priority calls right.

As we progress transformation, we also anticipate the economic environment will continue to pose some risk to our personal and business customers alike. This means we will continue to closely monitor the financial and credit risk status of the Society, and oversee the actions taken to address any emerging risks. We know regulatory change will be a constant as well, so our focus on this area will remain equally strong.

The coming year promises to be both central to the development and wellbeing of the Society, and tremendously exciting as we look to grasp the opportunities transformation will bring. The committee is well placed to provide the oversight, guidance, and balance this will need to help the Society navigate this busy period for the benefit of all our members.

**On behalf of the Board Risk Committee**

**Cameron Marr**

**Chair**

**3 June 2025**

# AUDIT
## Committee Report

## CHAIR'S INTRODUCTION

**Dear Member,**

As Chair of the Audit Committee, I am pleased to present the Committee's report for the financial year ended 31 March 2025.

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

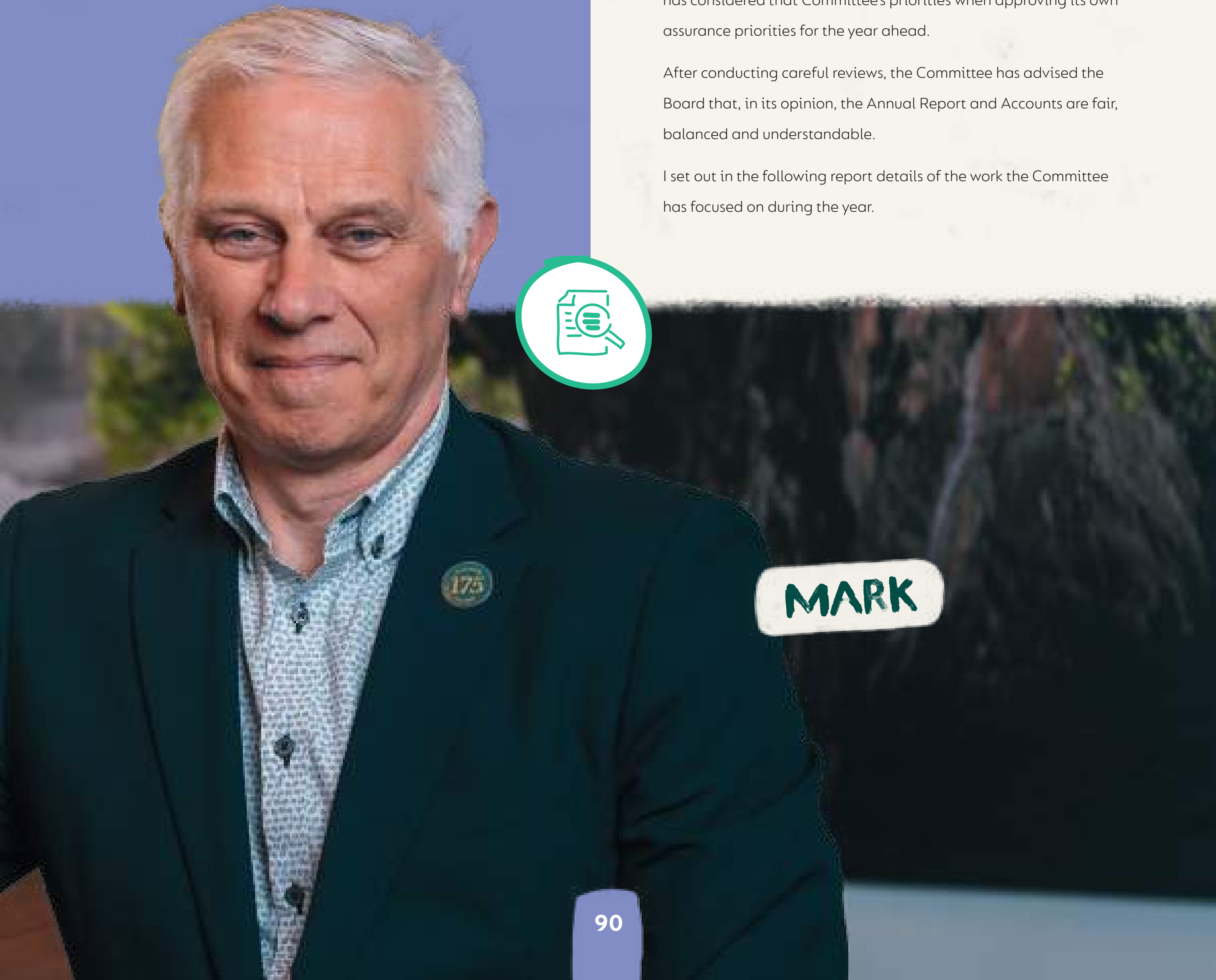
The Audit Committee plays a key role in overseeing many aspects of the Society's activities and performance. In particular, oversight of financial reporting matters, the working of both internal and external auditors, and procedures for whistleblowing and monitoring the effectiveness of internal controls.

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

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 strong 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 focused on during the year.



# WHO SITS ON THE COMMITTEE

| MARK STANGER (CHAIR) | JACKIE ARNOLD *(resigned July 2024)* | VICKY BRUCE | KELLI FAIRBROTHER *(appointed July 2024)* |
|---|---|---|---|
| 8/8 | 4/4 | 8/8 | 4/4 |



# HOW THE COMMITTEE WORKS

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

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

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

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

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

The Committee works closely with the Board Risk Committee, as some matters are relevant to both Committees and the attendance of the Chief Risk Officer at Audit Committee facilitates this work.

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

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

The Committee reports to the Board on these matters during the year. After each meeting, a Chair's report is produced and 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, Borderway's provisions for Vehicle Finance Commission matters 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 2025 by:

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

# KEY AREAS OF FOCUS DURING THE YEAR

The significant judgements, issues and actions taken by the Committee in relation to the Annual Report and Accounts for the year ended 31 March 2025 are outlined below. Each matter was discussed with the external auditor during the year and, where appropriate, have been addressed as areas of audit focus in the Auditors' Report.

| Areas of Focus | Committee's Response |
|---|---|
| **Accounting Policies** | The Committee reviewed the Society's accounting policies and confirmed they were appropriate to be used in the financial statements. In preparing the financial statements, there are inevitably material areas in which significant judgements are necessary, and the Committee considered these in detail. This year, these included:<br>i) ensuring our approach to hedge accounting under FRS 102 (IAS 39) remained consistent; and<br>ii) reviewing the method to account for the revenue from amortised cost financial instruments on an effective interest rate basis under FRS 102.<br>No new accounting policies were adopted this year. The changes to lease accounting under FRS102 come into effect for accounting periods commencing after 1 January 2026. |
| **Going Concern and Business Viability Statement** | The Committee reviewed and recommended to the Board the use of the Going Concern basis of preparation for the Annual Report and Accounts and the attendant Going Concern and Viability Statements, having assessed and challenged the basis for the conclusions management had reached. The detailed viability statement can be found on pages 58-62 and the Board's Going Concern Statement on page 129. |
| **Fair, Balanced and Understandable Report and Accounts** | The Society's Annual Report and Accounts, taken as a whole, must be fair, balanced and understandable. The Committee assessed the financial statements and was satisfied that they portrayed both successes and challenges, fairly represented the results and business performance, and that 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.<br>After consideration of management's report and the Committee's own review, the Committee concluded that it could inform the Board that, in its opinion, the Annual Report and Accounts were fair, balanced and understandable. |

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

| Significant Estimates and Judgements | Committee's Response |
|---|---|
| **Impairment Provisions for Loan Portfolios and Related Disclosures** | The Committee oversaw the outcomes of management's assessment of loan loss provisioning at 31 March 2025. It noted that management had used a consistent modelling approach for loans fully secured on residential properties, though it had refreshed the underlying data sets the modelling is based on, now we have passed through the idiosyncratic impact of Covid-19 and the UK wide measures that supported customers. It also evaluated management's approach to overlays, in light of the impact of inflation, higher interest rates and the attendant cost of living squeeze. After due consideration, the Committee supported removal of in-model adjustments to probability of default and probability of possession given default reflecting the limited impact the recent period of high inflation has had on our borrowers and arrears level, and to avoid overly conservative outcomes.<br><br>It was also noted that the use of forbearance remained limited and arrears were low, though the latter had modestly increased year on year.<br><br>In relation to loans fully secured on land, which is our commercial portfolio focused on tourism and hospitality, the Committee noted a decrease in collective provisions reflecting a consistent removal of our historic overlay for the impact of inflation and cost of living. The Committee also noted the specific provisions recorded, which had reduced in size and number for a second year based on successful resolution of customer difficulty or re-banking away from the Society, validating our ongoing investment in this area of our commercial team.<br><br>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 2025, management had calculated a suitable best estimate. |
| **Impairment of Investment Properties and Buildings within Fixed Assets** | At 31 March 2025, the Society continued to hold a portfolio of non-operating property, reduced through successful sale of a further property. In this context, the Committee noted that the Group had obtained independent, external valuations to support the values of investment properties recognised at 31 March 2025. The Committee was therefore pleased to note that no impairment charge was required this year. A modest loss on sale was seen on the property sold and three properties were transferred to the portfolio as we reshaped our Carlisle branch footprint. These properties were then fair valued. |
| **Provisions for Commissions on historic vehicle finance sales via dealers** | At 31 March 2025, Borderway Finance, the Society's sole operating subsidy, increased its provision for the potential redress of historic commission vehicle finance offered through dealers to £1,564k, recording a charge of £1,287k. The provision booked included our assessments of the Court of Appeal's separate but linked judgment noting that this is being challenged in the High Court. The Committee noted that the provision had risen for 3 reasons: the passage of time (increasing the impact of penalty interest); the new Court of Appeal matter; and most significantly, a move to a probability weighted model of 4 potential redress scenarios, including the potential for a proactive industry wide scheme for DCAs. |

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

| Controls | Committee's Response |
|---|---|
| **Control Environment** | The Committee continued to monitor the overall effectiveness of the Society's control environment during the year by reviewing reports from Internal Audit, External Audit and updates from management in respect of the design and effectiveness of the systems of control in place to manage risks.<br><br>During the year, the Committee, through Internal Audit and other management information and insight, reviewed the controls in operation for: business change, operational resilience, suspense accounts, the distribution network, product governance, customer outcome testing, regulatory reporting – FCA, regulated lending, IT change & outsourcing, the Project Management Office (PMO) and the Security Operations Centre (SOC) team. Internal Audit utilised the services of third party partners to provide specialist/expert support, input and promote knowledge transfer.<br><br>Supported by the work of Internal Audit and the opinion of the Head of Internal Audit, the Committee concluded that the overall control environment remains appropriate and effective while noting that it will be strengthened further by our ongoing change and transformation agenda and that Deloitte had adjusted their testing approach due to in year deficiencies in respect of user access reviews and privilege levels. |
| **Risk Management** | The Committee had a particular focus in the year on risk management receiving presentations from internal and external Risk professionals on Risk Culture and the developments taking place in the broader market as well as within the Society. |
| **New Cumberland Transformation** | Internal Audit continued to provide independent assurance over New Cumberland. Due to the complexity of this activity, Internal Audit utilised the services of an expert third party with the outcome of these assurance reviews reported to both Audit Committee and Board Risk Committee. Given the critically of the Society's transformation activity, Internal Audit will continue to undertaken periodic reviews at key stages in the programme. |
| **Consumer Duty** | The Committee, in meeting its regulatory responsibilities, continued its overview of the Society's conduct risk management arrangements by reviewing the outcome of Internal Audit's review of the Customer Outcome Testing and Product Governance. The principles underpinning the Consumer Duty continue to be relevant too and factored into Audit Committee discussions. |

## 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. Additionally and in accordance with good practice, the Audit Committee also requires an external effectiveness review of the Internal Audit function at least every five years, which considers the quality, experience and expertise of the function. A review was carried out during 2024 by an external firm appointed by the Audit Committee. In performing their review, information was gathered from a variety of sources including interviews with key business stakeholders, and the Internal Audit team, and a review of key documentation covering all aspects of the operation of the Internal Audit function (including file reviews). The review concluded that Internal Audit was operating effectively and confirmed that the Internal Audit function conforms to the standards expected by the Institute of Internal Auditors.

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 2025 financial year. The Audit Committee is advised of the audit's proposed materiality level in advance of the annual audit.

## 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 2025 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 2025 financial year, no requests to use the external auditor for non-audit services were made.

Matthew Bainbridge of Deloitte LLP is the Society's statutory auditor for the 2025 financial year. This is Matthew's fourth year as The Cumberland's statutory auditor.

Deloitte's report can be found on pages 117-124.

## Audit quality and materiality

The Committee has a responsibility for reviewing the quality and effectiveness of the external audit. Due to the ongoing focus on audit quality from the FRC and the ever more detailed work expected to be carried out by the external auditor, there has been a further uplift, in the external audit fee. Despite this uplift and after benchmarking the new fee levels with the experience of its peers and having completed a formal re-tender last year, the Committee has decided to stay with its current external auditor.

It noted the sustained quality of Deloitte's outcome for FRC reviews was a key factor in their re-engagement last year. 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 2025, overall audit materiality was set by Deloitte at £1.4m (2024: £1.4m).

The fees paid to Deloitte for the year ended 31 March 2025 totalled £542k for audit services (2024: £430k). No fees were paid for non-audit services. The total fees are set out in note 6 to the financial statements.

## The year ahead 2025

Oversight of external auditor's planning → Internal controls →

### Audit effectiveness

The Committee reviews the effectiveness of the external audit process on an annual basis taking into account management feedback. This review confirmed that the external auditor was performing its duties in an independent and effective manner, with some areas for consideration identified and fed back to the statutory auditor. As part of the audit tender process conducted last year, Deloitte committed to the bringing of further insight to the Committee in order to support the effectiveness of its work and we have benefitted from this input at both Audit Committee and Board Risk Committee through invitations to other Non-executives to attend insight sessions.

In 2026, the Audit Committee will continue to focus on its oversight of the financial reporting and internal controls of The Cumberland. A key area of focus for the Committee will be understanding how management continues to embed the Risk Management Framework across the wider Society. In the challenging and competitive environment in which The Cumberland operates, the Audit Committee remains committed to its vital role in overseeing the integrity of financial reporting and the effectiveness of controls.

**On behalf of the Audit Committee**
**Mark Stanger**
**Chair**
**3 June 2025**

Externally supported internal audit review of New Cumberland → Integrity of financial reporting → 2026

> *The Cumberland's highly competitive mortgage and savings products enabled us to grow in 2025. Mortgage lending and savings balances increased and our balance sheet exceeded £3.3bn at the year-end, an all-time high.*

**Jackie Arnold, Chair**

# PEOPLE, REMUNERATION and CULTURE Committee Report

## CHAIR'S INTRODUCTION

**Dear Member,**

As Chair of the People, Remuneration and Culture Committee (PARC), I am pleased to present the Committee's report for the financial year ended 31 March 2025. PARC assists the Board by overseeing all people related matters at the Society, including remuneration and culture. I set out in this report details of the work the Committee has focused on during the year. This report includes the Report on Directors' Remuneration, which explains the remuneration policies for executive and non-executive directors and how the Society has regard to the principles of the UK Corporate Governance Code.

## WHO SITS ON THE COMMITTEE

| KELLI FAIRBROTHER (CHAIR) | ANNA BARSBY | MARK STANGER | JACKIE ARNOLD *(resigned July 2024)* |
|---|---|---|---|
| 6/6 | 6/6 | 6/6 | 3/3 |

# HOW THE COMMITTEE WORKS

PARC comprises independent non-executive directors, whose attendance record is set out above. This year Kelli Fairbrother succeeded Jackie Arnold as Chair of the Committee. Details of the skills and experience of the Committee members can be found in their biographies on pages 69-71. The Committee is scheduled to meet four times a year, one week ahead of Board, in January, April, July and October and, additionally, as and when required. The Committee is also attended on a standing basis by the Chief Executive Officer, Chief Financial Officer and Chief People and Sustainability Officer. Following each meeting, a written report is provided to the Board by the Chair of the Committee, summarising activities undertaken, areas where the Committee had challenged management and key decisions taken.

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

# REPORT ON THE YEAR

The purpose of the PARC is to ensure:

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

The Committee continued with its responsibility for diversity and inclusion under its Belonging Strategy which was first approved by PARC in October 2023. **The Belonging Strategy,** which is underpinned by a three-year action plan, centres around us continuing to build a culture of belonging where our people have opportunity, visibility and voice – a place of work where everyone feels valued.

WE ARE BUILDING A CULTURE OF

**BELONGING**

*where our people have*

**OPPORTUNITY, VISIBILITY and VOICE.**

*A place where everyone feels*

**VALUED.**

and


We are proud of the broad range of work the Committee has delivered on Belonging that includes, neurodiversity, wellbeing, gender and diversity of thought as part of our annual cycle.

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

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

- PARC continued work on reviewing the benefits we offer to our colleagues in line with our purpose and values, continually considering how we might enhance these in a meaningful way and this year's outcomes included further progression of our Family Friendly Policies.
- PARC received an annual review of our Gender Pay Gap which continues to incrementally improve.
- The Committee was able to consider and reflect on the range of learning interventions offered and how colleagues access these.
- The work on succession planning was developed with a focus on future talent and transformation readiness alongside core capabilities and regulatory and professional training.
- PARC continues to consider how best to engage with colleagues. A highlight was achieving three star world class status in our annual Best Companies colleague survey, The Committee was able to explore the factors leading to us achieving this, share best practice and celebrate the success amongst our teams. These results follow steady progression over a number of years.
- PARC welcomed and continued to support the progressive work around the Wellbeing agenda as not only core to our remit as a responsible employer but also central to how we develop the right mindsets to enable our people to flourish professionally.
- PARC received an annual update as part of the commitment of the Board to redress the gender balance at senior level. We are a partner in the Women in Banking and Finance network (WIBF) and have committed and exceeded progressive targets for female representation at senior levels as a signatory to the HM Treasury Women in Finance Charter. When we signed up to the Charter in October 2018, we had 19% female representation at Board and Executive Level. Based on our data at 30 September 2024, we were cited in the charter as one of 34 signatories who have met their targets ahead of their deadline with 50% representation at senior level. In the same report our best practice in relation to flexible working approaches and the voice sessions hosted by our COO to develop diversity of thought in meetings were highlighted. To be recognised at industry level is of key importance to us as it highlights that we are making a difference and it is making us more attractive to high performing individuals in our sector.
- Our Belonging approach also aims to improve diversity of certain teams with a focus on male representation, together with consideration of how we best support male colleagues.

**As at 31 March 2025, the gender balance of the Society's Board, Senior Leadership Team and their direct reports, is as follows:**

| | Male | | Female | |
|---|---|---|---|---|
| | **2025** | 2024 | **2025** | 2024 |
| Board[1] | **5/9 (55%)** | 6/10 (60%) | **4/9 (45%)** | 4/10 (40%) |
| Senior Leadership Team[1] | **4/7 (57%)** | 4/7 (57%) | **3/7 (43%)** | 3/7 (43%) |
| Extended Leadership Team | **16/30 (53%)** | 14/28 (50%) | **14/30 (47%)** | 14/28 (50%) |

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

# REPORT ON THE YEAR

**PARC focussed on the following key areas during the year:**

| Areas of Focus | Committee's Response |
|---|---|
| **Remuneration** | The Committee reviewed and approved the Society's reward philosophy and remuneration principles, including the roles considered to be Material Risk Takers, and oversaw compliance with the FCA and PRA Remuneration Codes.<br><br>The Committee considered the approach to the annual cost of living increase for all colleagues and made a recommendation to Board for an Annual Pay Award for all colleagues, effective 1st April 2025 of 3%, with upward adjustments where necessary to meet our commitment to the Real Living Wage.<br><br>The Committee oversaw work on retention principles and key person dependencies with a focus on mitigating people risks and retaining key talent through the next phase of our transformation.<br><br>The committee reviewed early work on the development of reward principals and options to simplify our approach to reward structure.<br><br>The Committee approved an increase to the Chair and non-executive director fees in line with the increase awarded to all colleagues and reviewed the external benchmarking conducted by the Nomination and Governance Committee. |
| **Incentive Schemes** | The Committee approved the Senior Leadership Team Incentive Scheme, the Commercial Incentive Scheme, the Heads Of Incentive Scheme, the Distribution Incentive Scheme and the Brighter Performance Incentive Scheme (for all other colleagues). This included calibrating performance against objectives set for 2024/25 and setting objectives for 2025/26.<br><br>With retention as a core consideration, the Committee also reviewed the suitability of remuneration in the context of the Society's transformation programme. It approved the initial performance period outcomes for 2024/25 enabling accrual for that performance period within the context of the Long Term Incentive Plan (LTIP). It also assessed the outcomes of the 2023/24 scheme at the end of the second performance period and the final outcome of the 2022/23 scheme. LTIP is available to a number of its senior colleagues, including executive directors. The first payments to participants in the Group LTIP (relating to the 2022 / 2023 scheme) will be made in July 2025. |

| Areas of Focus | Committee's Response |
|---|---|
| **Benefits** | The Committee received and reviewed enhancements and updates on suitability of benefits provision to colleagues. PARC approved further enhancement to our Family Friendly policies, primarily focussed on those colleagues with carer responsibilities to take into account legal changes. PARC noted the increased cost of benefit provision in some key areas such as life insurance. |
| **Diversity and Inclusion** | The Committee received the first annual update on the Belonging Framework and Roadmap which had been approved in October 2023.<br><br>This approach is underpinned by "building a culture of belonging where our people have opportunity, visibility, a voice and feel valued".<br><br>As part of the roadmap, the Committee also approved a refreshed Belonging Policy and noted progress on our commitment to the self -population of colleague data through our People Hub.<br><br>The Committee noted the continued refinement of our approach to hybrid and flexible working.<br><br>The Committee also reviewed how we track and progress our diverse talent pool to ensure access to opportunities.<br><br>The importance of our affiliations with organisations such as Women in Finance Charter, Becoming (female leadership programme) and Progress Together (socio economic diversity) was noted by the Committee. |
| **Talent & Succession** | The Committee oversaw the progress of the learning and talent strategy, receiving quarterly updates on progress and an annual consolidated view of the range of learning and talent interventions deployed at the Society including onboarding, performance management, succession, professional and future leadership development. It also received an update on our online Learning Hub designed to deliver quarterly compliance training to all colleagues, with a target of 95% of colleagues to complete compliance training on time each quarter (which was met). The Committee had the opportunity to review the framework and approaches to orderly succession planning and reducing the risk of key person dependency. This review included consideration of emerging talents. |
| **Culture and Engagement** | The Committee reviewed the degree of engagement among colleagues and embedding of the purpose and values within the culture. |

| Areas of Focus | Committee's Response |
|---|---|
| **Wellbeing** | The Committee continued to support our progressive approach to the wellbeing of our colleagues which is now embedded as core to our people approach. Updates were received on the continuous development of initiatives in the mental and physical health space, supported by our Wellbeing Champions, Occupational Health and key external partners who work with us to provide support and guidance. The work in relation to our Wellbeing Retreat Day with sessions on nutrition. physical and mental health alongside therapies such as art were received. Neurodiversity also continued to be a key focus. |
| **Other People Policies** | The Committee considered the Society's people related policies and a roadmap for updating these. |

# REPORT ON DIRECTORS' REMUNERATION

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

Full details of individual directors' remuneration, are disclosed on page 110.

## Non-executive directors

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

## Executive directors

**Fixed Remuneration**

***Base Salary***

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

**Variable Remuneration**

***Benefits***

Executive directors in office at 31 March 2025 are members of a defined contribution pension scheme and are entitled to receive pension contributions towards this, although depending upon their individual circumstances, they may be paid a pension replacement amount. Executive directors are also provided with a car allowance and membership of a private medical insurance scheme.

***Annual Incentive Scheme***

The Committee believes that bonus schemes relating to financial and business performance are an appropriate part of a balanced remuneration package for executive directors, and for the year ended 31 March 2025, agreed a bonus based on key elements of the financial and strategic plan delivered in a way that is consistent with The Cumberland's core values and risk management framework.

### *Long Term Incentive Plan*

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

As a result, PARC completed the annual appraisal of the Long Term Incentive Plan (LTIP) which was introduced in 2022. The performance period outcomes for 2022/23 and 2023/24 were approved, along with the continuation of the scheme for 2024/25, and in April 2025 that period's initial outcomes were assessed.

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

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

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

**An illustration of how the LTIP will operate is set out below:**

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

**2.** Value of award reassessed

**3.** Final value of award under LTIP confirmed

| | FY 2022/2023 | FY 2023/24 | FY 2024/25 | FY 2025/26 | FY 2026/27 | FY 2027/28 |
|---|---|---|---|---|---|---|
| **LTIP 22/23** | No payments made | No payments made | No payments made | **Calculated award paid** | | |
| | Initial Performance Period[1] | Performance Period | Performance Period | | | |
| | Up to 30% of annual basic salary vested | | | | | |
| **LTIP 23/24** | | No payments made | No payments made | No payments made | **Calculated award paid** | |
| | | Initial Performance Period[1] | Performance Period | Performance Period | | |
| | | Up to 30% of annual basic salary vested | | | | |
| **LTIP 24/25** | | | No payments made | No payments made | No payments made | **Calculated award paid** |
| | | | Initial Performance Period[1] | Performance Period | Performance Period | |
| | | | Up to 30% of annual basic salary vested | | | |

[1]During the initial performance period the measures that will apply throughout the three year performance period were set along with the individual value of the award. The measures will be assessed at the end of each year in the performance period resulting in a financial accrual for the relevant cumulative proportion of the estimated award outcome. For LTIP 24/25, a final value of the award will be assessed and confirmed by PARC in April or May 2027.

| Remuneration Policy for Executive Directors | | | |
|---|---|---|---|
| **Element** | **Operation** | **Opportunity** | **Performance Metrics** |
| **Fixed Remuneration** | | | |
| **Base Salary**<br>Provides base salary that is market competitive and reflects the size and complexity of the role | Base salary is normally reviewed on an annual basis. Any changes are normally effective from 1 April. | Base salaries are set taking into account market data for similar roles in comparable organisations. Other factors considered include the individual's skills, experience and performance in the role, and the approach being taken on salaries in the wider organisation. | Not applicable |
| **Benefits**<br>Provide a market competitive and cost-effective benefits package as part of fixed remuneration | Benefits include a car allowance, healthcare and insurance benefits.<br><br>Other benefits may be provided to enable recruitment, retention or relocation. | Benefits are reviewed regularly to ensure they remain appropriate to role and location to assist individuals in carrying out their duties effectively.<br><br>The value of benefits may vary depending on service providers, cost and market conditions. | Not applicable |
| **Pension**<br>Provides post-retirement benefits for participants in a cost-efficient manner | Executive directors receive payments into a defined contribution scheme or a cash allowance in place of pension. | Pension or cash allowances are set as a percentage of base salary.<br><br>The maximum cash allowance payable is currently 14% of base salary. | Not applicable |

| Remuneration Policy for Executive Directors | | | |
|---|---|---|---|
| **Element** | **Operation** | **Opportunity** | **Performance Metrics** |
| **Variable Remuneration** | | | |
| **Directors' Annual Incentive**<br>Rewards achievement of stretching targets for the Society, team and individual for a single financial year | Awards are normally paid in cash following the end of the financial year based on Society performance achieved in the year.<br><br>This element operates in a manner aligned to the scheme for all colleagues. | The targets reflected in the Society's Plan need to be achieved to generate a 'target' award against the Society measures, and exceeded to generate the maximum award.<br><br>The maximum opportunity for the executive directors is 20% of base salary. | The performance measures selected are set on an annual basis by the Committee.<br><br>These will normally reflect a mix of financial and non-financial measures, relating to the strategic priorities of the Society as well as regulatory obligations and risk performance.<br><br>Individual performance (including conduct and behaviours) is also assessed. |
| **Long Term Incentive Plan (LTIP)**<br>To incentivise sustainable long-term performance and alignment with member interests through the retention of key individuals, awards are made annually and only pay out where challenging performance measures are met, normally measured over a three-year period | LTIP awards are discretionary and normally granted subject to the achievement of satisfactory performance over the year prior to being granted. The first awards under the LTIP were granted in 2022/23 with the second awards granted in 2023/24 and third awards in 2024/25.<br><br>Awards are normally subject to a forward-looking three-year performance period from the start of the financial year in which the grant is made.<br><br>Payment of the awards will not start until after the end of this three-year performance period and are subject to the achievement of performance conditions. | For each applicable performance measure for the three-year performance period, the Committee will determine targets by reference to the Society's Plan that need to be achieved to generate a 'partial', 'achieve' and 'outperform' level of award. Performance targets will normally be set annually for each three-year cycle<br><br>The Committee will determine the extent of achievement based on actual performance against the targets set and any other relevant factors the Committee considers appropriate to take account of. | The Committee will take into consideration performance over the initial performance period prior to the grant when determining whether LTIP grants will be made. The pre-grant conditions will normally include an assessment of both Society and individual performance to ensure that the granting of awards is sustainable according to the financial position of the Society and justified on the basis of individual performance, conduct and behaviours. |

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

## LTIP measures

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

## LTIP 22/23

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

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

## LTIP 23/24

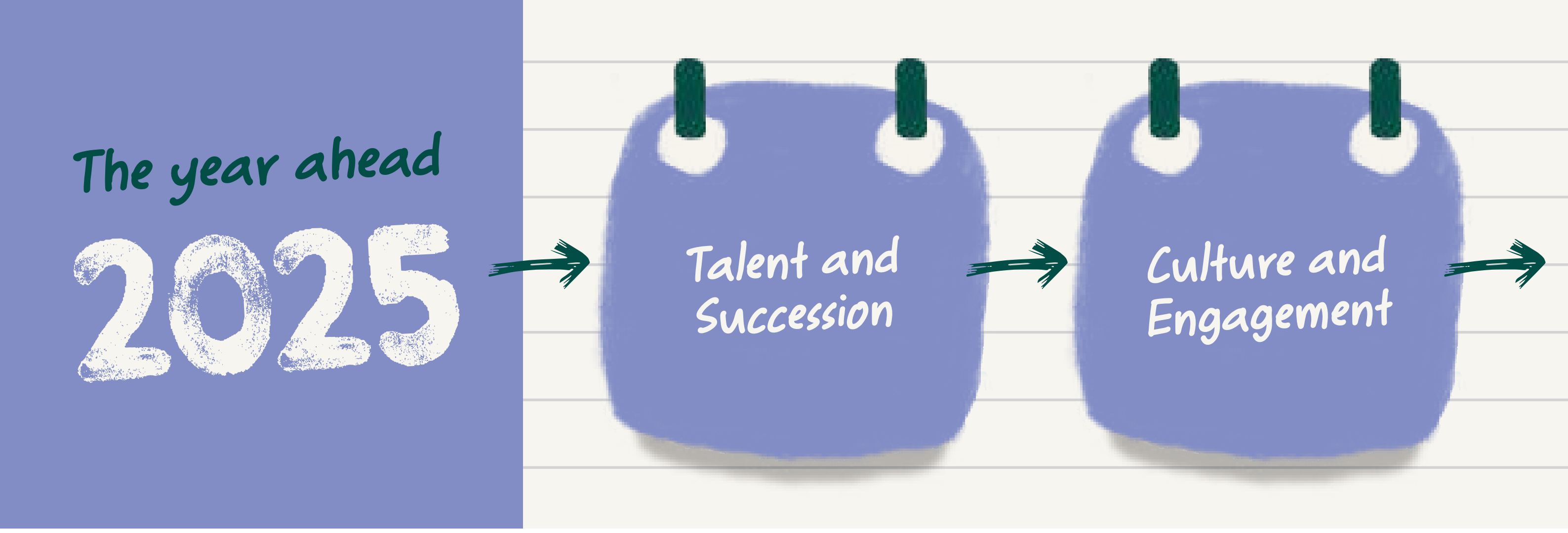
| Objective | Measure | Portion of Award subject to this objective | PARC Assessed Achievement at end of initial performance period | PARC assessed achievement at end of second performance period |
|---|---|---|---|---|
| **Deliver exceptional customer experience consistently** | Measured by Feefo |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

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

## LTIP 24/25

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

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




## Directors' Remuneration

| | 2025 £000 | 2024 £000 |
|---|---|---|
| **Total directors' remuneration** | **1,383** | 1,286 |
| **Non-executive directors' remuneration** | | |
| John Hooper (Chair resigned July 2024) | **26** | 81 |
| Eric Gunn (resigned July 2024) | **15** | 53 |
| Jackie Arnold (Chair appointed July 2024) | **76** | 56 |
| Mark Stanger (Chair of the Audit Committee) | **57** | 50 |
| Vicky Bruce | **49** | 47 |
| Kelli Fairbrother (Chair of the People, Remuneration and Culture Committee) | **54** | 45 |
| Anna Barsby | **51** | 45 |
| Cameron Marr (Chair of the Board Risk Committee) | **53** | 21 |
| Richard Pike (appointed June 2024) | **39** | – |
| | **420** | 398 |

| **Executive directors' remuneration 2025** | **Salary £000** | **Directors' Annual Incentive £000** | **Long-term Incentive Plan £000** | **Pension Contributions £000** | **Pension Replacement Amounts £000** | **Other Allowances £000** | **Total £000** |
|---|---|---|---|---|---|---|---|
| **Des Moore** | **324** | **65** | **85** | **–** | **45** | **13** | **532** |
| **Richard Ellison** | **261** | **52** | **68** | **37** | **–** | **13** | **431** |
| | **585** | **117** | **153** | **37** | **45** | **26** | **963** |
| 2024 | | | | | | | |
| Des Moore | 312 | 62 | 60 | – | 44 | 13 | 491 |
| Richard Ellison | 251 | 50 | 48 | 35 | – | 13 | 397 |
| | 563 | 112 | 108 | 35 | 44 | 26 | 888 |

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.




**PARC will focus on the following key areas during 2025/26:**

| Areas of Focus | Committee's Response |
|---|---|
| **Future Organisational Shape** | Monitor progress on future organisational shape to ensure the Society is able to leverage the capabilties needed as the organisation continues to transform. |
| **Talent and Succession** | Oversee how the Society develops capability to include a focus on both current and future skills, together with continued focus on succession plans, key person dependencies work and continued work on a framework to underpin our knowledge management approach. |
| **Culture and Engagement** | Review plans to continue the high level commitment to how the Society engages its people, alongside receiving timely colleague survey data to measure and inform this. There will be a particular focus on engagement around our New Cumberland programme, the impact of change and maintenance of our culture as we continue to go through change. |
| **Diversity and Inclusion** | Monitor progress of the approved Belonging ambition, strategy and action plan together with tracking the regulatory activity and reporting in this area. Continue with the review of people data to aid workforce understanding. |
| **Reward** | Continue with the work on the Society's Reward Roadmap guided by the reward principals. |
| **Wellbeing and Support** | Review the Society's Wellbeing Strategy and its commitment to support its people. |

**On behalf of the People, Remuneration and Culture Committee**

**Kelli Fairbrother**

**Chair**

**3 June 2025**

# 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:

| | |
|---|---|
| **Jackie Arnold** | Chair |
| **Eric Gunn** | Resigned 22 July 2024 |
| **John Hooper** | Resigned 22 July 2024 |
| **Anna Barsby** | Senior Independent Director |
| **Mark Stanger** | |
| **Vicky Bruce** | |
| **Kelli Fairbrother** | |
| **Cameron Marr** | |
| **Richard Pike** | Appointed 5 June 2024 |
| **Des Moore** | Chief Executive Officer |
| **Richard Ellison** | Chief Financial Officer |

Further information on all of the directors in office as at 31 March 2025 is provided in the directors' biographies on pages 68-71, and their attendance at the Board and Board Committees is set out in the corporate governance and Committee reports on pages 80-111.

All directors not retiring will submit themselves for election or re-election at the Annual General Meeting. None of the directors had an interest in shares in, or debentures of, any subsidiary undertaking of the Society at any time during the financial year.

At 31 March 2025, one director had mortgage loans granted in the ordinary course of business, amounting to £219k (2024: one director, £387k). 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 2025, there were 9 (2024: 6) accounts where payments were twelve months or more in arrears. The total amount outstanding on these accounts was £2.059m (2024: £1.027m), and the amount of arrears was £193k (2024: £194k), which represents 0.007% (2024: 0.007%) 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.

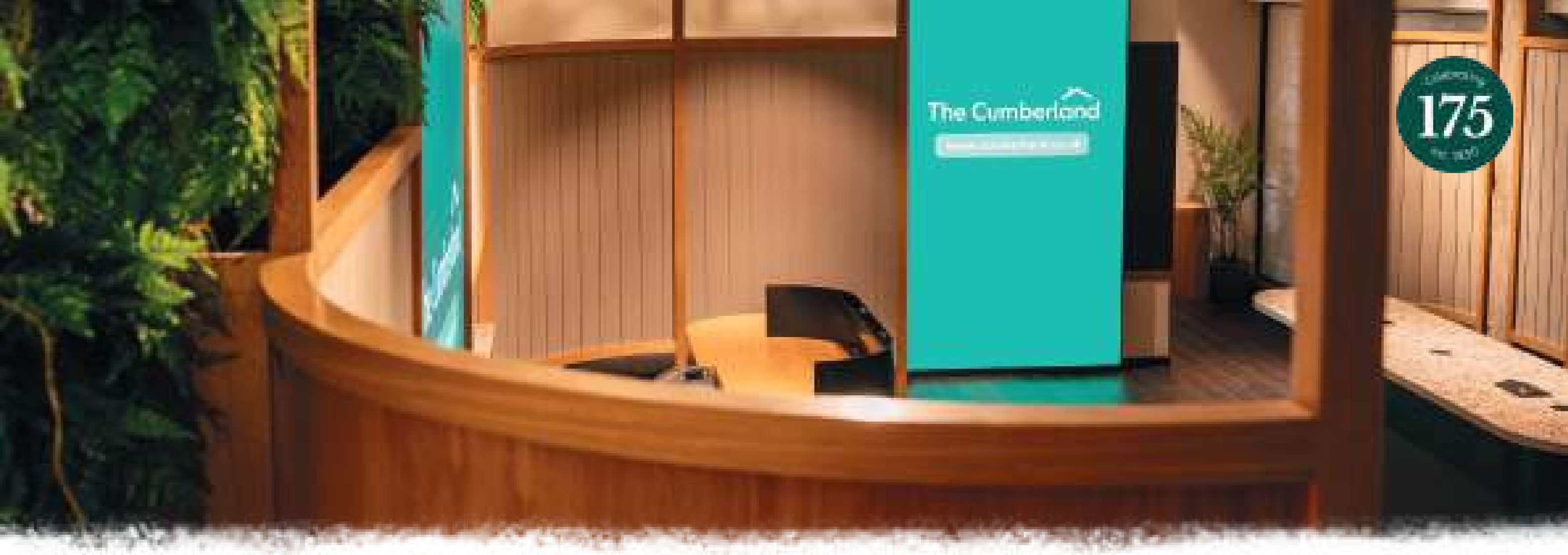
As at 31 March 2025, forbearance measures had been agreed for 23 (2024: 20) residential mortgages with a total balance of £2.850m (2024: £1.945m). Where the Society considers that there is a possibility of a loss, a specific provision is made in accordance with the Society's policies, and the level of 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 42-47 and are discussed in more detail in notes 26 to 30 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 2025, the total amount owed to suppliers was equivalent to 22 days' credit (2024: 25 days).






## Charitable and political donations

During the year, charitable donations of £360,996 were made to a number of organisations within our operating area.

No contributions were made for political purposes.

## Engagement with stakeholders

Please see pages 20-41 of the Strategic Report and pages 77-78 of the Corporate Governance Report.

## Environmental impact and energy efficiency

Please see pages 39-41 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 58-62.

## 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

Jackie Arnold

Chair

3 June 2025

# Statement of Directors' RESPONSIBILITIES

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

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

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

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

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

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

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

## Directors' responsibilities for accounting records and internal control

The directors are responsible for ensuring that the Group:

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

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

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

# FINANCIAL STATEMENTS

**FINANCIAL STATEMENTS** **115**

# 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 2025 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 36 excluding Note 36 for capital structure.

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 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;
- Hedge acounting, and
- Motor finance redress provision.

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

! Newly identified

⇄ Similar level of risk

#### Materiality

The materiality that we used for the Group financial statements was £1.4m (2024: £1.4m) which was determined on the basis of 0.6% (2024: 0.6%) of net assets.

#### Scoping

All components of the Group are operated centrally, and all audit work was performed centrally by the Group audit engagement team.

#### Significant changes in our approach

Following our risk assessment procedures, we identified a new key audit matter in respect of the valuation of the motor finance redress provision. This involved assessing changes in the Group's methodology, judgements and assumptions that were used to estimate the different potential future outcomes of ongoing industry legal rulings and regulatory action which may impact upon customer redress payments.

Due to IT control deficiencies identified, we did not adopt a controls reliance strategy in performing audit procedures over lending and saving balances.

There were no other significant changes in our approach.

## 4. Conclusions relating to going concern

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

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

- obtaining an understanding of the relevant controls around the directors' going concern assessment;
- assessing the directors' considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- assessing the reasonableness of the assumptions, such as cash flows, capital and liquidity, used in the forecasts prepared by the directors;
- assessing the historical accuracy of forecasts prepared by the directors by comparing these to the actual results;
- involving prudential regulation specialists to review the information supporting the directors' liquidity and capital adequacy assessment and stress testing;
- 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;
- reading correspondence with regulators to understand the capital and liquidity requirements imposed on the Group by the Prudential Regulation Authority ('PRA'); and
- assessing the appropriateness of going concern disclosures in the financial statements.

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

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

## 5. Key audit matters

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

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

### 5.1 Loan loss provisioning

#### Key audit matter description

The Group currently holds on its balance sheet £2.5bn (2024: £2.4bn) of loans and advances fully secured on residential property and £250m (2024: £234m) of loans and advances fully secured on land. As at 31 March 2025, the Group held incurred loss provisions of £0.8m (2024: £1.3m) against loans fully secured on residential property and £1.2m (2024: £1.4m) against loans fully secured on land in relation to the incurred losses on these loans.

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

Loan loss provisioning remains one of the most significant estimates made by the directors, particularly in light of the uncertain economic outlook and market conditions at the reporting date.

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 and the age of some of these valuations.

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 13. The associated accounting policies are detailed on pages 129-131 with detail about the associated critical accounting estimates on page 131-132.

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

We obtained an understanding of the relevant controls over the loan loss provisioning process. This included assessment of the risk of inappropriate assumptions being used in the loan loss provisioning models, including how the calibration of the loss given default and probability of default parameters are subject to review and challenge at the credit risk committee.

With the involvement of our real estate specialists, we reviewed the latest collateral valuations and related information used in the specific provision for loans fully secured on land to challenge whether management's estimate of the future cashflows arising from realising the collateral valuations were reasonable. Where appropriate we used externally available information from recent sales of similar properties, our own market knowledge and other relevant forecast information as part of this assessment.

Our wider procedures over loan loss provisioning included:

- reconciling the loan book to the general ledger;
- substantively testing a sample of loans against the underlying mortgage agreements, and recent repayments to bank statement;
- with the involvement of our credit risk specialists, challenging the methodologies and assumptions used within the residential loan loss provisioning model with reference to the historical experience observed by the Group, and evaluating whether the approach generated an output that was compliant with IAS 39;
- consideration of current economic conditions and external market forecasts to benchmark the Group's assumptions relating to future house price index (HPI) which may affect the recoverable value of collateral; and
- reviewing management's loan loss provisioning models for mechanical accuracy and consistency of inputs to management's judgement papers and challenged their reasonableness against historical default experience.

#### Key observations

Based on our audit procedures, we concluded that the Group's provisions recorded against loans and advances fully secured on residential property and land are reasonable.

### 5.2. Hedge accounting

#### Key audit matter description

The Group applies hedge accounting using macro-hedge fair value relationships in order to minimise the volatility arising from fair value movements on its interest rate swaps in the income statement. As the macro-hedge evolves, hedged items and the associated derivatives, are designated to, and periodically rebalanced within the hedge relationship. The fair value adjustment to the hedged mortgage item in the balance sheet at 31 March 2025 was a liability of £13.7m (2024: £34.3m).

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

We consider the most significant areas of judgement within the Group's hedge accounting to be the accuracy of management's approach for transforming loan data, including cashflow scheduling, behavioural overlays for non-contractual prepayments, and designation of hedging instruments, errors in which create the risk that hedged items designated and subsequently de-designated from hedging relationships are not recorded and/or amortised correctly.

The fair value adjustment to hedged items and the fair value of derivatives are detailed within notes 5, 12, 21 and 31. The Group's associated accounting policies are detailed on pages 129-131.

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

We obtained an understanding of the relevant controls over the hedge accounting process. This included assessment of the key management review controls.

With the involvement of our financial instrument specialists we:

- performed a review of the hedge accounting process, including management's approach for transforming loan data;
- assessed management's prospective and retrospective effectiveness testing results and performed valuations testing over the derivative instruments and hedged items. This included understanding management's methodology for assessing items that have designated and de-designated from the hedge relationship and testing a sample of de-designated instruments by creating an expected amortisation profile and compared that to management's calculation; and
- assessed the completeness of the hedged item and hedging instrument data used in the hedge accounting process and tested that the inputs are accurate.

#### Key observations

Based on the work performed, we concluded the Group's fair value adjustments and hedge accounting to be appropriate throughout the year.

### 5.3. Motor finance redress provision

#### Key audit matter description

The Group has recognised a £1.5m provision for potential redress relating to historical motor finance commissions. This provision comprises £1.4m relating to discretionary commission arrangements, and £0.1m relating to informed consent on commission payments resulting from a recent Court of Appeal ruling.

The Group's determination of the provision for historical motor finance commission requires significant judgement, in accordance with FRS 102 section 21 *Provisions and Contingencies*. This judgement involves estimating the amount required to settle the probable obligation, based on currently available information. Significant uncertainty exists regarding the final outcome due to a pending appeal to the Supreme Court, other related legal developments, and the ongoing Financial Conduct Authority ("FCA") review.

We consider the most significant areas of judgement within the Group's motor finance redress provision to be the methodology and underlying assumptions relating to the potential different scenarios and claims rates that could occur and the probability weightings to be applied to each scenario in the estimation of provision, given the substantial uncertainty surrounding the issue.

The Group's motor finance redress provision balance is detailed within note 24. The associated accounting policies are detailed on pages 129-131.

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

We obtained an understanding of the relevant controls over the motor finance redress provisioning process and the determination of the judgements within the model.

Our audit procedures to address the risk identified within the motor finance redress provision included, we:

- reviewed management's judgement paper, including the underlying computation of management's estimate of the amount or range of loss arising from litigation and claims;
- assessed management's approach to apply weightings to multiple scenarios against the requirements of FRS 102 section 21 *Provisions and Contingencies*;
- independently determined a range of estimates for the provision balance and compared this to management's recognised amount; and
- performed a stand-back assessment, reviewed and considered the judgements reached by other industry participants that are observable from publicly available financial statement data, and insights from our audit work across the sector.

As part of our wider procedures over the motor finance redress provision, we:

- assessed the underlying data used to derive the assumptions within the model for accuracy and completeness;
- assessed the mechanical accuracy of management's calculation of the provision estimate;
- evaluated management's assessment and determination of provision related to fixed commission policies brought into scope by the Court of Appeal ruling;
- evaluated the appropriateness of associated disclosures in the financial statements; and
- obtained audit evidence from events occurring up to the date of the auditor's report regarding litigation and claims and reviewed publicly available updates from the Supreme Court or the FCA on the matter.

#### Key observations

Based on the work performed, we concluded the Group's motor finance provision recorded against the potential redress related to historical motor finance commissions to be appropriate.

## 6. Our application of materiality

### 6.1 Materiality

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

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

| | Group financial statements | Society financial statements |
|---|---|---|
| **Materiality** | £1.4m (2024: £1.4m) | £1.4m (2024: £1.4m) |
| **Basis for determining materiality** | 0.6% of net assets (2024: 0.6% of net assets) | Society materiality equates to 0.6% of net assets (2024: 0.6% of net assets) which is capped at 95% of Group materiality. |
| **Rationale for the benchmark applied** | Net assets were used as the basis for determining materiality. This is considered the most appropriate benchmark given its importance as a key metric for users of the financial statements, particularly as it represents regulatory capital. | |


### 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% (2024: 70%) of Group materiality | 70% (2024: 70%) of Society materiality |
| **Basis and rationale for determining performance materiality** | Due to IT control deficiencies identified, we were unable to adopt a control reliance strategy in performing audit procedures over key lending and saving balances. However, we have not reduced performance materiality further due to the moderate and isolated level of prior year uncorrected and corrected misstatements and the likelihood of errors occurring based on our previous experience. | |

### Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £71k (2024: £69k), 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. We identified components at the individual entity level. All components of the Group are operated centrally, our audit procedures involved an audit of the entire financial information for all components and all audit work was performed centrally by the Group audit engagement team.

The component performance materiality range used for determining the level of audit procedures performed ranged from £28k to £950k (2024: £28k to £957k).

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

We planned a controls reliance auditing strategy over the residential lending, commercial lending and savings and deposits cycles. Due to control deficiencies identified by our IT specialists in respect of user access review and privilege user access, we modified our audit approach to a fully substantive approach and did not place reliance on IT controls. This increased the extent and nature of our substantive audit procedures.

We have also obtained an understanding of the relevant controls within financial reporting and relevant controls identified in the lending and loan loss provisioning, savings and current accounts, and treasury business cycles. The Audit Committee's assessment of the Group's internal control environment is set out on page 94.

### 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 39 to 41.

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

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

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

## 8. Other information

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

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

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

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

We have nothing to report in this regard.

## 9. Responsibilities of directors

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

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

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

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

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

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

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

### 11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - 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, analytics, valuations, pensions, IT, credit risk, financial instruments, 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 loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

### 11.2 Audit response to risks identified

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

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

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

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

## Report on Other Legal & Regulatory Requirements

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

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

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

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

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

In our opinion the information given in note 35 to the financial statements for the financial year ended 31 March 2025 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

## 14. Matters on which we are required to report by exception

**14.1. 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.

## 15. Other matters which we are required to address

**15.1. 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 11 years, covering the years ending 31 March 2015 to 31 March 2025.

**15.2. 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).

## 16. Use of our report

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

Matthew Bainbridge – FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
03 June 2025

# GROUP AND SOCIETY INCOME STATEMENTS

For the year ended 31 March 2025

| | Notes | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|---|
| Interest receivable and similar income | 3 | **184,036** | 180,434 | **181,881** | 178,108 |
| Interest payable and similar charges | 4 | **(109,297)** | (99,700) | **(109,297)** | (99,700) |
| Net interest receivable | | **74,739** | 80,734 | **72,584** | 78,408 |
| Fair value losses on financial instruments | 5 | **(2,141)** | (7,501) | **(2,001)** | (7,141) |
| Pension finance income | 26 | **1** | 3 | **1** | 3 |
| Fees and commissions receivable | | **637** | 651 | **637** | 651 |
| Fees and commissions payable | | **(3,057)** | (2,803) | **(2,739)** | (2,480) |
| Other operating income | | **2,805** | 2,925 | **2,805** | 2,924 |
| **Total Income** | | **72,984** | 74,009 | **71,287** | 72,365 |
| Administrative expenses | 6 | **(68,405)** | (60,440) | **(67,388)** | (59,461) |
| Depreciation, amortisation, impairment and profit on sale of tangible fixed assets | | **(3,079)** | (3,741) | **(3,061)** | (3,723) |
| Gain/(loss) on revaluation and disposal of investment properties | 17 | **229** | (34) | **229** | (34) |
| Provisions for bad and doubtful debts | 13 | **569** | 79 | **651** | 118 |
| Provisions for liabilities and charges | 24 | **(1,287)** | (277) | **–** | – |
| **Profit on ordinary activities before tax** | | **1,011** | 9,596 | **1,718** | 9,265 |
| Tax on profit | 8 | **(398)** | (2,216) | **(644)** | (2,067) |
| **Profit for the financial year** | | **613** | 7,380 | **1,074** | 7,198 |

The notes on pages 129 to 154 form part of these accounts.

# STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2025

| | Notes | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|---|
| Profit for the financial year | | **613** | 7,380 | **1,074** | 7,198 |
| **Items that may subsequently be reclassified to income and expenditure:** | | | | | |
| (Loss)/gain on available for sale debt securities | 11 | **(136)** | 364 | **(136)** | 364 |
| Movement in deferred tax relating to debt securities | | **34** | (91) | **34** | (91) |
| Gain on equity share investment | 33 | **2,193** | 1,538 | **2,193** | 1,538 |
| Movement in deferred tax relating to equity share investment | | **(548)** | (385) | **(548)** | (385) |
| **Items that may not subsequently be reclassified to income and expenditure:** | | | | | |
| Actuarial gain/(loss) on retirement benefit obligations | 26 | **482** | (1,426) | **482** | (1,426) |
| Amount of surplus that is not recoverable | 26 | **(483)** | (150) | **(483)** | (150) |
| Movement in deferred tax relating to retirement benefit obligations | | **–** | 394 | **–** | 394 |
| **Total comprehensive income for the year** | | **2,155** | 7,624 | **2,616** | 7,442 |

The notes on pages 129 to 154 form part of these accounts.

# GROUP AND SOCIETY BALANCE SHEETS

As at 31 March 2025

| Assets | Notes | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|---|
| Liquid assets | | | | | |
| Cash in hand and balances with the Bank of England | 9 | **285,655** | 332,571 | **285,655** | 332,571 |
| Loans and advances to credit institutions | 10 | **17,226** | 37,831 | **17,226** | 37,831 |
| Debt securities | 11 | **172,983** | 140,666 | **172,983** | 140,666 |
| | | **475,864** | 511,068 | **475,864** | 511,068 |
| Derivative financial instruments | 31 | **36,903** | 60,549 | **36,866** | 60,318 |
| Loans and advances to customers | 12 | | | | |
| Loans fully secured on residential property | | **2,509,640** | 2,357,458 | **2,509,640** | 2,357,458 |
| Other loans | | **275,962** | 259,151 | **249,436** | 232,088 |
| | | **2,785,602** | 2,616,609 | **2,759,076** | 2,589,546 |
| Investments in subsidiary undertakings | 14 | **–** | – | **22,021** | 23,418 |
| Investment in equity shares | 33 | **11,243** | 9,050 | **11,243** | 9,050 |
| Intangible assets | 15 | **1,270** | 2,518 | **1,270** | 2,518 |
| Tangible fixed assets | 16 | **10,977** | 11,765 | **10,902** | 11,712 |
| Investment properties | 17 | **1,585** | 1,013 | **1,585** | 1,013 |
| Other assets | 18 | **1,703** | 1,683 | **1,489** | 1,653 |
| Prepayments and accrued income | 19 | **3,938** | 4,182 | **3,568** | 3,773 |
| Total Assets | | **3,329,085** | 3,218,437 | **3,323,884** | 3,214,069 |
| **Liabilities** | | | | | |
| Shares | 21 | **2,889,795** | 2,681,716 | **2,889,795** | 2,681,716 |
| Derivative financial instruments | 31 | **3,644** | 4,453 | **3,568** | 4,360 |
| Amounts owed to credit institutions | 27 | **63,609** | 151,220 | **63,609** | 151,220 |
| Amounts owed to other customers | 27 | **123,389** | 131,933 | **123,614** | 132,298 |
| Other liabilities | 22 | **3,446** | 6,363 | **5,073** | 7,877 |
| Accruals and deferred income | 23 | **7,270** | 8,262 | **7,159** | 8,148 |
| Provisions for liabilities and charges | 24 | **1,564** | 277 | **–** | – |
| Pension liability | 26 | **–** | – | **–** | – |
| Total liabilities | | **3,092,717** | 2,984,224 | **3,092,818** | 2,985,619 |
| Total equity attributable to members | | **236,368** | 234,213 | **231,066** | 228,450 |
| Total Equity and Liabilities | | **3,329,085** | 3,218,437 | **3,323,884** | 3,214,069 |

The notes on pages 129 to 154 form part of these accounts.

These accounts were approved by the Board of Directors on 3 June 2025 and signed on its behalf by:
Jackie Arnold, Chair
Mark Stanger, Chair of the Audit Committee
Des Moore, Chief Executive Officer

# STATEMENTS OF CHANGES IN MEMBERS' INTEREST

| Group | General Reserve £000 | Available for Sale Reserve £000 | Total Equity Attributable to Members £000 |
|---|---|---|---|
| **Balance at 1 April 2023** | 223,076 | 3,513 | 226,589 |
| Profit for the year | 7,380 | – | 7,380 |
| Other comprehensive income | (1,182) | 1,426 | 244 |
| Total comprehensive income for the year | 6,198 | 1,426 | 7,624 |
| **Balance at 31 March 2024** | 229,274 | 4,939 | 234,213 |
| Profit for the year | **613** | **–** | **613** |
| Other comprehensive income | **(1)** | **1,543** | **1,542** |
| Total comprehensive income for the year | **612** | **1,543** | **2,155** |
| **Balance at 31 March 2025** | **229,886** | **6,482** | **236,368** |

| Society | General Reserve £000 | Available for Sale Reserve £000 | Total Equity Attributable to Members £000 |
|---|---|---|---|
| **Balance at 1 April 2023** | 217,495 | 3,513 | 221,008 |
| Profit for the year | 7,198 | – | 7,198 |
| Other comprehensive income | (1,182) | 1,426 | 244 |
| Total comprehensive income for the year | 6,016 | 1,426 | 7,442 |
| **Balance at 31 March 2024** | 223,511 | 4,939 | 228,450 |
| Profit for the year | **1,074** | **–** | **1,074** |
| Other comprehensive income | **(1)** | **1,543** | **1,542** |
| Total comprehensive income for the year | **1,073** | **1,543** | **2,616** |
| **Balance at 31 March 2025** | **224,584** | **6,482** | **231,066** |

# CONSOLIDATED CASH FLOW STATEMENT

| For the year ended 31 March 2025 | 2025 £000 | 2024 £000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | **1,011** | 9,596 |
| *Adjustments for:* | | |
| Depreciation, amortisation, impairment and profit on sale of tangible fixed assets | **3,079** | 3,741 |
| (Gain)/loss on revaluation and disposal of investment properties | **(229)** | 34 |
| Changes in fair values of derivatives and hedged items | **2,561** | 4,230 |
| Provisions for bad and doubtful debts | **(569)** | (79) |
| Provisions for liabilities and charges | **1,287** | 277 |
| Pension finance income | **(1)** | (3) |
| Other non-cash movements | **(75)** | 72 |
| **Cash generated from operations** | **7,064** | 17,868 |
| **Movements in operating assets and liabilities** | | |
| Loans and advances to customers | **(147,755)** | (194,428) |
| Shares | **207,786** | 221,310 |
| Loans and advances to credit institutions and other liquid assets | **6,112** | 21,082 |
| Amounts owed to credit institutions and other customers | **(96,155)** | (110,141) |
| Prepayments and accrued income | **163** | (1,882) |
| Other assets | **(8)** | 1 |
| Accruals and deferred income | **(992)** | 843 |
| Provisions for liabilities and charges | **–** | – |
| Other liabilities | **(3,800)** | 4,108 |
| Payment into defined benefit pension scheme | **–** | (3,000) |
| Taxation paid | **(41)** | (1,418) |
| **Net cash flows from operating activities** | **(27,626)** | (45,657) |
| **Cash flows from investing activities** | | |
| Purchase of debt securities | **(37,456)** | (68,689) |
| Maturity of debt securities | **5,059** | 15,024 |
| Acquisition of intangible fixed assets | **(220)** | (1,828) |
| Purchase of tangible fixed assets | **(1,278)** | (3,294) |
| Sale of tangible fixed assets | **43** | 43 |
| Sale of investment property | **69** | 165 |
| **Net cash flows from investing activities** | **(33,783)** | (58,579) |
| **Net decrease in cash and cash equivalents** | **(61,409)** | (104,236) |
| Cash and cash equivalents at beginning of year | **364,290** | 468,526 |
| **Cash and cash equivalents at end of year** | **302,881** | 364,290 |
| | | |
| Cash and balances with the Bank of England | **285,655** | 332,571 |
| Loans and advances to credit institutions repayable on demand | **17,226** | 31,719 |
| | **302,881** | 364,290 |

## 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 2025. 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 58-62.

**Corporation Tax**

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

**Deferred Taxation**

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

**Intangible Assets**

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

The build and configuration of Software as a Service systems do not qualify as intangible assets as the Group has a right of use and not asset ownership.

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

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

**Fixed Assets and Depreciation**

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

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

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

**Investments in Subsidiary Undertakings**

Investments in subsidiaries are measured at cost less accumulated impairment.

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

**Pension Costs**

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

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

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

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

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

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

**Investment Properties**

When land and buildings are held for rental purposes or capital appreciation, they are classified as investment properties and held in the balance sheet at their open market valuation and not depreciated. When the Society ceases operational uses of buildings they are transferred to investment property. 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.

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**v) Derecognition of financial assets and liabilities**

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

**vi) Fair value hedges**

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans and investment products. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income statement over the period to maturity. If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income statement.

**Provisions for Bad and Doubtful Debts**

The Group applies the measurement criteria of IAS 39. Provisions are held to reflect the directors' best estimate of the likely shortfall between the value of loans and advances and 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 assessment 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 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 debit 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 13 and 30.

**Interest Income and Expense**

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

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

**Fees and Commission Income**

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

## 2. Critical accounting estimates and judgements

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

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

**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 2025 the level of judgement and estimation of uncertainty reduced from the prior year position as the FRSP provision model assumptions have been refreshed to be based on the most recently available data and, while aspects of the cost of living challenge remain, the downward movement in interest rates combined with the continued strong asset quality performance have resulted in cost of living judgements being removed. Directly observable indication of distress in the Group's lending portfolio (such as raised arrears and forbearance requests) have shown an increase from a low base, however they remain relatively subdued and they can largely be attributed to individual life circumstances rather than macro-economic factors.

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%<br>£000 | -15%<br>£000 |
|---|---|---|
| FSOL | 132 | (132) |
| FSRP | 64 | (64) |
| Total | 196 | (196) |

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%<br>£000 | -15%<br>£000 |
|---|---|---|
| FSOL | 132 | (132) |
| FSRP | 45 | (45) |
| Total | 177 | (177) |

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

## 3. Interest Receivable and Similar Income

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| On loans fully secured on residential property | **103,684** | 84,846 | **103,684** | 84,846 |
| On other loans | **20,698** | 19,087 | **18,832** | 17,308 |
| On debt securities | | | | |
| Interest and other income | **7,848** | 6,762 | **7,848** | 6,762 |
| On other liquid assets | | | | |
| Interest and other income | **15,570** | 18,533 | **15,570** | 18,533 |
| Net income on derivative financial instruments | **36,236** | 51,206 | **35,947** | 50,659 |
| **Total interest receivable** | **184,036** | 180,434 | **181,881** | 178,108 |

All income is derived from operations within the UK.

## 4. Interest Payable and Similar Charges

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| On shares held by individuals | **99,102** | 83,117 | **99,102** | 83,117 |
| On deposits and other borrowings | **9,884** | 16,445 | **9,884** | 16,445 |
| Net expense on derivative financial instruments | **311** | 138 | **311** | 138 |
| **Total interest payable** | **109,297** | 99,700 | **109,297** | 99,700 |

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

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Change in fair value derivatives in designated fair value hedge accounting relationships | **(24,007)** | (29,522) | **(24,007)** | (29,522) |
| Adjustment to hedged items in designated fair value hedge accounting relationships | **20,276** | 23,904 | **20,276** | 23,904 |
| Change in fair value derivatives not in designated fair value hedge accounting relationships | **1,590** | (2,486) | **1,730** | (2,126) |
| Crystalised fair value gain on cancelled interest rate swaps | **–** | 603 | **–** | 603 |
| | **(2,141)** | (7,501) | **(2,001)** | (7,141) |

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

During the year ended 31 March 2023 derivatives matching mortgages reserved by customers but not yet advanced, which do not qualify for hedge accounting, saw significant increases in fair value. By that year end these derivatives had largely entered into accounting hedge relationships. In the current and future years, the fair value movement during this historic pipeline period has continued to unwind. While declining in significance, this still accounted for the largest portion of this year's charge to the income statement (2024 – largest portion of charge).

## 6. Administrative Expenses

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Staff costs (note 7) | **41,624** | 33,999 | **40,842** | 33,277 |
| The analysis of the auditor's remuneration is as follows: | | | | |
| Fees payable to the Group's auditor for the audit of the annual accounts | **542** | 430 | **497** | 406 |
| Other expenses | **26,239** | 26,011 | **26,049** | 25,778 |
| | **68,405** | 60,440 | **67,388** | 59,461 |

Group and Society administrative expenses include £20,559,000 of project based expenditure (2024 - £15,230,000). Spend on the New Cumberland programme before capitalisation (including directly related strategic enabling projects which are now formally within the programme) was £16,321,000 (£15,857,000 after capitalisation). In 2024 £10,411,000 was directly related to our strategic transformation of which £9,995,000 was New Cumberland.

Capitalisation of certain project based expenses as intangible assets and tangible fixed assets are disclosed in note 15 and note 16.

## 7. Staff Numbers and Costs

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

| | Full time | | Part time | |
|---|---|---|---|---|
| | **2025** | 2024 | **2025** | 2024 |
| Society's principal office | **472** | 369 | **81** | 82 |
| Society's branches | **85** | 96 | **89** | 114 |
| Subsidiaries | **17** | 15 | **3** | 4 |
| | **574** | 480 | **173** | 200 |

| The aggregate costs of these persons were as follows: | **Group 2025 £000** | Group 2024 £000 | **Society 2025 £000** | Society 2024 £000 |
|---|---|---|---|---|
| Wages and salaries | **36,206** | 29,249 | **35,547** | 28,634 |
| Social security costs | **3,114** | 2,870 | **3,046** | 2,810 |
| Other pension costs (note 26) | **2,304** | 1,880 | **2,249** | 1,833 |
| | **41,624** | 33,999 | **40,842** | 33,277 |

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

## 8. Taxation

| | **Group 2025 £000** | Group 2024 £000 | **Society 2025 £000** | Society 2024 £000 |
|---|---|---|---|---|
| **a) Analysis of charge in year:** | | | | |
| Current corporation tax at 25% (2024 – 25%) | **–** | 722 | **–** | 573 |
| Adjustments in respect of prior year | **29** | (20) | **164** | (16) |
| Deferred tax at 25% | **369** | 1,514 | **480** | 1,510 |
| Tax on profit on ordinary activities | **398** | 2,216 | **644** | 2,067 |
| Total deferred tax relating to items of other comprehensive income | **514** | 82 | **514** | 82 |

**(b) Factors affecting tax charge in year:**

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

| | | | | |
|---|---|---|---|---|
| Profit on ordinary activities before tax | **1,011** | 9,596 | **1,718** | 9,265 |
| Tax on profit on ordinary activities at UK standard rate of 25% (2024 – 25%) | **253** | 2,399 | **430** | 2,316 |
| Effects of: | | | | |
| Fixed asset differences | **66** | 23 | **66** | 23 |
| Other differences | **82** | 82 | **17** | 13 |
| Expenses not deductible for tax purposes | **25** | 9 | **24** | 8 |
| Adjustment to tax charge in respect of previous periods | **29** | (20) | **164** | (16) |
| Adjustment to tax charge in respect of previous periods – deferred tax | **(57)** | (277) | **(57)** | (277) |
| Tax on profit on ordinary activities | **398** | 2,216 | **644** | 2,067 |

No current tax is payable as a result of relief arising from historic pension contributions.

In table (b) the comparatives have been updated to include current and deferred tax movements.

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

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

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

| | **Group 2025 £000** | Group 2024 £000 | **Society 2025 £000** | Society 2024 £000 |
|---|---|---|---|---|
| Cash in hand | **3,655** | 5,503 | **3,655** | 5,503 |
| Balances with the Bank of England | **282,000** | 327,068 | **282,000** | 327,068 |
| **Included in cash and cash equivalents** | **285,655** | 332,571 | **285,655** | 332,571 |

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

| | Group 2025 £000 | Group 2024 £000 |
|---|---|---|
| Cash in hand and balances with the Bank of England (as above) | **285,655** | 332,571 |
| Loans and advances to credit institutions | **17,226** | 31,719 |
| | **302,881** | 364,290 |

## 10. Loans and Advances to Credit Institutions

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Repayable on call and short notice | **17,226** | 31,719 | **17,226** | 31,719 |
| Other loans and advances to credit institutions | **–** | 6,112 | **–** | 6,112 |
| | **17,226** | 37,831 | **17,226** | 37,831 |

## 11. Debt Securities

| | Group and Society 2025 £000 | Group and Society 2024 £000 |
|---|---|---|
| Debt securities | | |
| Covered bonds | **150,676** | 115,101 |
| Supranational floating rate notes | **15,371** | 25,565 |
| Supranational fixed rate notes | **6,936** | – |
| | **172,983** | 140,666 |

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

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

| | 2025 £000 | 2024 £000 |
|---|---|---|
| At 1 April | **140,666** | 86,191 |
| Additions | **37,456** | 68,689 |
| Maturities and amortisation of premium and discount | **(5,084)** | (15,139) |
| (Losses)/gains from changes in fair value | **(136)** | 364 |
| Movements in accrued interest | **81** | 561 |
| At 31 March | **172,983** | 140,666 |

The remaining maturity of debt securities are noted in note 27.

## 12. Loans and Advances to Customers

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Loans and advances to customers comprise: | | | | |
| Loans fully secured on residential property before EIR adjustment | **2,522,104** | 2,392,116 | **2,522,104** | 2,392,116 |
| Effective interest rate adjustment | **1,694** | (60) | **1,694** | (60) |
| Loans fully secured on residential property | **2,523,798** | 2,392,056 | **2,523,798** | 2,392,056 |
| Other loans | | | | |
| Loans fully secured on land | **249,870** | 233,624 | **249,870** | 233,624 |
| Other loans | **27,995** | 28,228 | **1,216** | 945 |
| Fair value adjustment for hedge risk | **(13,740)** | (34,309) | **(13,740)** | (34,309) |
| | **2,787,923** | 2,619,599 | **2,761,144** | 2,592,316 |
| Less: Provisions for bad and doubtful debts (note 13) | **(2,321)** | (2,990) | **(2,068)** | (2,770) |
| | **2,785,602** | 2,616,609 | **2,759,076** | 2,589,546 |

Other loans include £1.216 million (2024 - £0.945 million) of overdraft lending to the Society's current account customers. Other loans of the Group also include £26.779 million (2024 - £27.283 million) of loans and advances to customers of Borderway Finance Limited.

As at 31 March 2025 £396.7 million (2024 - £459.7 million) of loans fully secured on residential property had been pledged as collateral to the Bank of England.

The effective interest rate adjustment of £1.694 million (2024 - £0.060 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.

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## 13. Provisions for Bad and Doubtful Debts

Society 2025

| | Loans fully secured on residential property £000 | Loans fully secured on land £000 | Other loans £000 | Total £000 |
|---|---|---|---|---|
| **At 1 April 2024** | | | | |
| Collective impairment | **1,100** | **872** | **129** | **2,101** |
| Individual impairment | **171** | **485** | **13** | **669** |
| | **1,271** | **1,357** | **142** | **2,770** |
| **Income and expenditure account** | | | | |
| Charge/(release) for the year | | | | |
| Collective impairment | **(533)** | **9** | **(36)** | **(560)** |
| Individual impairment | **97** | **(203)** | **15** | **(91)** |
| | **(436)** | **(194)** | **(21)** | **(651)** |
| **Amount written off during the year** | | | | |
| Individual impairment | **(38)** | **–** | **(13)** | **(51)** |
| | **(38)** | **–** | **(13)** | **(51)** |
| **At 31 March 2025** | | | | |
| Collective impairment | **567** | **881** | **93** | **1,541** |
| Individual impairment | **230** | **282** | **15** | **527** |
| | **797** | **1,163** | **108** | **2,068** |

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

Borderway Finance Limited had individual impairment provisions of £67,000 and collective provisions of £186,000 at 31 March 2025, and a charge in the year of £82,000.

During the year to 31 March 2025 the Society has continued to work with its customers to ensure that they are supported. There has been a modest year on year increase in the 90 DPD arrears from a low base to a position that continues to generally remain lower than peers. The main driver for FSRP 90 DPD arrears increase being 5 Owner Occupied customers totalling £2.4m where the arrears has been caused by changes In their personal circumstances (relationship breakdown or health issue). All of the 5 cases are below 50% LTV. For the FSOL portfolio, a small number of higher value cases have driven the year-on-year increase. There are no sub sector concentrations evident in these cases with restructure, refinance or asset sale strategies being employed to remediate the current position. The payment status of the Group's loans at 31 March 2025 and the current level of active forbearance by type are disclosed in note 30. At 31 March 2025 the level of judgement and estimation of uncertainty reduced from the prior year position as the FRSP provision model assumptions have been refreshed to be based on the most recently available data and, while aspects of the cost of living challenge remain, the downward movement In interest rates combined with the continued strong asset quality performance have resulted in cost of living overlays that we judged necessary at 31 March 2024 being removed at this year end.

Society 2024

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

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

Borderway Finance Limited had individual impairment provisions of £47,000 and collective provisions of £173,000 at 31 March 2024, and a charge in the year of £39,000.

During the year to 31 March 2024 the Society continued to work with its customers to ensure that they were supported. This was reflected in commercial lending 90 days past due arrears at 31 March 2024 being lower than March 2023 with the increase in residential mortgage arrears being modest, reflective of industry experience and generally remaining lower than peers. The payment status of the Group's loans at 31 March 2024 and the level of active forbearance by type are disclosed in note 30. At 31 March 2024 the Group's customers were facing the higher cost of living caused by the recent period of increased inflation and sustained higher interest rates. This was considered within the Group's modelled provision calculations, which incorporated an element of judgement, resulting in the increase in the overall level of collective provision in the year to March 2024.

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| 14. Investments in Subsidiary Undertakings | Shares £000 | Loans £000 | Society Total £000 |
|---|---|---|---|
| Cost less impairment at 1 April 2024 | **870** | **22,548** | **23,418** |
| Advances | **–** | **1,603** | **1,603** |
| Repayments | **–** | **(3,000)** | **(3,000)** |
| Cost less impairment at 31 March 2025 | **870** | **21,151** | **22,021** |
| Cost less impairment at 1 April 2023 | 870 | 22,734 | 23,604 |
| Advances | | 1,814 | 1,814 |
| Repayments | – | (2,000) | (2,000) |
| Cost less impairment at 31 March 2024 | 870 | 22,548 | 23,418 |

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 |

| 15. Intangible Assets (Group and Society) | Externally Acquired £000 | Internally Developed £000 | Total £000 |
|---|---|---|---|
| Cost | | | |
| At 1 April 2024 | **1,918** | **4,546** | **6,464** |
| Additions | **–** | **220** | **220** |
| At 31 March 2025 | **1,918** | **4,766** | **6,684** |
| Amortisation | | | |
| At 1 April 2024 | **1,311** | **2,635** | **3,946** |
| Charge for year | **377** | **1,091** | **1,468** |
| At 31 March 2025 | **1,688** | **3,726** | **5,414** |
| Net book value | | | |
| At 31 March 2025 | **230** | **1,040** | **1,270** |
| At 31 March 2024 | 607 | 1,911 | 2,518 |

The Group has capitalised internally generated intangible assets as it has moved into the delivery phase of its technology change, where this treatment can be adopted. The Group capitalised assets to the value of £220,000 (2024 - £1,828,000) that met the definition of an intangible asset under FRS 102. This included IT development costs and certain staff costs. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once the asset is brought into use, the useful life of such assets is determined to be between three and five years - five years for new core systems and usually three years for system enhancements of existing platforms, reflecting their expected replacement or upgrade prior to the end of the New Cumberland programme.

## 16. Tangible Fixed Assets (Group)

| | Freehold Land and Buildings £000 | Leasehold Land and Buildings £000 | Equipment, Fixtures and Fittings and Vehicles £000 | Total £000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 April 2024 | 14,948 | 3,255 | 17,535 | 35,738 |
| Additions | 456 | – | 822 | 1,278 |
| Transfer to investment property | (1,891) | – | (19) | (1,910) |
| Disposals | (9) | – | (1,408) | (1,417) |
| At 31 March 2025 | 13,504 | 3,255 | 16,930 | 33,689 |
| Depreciation | | | | |
| At 1 April 2024 | 9,220 | 471 | 14,282 | 23,973 |
| Charge for year | 744 | 33 | 875 | 1,652 |
| Transfer to investment property | (1,490) | – | (8) | (1,498) |
| Disposals | (9) | – | (1,406) | (1,415) |
| At 31 March 2025 | 8,465 | 504 | 13,743 | 22,712 |
| Net book value | | | | |
| At 31 March 2025 | 5,039 | 2,751 | 3,187 | 10,977 |
| At 31 March 2024 | 5,728 | 2,784 | 3,253 | 11,765 |

## Tangible Fixed Assets (Society)

| | Freehold Land and Buildings £000 | Leasehold Land and Buildings £000 | Equipment, Fixtures and Fittings and Vehicles £000 | Total £000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 April 2024 | 14,595 | 3,255 | 17,716 | 35,566 |
| Additions | 456 | – | 782 | 1,238 |
| Transfer to investment property | (1,891) | – | (19) | (1,910) |
| Disposals | (9) | – | (1,408) | (1,417) |
| At 31 March 2025 | 13,151 | 3,255 | 17,071 | 33,477 |
| Depreciation | | | | |
| At 1 April 2024 | 8,859 | 471 | 14,524 | 23,854 |
| Charge for year | 744 | 33 | 857 | 1,634 |
| Transfer to investment property | (1,490) | – | (8) | (1,498) |
| Disposals | (9) | – | (1,406) | (1,415) |
| At 31 March 2025 | 8,104 | 504 | 13,967 | 22,575 |
| Net book value | | | | |
| At 31 March 2025 | 5,047 | 2,751 | 3,104 | 10,902 |
| At 31 March 2024 | 5,736 | 2,784 | 3,192 | 11,712 |

Vehicle assets disposed of were returned vehicles from the employee car scheme and the gain of £41,000 (2024 - £38,000) reflected the currently elevated second hand vehicle market. Three properties were transferred to investment properties at net book value along with a small number of related fixtures and fittings.

## 17. Investment Properties

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| At 1 April | 1,013 | 1,212 | 1,013 | 1,212 |
| Transfer from tangible fixed assets | 412 | – | 412 | – |
| Disposals | (78) | (150) | (78) | (150) |
| Revaluation | 238 | (49) | 238 | (49) |
| At 31 March | 1,585 | 1,013 | 1,585 | 1,013 |

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 2025. During the year ended 31 March 2025 one property was sold (2024 - one) and a loss of £9,000 (2024 - £15,000 gain) was recognised. The loss on sale of £9,000 (2024 - £15,000 gain) and revaluation gain of £238,000 (2024 - £49,000 revaluation loss) result in a total income statement credit of £229,000 (2024 - £34,000 loss).

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

| | Group 2025 | Group 2024 | Society 2025 | Society 2024 |
|---|---|---|---|---|
| Cost | **2,427** | 2,108 | **2,427** | 2,108 |
| Depreciation | **(1,335)** | (1,364) | **(1,335)** | (1,364) |
| | **1,092** | 744 | **1,092** | 744 |

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

| | Group and Society 2025 £000 | Group and Society 2024 £000 |
|---|---|---|
| Within one year | **82** | 77 |
| In the second to fifth years inclusive | **231** | 179 |
| After five years | **1** | 1 |
| | **314** | 257 |

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 2025 amounted to £32,000 (2024 - £5,000).

## 18. Other Assets

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Corporation tax | **1,692** | 1,680 | **1,489** | 1,653 |
| Other | **11** | 3 | **–** | – |
| | **1,703** | 1,683 | **1,489** | 1,653 |

## 19. Prepayments and Accrued Income

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Prepayments | **3,938** | 4,182 | **3,568** | 3,773 |
| | **3,938** | 4,182 | **3,568** | 3,773 |

## 20. Deferred Taxation

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| At 1 April | **(317)** | 1,279 | **(322)** | 1,270 |
| (Charge) to income and expenditure account (note 8) | **(369)** | (1,514) | **(480)** | (1,510) |
| (Charge)/credit to other comprehensive income | **(514)** | (82) | **(514)** | (82) |
| **Deferred tax (liability)/asset at 31 March** | **(1,200)** | (317) | **(1,316)** | (322) |
| Deferred tax assets and liabilities are attributable to the following items: | | | | |
| Difference between accumulated depreciation and amortisation and capital allowances | **(111)** | 13 | **(108)** | 10 |
| Deficit reduction contributions | **–** | 923 | **–** | 923 |
| Tax losses | **576** | – | **458** | – |
| Investment in equity shares | **(2,204)** | (1,656) | **(2,204)** | (1,656) |
| Debt securities | **42** | 8 | **42** | 8 |
| Differences arising from transition to FRS 102 | **–** | 54 | **–** | 53 |
| Other temporary differences | **497** | 341 | **496** | 340 |
| | **(1,200)** | (317) | **(1,316)** | (322) |

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.

Tax losses have arisen primarily due to taxation relief on historic pension contributions.

## 21. Shares

| | Group and Society 2025 £000 | 2024 £000 |
|---|---|---|
| Held by individuals | **2,814,005** | 2,600,236 |
| Other | **75,339** | 81,322 |
| Fair value adjustment for hedged risk | **451** | 158 |
| | **2,889,795** | 2,681,716 |

Other shares include deposits from our SME customers.

## 22. Other Liabilities

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Other liabilities falling due within one year: | | | | |
| Deferred tax liability (note 20) | **1,200** | 317 | **1,316** | 322 |
| Other creditors | **2,246** | 6,046 | **3,757** | 7,555 |
| | **3,446** | 6,363 | **5,073** | 7,877 |

## 23. Accruals and Deferred Income

| | Group 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Administrative and operating costs | **7,270** | 8,262 | **7,159** | 8,148 |
| | **7,270** | 8,262 | **7,159** | 8,148 |

## 24. Provisions for Liabilities and Charges (Group)

| | 2025 £000 | 2024 £000 |
|---|---|---|
| At 1 April | **277** | – |
| Charge to income and expenditure account | **1,287** | 277 |
| Utilised | **–** | – |
| At 31 March | **1,564** | 277 |

### Provisions for Liabilities and Charges (Society)

| | 2025 £000 | 2024 £000 |
|---|---|---|
| At 1 April | **–** | – |
| Charge to income and expenditure account | **–** | – |
| Utilised | **–** | – |
| At 31 March | **–** | – |

**Discretionary commission arrangements**
Borderway Finance Limited our vehicle finance subsiduary increased its provision for redress and related claims management costs during the year by £1,287k, resulting in the total provision held rising to £1,564k. The increase in provision was driven by the passage of time increasing the possible level of penalty interest payable; a change in our model approach (which is now based on 4 probability weighted scenarios) reflecting adjustments in the probability of proactive and reactive (complaint led) outcomes as a result of FCA statements. The 31 March 2025 calculation also reflects the potential for claims in relation to commission under common law. The eventual outcome of these matters is uncertain reflecting both the High Court's pending judgement and the FCA approach to any redress payable. If the probability of each scenario were adjusted, the level of provision would change. As the two scenarios reflecting a proactive approach to the DCA matter reflect 80% of the probability assigned this would not make a significant difference to the Group.

## 25. 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 2025 £000 | Group 2024 £000 | Society 2025 £000 | Society 2024 £000 |
|---|---|---|---|---|
| Contracted but not provided for | **105** | 291 | **105** | 291 |
| (c) Memorandum items | | | | |
| Irrevocable mortgage commitments | **3,865** | 3,079 | **3,865** | 3,079 |
| Undrawn customer overdraft facilities | **7,490** | 7,405 | **7,490** | 7,405 |
| Pension scheme liquidity facility | **–** | 2,000 | **–** | 2,000 |

On 10 March 2025 the Society signed a 12 year contract for £72 million with Tata Consultancy Services to build, implement and run a new Software as a Service banking platform incorporating a number of ecosystem partners.

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## 26. Pensions

The Group operates one defined benefit pension scheme and one defined contribution scheme.

**Defined contribution scheme**
The Group operates one defined contribution scheme funded by contributions from the Group and its staff. The scheme is open to all new employees. The total expense charged to the income statement as part of staff costs in the year ended 31 March 2025 was £2,165,000 (2024 - £1,764,000).

**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 most recent full actuarial valuation was as at 26 August 2021 and showed a deficit of £11,224,000. The actuarial valuation at 26th August 2024 is in progress. In respect of the deficit in the plan, the Society agreed to pay £11,224,000 in November 2021 to settle the deficit in full. In November 2021 the Society made a payment of £15,000,000 and no further recovery plan payments are due. The extra contribution of £3,776,000 made in November 2021, along with annual payments of £1,000,000 from 2022 to 2027, will support the scheme in progressing towards its Long Term Funding objective of self sufficiency. During the year ended 31 March 2024 the Society made three payments of £1,000,000 being the 2022 and 2023 payments that were due and the 2024 payment which was brought forward. This, along with a temporary liquidity facility (running until September 2024) of up to £2,000,000 allowed the scheme to adopt a revised lower risk investment strategy including increasing hedging of inflation and interest rate risk to 100%. No drawdown on the liquidity facility was made as at or during the periods ending 31 March 2024 and 31 March 2025. No contributions were made in the year ended 31 March 2025.

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK and detailed investigations into historic scheme amendments remains ongoing. The Group is aware of this legal ruling and the pension scheme trustees are in the process of reviewing historical pension amendments to determine if there is any potential impact on the defined benefit scheme valuation. Initial findings suggest that there are no material issues in relation to amendments post 2008, however further work to review earlier amendments remains ongoing and as such no adjustment has been made to the valuation at 31 March 2025.

| **Key assumptions used:** | | **Valuation at** |
|---|---|---|
| | **2025 %** | 2024 % |
| Rate of increase in pensions in payment | **1.95-3.00** | 1.95-3.05 |
| Discount rate | **5.65** | 4.80 |
| Inflation assumption – RPI | **3.30** | 3.35 |
| – CPI | **2.85** | 2.90 |

**Mortality assumptions:**
Post-retirement mortality is based on 100% of the S4PxA tables (2024 - 100% of S3PxA), with projected improvements based on CMI 2023, with a long-term trend of 1.00% p.a. (2024 - 1.25% p.a.), and a smoothing parameter of 7 (2024 - 7). No allowance is made for pre-retirement mortality and a weight of 0% is applied to 2020 and 2021 and 15% to 2022 and 2023 experience to mitigate Covid-19 based distortions (100% all other years).

| **The number of years' life expectancy, retiring at 62, is as follows:** | **2025** | 2024 |
|---|---|---|
| Retiring today: | | |
| Males | **86.1** | 86.2 |
| Females | **88.7** | 88.8 |
| Retiring in 20 years: | | |
| Males | **87.2** | 87.6 |
| Females | **89.8** | 90.3 |

| **The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:** | **2025 £000** | 2024 £000 |
|---|---|---|
| Present value of defined benefit obligations | **(42,228)** | (48,657) |
| Fair value of scheme assets | **42,868** | 48,807 |
| Surplus in plan | **640** | 150 |
| Unrecognised surplus | **(640)** | (150) |
| Liability recognised in the balance sheet | **–** | – |
| **Changes in impact of asset ceiling:** | | |
| Restriction due to asset ceiling at beginning of period | **150** | – |
| Interest on the asset ceiling | **7** | – |
| Change in the asset ceiling excluding interest | **483** | 150 |
| Restriction due to asset ceiling at end of period | **640** | 150 |

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

| Movements in the present value of defined benefit obligations were as follows: | | |
|---|---|---|
| At 1 April | **48,657** | 50,085 |
| Interest cost | **2,291** | 2,305 |
| Service cost | **–** | – |
| Benefits paid | **(1,868)** | (2,115) |
| Actuarial gain | **(6,852)** | (1,618) |
| At 31 March | **42,228** | 48,657 |

| Movements in the fair value of scheme assets were as follows: | | |
|---|---|---|
| At 1 April | **48,807** | 48,658 |
| Actuarial loss | **(6,370)** | (3,044) |
| Expected return on assets | **2,299** | 2,308 |
| Contributions from employers | **–** | 3,000 |
| Benefits paid | **(1,868)** | (2,115) |
| Expenses paid | **–** | – |
| At 31 March | **42,868** | 48,807 |

| The analysis of the scheme assets at the balance sheet date was as follows: | | |
|---|---|---|
| Growth assets | **4,023** | – |
| Diversified credit | **8,799** | 25,074 |
| Liability driven investments (LDI) | **15,367** | 20,435 |
| Cash | **13,448** | 1,936 |
| Other assets | **1,231** | 1,362 |
| | **42,868** | 48,807 |

The scheme's assets are not intended to be realised in the short term and their market values may be subject to significant change before the assets are realised. The scheme's mix of assets is designed to include a significant proportion of hedging which was increased during the year ended 31 March 2024 and since that point movements in assets and liabilities are substantially correlated.

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

**a) Administrative expenses**

| | | |
|---|---|---|
| Service cost | **–** | – |

The operating charge of £nil (2024 - £nil), plus the Group's contributions to the defined contribution schemes f £2,165,000 (2024 - £1,764,000) and life assurance premiums of £139,000 (2024 - £116,000), comprise the Group's other pension costs total of £2,304,000 (2024 - £1,880,000) shown in note 7.

Since the closure of the trustee bank account on 9 October 2020, the Society has directly paid administrative expenses of the scheme which in 2025 totalled £319,000 (2024 - £349,000). These costs are included within administrative expenses shown in note 6.

**b) Pension finance charge**

| | | |
|---|---|---|
| Expected return on pension scheme assets | **2,299** | 2,308 |
| Interest on pension scheme liabilities | **(2,291)** | (2,305) |
| Interest on asset ceiling not recognised | **(7)** | – |
| Pension finance income recognised in the Income Statements | **1** | 3 |

**c) Statements of Comprehensive Income**

| | | |
|---|---|---|
| Actual return less expected return on pension scheme assets | **(6,370)** | (3,044) |
| Actuarial gain on defined benefit obligation | **6,852** | 1,618 |
| Actuarial gain/(loss) | **482** | (1,426) |
| Amount of surplus not recoverable | **(483)** | (150) |
| Movement in deferred taxation relating to pension scheme | **–** | 394 |
| Actuarial loss recognised in the Statements of Comprehensive Income | **(1)** | (1,182) |

| d) Movement in the deficit in the scheme during the year | 2025 £000 | 2024 £000 |
|---|---|---|
| Deficit in scheme at beginning of year | – | (1,427) |
| Movement in year: | | |
| Service cost | – | – |
| Contributions net of expenses paid | – | 3,000 |
| Pension finance income recognised in the Income Statements | 1 | 3 |
| Interest on the asset ceiling | 7 | – |
| Actuarial loss | 482 | (1,426) |
| Unrecognised surplus | (483) | (150) |
| Unrecognised interest on the asset ceiling | (7) | – |
| Deficit in scheme at end of year | – | – |

| History of experience gains and losses | 2025 | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|---|
| Actual return less expected return on pension scheme assets (£000) | (6,370) | (3,044) | (22,496) | (4,526) | 1,393 |
| Percentage of opening scheme assets | 13.1 | 6.3 | 31.6 | 7.8 | 2.5 |
| Actuarial gain/(loss) on defined benefit obligation (£000) | 6,852 | 1,618 | 21,695 | 5,418 | (8,161) |
| Percentage of opening scheme liabilities | 14.1 | 3.2 | 30.3 | 7.0 | 11.8 |

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

## 27. Liquidity Risk

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

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

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

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

**Maturity profile of financial instruments**

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

| At 31 March 2025: | 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 | Group Total £000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash in hand and balances with the Bank of England | 285,247 | – | – | – | – | 408 | 285,655 |
| Loans and advances to credit institutions | 17,226 | – | – | – | – | – | 17,226 |
| Debt securities | – | – | 15,029 | 140,011 | 16,926 | 1,017 | 172,983 |
| Derivative financial instruments | – | – | – | – | – | 36,903 | 36,903 |
| Loans and advances to customers | | | | | | | |
| Loans fully secured on residential property and land | 3,384 | 23,071 | 64,739 | 406,908 | 2,273,872 | (14,006) | 2,757,968 |
| Other loans | 1,216 | 89 | 1,076 | 25,614 | – | (361) | 27,634 |
| **Liabilities** | | | | | | | |
| Shares | 1,823,018 | 473,840 | 439,525 | 135,188 | – | 18,224 | 2,889,795 |
| Derivative financial instruments | – | – | – | – | – | 3,644 | 3,644 |
| Amounts owed to credit institutions | – | 2,897 | 60,000 | – | – | 712 | 63,609 |
| Amounts owed to other customers | 82,737 | 30,083 | 9,984 | 317 | – | 268 | 123,389 |

| At 31 March 2024: | Repayable on demand £000 | Not more than 3 months £000 | More than 3 months but less than 1 year £000 | More than 1 year but less than 5 years £000 | Over 5 years £000 | Derivative fair value and non interest bearing £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash in hand and balances with the Bank of England | 332,067 | – | – | – | – | 504 | 332,571 |
| Loans and advances to credit institutions | 31,719 | 6,112 | – | – | – | – | 37,831 |
| Debt securities | – | – | 15,023 | 97,472 | 27,235 | 936 | 140,666 |
| Derivative financial instruments | – | – | – | – | – | 60,549 | 60,549 |
| Loans and advances to customers | | | | | | | |
| Loans fully secured on residential property and land | 4,867 | 19,895 | 64,246 | 398,242 | 2,138,490 | (36,997) | 2,588,743 |
| Other loans | 945 | 57 | 1,212 | 26,014 | – | (362) | 27,866 |
| **Liabilities** | | | | | | | |
| Shares | 1,680,807 | 399,603 | 428,516 | 156,694 | – | 16,096 | 2,681,716 |
| Derivative financial instruments | – | – | – | – | – | 4,453 | 4,453 |
| Amounts owed to credit institutions | – | 9,120 | – | 140,000 | – | 2,100 | 151,220 |
| Amounts owed to other customers | 81,527 | 38,186 | 11,822 | 98 | – | 300 | 131,933 |

Included within Other loans are balances of £26,779,000 (2024 - £27,283,000) relating to loans and advances to customers of Borderway Finance Limited.

**Gross contractual cash flows for financial liabilities**

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

| At 31 March 2025: | Repayable on demand £000 | Not more than 3 months £000 | More than 3 months but less than 1 year £000 | More than 1 year but less than 5 years £000 | Over 5 years £000 | Derivative fair value and non interest bearing £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Shares | **1,834,766** | **477,075** | **443,254** | **138,295** | **–** | **–** | **2,893,390** |
| Amounts owed to credit institutions | **–** | **3,609** | **60,000** | **–** | **–** | **–** | **63,609** |
| Amounts owed to other customers | **83,144** | **30,158** | **10,056** | **317** | **–** | **–** | **123,675** |
| **At 31 March 2024:** | | | | | | | |
| Shares | 1,693,867 | 402,949 | 435,289 | 160,966 | – | – | 2,693,071 |
| Amounts owed to credit institutions | – | 11,287 | – | 140,000 | – | – | 151,287 |
| Amounts owed to other customers | 81,751 | 38,394 | 11,896 | 98 | – | – | 132,139 |

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

| At 31 March 2025: | Not more than 3 months £000 | More than 3 months but less than 1 year £000 | More than 1 year but less than 5 years £000 | Over 5 years £000 | Derivative fair value and non interest bearing £000 | Total £000 |
|---|---|---|---|---|---|---|
| Swap contracts | **10,749** | **13,506** | **9,795** | **3** | **–** | **34,053** |
| **At 31 March 2024:** | | | | | | |
| Swap contracts | 11,815 | 25,708 | 20,739 | (33) | – | 58,229 |

## 28. Interest Rate Risk

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

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

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

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

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

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

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

| At 31 March 2025: | 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 | Group Total £000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Liquid assets | **468,788** | **–** | **–** | **7,076** | **–** | **475,864** |
| Derivative financial instruments | **–** | **–** | **–** | **–** | **36,903** | **36,903** |
| Loans and advances to customers | **643,986** | **135,955** | **213,189** | **1,792,472** | **–** | **2,785,602** |
| Intangible assets | **–** | **–** | **–** | **–** | **1,270** | **1,270** |
| Tangible fixed assets | **–** | **–** | **–** | **–** | **10,977** | **10,977** |
| Other assets | **–** | **–** | **–** | **–** | **18,469** | **18,469** |
| **Total assets** | **1,112,774** | **135,955** | **213,189** | **1,799,548** | **67,619** | **3,329,085** |
| **Liabilities** | | | | | | |
| Shares | **2,348,876** | **141,799** | **261,717** | **137,403** | **–** | **2,889,795** |
| Derivative financial instruments | **–** | **–** | **–** | **–** | **3,644** | **3,644** |
| Amounts owed to credit institutions and other customers | **181,950** | **5,048** | **–** | **–** | **–** | **186,998** |
| Other liabilities, pension liability, accruals and deferred income | **–** | **–** | **–** | **–** | **12,280** | **12,280** |
| Reserves | **–** | **–** | **–** | **–** | **236,368** | **236,368** |
| **Total liabilities** | **2,530,826** | **146,847** | **261,717** | **137,403** | **252,292** | **3,329,085** |
| Net assets/(liabilities) | **(1,418,052)** | **(10,892)** | **(48,528)** | **1,662,145** | **(184,673)** | **–** |
| Derivative instruments | **1,422,900** | **(19,400)** | **(137,700)** | **(1,265,800)** | **–** | **–** |
| Interest rate sensitivity gap | **4,848** | **(30,292)** | **(186,228)** | **396,345** | **(184,673)** | **–** |
| Cumulative gap | **4,848** | **(25,444)** | **(211,672)** | **184,673** | **–** | **–** |

| At 31 March 2024: | Not more than 3 months £000 | More than 3 months but less than 6 months £000 | More than 6 months but less than 1 year £000 | More than 1 year but not more than 5 years £000 | Derivative fair value and non interest bearing £000 | Group Total £000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Liquid assets | 511,068 | – | – | – | – | 511,068 |
| Derivative financial instruments | – | – | – | – | 60,549 | 60,549 |
| Loans and advances to customers | 719,998 | 148,822 | 255,843 | 1,491,946 | – | 2,616,609 |
| Intangible assets | – | – | – | – | 2,518 | 2,518 |
| Tangible fixed assets | – | – | – | – | 11,765 | 11,765 |
| Other assets | – | – | – | – | 15,928 | 15,928 |
| **Total assets** | 1,231,066 | 148,822 | 255,843 | 1,491,946 | 90,760 | 3,218,437 |
| **Liabilities** | | | | | | |
| Shares | 2,144,108 | 73,045 | 308,069 | 156,494 | – | 2,681,716 |
| Derivative financial instruments | – | – | – | – | 4,453 | 4,453 |
| Amounts owed to credit institutions and other customers | 283,153 | – | – | – | – | 283,153 |
| Other liabilities, pension liability, accruals and deferred income | – | – | – | – | 15,161 | 15,161 |
| Reserves | – | – | – | – | 233,954 | 233,954 |
| **Total liabilities** | 2,427,261 | 73,045 | 308,069 | 156,494 | 253,568 | 3,218,437 |
| Net assets/(liabilities) | (1,196,195) | 75,777 | (52,226) | 1,335,452 | (162,808) | – |
| Derivative instruments | 1,405,050 | (113,350) | (19,200) | (1,272,500) | – | – |
| Interest rate sensitivity gap | 208,855 | (37,573) | (71,426) | 62,952 | (162,808) | – |
| Cumulative gap | 208,855 | 171,282 | 99,856 | 162,808 | – | – |

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

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

| | **Group and Society +250bps 2025 £000** | Group and Society +250bps 2024 £000 | **Group and Society -250bps 2025 £000** | Group and Society -250bps 2024 £000 |
|---|---|---|---|---|
| Impact on equity reserves | **(1,215)** | (3,913) | **1,557** | 4,545 |

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

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

## 29. 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 2025 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. 94% (2024 - 99%) 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 2025:

| | Group and Society | |
|---|---|---|
| | **2025 %** | 2024 % |
| Aaa | **–** | 5 |
| Aa1-A3 | **37** | 29 |
| Sovereign exposure to the UK | **57** | 65 |
| Other | **6** | 1 |
| | **100** | 100 |

All wholesale exposures are to UK financial institutions or supranational institutions. The largest exposure to a single institution other than the UK Government was £40.5 million (2024 - £30.4 million). Exposures to supranational institutions total £22.3 million (2024 - £25.6 million).

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

| | **Group 2025 £000** | Group 2024 £000 | **Society 2025 £000** | Society 2024 £000 |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | **285,655** | 332,571 | **285,655** | 332,571 |
| Loans and advances to credit institutions | **17,226** | 37,831 | **17,226** | 37,831 |
| Debt securities | **172,983** | 140,666 | **172,983** | 140,666 |
| **Total wholesale credit risk** | **475,864** | 511,068 | **475,864** | 511,068 |

Credit risk also arises from the Group's derivatives. The Group's agreements to enter derivatives transactions with counterparties are all documented through the International Swaps and Derivatives Association (ISDA) Master Agreement. All derivatives entered into during 2025 are centrally cleared (2024: all derivatives). In addition, the Group's agreements in respect of repurchase contracts are documented through the Global Master Repurchase Agreement (GMRA). Credit Support Annexes are in place with all of the Group's ISDA and GMRA counterparties. These provide the legal basis for measuring the extent of any credit risk exposures and govern how cash is moved as collateral between the Group and the counterparty to offset these exposures, which arise as a result of movements in interest rates. At 31 March 2025 the Group had no open repurchase transactions (2024 – nil).

## 30. Credit Risk on Loans and Advances to Customers

Experienced credit risk functions operate within the Group and comprehensive management information on movements and performance within the various loan portfolios ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance. The only difference between the Group and Society's exposure is the vehicle loans of Borderway Finance Limited of £26,779k (2024: £27,283k) held within other loans.

| The Group's exposure to retail credit risk can be broken down as follows: | **Group** | |
|---|---|---|
| | **2025 £000** | 2024 £000 |
| Loans fully secured on residential property | **2,522,104** | 2,392,116 |
| Loans fully secured on land | **249,870** | 233,624 |
| Other loans | **27,995** | 28,228 |
| Total gross exposure (contractual amounts) | **2,799,969** | 2,653,968 |
| Impairment and hedging adjustments | **(16,061)** | (37,299) |
| EIR adjustment | **1,694** | (60) |
| **Total net exposure** | **2,785,602** | 2,616,609 |

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

| | **Group and Society** | |
|---|---|---|
| **Geographical distribution** | **2025 %** | 2024 % |
| North West | **46** | 46 |
| Scotland | **10** | 10 |
| London | **10** | 9 |
| South East | **11** | 11 |
| South West | **10** | 11 |
| Yorkshire & Humberside | **3** | 3 |
| East of England | **2** | 2 |
| North East | **2** | 2 |
| West Midlands | **2** | 2 |
| East Midlands | **2** | 2 |
| Wales | **2** | 2 |
| | **100** | 100 |

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

| | | |
|---|---|---|
| <70% | **76** | 75 |
| 70%-80% | **16** | 17 |
| 80%-90% | **7** | 6 |
| >90% | **1** | 2 |
| | **100** | 100 |

The overall indexed loan-to-value of the residential portfolio is 43% (2024 - 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 and impairment losses.

| | **Group and Society** | | Group and Society | |
|---|---|---|---|---|
| **Payment due status** | **2025 £000** | **2025 %** | 2024 £000 | 2024 % |
| **Not impaired:** | | | | |
| Neither past due nor impaired | **2,497,152** | **99** | 2,365,399 | 99 |
| Past due up to 3 months but not impaired | **18,074** | **1** | 22,897 | 1 |
| **Impaired:** | | | | |
| Past due 3 to 6 months | **3,707** | **–** | 2,443 | – |
| Past due 6 to 12 months | **1,576** | **–** | 1,069 | – |
| Past due more than 12 months | **1,595** | **–** | 308 | – |
| | **2,522,104** | **100** | 2,392,116 | 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 operate arrears management strategies that minimise credit risk whilst ensuring good customer outcomes. Such forbearance strategies include the use of arrangements to assist borrowers in arrears who are able to meet agreed repayment strategies, and aim to avoid repossession.

During the year ended 31 March 2025 the Group reduced its use of forbearance in the light of the moderating interest rate environment and lowering cost of living squeeze. Forbearance strategies were primarily used for customers who are neither past due nor impaired.

| At 31 March 2025: | Payment Holiday £000 | Payment concessions including interest only £000 | Arrears capitalised £000 | Transfer to interest only £000 | Total forbearance £000 |
|---|---|---|---|---|---|
| Neither past due nor impaired | **–** | **2,475** | **192** | **50** | **2,717** |
| Past due up to 3 months | **–** | **85** | **86** | **–** | **171** |
| Past due more than 3 months | **–** | **–** | **–** | **–** | **–** |
| **Total loans and advances** | **–** | **2,560** | **278** | **50** | **2,888** |
| **At 31 March 2024:** | | | | | |
| Neither past due nor impaired | – | 2,307 | 609 | 1,684 | 4,600 |
| Past due up to 3 months | – | 129 | 144 | – | 273 |
| Past due more than 3 months | – | – | – | – | – |
| **Total loans and advances** | – | 2,436 | 753 | 1,684 | 4,873 |

**Loans fully secured on land**
Credit risk associated with lending fully secured on land is affected by similar factors as for residential mortgages, although on average loans are generally larger and reflect the Group's focus on tourism related sectors. The recent extended period of elevated interest rates, economic challenges and variable weather have created volatility in tourism demand and operating costs impacting customers. However the portfolio continues to show resilience with 90 DPD arrears, whilst increased, remaining modest. The portfolio is well secured and being proactively managed by a specialist team.

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

| | **Group and Society** | |
|---|---|---|
| **Industry type** | **2025 %** | 2024 % |
| Leisure and hotel | **92** | 91 |
| Commercial investment and industrial units | **3** | 4 |
| Others, including mixed use | **5** | 5 |
| | **100** | 100 |
| **Unindexed loan to value distribution** | | |
| <70% | **94** | 95 |
| 70%-80% | **3** | 1 |
| 80%-90% | **3** | 4 |
| >90% | **–** | – |
| | **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** | **2025 £000** | **2025 %** | 2024 £000 | 2024 % |
| **Not impaired:** | | | | |
| Neither past due nor impaired | **235,811** | **94** | 223,283 | 96 |
| Past due up to 3 months but not impaired | **9,034** | **4** | 7,760 | 3 |
| **Impaired:** | | | | |
| Past due 3 to 6 months | **2,083** | **1** | 1,220 | 1 |
| Past due 6 to 12 months | **2,478** | **1** | 642 | – |
| Past due more than 12 months | **464** | **–** | 719 | – |
| | **249,870** | **100** | 233,624 | 100 |

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

A small proportion of the Group's commercial mortgage borrowers continue to make use of forbearance, as some have experienced cash flow challenges as a result of the challenging trading conditions created by the UK's high inflation, rising interest rates and cost of living crisis. The majority of forbearance at 31 March 2025 reflects the seasonal cash flow of our hotel and guest house borrowers, but also includes support required due to other factors such as ill health or material loss of income.

| At 31 March 2025: | | Payment concessions including interest only £000 | Arrears capitalised £000 | Transfer to interest only £000 | Total forbearance £000 |
|---|---|---|---|---|---|
| Neither past due nor impaired | **–** | **2,472** | **–** | **–** | **2,472** |
| Past due up to 3 months | **–** | **–** | **–** | **–** | **–** |
| Past due more than 3 months | **–** | **–** | **–** | **–** | **–** |
| **Total loans and advances** | **–** | **2,472** | **–** | **–** | **2,472** |
| **At 31 March 2024:** | | | | | |
| Neither past due nor impaired | – | 2,243 | – | – | 2,243 |
| Past due up to 3 months | – | 1,237 | – | – | 1,237 |
| Past due more than 3 months | – | 331 | – | – | 331 |
| **Total loans and advances** | – | 3,811 | – | – | 3,811 |

## 31. Derivative Financial Instruments

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

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

**Types of derivatives**

The main derivatives used by the Group are interest rate swaps. The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed using on balance sheet instruments or natural hedges that exist within the Group balance sheet. The Group had not used derivatives to manage the risk of fixed rate savings in recent years reflecting the low interest rate environment and historic derivatives had all matured. In the final quarter of the year to 31 March 2023 the Group recommenced economic hedging of some of its book of fixed term deposits. This use of derivatives to hedge the risk of fixed rate deposits continued throughout the year ended 31 March 2025.

**Fair value of derivatives**

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

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

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

| | **Group 2025** | | | Group 2024 | | |
|---|---|---|---|---|---|---|
| **At 31 March:** | **Notional principal amount £000** | **Positive market value £000** | **Negative market value £000** | Notional principal amount £000 | Positive market value £000 | Negative market value £000 |
| Interest rate swaps designated as fair value hedges | **1,650,800** | **34,631** | **(3,366)** | 1,622,550 | 60,131 | (4,116) |
| Interest rate swaps not designated as hedges | **214,700** | **2,272** | **(278)** | 230,500 | 418 | (337) |
| **Total derivatives held for hedging** | **1,865,500** | **36,903** | **(3,644)** | 1,853,050 | 60,549 | (4,453) |

| | **Society 2025** | | | Society 2024 | | |
|---|---|---|---|---|---|---|
| **At 31 March:** | **Notional principal amount £000** | **Positive market value £000** | **Negative market value £000** | Notional principal amount £000 | Positive market value £000 | Negative market value £000 |
| Interest rate swaps designated as fair value hedges | **1,650,800** | **34,631** | **(3,366)** | 1,622,550 | 60,131 | (4,116) |
| Interest rate swaps not designated as hedges | **191,000** | **2,235** | **(202)** | 204,500 | 187 | (244) |
| **Total derivatives held for hedging** | **1,841,800** | **36,866** | **(3,568)** | 1,827,050 | 60,318 | (4,360) |

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

| At 31 March: | **Group 2025 £000** | Group 2024 £000 | **Society 2025 £000** | Society 2024 £000 |
|---|---|---|---|---|
| Interest rate swaps | | | | |
| Under one year | **564,700** | 677,000 | **558,300** | 672,200 |
| Between one and five years | **1,284,800** | 1,153,050 | **1,267,500** | 1,131,850 |
| Over five years | **16,000** | 23,000 | **16,000** | 23,000 |
| | **1,865,500** | 1,853,050 | **1,841,800** | 1,827,050 |

## 32. Fair Values

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

| | **Group and Society** | |
|---|---|---|
| **At 31 March 2025:** | **Carrying Value £000** | **Fair Value £000** |
| **Financial assets:** | | |
| Loans and advances to customers: | | |
| Loans fully secured on residential property | **2,523,001** | **2,524,466** |
| Loans fully secured on land | **248,707** | **251,347** |
| **Financial liabilities:** | | |
| Shares | **2,889,344** | **2,889,861** |

| | Group and Society | |
|---|---|---|
| **At 31 March 2024:** | Carrying Value £000 | Fair Value £000 |
| **Financial assets:** | | |
| Loans and advances to customers: | | |
| Loans fully secured on residential property | 2,390,785 | 2,366,865 |
| Loans fully secured on land | 232,267 | 234,618 |
| **Financial liabilities:** | | |
| Shares | 2,681,558 | 2,681,151 |

The fair value and carrying value of balance sheet items not included in the table above are the same, as shown on the balance sheet, due to their short term nature.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms-length transaction.

The carrying value of loans and advances to customers and shares are recognised at amortised cost using the effective interest rate method, less provisions for impairment together with fair value adjustments using discounted cash flow principles set out in IAS 39.

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair value of derivatives is calculated using discounted cash flow models. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties.

The above are Level 2 assets, as defined in FRS 102. In addition, the 'investment in equity shares' which is shown in the balance sheet at fair value (see note 33) 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 11 and are considered Level 1 assets.

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

| At 31 March 2025: | Financial assets/ liabilities at fair value through income statement £000 | Financial assets available for sale £000 | Loans and receivables £000 | Financial liabilities at amortised cost £000 | Non-financial assets/ liabilities £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Cash and balances with the Bank of England | – | – | 285,655 | – | – | 285,655 |
| Loans and advances to credit institutions | – | – | 17,226 | – | – | 17,226 |
| Debt securities | – | 172,983 | – | – | – | 172,983 |
| Derivative financial instruments | 36,903 | – | – | – | – | 36,903 |
| Loans and advances to customers: | | | | | | |
| Loans fully secured on residential property | (13,361) | – | 2,523,001 | – | – | 2,509,640 |
| Loans fully secured on land | (379) | – | 248,707 | – | – | 248,328 |
| Other loans | – | – | 27,634 | – | – | 27,634 |
| Investment in equity share | – | 11,243 | – | – | – | 11,243 |
| Non financial assets | – | – | – | – | 19,473 | 19,473 |
| **Total assets** | 23,163 | 184,226 | 3,102,223 | – | 19,473 | 3,329,085 |
| | | | | | | |
| **Financial liabilities:** | | | | | | |
| Shares | 451 | – | – | 2,889,344 | – | 2,889,795 |
| Derivative financial instruments | 3,644 | – | – | – | – | 3,644 |
| Amounts owed to credit institutions | – | – | – | 63,609 | – | 63,609 |
| Amounts owed to other customers | – | – | – | 123,389 | – | 123,389 |
| Non-financial liabilities | – | – | – | – | 12,280 | 12,280 |
| General and other reserves | – | – | – | 236,368 | – | 236,368 |
| **Total reserves and liabilities** | 4,095 | – | – | 3,312,710 | 12,280 | 3,329,085 |
| **At 31 March 2024:** | | | | | | |
| **Financial assets:** | | | | | | |
| Cash and balances with the Bank of England | – | – | 332,571 | – | – | 332,571 |
| Loans and advances to credit institutions | – | – | 37,831 | – | – | 37,831 |
| Debt securities | – | 140,666 | – | – | – | 140,666 |
| Derivative financial instruments | 60,549 | – | – | – | – | 60,549 |
| Loans and advances to customers: | | | | | | |
| Loans fully secured on residential property | (33,327) | – | 2,390,785 | – | – | 2,357,458 |
| Loans fully secured on land | (982) | – | 232,267 | – | – | 231,285 |
| Other loans | – | – | 27,866 | – | – | 27,866 |
| Investment in equity share | – | 9,050 | – | – | – | 9,050 |
| Non-financial assets | – | – | – | – | 21,161 | 21,161 |
| **Total assets** | 26,240 | 149,716 | 3,021,320 | – | 21,161 | 3,218,437 |
| | | | | | | |
| **Financial liabilities:** | | | | | | |
| Shares | 158 | – | – | 2,681,558 | – | 2,681,716 |
| Derivative financial instruments | 4,453 | – | – | – | – | 4,453 |
| Amounts owed to credit institutions | – | – | – | 151,220 | – | 151,220 |
| Amounts owed to other customers | – | – | – | 131,933 | – | 131,933 |
| Non-financial liabilities | – | – | – | – | 14,902 | 14,902 |
| General and other reserves | – | – | – | 234,213 | – | 234,213 |
| **Total reserves and liabilities** | 4,611 | – | – | 3,198,924 | 14,902 | 3,218,437 |

## 33. 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 2025 the preference shares have been recognised at a fair value of £10,642,000 (2024 - £8,561,000). The Society also holds an investment in Ordinary C shares with a fair value of £601,000 (2024 - £489,000). 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 £9,928,000 fair value of the Series A shares at 31 March 2025 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 £714,000 fair value of Series B preference shares at 31 March 2025 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.

## 34. 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 – 2025** | |
|---|---|---|
| | **Number of key management personnel and their close family members** | **Amounts in respect of key management personnel and their close family members £000** |
| Loans and advances to customers | **1** | **219** |

| | Group – 2024 | |
|---|---|---|
| | Number of key management personnel and their close family members | Amounts in respect of key management personnel and their close family members £000 |
| Loans and advances to customers | 1 | 387 |

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 £640,000 at 31 March 2025 (2024 - £354,000).

**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 26.

## 35. 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.

## 36. 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 2025 was £118.16 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.

# ANNUAL BUSINESS STATEMENT

For the year ended 31 March 2025

| 1. Statutory Percentages | 31 March 2025 % | Statutory Limit % |
|---|---|---|
| Lending Limit | **11.24** | 25 |
| Funding Limit | **8.53** | 50 |

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

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

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

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

## 2. Other Percentages

| | Group 31 March 2025 % | Group 31 March 2024 % |
|---|---|---|
| As percentage of shares and borrowings: | | |
| Gross capital | **7.68** | 7.90 |
| Free capital | **7.33** | 7.49 |
| Liquid assets | **15.47** | 17.24 |
| Profit for the financial year as a percentage of mean total assets | **0.02** | 0.23 |
| Management expenses as a percentage of mean total assets | **2.18** | 2.03 |

| | Society 31 March 2025 % | Society 31 March 2024 % |
|---|---|---|
| Management expenses as a percentage of mean total assets | **2.16** | 2.01 |

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

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

## 3. Information Relating to the Directors as at 31 March 2025

| Name | Occupation | Date of appointment | Other Directorships (excluding dormant companies) |
|---|---|---|---|
| J. Arnold, FCMA, FGMA | Management Consultant | 19/03/18 | Jackie at Eastwood Limited<br>Furness Education Trust |
| M. J. Stanger, FCA | Chartered Accountant | 01/06/18 | Gibbons Wealth Management Limited<br>Gibbons Properties Limited<br>Carleton Properties (Cumbria) Limited<br>Armstrong Watson LLP |
| P. D. Moore, MBA, Certified Bank Director (ROI) | Chief Executive Officer | 01/04/18 | Cumberland Holdings Limited<br>North Cumbria Integrated Care Foundation Trust |
| R. B. Ellison, CA, MA Hons | Chief Financial Officer | 22/05/19 | Kingdom Bank Limited<br>Cumberland Holdings Limited |
| V. J. Bruce | Company Director | 29/09/20 | Agitos Foundation (Non-Executive Trustee) |
| K. M. Fairbrother | Company Director | 29/09/20 | Xigxag Limited<br>Liberty Wines Limited |
| A. Barsby | Company Director | 01/06/22 | Tessiant Limited<br>ACR Cars Limited<br>Talent Mapper Limited |
| C. Marr | Company Director | 01/11/23 | Hewlett Packard International Bank DAC<br>Mars Capital Finance Ireland DAC<br>AIB Merchant Services |
| R. Pike | Company Director | 06/06/24 | FBD Insurance PLC<br>FBD Holding PLC<br>Citadel Securities (Europe) Ltd<br>Citadel Securities (Ireland) Ltd<br>Tuath Housing<br>Monzo Bank EU |

Mr P. D. Moore is employed under a contract terminable by the Society on twelve months' notice or by the individual on six months' notice. Mr P. D. Moore's contract was signed on 30 January 2018.

Mr R.B. Ellison is employed under a contract terminable by the Society on nine months' notice or by the individual on six months' notice. Mr R.B. Ellison's contract was signed on 29 January 2019.

Correspondence to the directors jointly or individually should be addressed 'Private and Confidential' and c/o Deloitte LLP, 1 City Square, Leeds, LS1 2AL.

Other
# INFORMATION

# GLOSSARY

| | |
|---|---|
| AGM | Annual General Meeting |
| ALCO | Assets and Liabilities Committee |
| BAFO | Best And Final Offer |
| BFL | Borderway Finance Limited |
| BP(S) | Basis Point(s) |
| BRC | Board Risk Committee |
| BTL | Buy to Let |
| CBS | Cumberland Building Society |
| CCyB | Countercyclical Capital Buffer |
| CCO | Chief Customer Officer |
| CEO | Chief Executive Officer |
| CET1 | Common Equity Tier 1 |
| CFO | Chief Financial Officer |
| CITO | Chief Information and Transformation Officer |
| CPSO | Chief People & Sustainability Officer |
| CRO | Chief Risk Officer |
| FCA | Financial Conduct Authority |
| FPC | Financial Policy Committee |
| FSCS | Financial Services Compensation Scheme |
| FSOL | Mortgages Fully Secured on Land |
| FSRP | Mortgages Fully Secured on Residential Property |
| HL | Holiday Let |
| HQLA | High Quality Liquid Assets |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFA | Independent Financial Advisor |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| ILTR | Index Long-Term Repo |
| IMT | Incident Management Team |

| | |
|---|---|
| KPI | Key Performance Indicator |
| KYC | Know Your Customer |
| LCP | Liquidity Contingency Plan |
| LDI | Liability Driven Investment |
| LMS | Learning Management System |
| LTV | Loan to Value |
| Management expenses | Administrative expenses, depreciation and impairment and profit on sale of tangible fixed assets as adjusted by items excluded from operating profit |
| MI | Management Information |
| MSA | Master Services Agreement |
| NGC | Nomination and Governance Committee |
| NIM | Net Interest Margin |
| NPS | Net Promoter Score |
| PARC | People, Remuneration and Culture Committee |
| PRA | Prudential Regulation Authority |
| RAG | Red, Amber, Green |
| RFP | Request for Proposal |
| SDDT | Small Domestic Deposit Takers Regime |
| SLT | Senior Leadership Team |
| SMCR | Senior Managers & Certification Regime |
| SME | Small and Medium Enterprise |
| SMF | Sterling Monetary Framework |
| SONIA | Sterling Overnight Index Average |
| SVR | Standard Variable Rate |
| TCR | Total Capital Requirement |
| TCS | Tata Consultancy Services |
| TFSME | Term Funding Scheme with Additional Incentives for SMEs |

# CALCULATION OF THE GROUP'S KPIs

## Feefo rating

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

## Engagement score

The Engagement Score is based on the responses of our People to the B-heard survey provided by Best Companies and represents the level of employee engagement across a range of workplace factors and commitment to delivering the Group's objectives.

## Group profit before tax

Group profit before tax is the net amount earned after taking into account all expenses as shown in the statutory Income Statement.

## Group profit before tax as a % of mean total assets

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

## Common equity tier 1 capital ratio

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

## Net interest margin

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

## Cost / income ratio

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

## Growth in loans and advances to customers

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

## Gross lending during the year

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

## Group operating profit

Group operating profit is a non-statutory alternative performance measure. It is Group profit before tax, having excluded the impact of hedge accounting, provisions and other gains and losses determined by management not to reflect the Group's underlying performance. It also excludes the Group's investment in the New Cumberland programme. A reconciliation between Group operating profit and statutory profit before tax is included on page 51.

## Inflow of funds from customers

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

## HQLA ratio

The HQLA ratio expresses the Group's high quality liquid assets (cash in hand, reserve account balance and certain highly-liquid securities) as a percentage of shares, deposits and other funding liabilities. The Board ensures that the Group maintains a prudent level of liquidity at all times to support its ongoing operations while seeking to avoid excessive liquidity holdings which would cause an unnecessary drag on net interest margin.

# UK CORPORATE GOVERNANCE CODE

**The Code is issued by the Financial Reporting Council and a copy can be obtained at frc.org.uk. This report is based on the principles of the 2018 Code. Where the Code refers to 'company' and 'shareholder', for our purposes, you should read 'Society' and 'member'. The Board believes that throughout the year, the Society has had regard to the principles of the Code (in line with the Building Societies Association guidance of July 2018) in establishing and reviewing their corporate governance arrangements as required by PRA Supervisory Statement 19/15 (paragraph 2.17), and has complied with the Code save for the limited aspects explained below. In line with revised guidance from the Building Societies Association from October 2024, the Society will begin to have regard to the 2024 Code during 2025/26.**

| | | Where to read more on how The Cumberland has complied | Pages |
|---|---|---|---|
| **Board Leadership and Company Purpose** | **A.** A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. | Strategic Report<br>How the Board Works | 6-63<br>75-76 |
| | **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<br>How the Board Works | 6-63<br>75-76 |
| | **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<br>Strategic Report – KPIs<br>Principal Risks and Uncertainties<br>Board Risk Committee Report<br>Audit Committee Report | 2-3<br>50<br>44-47<br>84-89<br>90-97 |
| | **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<br>Stakeholder Engagement<br>Our approach to sustainability | 20-33<br>77-79<br>34-41 |
| | **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<br>Stakeholder Engagement<br>PARC Report | 26-33<br>77-79<br>98-111 |
| **Division of Responsibilities** | **F.** The chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information. | Chair's Welcome<br>Meet the Board of Directors<br>Nomination and Governance Committee Report | 8-9<br>68-71<br>80-83 |

| | | 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<br>Meet the Senior Leadership Team | 68-71<br>72-74 |
| | **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<br>Attendance Charts | 68-71<br>75, 81, 86, 91, 99 |
| | **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 | 75-76 |
| **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<br>PARC Report | 80-83<br>98-111 |
| | **K.** The Board and its Committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed. | Our senior team<br>Meet the Board of Directors | 66-67<br>68-71 |
| | **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<br>Nomination and Governance Committee Report | 75-76<br>80-83 |

# 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 | 90-97 |
| | **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<br>CFO's Review<br>Viability Statement<br>Outlook<br>Audit Committee Report | 16-19<br>48-57<br>58-62<br>63<br>90-97 |
| | **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<br>Board Risk Committee Report<br>Audit Committee Report | 44-47<br>84-89<br>90-97 |
| **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 | 98-111 |
| | **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.<br><br>**Compliance explanation:** The Society did not plan to and has not engaged in a two-way engagement with employees on executive remuneration during the year. | PARC Report | 98-111 |
| | **R.** Directors should exercise independent judgment and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. | PARC Report | 98-111 |

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The Cumberland
Kinder banking. It's in our nature.