Annual Report and Accounts 2022

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THE CAMBRIDGE
Building Society

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Strategic Report

for the year ended 31st December 2022

John Spence, Chairman

Chairman's address

When introducing this report to members a year ago, following my first 12 months in office, I reflected on what an unprecedented year it had been. Little could I have guessed at the string of unforeseen events that was to follow, creating a cumulative impact that was felt financially, economically, and emotionally. The Cambridge Building Society has managed to maintain a steady path of progress through this turbulence, so I thank the executive team for their leadership, and our team members for their hard work.

The headline achievement is a record Profit Before Tax of £17.0m compared with £11.9m in 2021, though it is important to note this does include an element of accounting gains caused by the changing interest rate environment. Yet this headline achievement masks some other quite outstanding successes. Notably, in October, we successfully completed a highly complex and much planned IT systems upgrade, which positions us well for the future. Additionally, our teams coped with no fewer than eight Base Rate increases across the year, each one requiring a considerable workload. Your Society is indeed in a strong and healthy position.

As a mutual, it is particularly important that we focus on the needs of our key stakeholders. Turning first to members and customers, it is gratifying that our customer satisfaction measures have risen over the year, with 96% of customers reporting that we met or exceeded their expectations, up from 93% in 2022. In the turbulent interest rate environment seen during 2022, we are pleased that more than 1,000 members were able to take advantage of our 5% Extra Reward Regular Saver account, designed as a reward for loyalty. We remain committed to offering our services at the local community level and have been pleased by the progress of our new Bury St Edmunds store, our first new branch to open for 16 years. And looking forward, we are seeking further opportunities to engage with our members throughout 2023 and beyond.

Turning secondly to our team members. As the cost of living crisis emerged we were pleased that our strong profit performance in the previous year allowed us to support team members by way of an additional one-off payment into their salaries in September. During the year we looked to attract, retain and grow talent from across our communities and are proud to have launched a new leadership development programme. In June, our executive team hosted a summer party that was attended by an impressive 90% of our team, who enjoyed coming together in a social setting for the first time in three years.

Our third key stakeholder is the local community. During 2022 our Community Fund continued to award grants to local charities supporting homelessness. Knowing local people were worried about having enough food and warmth over the winter, we joined forces with Cambridgeshire Community Foundation to create a £100,000 Cost of Living Crisis Fund to help those most in need. Within the first four weeks of this fund opening, more than 100 local people had benefited, receiving support with heating bills, food bills and essential furnishings. I am grateful that we have been able to help our community in tangible ways that have truly made a difference.

Last year our unique Rent to Home scheme came full circle, with our first tenants who had moved into our Great Shelford properties in 2019 reaching the end of their tenancies. Each received back from us 70% of the rent that they had paid, in the form of more than £20,000 towards a deposit for a mortgage on their first homes. We received a record number of applications when we reopened the scheme and three new tenants were selected at random by ballot in October, moving in around Christmas time.

I would also like to recognise the sterling efforts of our team members in supporting our communities. In 2022 our team members chose Cambridge Women's Aid as our Charity of the Year and raised more than £5,000 for them through a variety of activities. And last year also saw the return of the first in-person Bridge the Gap charity walk since 2019, with more than 100 of our team members contributing to the event, which raised more than £30,000 for Arthur Rank Hospice Charity and Romsey Mill.

I must close by extending my thanks. Firstly, to the Chief Executive Officer Peter Burrows and his leadership team, the newest member of which is Sandhya Kawar, who joined as Chief Risk Officer early in the year. Secondly, I am grateful to the Non-Executive Board members, where we were sad to lose Pauline Holroyd in the autumn due to other work pressures, but also welcomed Daniel Mundy. With three of our longstanding NEDs coming to the end of their final three-year term, recruitment of a talented new trio is underway and I look forward to working with all the Board to forge a unit that can, I sincerely hope, come to be as effective as that which has gone before.

As I said in my last report, it is an extraordinary privilege to chair the Board of The Cambridge Building Society. This is an organisation that is ambitious and financially astute but that always lives its values. Long may this mutual society continue to thrive and retain its independence.

John Spence

Chairman

21st March 2023

Strategic overview and priorities

The Cambridge aims to be a thriving, independent, mutual business.

Throughout 2022 we demonstrably thrived, increasing the levels of satisfaction that our members express in our service standards, while also growing our balance sheet and profitability. We continued to invest in our future as an independent business, investing further in our physical infrastructure, which included the opening of a new store in Bury St Edmunds, and also in our digital infrastructure, where we completed a full end-to-end systems upgrade. And we remained committed to being a mutual business with a social purpose, delivering a range of community activities via our Making The Difference programme.

The Board is committed to continuing to balance the needs of borrowers, depositors, and investment in the Society. Against an economic backdrop of high levels of inflation and rising interest rates, the Board is more conscious than ever of the need for the Society to set fair and balanced product rates, to deliver excellent customer service, and to underpin our financial sustainability with continued managed growth.

Financial performance

The Society continued to improve its financial performance and resilience.

Total assets grew by 8% to £1.86bn, within which the mortgage book grew 3% to £1.44bn. Liquidity remained strong, with liquidity assets rising to £361m (2021: £303m), the significant increase reflecting our desire to boost liquidity over the year given economic conditions. Capital reserves also grew strongly, by 13% to £114m. Both liquidity and capital resources remain well above required regulatory thresholds.

2022 was an exceptional year for profitability, with Profit Before Tax of £17.0m (2021: £11.9m). As shown on page 11 some of this growth is illusory, being notional gains due to accounting rules that require us to recognise market price fluctuations on interest rate swaps. We hold these swaps for risk management purposes with no intention of realising them, and hence the notional gains will simply reverse in future years. But encouragingly, profit also grew on an underlying basis, partly due to favourable market conditions but also a result of the Society broadening its mortgage offer, which allows us to operate more disciplined mix and margin management. Nevertheless, as market conditions tighten, we do not expect to maintain such heightened levels of profitability going forward.

Managing inflationary impacts was an increasing challenge during 2022. Our cost base rose sharply and, with further cost pressures anticipated in 2023, in common with many businesses cost efficiency is now one of our top financial priorities. In the last few years, we have invested heavily in the Society, and as such we have modern infrastructure that should enable us to introduce more efficient processes and practices. In so doing we are conscious of the paramount importance that members place on friendly, high-quality service and we do not intend to compromise on customer service.

Service quality

Our commitment to customer service levels is as important to the Board as financial performance. In parallel with a strong financial performance, we delivered measurable improvements in customer satisfaction over 2022:

- 82% of customers said they were extremely or very satisfied with the service they received (79% in 2021)
- 94% of customers said service had improved or remained the same in 2022 (91% in 2021)
- Customer Recommendation Score (also known as Net Promoter Score) was +47 (+45 in 2021)
- 96% of customers said The Cambridge met or exceeded their expectations (93% in 2021)
- 86% said they would definitely remain a customer with The Cambridge over the next 12 months (84% in 2021)

In January 2022 we were thrilled to extend our geographical footprint to Bury St Edmunds by opening a new store in the heart of the town. This was a significant moment, being the first time in more than 16 years that the Society had expanded into a new location. Our new Bury store is now an established location in our portfolio, and also provides us with enhanced flexibility with office space above the store.

Strategic Report

for the year ended 31st December 2022 (continued)

We are pleased with the first year of operations and will use the learning from Bury to inform us whether in due course we might consider expansion into other new locations.

We know that the ability to undertake face-to-face transactions remains important to many members. Equally, and in common with many financial service institutions, we are experiencing a shift away from face-to-face transactions and towards our increasingly popular call centre or online offerings. This shift was accelerated by the pandemic and has been particularly pronounced in Sawston and Cambourne. As such, we reviewed the future of those locations, and although declining transactions levels did not justify a six day a week operation, we were keen to continue to have a presence in both locations. Therefore, we reduced their opening days to four and three days per week respectively, with both open on Saturday, the most popular time for customers.

We also completed a multi-year project to enhance the Society's end-to-end IT platform. This significant upgrade gives us the capacity to scale our operations in the future and will be a strategic enabler of customer service improvements for a number of years to come. It also ensures that our multi-channel approach to service is integrated at source, with a single end-to-end processing engine that is accessed by team members, whether in store or in our call centre, or directly by customers who opt to self-serve. We remain committed to offering members flexibility so that they may choose how they want to interact with us: in person on the high street, over the telephone, or digitally via app and web services.

In 2022 we introduced Confirmation of Payee name-checking processes to give members greater assurance and protection over their electronic payments. In 2023 the FCA will introduce a new regulatory framework, known as Consumer Duty, which expects higher and clearer standards of consumer protection across financial services. Good consumer outcomes are already at the core of what we do, and we are at an advanced stage of our preparations to ensure that we can evidence our compliance in full.

Economic climate

2022 was a challenging year economically. The Russian invasion of Ukraine is at heart a political and humanitarian crisis but has also impacted global financial markets. The COVID-19 pandemic thankfully feels like it is substantially behind us, but has had a significant economic impact on the country and consequently on public finances. And the UK economy is still normalising to a post-Brexit model.

Inflation rose steeply over the year, peaking in excess of 10% with the 'cost of living crisis' impacting many individuals and families. In parallel, the Bank of England announced eight separate increases in Base Rate taking Base Rate to 3.5% at the end of the year, its highest level since before the financial crisis of 2008.

Other events, such as the announcement and subsequent reversal of the Government's Growth Plan announced in September 2022 (commonly termed the 'mini budget') introduced widespread uncertainty into financial markets. This precipitated significant movements in money markets and particularly the price of domestic mortgages. However, in contrast to the expectations of many commentators the housing market proved remarkably robust during 2022. Prices rose around 10% over the year on a national basis, with the East of England faring similarly. There are recent signs of that trend reversing, however, and we expect the housing market to be more irregular in 2023.

Our people

Our people worked exceptionally hard this year, delivering measurable improvement in both our customer satisfaction and profitability, and I thank them all. Particular congratulations are due to our IT team, who won IT Team of the Year at the FStech Awards.

2022 marked a post pandemic 'return to the office' for many organisations, including The Cambridge, and in that respect was a year of reconnection and reengagement. We have embedded hybrid working practices at our newly refurbished Head Office in central Cambridge, from where we operate our customer call centre, mortgage intermediary teams and all other support services. A net 11 new team members joined us in 2022, taking our headcount to 236 (2021: 225).

We continued to invest in our people across the business, devoting time and effort to a range of learning and development activities for team members at all levels. An area of strategic focus was our risk management capability, where, in common with many financial services institutions, we continue to strengthen our controls in order to keep our business well managed and our customers secure from financial crime. Conscious of the mounting cost of living pressures, we raised our minimum salary levels and separately in September we made a one-off cost of living payment of £1,000 to all team members.

We believe that our employment offer remains attractive, with a competitive salary and benefits package, a distinctive and supportive culture and a genuine commitment to encouraging individuals to flourish and reach their potential. That said, recruitment challenges are intensifying, particularly for specialist roles in areas such as IT and Risk. Advocacy amongst our people remains strong, with an employee net promoter score for the year of +33 and employee turnover running at a healthy 13%.

2022 was particularly poignant for all of us due to the deaths of two team members, in separate and unrelated circumstances. In July we were devastated to lose Paul Crossley, a much-respected member of our IT team. Then in August we tragically lost Chris Morrison, a core member of our customer call centre team. As a medium-sized business with a close-knit staff team, coping with their untimely passing was a testing time for many of us. We cherish the time we knew them as team members at The Cambridge, and our thoughts remain with their families, friends and loved ones.

Mortgages

The year was characterised by an underlying trend of rising interest rates, exacerbated by the Government's September mini budget. The immediate impact of the mini budget was a withdrawal from the UK residential mortgage by many lenders, including us, due to the inherent uncertainty in pricing long-term mortgage products.

Although we, along with most lenders, returned to offering mortgages relatively quickly, the longer-term impact is that mortgage prices have risen sharply with the interest rate on a typical two or five-year fixed mortgage ending the year in excess of 5%, a stark contrast to rates just a year ago, which were in the region of 2%.

As customers reach the end of their existing fixed-rate term they thus face a significant price shock. Estimates of the impact in 2023 differ, with more pessimistic commentators estimating that as many as 10% of UK domestic mortgage customers might fall into arrears at some point in 2023.

As a mutual organisation we have increased resource levels in our member support teams and stand ready to respond with expertise and empathy should any member encounter payment difficulties.

The mortgage market remained strong over 2022, and particularly so in East of England. In the second quarter we refreshed and enhanced our mortgage range, and despite the disruption during the year we advanced £311m of new mortgage lending in 2022 (2021: £318m) which resulted in our mortgage book growing by 3% to £1.44bn.

Savings and deposits

By way of contrast, rising interest rates over the year meant that for the first time in many years savers began to see the rates of return on their deposits grow. Savers are quickly adjusting to the new market dynamic, with some becoming far more price sensitive and willing to shop around for the best deals in the short term.

We remain committed to offering our members fair and well-priced products over the long term. We increased our savings rates multiple times over the year, and we aim always to do so in a way that is sustainable; we are not in the business of tempting savers to join the Society via inflated savings rates, only to let that rate fall behind the market norm as time goes on. Our 'Your Saver' product was market leading for a period this year, settling into a more normal position, albeit still paying above the market norm. And with a desire to reward loyal members, we extended our Extra Reward Regular Saver product tranche, available only to existing members and returning an advantageous interest rate of 5% for longstanding members. An additional 1,000 members took advantage of this offer.

The Society has participated in the Government's 'TFSME' scheme (the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises), drawing a total of £170m of Government-backed funding under the scheme. From a liquidity perspective this is positive for the Society, as it provides stable low-cost bulk funding. As we and others begin to approach the repayment dates for TFSME funding, it is reasonable to expect this will provide further upward pressure on market savings rates.

Making The Difference to our community

The Cambridge is an increasingly sophisticated financial services institution, but we remain rooted in our local community and committed to making a difference to those who live and work in and around Cambridge. We are clear on our purpose: to find ways to help people have a home, by supporting people who couldn't buy without our help and by working with groups in our community who offer services for shelter and housing.

Our 'Making The Difference' programme acts as the unifying thread of all our community initiatives directed towards achieving this goal, and overleaf I outline just a few 2022 highlights.

Strategic Report
for the year ended 31st December 2022 (continued)

Since its launch in 2020 we have put total funding of £660,000 into The Cambridge Building Society Community Fund. The fund provides grants to a range of local groups, charities and organisations to allow them to continue or expand their work to tackle home and housing needs. Notably, in December 2022 and in conjunction with Cambridgeshire Community Fund, we established the £100,000 Cost of Living Crisis Fund to help local families struggling with food and warmth over the winter months. We aim to get members more involved in steering the direction of the fund over 2023 and beyond.

At the other end of the spectrum, our unique Rent to Home scheme is designed to help people for whom owning their own home is in sight but just out of reach. Under this scheme, individuals rent a property from The Cambridge for up to three years and at the end of the rental period we return to them around 70% of the rent paid over the last three years for them to use towards home purchase. To ensure that we target and help the right people, access to the scheme is restricted to first time buyers and subject to maximum income thresholds. In 2022, two tenants who had been renting flats from us in Great Shelford used the proceeds of the scheme to assist in purchasing homes of their own, and new tenants have now taken their place and started their own Rent to Home journeys.

In 2022 the Society was again the lead sponsor of Bridge the Gap, an iconic walk through the colleges and historic buildings of Cambridge, which takes place every September. Well over half of our team members freely gave their time to make the walk a success, whether by helping to plan the event, raising funds, or being part of the organising team on the day. In total, more than £30,000 was raised for Arthur Rank Hospice Charity and Romsey Mill.

Looking ahead

The Cambridge Building Society aims to be a thriving, independent, mutual society. We aim to stay true to our core business model of providing funding for the purchase of homes and being a trusted place for people wishing to save.

Your Board is acutely aware of the rising economic challenges facing all of us at this time. We believe that this makes the future for organisations like The Cambridge – organisations with a community ethos, with the wellbeing of its people and customers at its heart, and with a burning ambition to thrive – even more critical.

The Society continues to model the potential impacts of a range of economic scenarios on its business and is confident that it has in place the appropriate capital resources and management control processes to protect its financial sustainability and to meet its promise of 'being there for members'. We remain relentless in our quest to provide great customer service, a profitable and sustainable business model, and homes and housing support to our local community.

I wish all members a safe, healthy, and prosperous 2023.

Peter Burrows
Chief Executive
21st March 2023

Directors' Report

for the year ended 31st December 2022

Directors of The Cambridge Building Society have pleasure in presenting their Annual Report, together with the Accounts and Annual Business Statement for the year ended 31st December 2022.

Business review

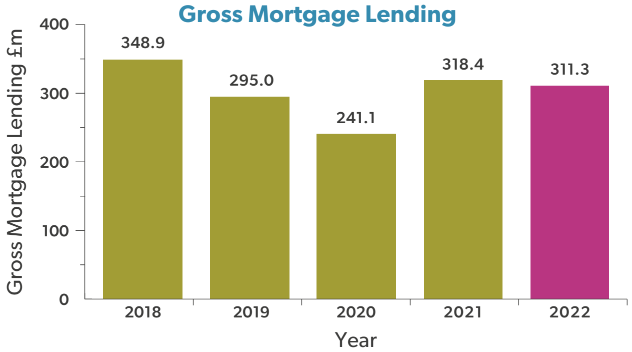
The Cambridge Building Society is an independent, regional, mutual Society. Its primary purpose is to provide funding for the purchase of homes and to provide a trusted place for people wishing to save. Further detail on our view of 2022 is contained within the Strategic Report on pages 4 to 8.

Key performance indicators

The Board of Directors and Leadership Team monitor financial and non-financial information on a regular basis. Whilst this involves many performance indicators, the financial information shown on pages 9 to 11 relates to those that are considered key to the Group's overall success. Further detail on our non-financial performance indicators in relation to service quality and people is provided in the strategic report.

Mortgages

Gross mortgage lending is the amount of new loans that we make to members each year. The Group delivered new mortgage lending of £311m (2021: £318m).



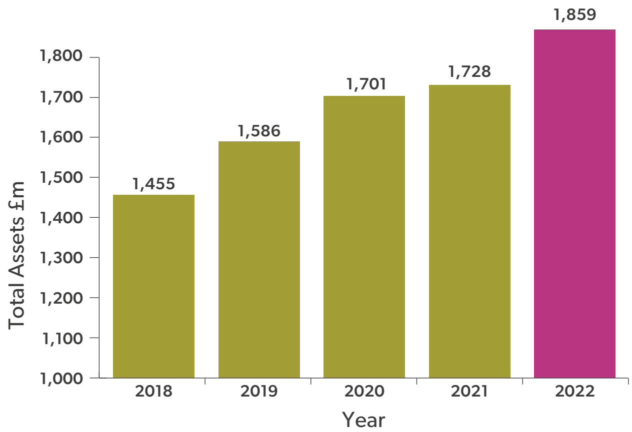
Total mortgage assets grew by 2.5% to £1,439m (2021: £1,403m).

At the end of the year, out of a total of 9,216 mortgage accounts, four accounts (2021: 8 accounts) had arrears of 12 months or more. Together these accounts have balances outstanding of £0.4m (2021: £1.6m) and arrears of £0.04m (2021: £0.1m).

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

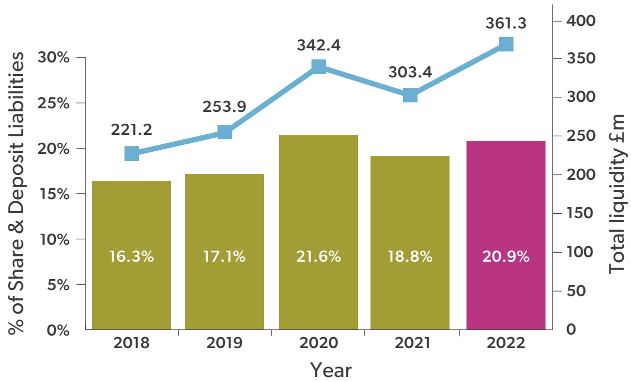
Total assets

Assets principally comprise mortgages and liquidity investments. Total assets have increased by 7.6% over the year, driven by growth in the mortgage book and in liquid assets, as outlined below.



Liquid assets

Liquid assets are cash and short term liquid investments, and can be expressed as a percentage of shares and borrowings. This is a key measure of the Group's ability to meet its financial commitments as they fall due.



These commitments include withdrawal requests from savers, new mortgage lending and the funding of general business activities.

The Group is principally funded by its members' retail savings. During the year the Group has continued to diversify its funding sources and in addition to retail deposits held £170m (2021: £170m) under the Government's Term Funding Scheme, with additional incentives for SMEs (TFSME), which provides a valuable source of low-cost, secured funding.

Directors' Report

for the year ended 31st December 2022 (continued)

Additionally the Group remains active in wholesale money markets, with £28m (2021: £28m) of term deposits.

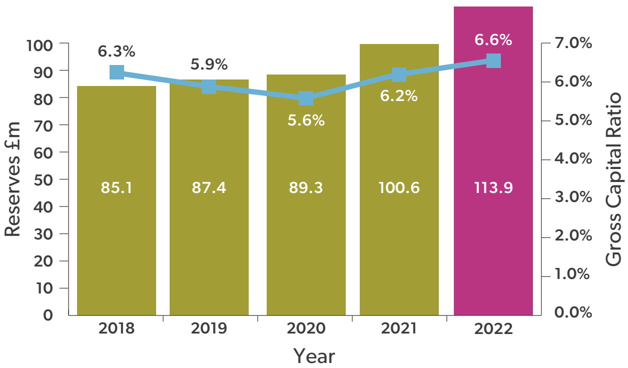
The majority of liquidity assets are invested in UK Government securities and a Bank of England Reserves Account. The Group also has holdings with highly-rated commercial counterparties.

At the end of 2022 the Group held £361m (2021: £303m) of high quality liquid assets. This level of liquidity is comfortably above regulatory requirements and represents 21% (2021: 19%) of shares and deposit balances.

The increase in the level of liquid assets was planned as the Society sought to position itself prudently for challenging economic conditions in 2023 and for the orderly repayment of its TFSME liabilities in due course.

Reserves

Our reserves are an important measure of the Group's financial strength, as they are there to protect members should the business encounter financial difficulties.



The Group's reserves are all categorised as 'Tier 1' capital and as such are considered by the Prudential Regulation Authority to be the strongest form of capital.

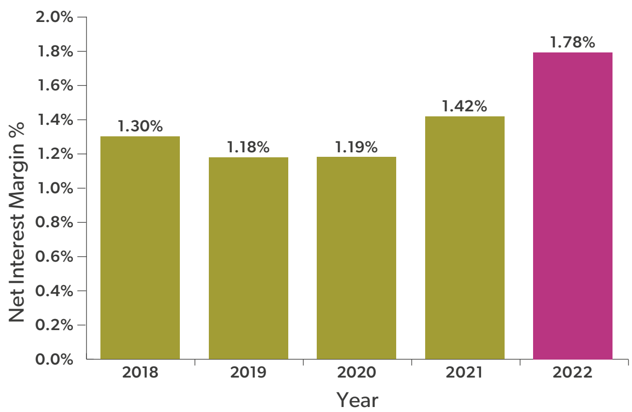
Total reserves grew by 13.1% over the year to £113.9m (2021: £100.6m), including retained profit for the year of £13.7m. In addition to retained profit, total reserves benefited from a reduction of £0.6m in the Society's defined benefit pension scheme deficit.

Reserves include £15m (2021: £15m) of core capital deferred shares (CCDS). CCDS is a perpetual capital instrument with a discretionary distribution. The Group's CCDS investor (Cambridgeshire County Council Pension Fund) holds a single vote, preserving the Group's mutual status.

The Group's gross capital ratio stood at 6.6% and its free capital ratio at 6.1% (see page 86 for definitions). Capital amounts and ratios remained comfortably above regulatory requirements throughout the year.

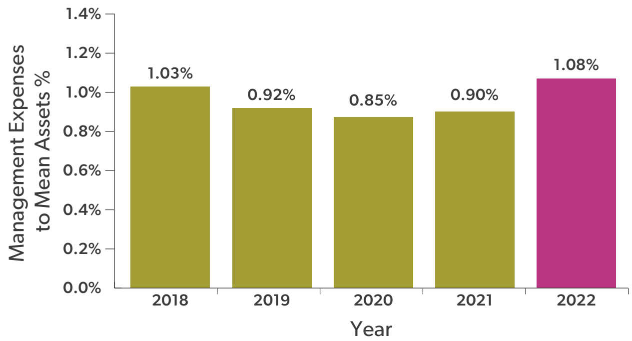
Net interest margin

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



Net interest margin has risen over the year, primarily driven by increased interest income on the Group's liquid assets and by the impact of increases in the Bank of England's Base Rate upon income from the Group's portfolio interest rate swaps, which is held for the purpose of hedging risk in the mortgage book.

Management expenses ratio



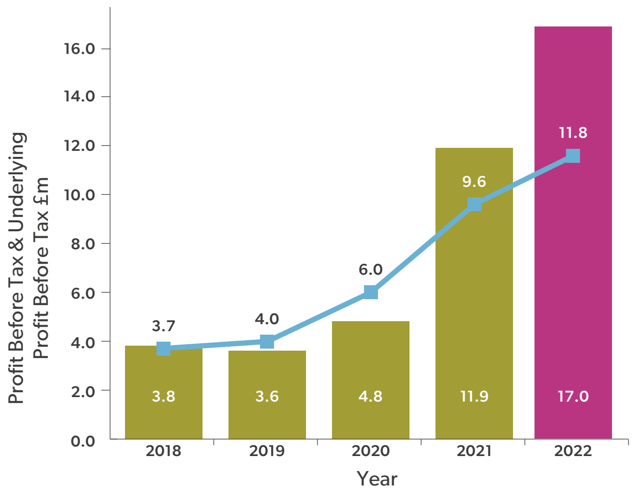
This is the ratio of management expenses and depreciation to mean total assets. It is an indication of the Group's cost efficiency and the aim is, over time, to balance investment in excellent customer service with a desire to increase our efficiency.

In 2022 the Group invested in its customer-facing teams and carried out a project to deliver a significant upgrade to its core IT systems, both of which incurred additional expenditure and so increased the management expenses ratio.

Profit before tax

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

During 2022 net interest income increased to £31.9m (2021: £24.3m). This growth reflects both the Society's hard work over recent years to improve its margins, but also the impact of increases in the Bank of England's Base Rate upon income from the Group's portfolio of interest rate swaps.



This strong underlying performance was bolstered by some significant one-off gains – most notably a £5.2m gain in the net value of the Society's interest rate swap portfolio (2021: a gain of £2.3m). In order to present a clear picture of the Group's profitability over time, a line has been added to the chart above representing Underlying Profit Before Tax, defined as Profit Before Tax less Net Gains and Losses From Other Financial Instruments at Fair Value Through Profit and Loss.

Risk management objectives and policies

Taking and managing risk is an integral part of running any successful business. The key challenge is to identify, monitor and control the principal risks in line with the organisation's strategy and risk appetite.

The Society's Board has overall responsibility for setting the risk appetite. The Board Risk Committee, together with Executive-led sub-committees covering Operational & Conduct risk, Mortgage Credit risk and Assets & Liabilities risk (ALCO), play a key role in monitoring the Society's overall risk profile.

The Board approves the Risk Management Framework on an annual basis. The Board, with the support of the Board Risk Committee, is responsible for overseeing the process of risk management, and ensuring that the Society has a strong culture of risk awareness and risk ownership.

The Society operates a three lines of defence approach to support the effective management of risks across the business.

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

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

Principal risks and uncertainties

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

Economic risk

Description: The risk that challenging economic conditions could create adverse strategic outcomes for the Society. The primary economic risk to the Society is its dependency upon the UK housing market.

Mitigating actions: The Society monitors economic conditions at the ALCO and the Mortgage Credit Committee. The Risk Committee and Board also receive updates on how the economic backdrop is influencing the Society's risk profile, business operations and our strategic plan.

Commentary: The economic backdrop in 2022 remained challenging. The residual effects of COVID were compounded by the impact of the Ukraine war and the resulting energy price crisis. CPI inflation peaked at 11.1% in 2022, and the Bank of England Base Rate was increased to 3.5% – a 14 year high. Markets experienced heightened volatility in October 2022, following the mini budget.

OBR forecasts see economic conditions deteriorating further in 2023. Inflation is expected to remain high, albeit lower than current levels, the Base Rate is expected to rise slightly higher and house prices are expected to fall by c.10%. Unemployment is also expected to rise.

Directors' Report

for the year ended 31st December 2022 (continued)

The tougher economic conditions are expected to result in an industry-wide increase in arrears and a slowdown in mortgage transactions. The Society will not be immune to the deteriorating conditions, and we are taking proactive steps to be able to support our members over this period. Although we operate conservative lending criteria, designed to protect the Society from large credit losses, an increase in impairments is nevertheless likely. Please see the mortgage credit risk section for more information.

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

Mortgage credit risk

Description: Mortgage credit risk is the risk that borrowers may be unable to make timely payments on their mortgages and may ultimately default on their loans.

Mitigating actions: Mortgage credit risk is managed through prudent underwriting policies. Lending can only be approved, according to defined affordability criteria, by a central team of experienced underwriters. Mortgage underwriting is operationally independent of sales activity, ensuring that the Society has adequate security for the loan and that the borrower will be able to make their repayments.

No matter how prudent lending is, some members inevitably get into financial difficulties and struggle to keep up their mortgage payments. As well as rigorous, risk-based underwriting, the Society prides itself on being highly proactive in supporting its members through any financial difficulties, thereby being true to its mutual values and helping mitigate mortgage credit risk. Some of the key controls that we have established to support our customers and mitigate the Society's credit risk exposure, are set out below:

- Our dedicated Financial Support Team is trained to support customers experiencing payment difficulties with expertise and empathy
- The team monitors customers who fall into arrears and proactively contacts them to gain an understanding of their situation and an assessment of their affordability
- We aim to identify an affordable and sustainable forbearance approach for the customer that is tailored to their individual circumstances and minimises the risk of failure
- All accounts in forbearance arrangements or arrears are subject to ongoing monitoring to ensure the support in place for them remains appropriate.

Commentary: As a result of the controls we have established, the Society has experienced low levels of concessions, arrears and repossessions in comparison to the industry as a whole.

In light of the cost of living crisis and the deteriorating economic outlook, it is possible that a small proportion of our customers could face payment difficulties over 2023. We have undertaken additional activity to remind our borrowers, who may be concerned about their mortgage payments, to contact us as soon as possible so that we can find a way to support them.

At the start of the pandemic in 2020, we saw the introduction of payment deferrals by the Government and FCA. The vast majority of customers who took a payment deferral have now returned to full payments and we are supporting the small number who have been unable to restart payments, in line with the FCA Tailored Support guidance, which was published following the end of the payment deferrals framework in 2021.

The table on page 75 provides further information on the loans existing at 31st December 2022 by types of forbearance measure applied to our members over the previous two years. This is regardless of whether the account remains under forbearance at the reporting date or has reverted to its original terms.

Treasury credit risk

Description: The Society places a proportion of its liquidity with other financial institutions to ensure that it can meet its liabilities as they fall due (further information is given in the liquidity risk section). These Treasury counterparties may also be unable to meet their obligations to repay the Society.

Mitigating actions: Treasury counterparty risk is kept to a minimum by only investing in counterparties with high credit ratings and in selected building societies. In addition, the Society limits exposures to particular counterparties, types of investment or countries, and limits the period it is prepared to invest for. These limits, together with a range of other mitigating processes and controls, are documented in the Society's Treasury Policy.

The Board delegates oversight of counterparty credit risk to the Assets & Liabilities Committee (ALCO), through the Board Risk Committee.

Commentary: Our counterparties retained their high credit rating, despite the challenging economic conditions seen in 2022.

Capital risk

Description: Capital risk is the risk that the Society does not hold sufficient capital to meet its regulatory requirements and support the business on an on-going basis.

Mitigating actions: The Society monitors its capital position on a regular basis. On at least an annual basis, the Society undertakes its Internal Capital Adequacy Assessment Process (ICAAP) which reviews whether its capital resources are sufficient to meet its requirements under stressed conditions. The assumptions and results of the ICAAP are approved by the Board Risk Committee and the Board.

Commentary: The Society's capital ratios strengthened in 2022 and look to remain robust over the forecast period, even under stressed conditions.

Liquidity risk

Description: Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can do so only at excessive cost. These obligations include, for example, savers' withdrawals and mortgage advances.

Mitigating actions: The Society has policies in place to help ensure that it always holds prudent levels of liquid assets such that it can meet its liquidity obligations. The Society also has liquidity contingency plans in place to cope with any sudden or extreme outflows, and carries out regular stress tests to ensure the robustness of these plans.

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

Commentary: The volatile economic conditions and rising interest rate environment saw savers and borrowers becoming more rate sensitive over 2022. The Society continues to place a strong focus on ensuring liquidity levels are strong, and so despite the challenging external conditions we were able to operate comfortably above our risk appetite levels through the year.

Funding risk

Description: Funding risk is the risk that the Society is not able to source the right type of funding to support its asset commitments. The Society adheres to the Building Society sourcebook and has established internal risk appetite limits to support adherence to these regulatory limits. As such, the Society aims to source the majority of its funding through stable retail savings deposits

Mitigating actions: To manage this risk, we have enforced strict limits for the amount and term of funding that is sourced from money markets and regularly review our position relative to our risk appetite limits.

Commentary: The Bank of England increased its Base Rate eight times over 2022, to 3.5% by December. Savers became more rate sensitive over this period and competition amongst retail depositors heightened. The Society has supported its members over the period by increasing the rates on many savings products. Looking further ahead, we expect the cost of funding to continue to rise and for the deposit market to remain competitive, partly driven by the maturity of the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). As this scheme, in which the Society has participated, draws to a close in 2025, there is likely to be heightened demand for retail saving deposits across the industry. The Society has started making preparations to retain its strong funding position over this period and this work will continue over the next two years.

Market risk and interest rate risk in the banking book

Description: The Society's main market risk exposure arises from interest rate risk in the banking book (IRRBB). IRRBB is the exposure to movements in interest rates, reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset or, if earlier, the instruments' maturities. For example, if the Society was funded by variable rate savings but lent at fixed rates, it would expose itself to the risk that if rates rose, its cost of funding would rise without any corresponding increase in interest income on loans.

Mitigating actions: To keep its interest rate risk exposure within limits, the Society enters into interest rate swaps with major banks. For example, the Society would swap the fixed rate of income into a variable rate, usually by reference to SONIA (Sterling Overnight Index Average) rates.

Directors' Report

for the year ended 31st December 2022 (continued)

In this case, the Society would pay the bank a fixed rate of interest and in turn receive SONIA income from the bank. The Society proactively manages its levels of fixed rate lending. The ALCO and the Board Risk Committee review and approve interest rates limits on at least an annual basis.

Commentary: The Society operated within its IRRBB limits in 2022. As a result of the Society's move to the 'Extended Approach' for Treasury lending activities in 2022, the Society has strengthened its Treasury management capabilities and the Board approved new interest rate risk appetite limits.

The interest rate sensitivity of the Society at 31st December 2022 is set out in Note 27 on page 81.

Basis risk

Description: Basis risk is a type of IRRBB and arises because the Society manages its interest rate risk exposure on several different bases, such as the Bank of England Base Rate and SONIA. Basis risk is the risk of divergent movements of these bases.

Mitigating actions: The Society manages this risk by setting limits to the relative exposure between the different bases and performing scenario analysis to assess the impact of unexpected relative movements of different interest rates.

Commentary: The Bank of England raised Base Rate by 325 basis points during 2022 to 3.5% in December 2022. The rate rise was managed in line with our pricing policy and we continued to remain within our basis risk appetite.

Margin risk

Description: Margin risk is the risk that competition erodes the margin between rates charged to borrowers and rates paid to savers, thereby threatening the financial strength of the Society. One of the Society's key aims is to offer both its savers and borrowers competitive rates and only earn sufficient margin to maintain the Society's financial strength and meet the product and service needs of its members.

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

Commentary: As the Bank of England Base Rate increased over 2022, the Society responded by increasing both savings and mortgage rates across many products. Our aim is to find the right balance between supporting our customers, as well as the financial resilience of the Society.

We expect margin pressures to remain elevated in 2023, as the demand for retail savings increases in the market and mortgage market competition intensifies.

Pension funding risk

Description: Pension funding risk is the risk that the value of the scheme assets will be insufficient to cover the scheme's obligations to scheme members over time. The value of scheme assets and scheme obligations is vulnerable to changes in corporate bond yields, equity markets, long-term inflation expectation, and longevity.

The Society has an ongoing commitment to fund its defined benefit pension scheme, which is closed to new entrants and future accrual.

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

Commentary: During 2022 the defined benefit pension scheme was transitioned into TPT Retirement Solutions' master trust structure, with a view to benefitting from economies of scale. Having transferred all of its assets and members, the previous scheme vehicle will be wound up during 2023.

Despite the challenging economic backdrop described above, the scheme's accounting deficit improved substantially as shown in the Statement of Financial Position on page 43.

Operational risk

Description: Operational risk relates to the risk of loss arising from inadequate or failed internal processes or systems, human error or external events.

Mitigating actions: It is the responsibility of each business area to understand how operational risk impacts them and to put in place appropriate controls or take other mitigating actions. The Risk team reviews and challenges operational management's assessment on a quarterly basis.

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

The Society, like most organisations, is dependent on several key third party suppliers. A framework is in place to assess and monitor all third parties before and during any contractual relationship, including their financial resilience and the risk they pose to the Society's data and cyber platforms. A new system was introduced in 2022 by The Cambridge to enhance our management of third parties.

There has been an increasing focus on operational resilience across the UK financial system. The Society has identified its Important Business Services and regularly assesses the risks that could threaten their operation and the capabilities available to maintain services. Business continuity and contingency plans have been developed to ensure the impact of any disruption is minimised and we have an ongoing programme to ensure stakeholders are familiar with the plans.

Operational risk and resilience is overseen by the Operational and Conduct Risk Committee, the Board Risk Committee, as well as the Board Audit Committee.

Commentary: The Society has been engaged in a multi-year project to upgrade its core banking platform, which was successfully delivered in Q4 2022. The Society implemented strong project governance to ensure a successful go-live, which included a robust operational risk approach.

The Society continues to strengthen its approach to operational risk and resilience management. We have invested in a new system to support the management of our third parties, and we are investing in our people to ensure that we can maintain a strong control environment.

People risk

Description: This is the risk that the Society is unable to recruit, train and manage its staff in an appropriate manner. People risk is a type of operational risk.

Mitigating actions: The Society sets risk appetite metrics relating to people risk, which are regularly reviewed by the Operational and Conduct Risk Committee, the Board Risk Committee and the Board. The Society enables colleagues to undertake training to support their development, monitors and regularly discusses feedback from its employee pulse surveys and has a People team that supports with recruitment activities. The Society offers a range of tools and approaches to support the wellbeing of colleagues.

Commentary: The pandemic heightened the focus on colleague welfare across the industry, as well as at the Society. We continue to engage in activities to support colleagues, during this post-pandemic period and as the UK experiences a cost-of-living crisis. For example, in Q4 2022 The Cambridge made a one-off payment to all team members to support them with the challenge of the increased cost of living.

Conduct risk

Description: Conduct risk is the risk that the Society does not treat its customers fairly and delivers inappropriate consumer outcomes.

Mitigating actions: The Board acknowledges the requirement to fully embrace the FCA's Statement of Principles to ensure that the Society pays due regard to good conduct governance at all times. These principles are firmly embedded within the organisation's culture and the interests of the Society continue to be best served by following this strategy. This approach has been established into working practices within the Society.

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

The conduct risk framework is regularly reviewed by Internal Audit. Compliance and Internal Audit both consider whether the Society is delivering appropriate outcomes for members as part of their reviews.

Commentary: The Society continues to monitor its treatment of customers and customer outcomes, including receiving additional feedback and surveys of customers who have found themselves in financial difficulties. We undertook a review of our vulnerable customer practices in 2022, using a specialist external expert, to ensure that our approach remains sound and robust.

The Society has been focussing on embedding the Consumer Duty requirements in line with the 2023 and 2024 regulatory deadlines. The requirements outlined by the FCA fit naturally with the ethos of The Cambridge, as a mutual organisation. Nevertheless, we are taking this opportunity to review our practices and are working with an external company to provide feedback on the work we have already undertaken and provide recommendations on other activity we may wish to consider.

Directors' Report

for the year ended 31st December 2022 (continued)

Regulatory risk

Description: This is the risk that the volume, prescription and complexity of regulation, and changes thereto, may impair the Society's ability to compete effectively and grow profitably.

Mitigating actions: The Board and management team closely monitor the Society's compliance with all regulatory requirements and keep up to date with relevant changes. The Society employs a team of compliance experts within the Risk team.

Commentary: The key areas of forthcoming regulatory change that will impact the Society, include:

- PRA consultations on a Strong and Simple Framework and Basel 3.1
- FCA requirements around Consumer Duty
- The Society also continues to embed the regulators' requirements on operational resilience in line with the March 2025 deadline.

Climate Risk

Description: The risk that the impacts of climate change could adversely impact the Society. These risks may be direct physical risks to the Society's property or to properties upon which loans are secured, such as flooding or subsidence, or indirect, such as financial difficulties experienced by our customers in transitioning to a low carbon economy.

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

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

Capital

Group gross capital at 31st December 2022 was £113.9m (2021: £100.6m) being 6.57% of total shares and borrowings (2021: 6.23%). Free capital at the same date was £104.8m (2021: £90.9m) and 6.05% of total shares and borrowings (2021: 5.63%). An explanation of these ratios can be found in the Annual Business Statement on page 86.

Charitable donations

During the year, the Society made charitable donations amounting to £303k (2021: £24k). No contributions were made for political purposes.

Tangible fixed assets

The Directors consider that the overall market value of the freehold and leasehold properties occupied by the Group, including the principal office of the Society, corresponds to the book value that is included within tangible fixed assets (per Note 17 to the Accounts). In arriving at this view, the Directors have used external valuations of the Group's property portfolio.

Creditor payment policy

The Society's policy is to pay trade creditors within the agreed terms of credit once the supplier has discharged its contractual obligations. At 31st December 2022, the Society had an average of seven days' purchases outstanding in trade creditors (2021: eight days).

Viability and going concern

The Board regularly engages in a forward planning process where it considers likely future growth, profitability, liquidity and levels of capital both in normal market conditions and various stressed scenarios, including the implications of the war in Ukraine and the cost of living crisis as highlighted on page 11.

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

Viability assessment

The Society has modelled a number of severe but plausible five year scenarios as part of the latest ICAAP, including a climate change stress scenario and a severe inflationary scenario. The ICAAP also included a reverse stress test.

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

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

The Society's 2022 ILAAP showed that the Society held adequate liquidity to withstand a 92 day stress. The Society has continued to hold high levels of liquidity throughout 2022 and into 2023 and accordingly does not consider that liquidity levels present any threat to the going concern assumption.

Operational viability is assessed regularly by the Society to ensure that it can continue to offer services to members in the face of a variety of stress scenarios. This ability was tested during the pandemic including the ongoing ability to maintain COVID-secure branches and offices and remote working for non-customer facing staff. The Society's measures worked effectively in maintaining services.

Conclusion

The Directors are required to consider whether the Society will continue as a going concern for a period of at least 12 months from the signing of the accounts. In making the assessment the Directors have reviewed the Society's five-year plans and forecasts, including related funding, capital needs and a robust assessment of the principal risks facing the Society, the Directors consider that the Society remains viable and is able to generate adequate profits for regulatory capital requirements and holds sufficient liquidity to maintain its solvency.

The Society has maintained strong liquidity and capital positions and the Directors are satisfied that this will continue for at least the 12-month period from the signing of the accounts. This view is based upon the Board's conclusion that they consider that the Society has adequate resources to continue in operational existence and continue to meet its liabilities over the five year planning period and so they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Post balance sheet events

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

Corporate governance

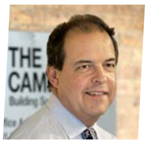
The Board of Directors is committed to best practice in Corporate Governance. The report on pages 22 to 28 explains how the Society has regard to the principles of the UK Corporate Governance Code as far as they are applicable to building societies.

Auditor

The Auditor, Mazars LLP, has expressed its willingness to continue in office in accordance with Section 77 of the Building Societies Act 1986. A resolution for the reappointment of Mazars LLP as auditor is to be proposed at the Annual General Meeting on 24th April 2023.

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

On behalf of the Board of Directors



John Spence
Chairman
21st March 2023

Board of Directors

for the year ended 31st December 2022

John Spence CBE
Chairman,
Non-Executive Director

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

John has had a distinguished career in financial services, principally with Lloyds TSB where he ended his executive career with a series of Managing Director roles across various parts of the business. Born and raised in Edinburgh, John excelled as a scholar, spanning across George Watson's College, Trinity College, Dublin, and Harvard Business School.

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

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

Stephen Jack OBE
Vice Chairman,
Non-Executive Director

Stephen joined the Society as a Non-Executive Director in April 2014 and is a member of the Audit, Risk and Nominations Committees.

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

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

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

Andrew Jones
Non-Executive Director

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

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

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

Andrew Morley
Non-Executive Director

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

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

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

Fiona Hotston Moore
Non-Executive Director

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

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

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

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

Professor Andrew Rice
Non-Executive Director

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

Andrew has worked as Principal Researcher at GitHub Software UK Ltd since January 2022, using artificial intelligence to enhance software engineering. He previously worked in the Department for Computer Science and Technology at the University of Cambridge, where his research in software engineering and related areas is internationally recognised.

He also has a strong interest in teaching, and co-founded the Isaac Computer Science and Isaac Physics projects, which provide online learning resources for school children across the UK.

Andrew lives in Toft, near Cambridge, with his family. He enjoys jogging and keeps himself busy on his allotment growing his own fruit and vegetables, although he ends up sharing a lot of the produce with the local wildlife.

Board of Directors

for the year ended 31st December 2022 (continued)

Peter Burrows
Chief Executive Officer

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

He has more than 20 years of financial services experience, having held senior roles in both mutual and plc businesses and worked in the UK, as well as mainland Europe.

As well as ensuring that The Cambridge remains a member-centric, financially secure business, Peter is committed to the further development of our Making The Difference programme aimed at supporting our members and their local communities.

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

Outside of the Society, Peter is a trustee of Astrea Academy Trust, a multi-academy trust with schools across Cambridgeshire and Yorkshire.

Peter sits on the Nominations Committee and attends the Audit, Risk and Remuneration & People committees.

Richard Brockbank
Chief Financial Officer, Executive Director

Richard joined the Board at The Cambridge in 2020 as Chief Financial Officer and brings a wealth of experience to the role.

After graduating from the University of Cambridge and qualifying as a Chartered Accountant, Richard spent 10 years working in early-stage venture capital fund management.

In 2015, Richard joined the Society as Head of Finance and BI where he has been integral to the delivery of The Cambridge's strategy to deliver sustainable growth focused on long term benefits to both savers and borrowers.

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

Carole Charter
Chief Commercial Officer, Executive Director

Carole Charter joined the Society in 2003 and has since held a variety of marketing and customer-related roles within the business. She was appointed to Chief Commercial Officer and joined the Board in April 2020.

Carole brings a wealth of knowledge and understanding of financial services and the building society sector to the role, which encompasses responsibility for marketing, product development, lending, and financial support and arrears.

Carole has an Accountancy and Financial Management degree from the University of Sheffield. Carole attends the Risk Committee and chairs the Operational & Conduct Risk Committee.

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

Lucy Crumplin
Chief Operating Officer, Executive Director

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

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

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

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

Sandhya Kawar
Chief Risk Officer, Executive Director

Sandhya joined The Cambridge as Chief Risk Officer and Executive Director in January 2022.

Sandhya studied BSc and MSc Economics at the London School of Economics and Warwick Universities and started her career as an economist at the Bank of England in 2004. She has since worked as a risk consultant at Deloitte and within the Risk and Operations teams at M&G. Most recently, Sandhya was Head of Risk at Britain's oldest private bank, C. Hoare & Co.

Outside of work, Sandhya loves spending time with her nieces and nephews, going to the gym, and discovering new places to eat with her husband.

Corporate Governance Report

for the year ended 31st December 2022

The UK Corporate Governance Code was produced in 1992 with subsequent updates detailing the requirements for listed firms to demonstrate compliance. Whilst building societies are not bound by the Code, and the Society has not adopted it, the Prudential Regulation Authority expects building societies to have regard to the Principles of the Code when arranging their governance. The Principles emphasise the value of good corporate governance to long-term sustainable success. Each of the Principles is outlined below, with information demonstrating how the Society delivers the requirements through its activities, culture and values.

Board leadership and company purpose

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

The Board of the Society has ultimate responsibility for the setting of a clear strategy, which is aligned with the needs of its members and our wider community. The stated purpose is 'to help people have a home and provide a trusted place to save' and this is partly delivered through the Making The Difference commitment. This initiative includes the Rent to Home scheme which was launched in 2019 and during 2022 the first two tenants have successfully moved on to their own home ownership and new tenants subsequently moved into the properties at Great Shelford. Elsewhere in the Reports we have provided further details of the Making The Difference scheme, which also encompasses the Community Fund, Community Partnerships and First Step Mortgages.

The Board prides itself on supporting entrepreneurial initiatives and further examples of this were delivered during the year through projects such as Confirmation of Payee to help protect members' savings, upgrading the core IT software, joining Cambridgeshire and Peterborough Against Scams Partnership and investing further in team training and core competencies.

The Board comprised six Non-Executive Directors and five Executive Directors on 31st December 2022 following the resignation of Pauline Holroyd to pursue her external Executive role. Sandhya Kawar was invited to join the Board as Chief Risk Officer in June 2022 and her appointment will be presented to members for election at the Annual General Meeting (AGM) in April 2023. Daniel Mundy has been recruited via an external search agency as a Non-Executive Director and invited to join the Board from the 1st January 2023. Daniel will also stand for election at the AGM in April 2023. All other non-retiring Board members will stand for annual re-election.

The Board delegated authority to five Board Committees during 2022 and each Non-Executive is a member of two or more of these Committees.

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

The Board reviewed the Strategic Plan during the year and updated with progress made against the objectives and agreed expectations for the forthcoming year.

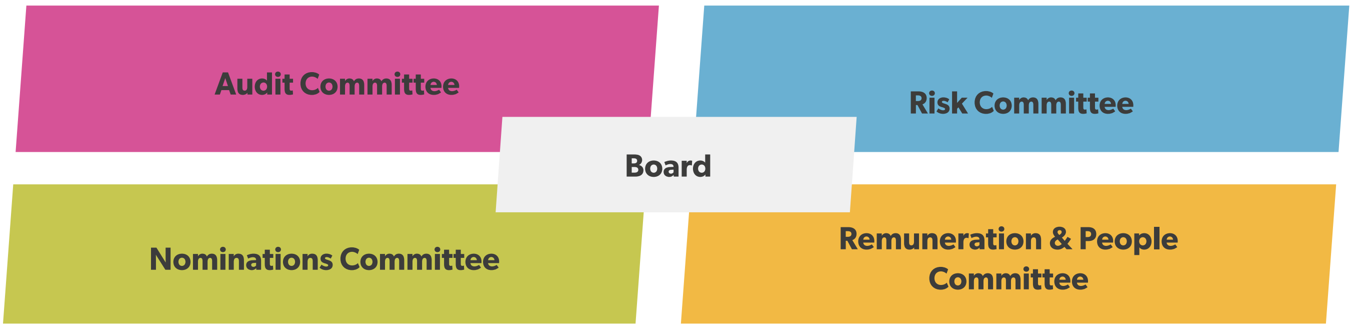
The Society's annual business targets are regularly reviewed against the Strategic Plan to ensure that they remain commensurate with its purpose and strategy. Core products for savings and mortgages are designed to support members with achieving their personal goals, and updated to ensure they remain relevant.

Executive and Non-Executive Directors are certified annually as competent to continue in role, in accordance with the Senior Managers and Certification Regime. There have been no conduct breaches reported by the Society since the introduction of this Regime.

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

Board and Committee packs are presented in advance of meetings to enable members to review relevant and timely information relating to progress made against business objectives. The Chief Risk Officer has been overseeing a review of the packs and streamlining design during the year to enable efficiencies to be captured, whilst also ensuring that the members of Board and Committees receive sufficient information to enable appropriate decisions to be made. In between these meetings, the Executive meet regularly to oversee achievements of individual business areas and address any issues arising in a timely manner.

There are four core Board Committees: Risk Committee, Audit Committee, Remuneration & People Committee and Nominations Committee. Following consideration of the recommendations of the Board Evaluation (see Section F) the Board agreed to change the name of the former Remuneration & Organisational Design Committee to Remuneration & People Committee to more accurately reflect the Committee Terms of Reference.



In addition, a short-term Board Committee for the delivery of the recent technology upgrades was formed and met throughout the year with project owners to support delivery of key enhancements to the business. This Committee ceased following completion of the IT project delivery at the end of 2022.

Each Board Committee is chaired by a Non-Executive Director and Terms of Reference are reviewed and published on the Society's website. External Auditors and Internal Auditors attend each Audit Committee meeting, and Internal Auditors observe Board meetings on an annual basis. The Committees self-assess their effectiveness annually and feedback is incorporated into future meeting design.

Operational Committees are in place to oversee granular detail of key risk areas and their controls, and these Committees report into relevant Board Committees on a regular basis.

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.

The Cambridge is run for the benefit of its members and values its history as an independent mutual building society. Customer feedback is regularly sought through independently conducted surveys and the results are analysed and presented to the management team to agree resulting actions.

The 2022 Annual General Meeting was once again available to members to join in-person at the Head Office in Cambridge and an option to participate online in discussions was also available to those living further afield. Questions were put to relevant Board members and members appreciated the opportunity to interact with the senior team. Results of votes cast in person and in advance were published on the Society's website and members were more than 94% in favour of each of the resolutions.

The Leadership Team and Board engage with team members via Our Forum, a staff representative group, which meets regularly to discuss forthcoming planned changes, practices and culture. This group supports development of projects and feeds ideas back to the wider team.

Online anonymised staff surveys are used to gather feedback and measure levels of team engagement.

The Mortgage Business Development Team work closely with intermediaries who introduce new mortgage customers to the Society. This relationship is enhanced by regular feedback sessions enabling the team to improve their support to these key stakeholders.

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

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

Our regular Forum meetings are held by the Chief Executive to provide a safe environment for the raising of any concerns, anonymously if required, by staff representatives. The Forum reviews policies and practice to ensure that they are in line with core values and enable a thriving environment to flourish. Staff representatives are elected for a maximum two-year term, following which they may stand for re-election.

The Senior Independent Director is the Society's Whistleblowing Champion and all team members are aware of how to raise concerns with him, anonymously if required, for investigation. In accordance with the FCA Senior Management Arrangements Systems and Controls handbook, an annual summary report covering the operation and effectiveness of the Society's policy in relation to whistleblowing is provided to Board members.

Corporate Governance Report

for the year ended 31st December 2022 (continued)

Division of responsibilities

F. The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive Board relations and the effective contribution of all Non-Executive Directors, and ensures that Directors receive accurate, timely and clear information.

The Chairman leads each Board meeting and ensures that the topics covered enable effective evaluation of the progress made towards the Society's objectives. Summary reports are provided from Board Committees and the Executive Team to enable all Board members to debate internal and external challenges and achievements. The Chairman has been in role for two years and demonstrates independent judgement and control. Board and Committee papers are issued in advance of each meeting to enable quality preparation for discussion, and presentations from members of the Leadership Team provide updates on current projects and proposals.

An external independent evaluation of the Board and its Committees was completed at the end of 2021 by Clare Chalmers Ltd. and the report outputs reviewed by the Board. Suggestions to improve performance were debated and a resulting action plan has been tracked throughout the year to ensure that enhancements have been captured and embedded.

The Chairman is available to all Board members between meetings and regularly provides feedback and ideas to enable a culture of continuous improvement.

G. The Board should include an appropriate combination of Executive and Non-Executive (and, in particular, independent Non-Executive) Directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the Executive leadership of the company's business.

The Board comprised six Non-Executive Directors and five Executive Directors on 31st December 2022 following the departure of Pauline Holroyd, Non-Executive Director, to enable her to devote more time to her executive role.

Three Non-Executive Directors are also due to retire by rotation in April 2023: Stephen Jack, Andrew Jones and Andrew Morley. An external recruitment agency, Stanton Chase, is conducting the search for four new Non-Executive Directors to join the Board over the next year and this will include candidates who can fulfil the roles of Chair of Risk Committee and Chair of Remuneration & People Committee.

Following the initial stage of this recruitment exercise the Board invited Daniel Mundy to join the Board with effect from 1st January 2023 and he will stand for election by members at the AGM in April. The remaining roles will be filled following the completion of the outlined process during 2023.

In view of the impact of losing this level of background knowledge and experience from the Board, Nominations Committee have recommended that Andrew Jones continues to serve as a Non-Executive Director during 2023 whilst he hands over his role of Chair of Risk Committee to Daniel Mundy. Andrew Jones will therefore stand for re-election at the Annual General Meeting in April 2023 for a short tenure.

The roles of Chairman of the Board and Chief Executive are held by separate individuals with a clear division of responsibilities. The Chairman leads the Board and ensures it discharges its duties and responsibilities to members effectively. Andrew Morley was the Senior Independent Director during the year: he oversees the process for annual election of the Board Chair and acted as a sounding board for the Chairman during the year.

The Chief Executive implements the strategies and policies agreed by the Board supported by the Leadership Team.

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

H. Non-Executive Directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

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

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

Non-Executive Directors met without the Executive Directors several times during 2022 to discuss performance of the Executive Team against objectives. Non-Executive members excluding the Chairman meet with the Executive Directors annually to review the performance of the Chairman and feedback to the Chairman is provided by the Senior Independent Director.

Confirmation of attendance at the Board and Committee meetings, which each individual was eligible to attend in 2022, is outlined on page 28.

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

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

The timing and frequency of Board and Board Committee meetings was reviewed following the feedback from the independent Board Evaluation conducted at the end of 2021. Consideration of the improvements experienced during the year has been incorporated into planning for meetings in 2023. Sufficient time is scheduled for Board and Committee meetings, which are regularly briefed by members of the wider Leadership Team. Papers are issued well in advance, providing the opportunity to seek clarification before or at the meeting.

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

If necessary, the Board members are able to seek independent professional advice at the Society's expense.

Composition, succession and evaluation

J. Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

In order to attract a capable and diverse range of applicants for the succession plan for the retiring Non-Executive Directors outlined in section G, Stanton Chase Executive Search firm was appointed to identify and recommend potential candidates to Nominations Committee. This search was undertaken over several months during the year and resulted in 129 approaches from which 33 people were identified as suitable to fulfil the remaining three vacant roles. This search was concluded with shortlist interviews by Nominations Committee in December, and the Board will review recommendations early in 2023.

Stanton Chase is a global firm owned by its partners and aims to identify the diverse role models of the future. The Board is keen to continue to promote diversity across a range of attributes to enable it to continue to deliver inclusive consideration of the needs of the teams and members.

Each current Executive Director is eligible for and will seek election/re-election to the Board at the Annual General Meeting in April 2023.

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

The People Team has designed the Society's Diversity and Inclusion Policy and consider that appointments for all roles are based on merit. On 31st December 2022 the Board and Leadership Team comprised 47% female appointments.

K. The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.

A full review of Board knowledge and skills is completed annually by Nominations Committee. Board members are invited to serve a term of three years on the Board, subject to satisfactory performance and annual re-election by Society members. Their service contract may be renewed twice to enable a total of nine years' service. Nominations Committee review an individual's contribution and capacity prior to renewal, to ensure that the Board remains relevant and configured for the identified business challenges ahead. Three Non-Executives are due to retire from the Board in 2023 having completed nine years' service. The recruitment process for their replacements is documented under section J.

Corporate Governance Report

for the year ended 31st December 2022 (continued)

All appointments are subject to approval of the Society's members who vote on the election or re-election of Directors. All member approved re-elections at the AGM in 2022 with 97% positive votes.

L. Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each Director continues to contribute effectively.

Clare Chalmers of Clare Chalmers Ltd was engaged to conduct an independent external review of the Board in November 2021. Her review included observation of meetings of the Board and each of its committees, individual interviews with each Director, Non-Executive Director, the Company Secretary, the Head of People and the Internal and External Auditors. The comprehensive report was presented to the Board in January 2022 and an action plan to work towards recommended improvements was followed throughout the year. Completion of the actions was tracked to demonstrate enhancement to processes and procedures.

Performance of the individual Directors is evaluated with feedback given by the Chairman and Chief Executive as appropriate. The performance of the Chairman is discussed by the Board annually and feedback given to him by the Senior Independent Director.

The Board reviews composition and diversity annually and takes into account requirements for the future when recruiting.

Audit, risk and internal control

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

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

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

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

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

Deloitte LLP continue to act as Internal Auditors to the Society, providing independent audit reviews of key Society functions and procedures. The Engagement Director stood down by rotation in January 2023 and has completed a thorough handover to his successor.

Neither auditor company has completed any prohibited non-audit work for the Society during this year.

N. The Board should present a fair, balanced and understandable assessment of the Society's position and prospects.

The Statement of Directors' Responsibilities on page 34 sets out the Directors' responsibilities in respect of the preparation of the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts. The Directors' Report contains confirmation that the Society and Group continue to be considered to be a going concern.

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

O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Society is willing to take in order to achieve its long-term strategic objectives.

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

The Framework's purpose is to provide a structured and disciplined approach to managing risk, with documented procedures for identification, mitigation and control of material risks to the Society's business. Each business area is responsible for ensuring that appropriate controls are designed, maintained and operate effectively to manage risks. The Framework will continue to be developed to support the Society's managed growth plans and continued sophistication.

Using the traditional Three Lines of Defence Model, the Society monitors and reports risk exposures relative to risk appetite alongside ongoing improvements to the Risk and Compliance Strategy. All customer facing teams and support functions form the first line of defence, with the Risk and Compliance Team providing second line independent oversight and challenge. In turn, independent assurance reviews and controls testing is undertaken by Internal Audit providing the third line of defence.

The Board receives regular reporting updates via Risk Committee on the extent and nature of principal risks and the adherence to the Society's risk appetite.

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

Remuneration

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

The Directors' Remuneration Report on page 31 sets out the policy of the Remuneration & People Committee when reviewing Directors' remuneration.

Recruitment of Executives takes into account the wider employment market, the needs of the Society and the delivery of forthcoming strategic plans.

Executive Directors are eligible to participate in the Sharing in Success annual performance scheme alongside all team members, and receive no additional performance related incentive payments.

Q. A formal and transparent procedure for developing policy on Executive remuneration and determining Director and senior management remuneration should be established. No Director should be involved in deciding their own remuneration outcome.

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

Nominations Committee agrees the strategic policy for the remuneration of the Society's Non-Executive Directors and reviews the fees annually to ensure that they remain competitive whilst reflecting the required levels of contribution to the success of the Society. Ahead of the current Non-Executive recruitment exercise a benchmarking review was undertaken to ensure our fees would be competitive, enabling the Society to attract the appropriate range of talents and skills. The Non-Executive fees have been adjusted accordingly.

Nobody is involved in discussions relating to their own remuneration outcome.

Corporate Governance Report

for the year ended 31st December 2022 (continued)

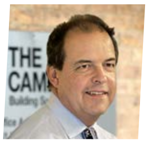
R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The Society operates one annual award scheme for all team members as a reward for achieving or exceeding the required level of customer experience and profit targets for the organisation.

Remuneration & People Committee agrees the new scheme targets annually and reviews performance against objectives to assess whether any pay out should be made.

Compliance, ethical standards, appropriate risk management and financial performance of the Society are taken into account before the final level of award is determined.

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



John Spence
21st March 2023

Directors' attendance record

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

Board member	Board	Audit	Risk	Nominations	Remuneration & People	IT Sub-committee
John Spence	10 (10) Ch	–	–	4 (4) Ch	1 (2)	–
Andrew Jones	10 (10)	–	10 (10) Ch	–	–	7 (9)
Andrew Morley	10 (10)	–	–	4 (4)	3 (3) Ch	–
Stephen Jack	9 (10) Vc	4 (4)	10 (10)	4 (4)	–	9 (9) Ch
Pauline Holroyd	8 (8)	3 (3)	–	–	1 (2)	–
Fiona Hotston Moore	10 (10)	4 (4) Ch	–	4 (4)	–	–
Andrew Rice	10 (10)	–	10 (10)	–	2 (2)	8 (9)
Peter Burrows	10 (10)	4 (4) A	10 (10) A	4 (4)	3 (3) A	9 (9) A
Richard Brockbank	10 (10)	4 (4) A	10 (10) A	–	–	9 (9)
Sandhya Kawar	5 (5)	4 (4) A	10 (10) A	–	–	9 (9)
Carole Charter	10 (10)	–	6 (10) A	–	–	–
Lucy Crumplin	9 (10)	–	9 (10) A	–	3 (3) A	8 (9)

Ch – denotes Chair/Chairman
Vc – denotes Vice-Chairman
A – denotes attendee only
( ) – denotes number of meetings eligible to attend

Directors' Remuneration Report

for the year ended 31st December 2022

From **Andrew Morley,** Chair of the Remuneration & People Committee

UK Corporate Governance Code

The report on remuneration for the year ended 31st December 2022 considers the areas set out in the UK Corporate Governance Code relating to remuneration insofar as they are considered relevant to building societies, the relevant requirements of the Prudential Regulation Authority's Rulebook and Financial Conduct Authority's Remuneration Code.

Purpose of the report

The report includes an overview of Executive and Non-Executive Directors' remuneration, as well as a summary of how our Remuneration & People Committee helped shape our culture during 2022.

Remuneration & People Committee

In 2022 the Committee name was updated to 'Remuneration & People Committee' to reflect its broad focus on all strategic people and culture matters.

The primary objective of the Remuneration & People Committee remains, under delegated authority from the Board, to make recommendations to the Board on the general remuneration policy of the Society, including the remuneration of Executive Directors. In addition to this, the Committee provides general oversight on all aspects of people and culture at The Cambridge.

The Committee ensures that remuneration is in line with the Society's brand values, corporate objectives, and ambitions. In addition, the Committee has responsibility for approving the Society's Remuneration Policy and Organisational Design Policy.

In 2022 the Remuneration & People Committee met on three occasions. It is made up of three Non-Executive Directors as shown on page 33. The Chief Executive and Chief Operating Officer attend by invitation.

The Remuneration & People Committee's activities in 2022 included:

- Consideration of the Society's annual pay review and related rewards for 2022
- Approval and monitoring of the Society's variable pay scheme 'Sharing in Success', including agreement of related objectives
- Reviewing and approving the Society's Remuneration Policy
- Reviewing and approving the Society's Organisational Design Policy
- Reviewing and approving the Society's Board Expenses Policy
- Meeting with team members from Our Forum for the first time (see page 23) to understand our workplace culture from their perspective
- Receiving an update on our approach to Diversity, Inclusion and Belonging, which included an update on the Society's Gender Pay Gap and progress against Women in Finance Charter targets
- Ensuring compliance with current regulatory requirements and their impact on the organisation.

Remuneration in 2022

The Strategic Report provides an overview of the performance of the Society during 2022.

The Remuneration & People Committee reviews Executive Director remuneration annually to ensure that it is sufficient to attract, retain and motivate appropriately skilled individuals whilst balancing Society finances and affordability. On an ongoing basis it considers the alignment of Executive Director objectives with Society objectives, and individual Executive Director performance.

In line with team member remuneration, the Executive Directors received a salary increase on 1st April 2022. Following a periodic review of Executive Director salaries against peer competitors, the Society's Chief Financial Officer received a further increase in July 2022 to ensure that his remuneration remained appropriate and aligned to market norms.

As part of the UK Corporate Governance Code, the Committee also reviewed and determined the remuneration of the Society's Leadership Team, which includes Heads of Function and Company Secretary.

The remuneration of the Executive Directors is shown on page 33.

Other Remuneration Code requirements

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

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

All members eligible to vote at the Society's Annual General Meeting will have the opportunity to approve the Annual Report on Remuneration, through an ordinary resolution (non-binding). The 2021 Report received a 94% positive vote.

Remuneration Policy

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

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

A variable pay 'Sharing in Success' element which recognises the importance of customer experience, Society profitability and the long-term financial wellbeing of the organisation is in place for all team members.

The Executive Directors participate in this scheme on an equal basis with other team members. There is no separate Executive Director bonus scheme or similar.

Non-Executive Directors

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

Remuneration comprises a basic fee with a supplementary payment for the Chairman, Vice Chairman and Committee Chairs.

Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not take part in any incentive scheme nor receive any other benefits. Non-Executive Directors do not have employment contracts with the Society.

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

Executive Directors

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

Directors' Remuneration Report

for the year ended 31st December 2022 (continued)

Basic salary

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

Sharing in Success scheme

The Society operates an annual Sharing in Success variable pay scheme, which rewards all our people based on customer satisfaction and Society profitability.

Each year the Sharing in Success scheme awards a certain percentage of base salary, payable to all team members. The percentage ranges between 0% and 15% and is the same for all team members, including Executive Directors.

The Remuneration & People Committee agrees the scheme rules on an annual basis and assesses whether and to what extent any payment should be made, giving due regard to compliance, ethical standards and appropriate risk management.

Pensions and other benefits

Executive Directors are entitled to pension and other benefits on the same basis as all other team members.

They are members of the Society's Group Personal Pension Scheme, details of which are set out in Note 26 on pages 68 to 70.

Alongside all team members they may apply for a mortgage on a subsidised interest basis and they participate in the Society's private healthcare arrangements.

Recruitment Policy for Executive Directors

The Committee's approach is to set remuneration with regard to market norms and which reflects the individual's skills and knowledge. Any new Executive Director's remuneration package will be consistent with our Remuneration Policy as outlined in this report.

Other directorships

Subject to Nominations Committee approval, Executive Directors may hold external directorships. The Remuneration & People Committee sees this as a useful tool in the ongoing professional development of individual Executive Directors. None of the Executive Directors hold any paid external directorships.

Directors

The following were Directors of the Society during the year:

John Spence (Chairman)

Stephen Jack (Vice Chairman)

Fiona Hotston Moore

Andrew Jones

Andrew Morley

Andrew Rice

Pauline Holroyd (until 30th September 2022)

Peter Burrows (Chief Executive)

Richard Brockbank

Carole Charter

Lucy Crumplin

Sandhya Kawar (from 29th June 2022)

Daniel Mundy is joining the Board on 1st January 2023 and along with Sandhya Kawar will stand for election to the Board by membership vote at the Annual General Meeting in April 2023. Richard Brockbank, Peter Burrows, Carole Charter, Lucy Crumplin, Fiona Hotston Moore, Andrew Jones, Andrew Rice and John Spence are each eligible for, and will seek, re-election to the Board. Stephen Jack and Andrew Morley will be retiring from the Board at the Annual General Meeting.

None of the Directors have any beneficial interest in any connected undertaking of the Society as at the year end.

The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986.

Biographies of the Board appear on pages 18 to 21.

Andrew Morley
Chair of the Remuneration & People Committee
21st March 2023

	Group & Society 2022					Group & Society 2021				
	Salary (Gross)	Performance related pay	Benefits	Pension contribution	Total 2022	Salary (Gross)	Performance related pay	Benefits	Pension contribution	Total 2021
Non-Executive Directors										
J Spence (Ex-Chairman, retired 15th January 2021)	–	–	–	–	–	1,994	–	–	–	1,994
John Spence (Chairman, joined the Board 1st November 2020)	49,314	–	–	–	49,314	46,996	–	–	–	46,996
S Jack (Vice-Chairman)	33,734	–	–	–	33,734	31,702	–	–	–	31,702
P Holroyd (Retired 30th September 2022)	21,140	–	–	–	21,140	26,697	–	–	–	26,697
F Hotston Moore	33,734	–	–	–	33,734	31,702	–	–	–	31,702
A Jones	33,734	–	–	–	33,734	31,702	–	–	–	31,702
A Morley	33,734	–	–	–	33,734	31,702	–	–	–	31,702
A Rice	28,640	–	–	–	28,640	26,697	–	–	–	26,697
Total	**234,028**	**–**	**–**	**–**	**234,028**	**229,192**	**–**	**–**	**–**	**229,192**
Executive Directors										
P Burrows (Chief Executive Officer)	247,921	23,722	2,066	29,751	303,460	237,220	15,546	997	28,466	282,229
R Brockbank (Chief Financial Officer)	150,164	13,498	3,554	18,020	185,236	134,979	8,504	2,553	16,198	162,234
C Charter (Chief Commercial Officer)	114,125	10,750	3,827	15,686	144,388	107,500	6,597	2,827	14,680	131,604
L Crumplin (Chief Operating Officer, joined the Board 1st January 2021)	112,875	10,083	2,066	13,545	138,569	100,833	5,629	1,065	12,100	119,627
S Kawar (Chief Risk Officer, joined the Board 21st June 2022)	95,455	–	1,606	9,818	106,879	–	–	–	–	–
V Stubbs (Chief Risk Officer, retired 19th November 2021)	–	–	–	–	–	134,521	9,147	752	16,848	161,268
Total	**720,540**	**58,053**	**13,119**	**86,820**	**878,532**	**715,053**	**45,423**	**8,194**	**88,292**	**856,962**
Total Directors' remuneration	**954,568**	**58,053**	**13,119**	**86,820**	**1,112,560**	**944,245**	**45,423**	**8,194**	**88,292**	**1,086,154**

Statement of Directors' Responsibilities

for the year ended 31st December 2022

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

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

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

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

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts
- Prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

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

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

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

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

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

Independent Auditor's Report

to the members of Cambridge Building Society

From **David Allen,** Senior Statutory Auditor

Opinion

We have audited the annual accounts of Cambridge Building Society (the Society) and its subsidiaries (the Group) for the year ended 31st December 2022 which comprise the Group and the Society Statement of Comprehensive Income, the Group and the Society Statement of Financial Position, the consolidated Statement of Changes in Members' interests, the Society Statement of Changes in Members' interests, the consolidated Statement of Cashflows and Notes to the annual accounts, including a summary of significant accounting policies.

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

In our opinion, the annual accounts:

- Give a true and fair view of the state of the Group's and the Society's affairs as at 31st December 2022 and of the Group's and of the Society's income and expenditure for the year then ended
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual accounts section of our report. We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Society's ability to continue as a going concern
- Making enquiries of the Directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Society's/Group's future financial performance
- Challenging the appropriateness of the Directors' key assumptions in their cash flow forecasts by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the Directors' consideration of severe but plausible scenarios. This included reviewing the Society's five-year corporate plan, latest ICAAP and ILAAP and its reverse stress testing
- Testing the accuracy and functionality of the model used to prepare the Directors' forecasts
- Assessing the historical accuracy of forecasts prepared by the Directors
- Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation levels and interest rates
- Considering the consistency of the Directors' forecasts with other areas of the annual accounts and our audit, and
- Evaluating the appropriateness of the Directors' disclosures in the annual accounts on going concern.

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

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

Independent Auditor's Report

to the members of Cambridge Building Society (continued)

Key audit matters

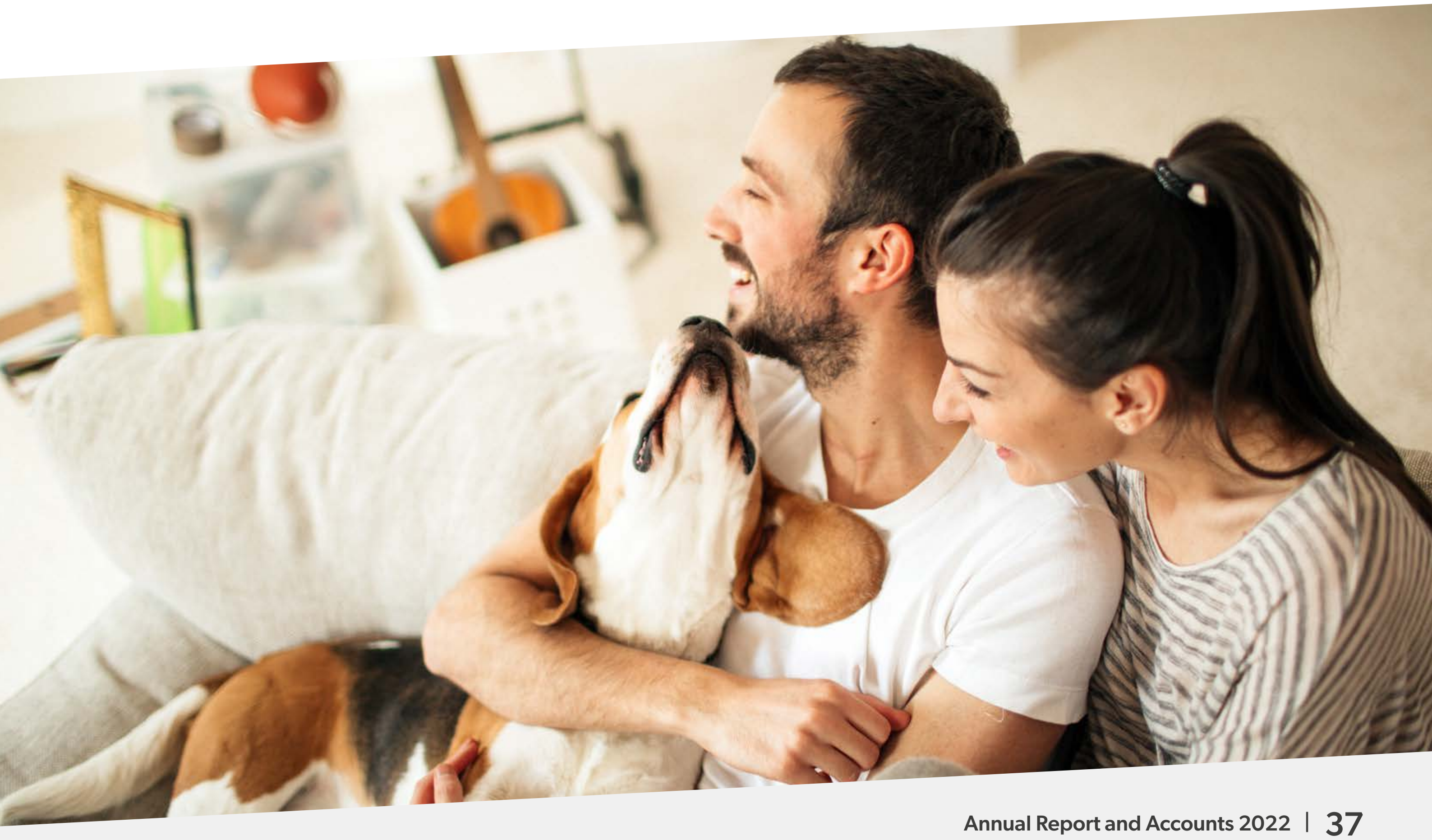
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Key audit matter	How our scope addressed this matter
Credit risk: impairment of loans and advances to customers (Group and Society: £2.2m: 2021 – £1.1m). Refer to Note 1.7 (financial instruments), Note 1.16 (accounting estimates and judgements), and Note 14 of the annual accounts. Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of management estimation in calculating the collective provisions. In addition to specific provisions FRS 102 requires a collective provision for losses incurred but not yet identified by the Society. The Society has limited actual loss experience on which to base its impairment assessment on the loan portfolio, resulting in management judgement being required in deriving assumptions to be applied in its assessment. The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In particular, the impairment model is most sensitive to movements in the probability of default (PD) and forced sale discounts (FSD) against collateral. The impairment model is also sensitive to other factors applied to take account of the impact of inflation on borrowers' financial resilience, the movement in future house prices and the reducing desirability of energy inefficient homes by considering the energy performance certificate (EPC) ratings.	**Our audit procedures included, but were not limited to:** • Assessing the design and implementation, and testing the operating effectiveness, of the key controls in relation to credit processes (loan origination and approval, loan redemptions and arrears monitoring) • Assessing the reasonableness and relevance of external data used in the provisioning model based on our understanding of the Society's portfolio • Comparing the Society's key assumptions with similar lenders and considering whether they are consistent with industry practice • Challenging the reasonableness of the inflation and EPC rating stresses, and future house price movement assumption applied in determining future cash flows from recovery of collateral, before discounting to present value • Developing an auditor's range estimate of the collective provision using reasonable alternative assumptions relevant to the Society's portfolio • Performing a stand back assessment of the resulting individual and collective impairment estimates to assess their appropriateness, and • Assessing the adequacy of the Society's disclosures in relation to the degree of estimation uncertainty involved in arriving at the provision for impairment losses on loans and advances to customers. **Our observation** Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision as at 31st December 2022 to be reasonable and in compliance with FRS 102.

Key audit matter	How our scope addressed this matter
Revenue recognition: Effective Interest rate (EIR) (Group and Society: £1.7m: 2021 – £1.2m). Refer to Note 1.4 (Interest income and expense), Note 1.16 (accounting estimates and judgements) and Note 13 of the annual accounts. Interest income substantially arises from contractual interest. Under the effective interest rate (EIR) method, interest earned and fee income and expenses are spread over the expected lives of the loans using the Whistlebrook EIR system. EIR is an inherently subjective area due to the level of judgement required in determining which cash flows require spreading and over what time period. The most significant areas of the EIR estimation are management's judgement of the expected lives and redemption profile of the loans, the assessments of which are informed by historical experience and management's retention strategy. There is also a risk that early redemption charges (ERCs) and reversionary interest modelled in the EIR calculations are not accurate.	Our audit procedures included, but were not limited to: • Assessing the design and implementation of the key controls related to review and approval of the assumptions used in the EIR calculation and the process ensuring complete and accurate data is captured in the EIR calculation • Assessing the reasonableness of the Society's expected life assumptions against actual customer behaviour • Challenging the basis of management's judgements in respect of the cash flows included in the model • Testing the accuracy of the fees and costs included in the calculation • Reperforming the EIR calculation and comparing with management's results, and • Testing the accuracy and method by which ERCs and reversionary interest are modelled in the EIR calculations. **Our observation** Based on work done, we found the resulting estimate of the EIR method of recognising interest income for the year ended 31st December 2022 to be reasonable.



Independent Auditor's Report

to the members of Cambridge Building Society (continued)

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

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

Overall materiality	Group: £569,000 (2021: £506,000) Society: £569,000 (2021: £506,000)
How we determined it	0.5% of net assets (2021: 0.5% of net assets)
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the Group and the Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, net assets as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where net reserves is an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. Performance materiality of £398,000 (2021: £354,000) was applied in the audit based on 70% (2021: 70%) overall materiality. In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount toward the upper end of our normal range was appropriate.
Reporting threshold	We agreed with the Directors that we would report to them misstatements identified during our audit above £17,000 (2021: £15,200) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

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

	2022	2021
Number of reporting entities subject to full audit scope	1	1
% of Group net interest income	100	100
% of Group profit before tax	100	100
% of Group total assets	100	100

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

Other information

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

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in 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 there is a material misstatement in the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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

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

In 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.

Matters on which we are required to report by exception

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

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

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities set out on page 34, the Directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Group's and 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.

Auditor's responsibilities for the audit of the annual accounts

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

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

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

Independent Auditor's Report

to the members of Cambridge Building Society (continued)

Based on our understanding of the Group and the Society and their industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) and anti-money laundering regulations, and we considered the extent to which non-compliance with these laws and regulations might have a material effect on the annual accounts.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance with laws and regulations, our procedures included but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the Society, the industry in which they operate and the structure of the Group, and considering the risk of acts by the Group and the Society which were contrary to the applicable laws and regulations including fraud
- Inquiring of the Directors, management and, where appropriate, those charged with governance, as to whether the Group and the Society are in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations
- Inspecting correspondence with relevant licensing or regulatory authorities, including the PRA and FCA
- Reviewing minutes of the audit committee and Directors' meetings in the year
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance, and
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience and through discussions with the Directors, inspection of the Society's regulatory and legal correspondence and review of minutes of the Board of Directors and Audit Committee during the period.

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

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the annual accounts, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and significant one-off or unusual transactions.

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

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud
- Gaining an understanding of the internal controls established to mitigate risks related to fraud
- Discussing amongst the engagement team the risks of fraud
- Addressing the risks of fraud through management override of controls by performing journal entry testing, and
- Being sceptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Directors on 21st July 2020 to audit the annual accounts for the year ended 31st December 2020 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31st December 2020 to 31st December 2022.

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

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

Use of the audit report

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

David Allen
Senior Statutory Auditor for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor
30 Old Bailey, London EC4M 7AU

21st March 2023

Annual Accounts 2022

for the year ended 31st December 2022

Statement of Comprehensive Income

	Notes	Group		Society	
		2022 £000	2021 £000	2022 £000	2021 £000
Interest receivable and similar income	2	49,910	32,976	49,910	32,976
Interest payable and similar charges	3	(17,979)	(8,693)	(17,979)	(8,693)
Net interest income		**31,931**	**24,283**	**31,931**	**24,283**
Fees and commissions receivable		441	387	441	387
Fees and commissions payable		(10)	(18)	(10)	(18)
Other operating income		39	60	39	60
Net gain from other financial instruments at fair value through profit and loss	4	5,221	2,307	5,221	2,307
Total net income		**37,622**	**27,019**	**37,622**	**27,019**
Other operating charges		(263)	(185)	(263)	(185)
Administrative expenses	5	(18,154)	(14,324)	(18,154)	(14,414)
Depreciation and amortisation	16, 17	(1,138)	(1,106)	(1,138)	(1,106)
Operating profit before impairment losses and provisions		**18,067**	**11,404**	**18,067**	**11,314**
Impairment credit/(loses) on loans and advances	14	(1,100)	726	(1,100)	726
Provisions for liabilities	25	43	(212)	43	(212)
Profit before tax		**17,010**	**11,918**	**17,010**	**11,828**
Tax expense	8	(3,331)	(1,876)	(3,331)	(1,859)
Profit for the financial year		**13,679**	**10,042**	**13,679**	**9,969**
Other comprehensive income					
Remeasurement of the net defined benefit liability	26	593	2,160	593	2,160
Fair value adjustment on available for sale financial instruments		(41)	–	(41)	–
Deferred tax in respect of valuation gains on freehold property		–	(107)	–	(107)
Deferred tax arising on losses / (gains) in the pension scheme		(148)	(540)	(148)	(540)
Revaluation gain on freehold property		–	481	–	481
Total comprehensive income for the year		**14,083**	**12,036**	**14,083**	**11,963**

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

The Notes on pages 47 to 85 form part of the financial statements.

Statement of Financial Position

	Notes	Group		Society	
		2022 £000	2021 £000	2022 £000	2021 £000
Assets					
Liquid assets					
Cash in hand	9	277,844	261,327	277,844	261,327
Treasury bills and similar securities	11	42,425	12,791	42,425	12,791
Loans and advances to credit institutions	10	28,105	24,281	28,105	24,253
Debt securities	11	12,936	5,019	12,936	5,019
Derivative financial instrument assets	12	43,534	5,632	43,534	5,632
Loans and advances to customers	13	1,438,943	1,403,401	1,438,943	1,403,401
Intangible assets	16	1,735	730	1,735	730
Tangible fixed assets	17	9,304	9,779	9,304	9,779
Investment properties	18	1,531	1,190	1,531	1,190
Other debtors	19	3,098	3,560	3,274	3,560
Total assets		**1,859,455**	**1,727,710**	**1,859,631**	**1,727,682**
Liabilities					
Shares	20	1,445,503	1,366,445	1,445,503	1,366,445
Amounts owed to credit institutions	21	39,364	1,001	39,364	1,001
Amounts owed to other customers	22	247,659	246,530	247,659	246,530
Derivative financial instrument liabilities	12	747	2,297	747	2,297
Other liabilities	23	4,523	2,110	5,154	2,110
Accruals and deferred income	23	2,190	1,983	2,190	2,410
Deferred tax liability	24	592	599	592	599
Provisions for liabilities	25	329	372	329	372
Retirement benefit obligations	26	4,697	5,794	4,697	5,794
Total liabilities		**1,745,604**	**1,627,131**	**1,746,235**	**1,627,558**
Reserves					
General reserves		95,230	81,773	94,775	81,318
Revaluation reserve		3,675	3,819	3,675	3,819
Core capital deferred shares	31	15,000	15,000	15,000	15,000
Available for sale reserves		(54)	(13)	(54)	(13)
Total reserves attributable to members of the Society		**113,851**	**100,579**	**113,396**	**100,124**
Total reserves and liabilities		**1,859,455**	**1,727,710**	**1,859,631**	**1,727,682**

The Notes on pages 47 to 85 form part of the financial statements.

These accounts were approved by the Board of Directors on 21st March 2023 and signed on its behalf:

John Spence
Chairman

Stephen Jack
Vice Chairman

Peter Burrows
Chief Executive

Annual Accounts 2022

for the year ended 31st December 2022 (continued)

Consolidated Statement of Changes in Members' Interests

2022	General reserve £000	Revaluation reserve £000	Core capital deferred shares £000	Available for sale reserve £000	Total £000
Balance at 1st January	81,773	3,819	15,000	(13)	100,579
Total comprehensive income for the period					
Profit or loss	13,679	–	–	–	13,679
Other comprehensive income	445	–	–	(41)	404
Total comprehensive income for the period	**14,124**	–	**–**	**(41)**	**14,083**
Transfers between reserves	144	(144)	–	–	–
Distribution to the holders of core capital deferred shares	(811)	–	–	–	(811)
Balance at 31st December	**95,230**	**3,675**	**15,000**	**(54)**	**113,851**

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

Society Statement of Changes in Members' Interests

2022	General reserve £000	Revaluation reserve £000	Core capital deferred shares £000	Available for sale reserve £000	Total £000
Balance at 1st January	81,318	3,819	15,000	(13)	100,124
Total comprehensive income for the period					
Profit or loss	13,679	–	–	–	13,679
Other comprehensive income	445	–	–	(41)	404
Total comprehensive income for the period	**14,124**	**–**	**–**	**(41)**	**14,083**
Transfers between reserves	144	(144)	–	–	–
Distribution to the holders of core capital deferred shares	(811)	–	–	–	(811)
Balance at 31st December	**94,775**	**3,675**	**15,000**	**(54)**	**113,396**

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

The Notes on pages 47 to 85 form part of the financial statements.

Annual Accounts 2022

for the year ended 31st December 2022 (continued)

Consolidated Statement of Cash Flows

	Notes	Group 2022 £000	Group 2021 £000
Cash flows from operating activities			
Profit before tax		17,010	11,918
Adjustments for			
Depreciation and amortisation	16, 17	1,138	1,106
Gain on disposal of tangible fixed assets	17	(18)	(20)
Gain on disposal of investment property	18	–	(17)
Revaluation of investment property	18	–	(10)
Decrease in provisions for liabilities	25	(43)	173
Increase/(decrease) in impairment of loans and advances	14	1,100	(726)
Gain on derivative financial instruments	12, 13	(7,033)	(2,285)
Total		**12,154**	**10,139**
Changes in operating assets and liabilities			
Decrease/(increase) in prepayments, accrued income and other assets	19	463	(847)
Increase in accruals, deferred income and other liabilities	23	465	826
Increase in loans and advances to customers	13	(69,061)	(70,616)
Increase in shares	20	79,058	19,081
Increase/(decrease) in amounts owed to other credit institutions	21	38,363	(4,015)
Increase in amounts owed to other customers	22	1,129	11,223
Increase in other liquid assets	11	(42)	–
(Decrease)/increase in loans and advances to credit institutions	10	(5,612)	25,674
(Decrease) in retirement benefit obligation	26	(693)	(1,047)
Taxation paid	9	(1,183)	(1,368)
Net gain generated (utilised) in operating activities		**55,041**	**(10,950)**
Cash flows from investing activities			
Purchase of debt securities	11	(47,485)	(7,031)
Disposal of debt securities	11	9,976	–
Purchase of tangible fixed assets	17	(300)	(2,133)
Disposal of tangible fixed assets	17	33	284
Investment property additions	18	(341)	–
Disposal of investment property	18	–	245
Purchase of intangible assets	16	(1,384)	(30)
Net cash used in investing activities		**(39,501)**	**(8,665)**
Cash flows from financing activities			
Distribution to holders of Core Capital Deferred Shares	31	(811)	(764)
Net cash used in financing activities		**(811)**	**(764)**
Net increase/(decrease) in cash and cash equivalents		**14,729**	**(20,379)**
Cash and cash equivalents at 1st January		**282,188**	**302,567**
Cash and cash equivalents at 31st December		**296,917**	**282,188**
Represented by:			
Cash and balances with the Bank of England	9	277,844	261,327
Loans and advances to credit institutions repayable on demand	10	19,073	20,861
		296,917	**282,188**

The Notes on pages 47 to 85 form part of the financial statements.

Notes

for the year ended 31st December 2022

1. Accounting policies

1.1. General information and basis of preparation

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

The Society has also chosen to apply the recognition and measurement provision of IAS 39 *Financial Instruments: Recognition and Measurement.* The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

The Directors are required to consider whether the Society will continue as a going concern for a period of at least 12 months from the signing of the accounts. In making the assessment the Directors have reviewed the Society's five-year plans and forecasts, including related funding, capital needs and a robust assessment of the principal risks facing the Society, the Directors consider that the Society remains viable and is able to generate adequate profits for regulatory capital requirements and holds sufficient liquidity to maintain its solvency.

The Society has maintained strong liquidity and capital positions and the Directors are satisfied that this will continue for at least the 12-month period from the signing of the accounts. This view is based upon the Board's conclusion that the Society has adequate resources to continue in operational existence and continue to meet its liabilities over the five year planning period and so they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The Society is included in the consolidated annual accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Society annual accounts have therefore been applied:

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

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

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

Changes in accounting policies relating to the interest benchmark reform

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

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

Phase 2 reliefs

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

The relief permitted the Society to amend its existing derivative contracts without the requirement to de-designate from their existing hedging relationship, which would otherwise have been required under IAS 39, providing the amendments were made on an economic equivalent basis. In September 2021 the Society completed the transition of all of its remaining LIBOR-linked interest rate swap contracts to SONIA-linked contracts on an economic equivalent basis and applied the IBOR Phase 2 reliefs to maintain all existing hedging relationships.

Notes

for the year ended 31st December 2022 (continued)

The Assets and Liabilities Committee reviewed arrangements for the transition and noted that the process was designed in order that the impact on the Society's interest rate risk management and reported results should be minimal.

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

1.2. Measurement convention

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

1.3. Basis of consolidation

The consolidated annual accounts include the annual accounts of the Society and its subsidiary undertakings made up to 31st December 2022. A subsidiary is an entity that is controlled by the parent. Control is established when the Society has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The results of subsidiary undertakings are included in the consolidated statement of comprehensive income from the date that control commences until the date that control ceases.

1.4. Interest income and expense

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

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

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

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

Fair value changes on derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the income statement. Realised cash flows on interest rate swaps are included in interest income Note 2.

1.5. Fees and commissions

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

1.6. Taxation

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

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

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

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

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

1.7. Financial instruments

Recognition

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

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

Classification

Financial assets

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

- *Loans and receivables*

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

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

- *Available for sale*

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

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

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

- *At fair value through profit and loss*

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

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

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

Financial liabilities

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

Derecognition

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

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

Identification and measurement of impairment

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

Notes

for the year ended 31st December 2021 (continued)

Objective evidence that a financial asset is impaired includes:

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

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

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

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

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

Forbearance strategies and renegotiated loans

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

These may include:

- Reduced monthly payment
- An arrangement to clear outstanding arrears (a repayment plan)
- Capitalisation of arrears
- Conversion of terms from repayment to interest only, or
- Extension of the mortgage term.

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

1.8. Cash and cash equivalents

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

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

1.9. Tangible fixed assets

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

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

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

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

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

Short leasehold premises comprise improvements to leasehold properties.

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

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

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

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

1.10. Intangible assets

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

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

Amortisation

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

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

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

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

1.11. Investment property

Investment properties include those portions of freehold land and buildings owned by the Society that are held to achieve rental income, capital appreciation or both. Investment properties are initially recognised at cost and subsequently carried at fair value, determined by independent professional valuers on an open market value basis.

Full valuations are completed at least every five years followed by interim valuations three years later.

The Directors review the valuations to confirm that they remain appropriate in the intervening years.

Changes in fair values are recognised in the income statement. The cost of renovations or improvements is capitalised and the cost of maintenance, repairs and minor improvements is recognised in the income statement when incurred. No depreciation is charged on investment properties. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in the income statement.

1.12. Employee benefits

Pension schemes

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

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

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

Termination benefits

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

1.13. Provisions

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

Notes

for the year ended 31st December 2022 (continued)

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

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

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

1.15. Equity instruments

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

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

1.16. Accounting estimates and judgements

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

Accounting estimates

a) Impairment losses on loans and advances to customers

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

This year the Society has assessed the as-yet unknown impact of the cost of living crisis and wider economic circumstances upon the impairment provision – in particular upon potential changes in value which would be realised from any property taken into possession and upon the likelihood that loss-triggering events may have occurred which increase the probability of default. The Society has paid regard to house price forecasts published by the Office for Budget Responsibility and the associated HPI impact on loss given default and to inflation and unemployment data published by the Office for National Statistics and the associated impact on propensity of default to estimate a management overlay amounting to £1,548,000 which has been included in this year's provision. Although the calculation of this overlay is based on data from credible sources, it is nevertheless subject to significant uncertainty and its size means that changes in the underlying assumptions would generate sizeable movements. For example, a 1% improvement in the outlook for house prices would reduce the overlay (and therefore increase profit before tax) by approximately £125,000.

The carrying value of loans and advances to customers at 31st December 2022 is £1.4bn (2021: £1.4bn). Further detail is provided in Note 13.

b) Defined benefit pension scheme

The Society makes significant judgements in the estimation of the defined benefit scheme liability. Significant judgements on areas such as future interest rates, future inflation or mortality rates have to be exercised in estimating the value of the assets and liabilities of the Society's defined benefit pension scheme. The assumptions used are set out in Note 26 to the accounts. The value of the pension scheme liabilities is most sensitive to the discount rate used. An increase of 0.1% in the discount rate applied would reduce the scheme's liabilities and therefore the net deficit by approximately £94,000. Similarly, a decrease of 0.1% in the discount rate would increase the deficit by approximately £94,000.

The carrying value of the retirement benefit obligations at 31st December 2022 is £4.7m (2021: £5.8m). Further detail is provided in Note 26.

c) Property valuation

Land and buildings and investment property are measured at fair value with a valuation exercise carried out periodically in accordance with Note 1.9 by an independent external valuer in accordance with the RICS Global Standards 2017 Edition (the Red Book) The Society considers the methodology and assumptions used by the independent external valuers to be supportive, reasonable and robust, the final valuation may be different to one that would have been used had there been a ready market for an identical property.

For the majority of the Society's investment properties, fair value is estimated using the market valuation approach, which uses prices and other relevant information generated by market transactions involving comparable properties. Where comparable transactions may not be available, the Society may also consider a discounted cash flow technique, which considers the present value of the net cash flows to be generated from the property, taking into account expected rental growth, void periods and rent-free periods. The expected net cash flows are discounted using risk-adjusted discount rates.

The carrying value of the land and buildings and investment property at 31st December 2022 is £7.9m (2021: £8.1m). Further detail is provided in Note 17.

Judgement

Expected mortgage life

The calculation of an effective interest rate requires judgements regarding the expected life of the underlying mortgage assets. The expected life of mortgage assets is derived using a combination of historical data and management judgement and is reviewed periodically throughout the year and reassessed against actual performance. Any changes to the expected life would result in an adjustment to the carrying value of the mortgages, calculated as the present value of the revised cashflows discounted at the original effective interest rate, recognised immediately in the income statement as described in Note 1.4. Should the actual average life of a mortgage be 0.5 months shorter than that assumed, interest income for 2022 would decrease by approximately £300,000.

1.17. Making The Difference – Rent to Home

Amounts expected to be paid out under the Society's "Rent to Home" scheme (whereby a portion of rental payments received is likely to be repaid to tenants in future) are not recognised as rental income and are instead held within other liabilities.

2. Interest receivable and similar income

	Group & Society	
	2022 £000	2021 £000
On loans fully secured on residential property	42,147	36,224
On other loans	448	486
On liquid assets	4,731	349
Net interest income (expense) on derivatives	2,584	(4,083)
	49,910	**32,976**

3. Interest payable and similar charges

	Group & Society	
	2022 £000	2021 £000
On shares held by individuals	14,406	8,332
On other shares	297	45
On deposits and other borrowings	3,276	316
	17,979	**8,693**

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

	Group & Society	
	2022 £000	2021 £000
Derivatives in designated fair value hedge relationships	37,608	15,266
Movement in fair value of hedged items	(32,419)	(13,035)
Loss on financial instruments not in designated hedge relationships	32	76
	5,221	**2,307**

Notes

for the year ended 31st December 2022 (continued)

5. Administrative expenses

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Wages and salaries	8,534	6,841	8,534	6,841
Social security costs	947	707	947	707
Contributions to defined contribution plans	1,002	839	1,002	839
Expenses related to defined benefit plans	104	110	104	110
	10,587	**8,497**	**10,587**	**8,497**
Other administrative expenses	7,567	5,827	7,567	5,917
	18,154	**14,324**	**18,154**	**14,414**

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

	Group & Society	
	2022 £000	2021 £000
Audit of these annual accounts	216	191
Other services	–	38
	216	**229**

6. Employee numbers

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

	Group & Society	
	2022	2021
Executive Directors	5	5
Non-Executive Directors	7	7
Principal office and administration centre	163	152
Branch offices	61	61
	236	**225**

	Full-time	Part-time
Executive Directors	4	1
Non-Executive Directors	–	7
Principal office and administration centre	129	34
Branch offices	39	22
	172	**64**

7. Directors' remuneration

Directors' emoluments are set out within the Directors' Remuneration Report on pages 30 to 33.

Total Directors' emoluments for the year amounted to £1,112,560 (2021: £1,086,154). Details of Director loans and transactions are shown in Note 30.

8. Taxation

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Current tax	3,182	2,326	3,182	2,309
Adjustments for prior years	(38)	(18)	(38)	(18)
	3,144	2,308	3,144	2,291
Deferred tax (Note 24)	187	(432)	187	(432)
Total tax expense	**3,331**	**1,876**	**3,331**	**1,859**

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

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

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Profit before taxation	**17,010**	**11,918**	**17,010**	**11,828**
Expected tax at 19% (2021: 19%)	3,232	2,264	3,232	2,247
Fixed asset differences	79	49	79	49
Expenses not deductible for corporation tax purposes	2	14	2	14
Chargeable gains/(losses)	(6)	(61)	(6)	(61)
Adjustment for prior periods – deferred tax	98	(242)	98	(242)
Pension movements	(36)	(130)	(36)	(130)
Adjustments for prior years – current tax	(38)	(18)	(38)	(18)
Tax expense for the year	**3,331**	**1,876**	**3,331**	**1,859**

Notes

for the year ended 31st December 2022 (continued)

9. Cash and cash equivalents

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Cash in hand	277,844	261,327	277,844	261,327
Loans and advances to credit institutions (see Note 10)	19,073	20,861	19,073	20,833
Cash and cash equivalents per cash flow statements	**296,917**	**282,188**	**296,917**	**282,160**

10. Loans and advances to credit institutions

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Repayable on demand	28,105	24,281	28,105	24,253
Total included within cash and cash equivalents	19,073	20,861	19,073	20,833

11. Debt securities

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Treasury bills and similar securities:				
Treasury bills	29,662	–	29,662	–
Floating rate notes	12,763	12,791	12,763	12,791
	42,425	**12,791**	**42,425**	**12,791**
Debt securities:				
UK gilts	12,936	5,019	12,936	5,019
Transferable debt securities comprise:				
Listed - Floating rate notes	12,763	12,791	12,763	12,791
Unlisted	42,598	5,019	42,598	5,019
	55,361	**17,810**	**55,361**	**17,810**
Market value of listed transferable debt securities	**12,763**	**12,791**	**12,763**	**12,791**

Of this total £42,598,000 (2021: £5,019,000) is attributable to fixed income debt securities.

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

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
At 1st January	17,810	10,779	17,810	10,779
Additions	47,486	7,031	47,486	7,031
Disposals and maturities	(9,976)	–	(9,976)	–
Net gains (losses) from changes in fair value recognised in other comprehensive income	41	–	41	–
At 31st December	**55,361**	**17,810**	**55,361**	**17,810**

12. Derivative financial instruments

	Group & Society			
	2022		2021	
	Positive market value £000	Negative market value £000	Positive market value £000	Negative market value £000
Derivatives designated as fair value hedges:				
Interest rate swaps	43,358	(689)	5,553	(2,174)
Unmatched derivatives				
Interest rate swaps	176	(58)	79	(123)
	43,534	**(747)**	**5,632**	**(2,297)**

13. Loans and advances to customers

	Group & Society	
	2022 £000	2021 £000
Loans fully secured on residential property	1,468,876	1,398,925
Loans fully secured on land	6,277	7,707
Fair value adjustment for hedged risk	(35,761)	(3,342)
Effective interest rate adjustment	1,702	1,162
Allowance for impairment	(2,151)	(1,051)
	1,438,943	**1,403,401**

Notes

for the year ended 31st December 2022 (continued)

14. Allowance for impairment

	Group & Society 2022		
	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
Individual provision			
At 1st January 2022			
Individual impairment	205	–	205
Collective impairment	717	129	846
	922	**129**	**1,051**
Income statement			
Impairment losses on loans and advances			
Individual impairment	(91)	–	(91)
Collective impairment	1,194	(3)	1,191
	1,103	**(3)**	**1,100**
At 31st December 2022			
Individual impairment	114	–	114
Collective impairment	1,911	126	2,037
	2,025	**126**	**2,151**

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

Notes

for the year ended 31st December 2022 (continued)

15. Investments in subsidiary undertakings

	Society	
	2022 £000	2021 £000
Loans	–	–

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

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

The Group intends to voluntarily wind up the above entities in the near future, following the payment of a final dividend to the Society. The entities are dormant and solvent and this change will have no material impact upon the Group's financial position or performance.

16. Intangible assets

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

	Group & Society
	£000
Cost	
Balance at 1st January 2022	5,230
Acquisitions	1,384
Disposals	(104)
Balance at 31st December 2022	**6,509**
Amortisation and impairment	
Balance at 1st January 2022	4,500
Amortisation for the year	379
Disposals	(104)
Balance at 31st December 2022	**4,775**
Net book value	
At 1st January 2022	**730**
At 31st December 2022	**1,735**

17. Tangible fixed assets

	Group			
	Freehold £000	Leasehold (short) £000	Motor vehicles, office and computer equipment £000	Total £000
Cost				
Balance at 1st January 2022	8,219	2,118	6,660	16,997
Additions	32	38	230	300
Disposals	–	(28)	(118)	(146)
Revaluation	–	–	–	–
Balance at 31st December 2022	**8,251**	**2,128**	**6,772**	**17,151**
Depreciation and impairment				
Balance at 1st January 2022	90	881	6,247	7,218
Depreciation charge for the year	291	152	316	759
Disposals	–	(28)	(102)	(130)
Balance at 31st December 2022	**381**	**1,005**	**6,461**	**7,847**
Net book value				
At 1st January 2022	**8,129**	**1,237**	**413**	**9,779**
At 31st December 2022	**7,870**	**1,123**	**311**	**9,304**

Notes

for the year ended 31st December 2022 (continued)

17. Tangible fixed assets (continued)

	Society			
	Freehold £000	Leasehold (short) £000	Motor vehicles, office and computer equipment £000	Total £000
Cost				
Balance at 1st January 2022	8,129	2,118	6,113	16,360
Additions	32	38	230	300
Disposals	–	(28)	(118)	(146)
Balance at 31st December 2022	**8,161**	**2,128**	**6,225**	**16,514**
Depreciation and impairment				
Balance at 1st January 2022	–	881	5,700	6,581
Depreciation charge for the year	291	152	316	759
Disposals	–	(28)	(102)	(130)
Balance at 31st December 2022	**291**	**1,005**	**5,914**	**7,210**
Net book value				
At 1st January 2022	**8,129**	**1,237**	**413**	**9,779**
At 31st December 2022	**7,870**	**1,123**	**311**	**9,304**

Freehold land and buildings were professionally valued by Carter Jonas, Chartered Surveyors, on an existing use basis as at 31st December 2021. The Directors consider the valuation is still appropriate as at 31st December 2022. This valuation was £8,129,000. Freehold and leasehold costs of £70,000 were incurred in the year.

Had freehold land and buildings been valued on the historical cost basis at 31st December 2022, the net book value would have been £4,471,803 and depreciation charged to the income statement would have been reduced by £164,019.

18. Investment properties

	Group & Society	
	2022 £000	2021 £000
At 1st January	1,190	1,408
Additions	341	–
Disposals	–	(228)
Fair value adjustment	–	10
At 31st December	**1,531**	**1,190**

Investment properties are generally offices and retail premises ancillary to the Society's branches and are not used by the Society. Investment properties are held at valuation and were professionally valued by Carter Jonas, Chartered Surveyors, on an open market value basis as at 31st December 2021. The Directors consider the valuation is still appropriate as at 31st December 2022.

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

	Group & Society	
	2022 £000	2021 £000
Within 1 year	38	42
Between 1 and 5 years	60	50

19. Other debtors

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Prepayments and accrued income	1,924	2,043	1,924	2,043
Deferred tax assets (Note 24)	1,174	1,517	1,174	1,517
	3,098	**3,560**	**3,098**	**3,560**

Notes

for the year ended 31st December 2022 (continued)

20. Shares

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

	Group & Society	
	2022 £000	2021 £000
Accrued Interest	169	64
On demand	1,038,325	991,844
Within 3 months	31,173	34,147
Within 1 year	150,005	138,103
Within 5 years	225,831	202,287
	1,445,503	**1,366,445**

21. Amounts owed to credit institutions

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

	Group & Society	
	2022 £000	2021 £000
Accrued Interest	104	1
On demand	39,260	500
Within 3 months	–	–
Within 1 year	–	500
Within 5 years	–	–
	39,364	**1,001**

22. Amounts owed to other customers

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

	Group & Society	
	2022 £000	2021 £000
Accrued Interest	1,470	86
On demand	52,934	45,467
Within 3 months	9,561	9,258
Within 1 year	13,694	18,719
Within 5 years	170,000	173,000
	247,659	**246,530**

23. Other liabilities

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Corporation tax	4,022	1,662	4,022	1,662
Creditors	501	448	1,132	448
Total other liabilities	**4,523**	**2,110**	**5,154**	**2,110**
Accruals	**2,190**	**1,983**	**2,190**	**2,410**

Notes

for the year ended 31st December 2022 (continued)

24. Deferred tax assets and liabilities

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Movement on deferred tax asset				
At 1st January	1,517	1,607	1,517	1,607
Income statement credit/(charge)	(195)	450	(195)	450
Recognised directly in other comprehensive income	(148)	(540)	(148)	(540)
Asset (at 31st December)	**1,174**	**1,517**	**1,174**	**1,517**
The deferred tax asset is attributable to the following items:				
Pension and other post retirement benefits	1,174	1,511	1,174	1,511
Other timing differences	–	6	–	6
Total deferred tax asset	**1,174**	**1,517**	**1,174**	**1,517**
Movement on deferred tax liability				
At 1st January	(599)	(474)	(599)	(474)
Income statement credit/(charge)	7	(18)	7	(18)
Recognised directly in other comprehensive income	–	(107)	–	(107)
Liability at 31st December	**(592)**	**(599)**	**(592)**	**(599)**
The deferred tax liability is attributable to the following items:				
Accelerated capital allowances	(304)	(316)	(304)	(316)
Chargeable gains	(276)	(283)	(276)	(283)
Other timing differences	(12)	–	(12)	–
Total deferred tax liability	**(592)**	**(599)**	**(592)**	**(599)**

The net deferred tax asset expected to reverse in 2023 is £581,858. This primarily relates to the deferred tax on pension and other post retirement benefit obligations.

Deferred tax balances at 31st December 2022 have been calculated based on the relevant prevailing rates.

25. Provisions

	Group & Society			
	Onerous lease and dilapidations £000	FSCS levy £000	Other £000	Total £000
Balance at 1st January 2022	332	40	–	372
Net charge for year	(43)	–	–	(43)
Balance at 31st December 2022	**289**	**40**	**–**	**329**

Onerous lease and dilapidations

The £43,829 charge for dilapidations relates to the Society's obligations under leased contracts for branches and stores. These provisions will likely be utilised if the Society exits these premises. This year we have reflected the full provision discounted over the life of each lease contract.

Due to the number of leased properties and the difficulties in predicting expenditure that will be required on return of a property to the landlord many years into the future, the dilapidations provision is considered a source of estimation uncertainty. The provision has been calculated using historical experience of actual expenditure incurred on dilapidations and estimated lease termination dates of between three to nine years.

Financial Services Compensation Scheme levy

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

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

As at 31st December 2022, the Society has a provision of £40,000 comprising management expense levies for scheme year 2021/2022. In accordance with FSCS guidance, and consistent with the previous year, the 31st December 2022 provision does not include any estimate for management expenses or compensation levies for future scheme years beyond 2022/2023.

Notes

for the year ended 31st December 2022 (continued)

26. Pensions

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

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

The Society operates a defined benefit scheme in the UK. This is a separate trustee administered fund holding the scheme assets to meet long term pension liabilities. The scheme's first actuarial valuation is currently underway as at 30th September 2022 and the preliminary results of this have been updated to 31st December 2022 by a qualified actuary, independent of the Society.

Until completion of the scheme's first actuarial valuation, the Society and Trustee have agreed an interim Schedule of Contributions whereby the Society will pay deficit contributions of £616,800 per annum (payable monthly) plus £96,295 per annum in respect of expenses. In addition, the Society will pay the Pension Protection Fund levies due for the scheme.

The following disclosures are required under FRS 102:

Significant actuarial assumptions

	Group & Society	
	2022	2021
Discount rate	4.95% pa	1.90% pa
RPI inflation	3.13% pa	3.20% pa
CPI inflation	2.37% pa	2.80% pa

Other actuarial assumptions

	Group & Society	
	2022	2021
Rate of increases to pensions in payment:		
RPI inflation limited to 5% pa	3.01% pa	3.10% pa
RPI inflation limited to 2.5% pa	2.08% pa	2.20% pa
Revaluation of deferred pensions:		
CPI inflation limited to 5% pa	2.37% pa	2.80% pa
CPI inflation limited to 2.5% pa	2.37% pa	2.50% pa

In valuing the liabilities of the pension fund at 31st December 2022, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial tables and include allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year-old to live for a number of years as below:

Life expectancies (in years)

	2022		2021	
	Males	Females	Males	Females
For an individual aged 65 in 2022	22.2	24.5	21.7	24.1
At age 65 for an individual aged 45 in 2022	23.8	25.9	22.7	25.2

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

	Assets	Defined benefit obligation	Total
	£000	£000	£000
At 1st January 2022	22,605	(28,399)	(5,794)
Interest income/expense	427	(531)	(104)
Expenses	(97)	–	(97)
Transfers	–	–	–
Actuarial losses (gains) due to changes in financial assumptions	–	12,044	12,044
Employer contributions	705	–	705
Benefits paid	(855)	855	–
Actuarial gains/(losses): due to changes in demographic assumptions	–	(134)	(134)
Actuarial gains/(losses): Experience	(9,587)	(1,730)	(11,317)
Return on assets excluding interest income	–	–	–
At 31st December 2022	**13,198**	**(17,895)**	**(4,697)**

Notes

for the year ended 31st December 2022 (continued)

26. Pensions (continued)

Assets

	Group & Society	
	2022 £000	2021 £000
The fair value of the assets of the Plan were:		
Asset class		
Absolute Return Fund	–	17,951
Liability driven investment portfolio	6,284	5,289
Cash and net current liabilities	193	(744)
Equity	12	–
Bonds	9	–
Property	85	–
Other	6,527	–
Annuities	88	109
Total	**13,198**	**22,605**
The majority of the other asset class consist of investments with venture capital, partnerships and hedge funds. The actual return of the Plan assets over the reporting period was (£9,160,000).		
Reconciliation to the Statement of Financial Position (balance sheet)		
Market value of assets	13,198	22,605
Present value of defined benefit obligation	(17,895)	(28,399)
Pension asset/(liability) recognised in the Statement of Financial Position before allowance for deferred tax	**(4,697)**	**(5,794)**
Amounts recognised		
Amounts recognised in profit or loss		
Net interest	104	110
Operating charge	97	–
Amount charged to Statement of Comprehensive Income	**201**	**110**
Amounts recognised in other comprehensive income		
Actuarial gains/(losses) on defined benefit obligation	(1,730)	1,698
Gain/(loss) from change in assumptions	11,910	–
Actual return on assets less interest	(9,587)	462
Amount recognised in other comprehensive income	**593**	**2,160**

27. Financial instruments

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

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

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1.8 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Group's assets and liabilities by financial classification:

Carrying values by category 31st December 2022

	Held at amortised cost		Held at fair value				
	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Non-financial assets and liabilities £000	Total £000
Financial assets							
Cash in hand	–	277,844	–	–	–	–	277,844
Treasury bills and similar securities	–	–	42,425	–	–	–	42,425
Loans and advances to credit institutions	–	28,105	–	–	–	–	28,105
Debt securities	–	–	12,936	–	–	–	12,936
Derivative financial instruments	–	–	–	43,358	176	–	43,534
Loans and advances to customers	1,474,704	–	–	(35,761)	–	–	1,438,943
Total financial assets	1,474,704	305,949	55,361	7,597	176	–	1,843,787
Non-financial assets	–	–	–	–	–	15,668	15,668
Total assets	**1,474,704**	**305,949**	**55,361**	**7,597**	**176**	**15,668**	**1,859,455**
Financial liabilities							
Shares	–	1,445,503	–	–	–	–	1,445,503
Amounts owed to credit institutions	–	39,364	–	–	–	–	39,364
Amounts owed to other customers	–	247,659	–	–	–	–	247,659
Derivative financial instruments	–	–	–	689	58	–	747
Total financial liabilities	–	1,732,526	–	689	58	–	1,733,273
Non-financial liabilities	–	–	–	–	–	12,331	12,331
Total liabilities	**–**	**1,732,526**	**–**	**689**	**58**	**12,331**	**1,745,604**

Notes

for the year ended 31st December 2022 (continued)

27. Financial instruments (continued)

Carrying values by category 31st December 2021

	Held at amortised cost		Held at fair value				
	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Non-financial assets and liabilities £000	Total £000
Financial assets							
Cash in hand	–	261,327	–	–	–	–	261,327
Treasury bills and similar securities	–	–	12,791	–	–	–	12,791
Loans and advances to credit institutions	–	24,281	–	–	–	–	24,281
Debt securities	–	–	5,019	–	–	–	5,019
Derivative financial instruments	–	–	–	5,553	79	–	5,632
Loans and advances to customers	1,406,743	–	–	(3,342)	–	–	1,403,401
Total financial assets	1,406,743	285,608	17,810	2,211	79	–	1,712,451
Non-financial assets	–	–	–	–	–	15,259	15,259
Total assets	**1,406,743**	**285,608**	**17,810**	**2,211**	**79**	**15,259**	**1,727,710**
Financial liabilities							
Shares	–	1,366,445	–	–	–	–	1,366,445
Amounts owed to credit institutions	–	1,001	–	–	–	–	1,001
Amounts owed to other customers	–	246,530	–	–	–	–	246,530
Derivative financial instruments	–	–	–	2,174	123	–	2,297
Total financial liabilities	–	1,613,976	–	2,174	123	–	1,616,273
Non-financial liabilities	–	–	–	–	–	10,858	10,858
Total liabilities	**–**	**1,613,976**	**–**	**2,174**	**123**	**10,858**	**1,627,131**

Valuation of financial instruments carried at fair value

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

Valuation techniques

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

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

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

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

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

Carrying values by category 31st December 2022

	Group & Society			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Gilts, treasury bills and supranational bonds	55,361	–	–	55,361
Loans fully secured on residential property	–	(35,761)	–	(35,761)
Interest rate swaps	–	43,534	–	43,534
	55,361	**7,773**	**–**	**63,134**
Financial liabilities				
Interest rate swaps	–	747	–	747
	–	**747**	**–**	**747**

Carrying values by category 31st December 2021

	Group & Society			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Gilts, treasury bills and supranational bonds	17,810	–	–	17,810
Loans fully secured on residential property	–	(3,342)	–	(3,342)
Interest rate swaps	–	5,632	–	5,632
	17,810	**2,290**	**–**	**20,100**
Financial liabilities				
Interest rate swaps	–	2,297	–	2,297
	–	**2,297**	**–**	**2,297**

Notes

for the year ended 31st December 2022 (continued)

27. Financial instruments (continued)

Financial assets pledged as collateral

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31st December 2022 and 2021 are shown in the following table.

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Cash in hand	–	1,420	–	1,420
Treasury bills and similar securities	24,664	–	24,664	–
Loans and advances to customers	171,031	274,316	171,031	274,316
	195,695	**275,736**	**195,695**	**275,736**

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

Credit risk

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

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

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

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Cash in hand and balances with the Bank of England	277,844	261,327	277,844	261,327
Treasury bills and similar securities	42,425	12,791	42,425	12,791
Loans and advances to credit institutions	28,105	24,281	28,105	24,253
Debt securities	12,936	5,019	12,936	5,019
Derivative financial instruments	43,534	5,632	43,534	5,632
Loans and advances to customers	1,438,943	1,403,401	1,438,943	1,403,401
Total statement of financial position exposure (1)	1,843,787	1,712,451	1,843,787	1,712,423
Off balance sheet exposure - mortgage commitments (2)	61,480	78,714	61,480	78,714
	1,905,267	**1,791,165**	**1,905,267**	**1,791,137**

(1) All values are stated at balance sheet amounts.

(2) This reflects mortgage applications that have been formally offered but have not yet completed.

Credit quality analysis of loans and advances to customers

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

Credit quality values 31st December 2022

	Group & Society									
	Total book balance	Capitalisation		Payment concession		Term extension		Total renegotiations		
	£000	£000	Number of loans	£000	Number of loans	£000	Number of loans	£000	Number of loans	
Neither past due or individually impaired	1,456,976	–	–	8	1	–	–	8	1	
Past due but not individually impaired	10,196	–	–	117	1	–	–	117	1	
Past due and individually impaired	7,981	–	–	305	2	–	–	305	2	
Provision	(2,151)	–	–	–	–	–	–	–	–	
Total book	**1,473,002**	**–**	**–**	**430**	**4**	**–**	**–**	**430**	**4**	
Past due but not individually impaired:										
Up to 3 months	9,839	–	–	117	1	–	–	117	1	
3 to 6 months	250	–	–	–	–	–	–	–	–	
6 to 12 months	107	–	–	–	–	–	–	–	–	
Over 12 months	–	–	–	–	–	–	–	–	–	
	10,196	**–**	**–**	**117**	**1**	**–**	**–**	**117**	**1**	
Past due and individually impaired:										
Up to 3 months	4,919	–	–	–	–	–	–	–	–	
3 to 6 months	1,112	–	–	86	1	–	–	86	1	
6 to 12 months	1,828	–	–	219	1	–	–	219	1	
Over 12 months	122	–	–	–	–	–	–	–	–	
	7,981	**–**	**–**	**305**	**2**	**–**	**–**	**305**	**2**	

Notes

for the year ended 31st December 2022 (continued)

27. Financial instruments (continued)

Credit quality values 31st December 2021

	Group & Society								
	Total book balance	**Capitalisation**		**Payment concession**		**Term extension**		**Total renegotiations**	
	£000	£000	Number of loans	£000	Number of loans	£000	Number of loans	£000	Number of loans
Neither past due nor individually impaired	1,387,646	–	–	749	4	–	–	749	4
Past due but not individually impaired	6,255	–	–	448	2	–	–	448	2
Past due and individually impaired	12,730	–	–	–	–	–	–	–	–
Provision	(1,051)	–	–	–	–	–	–	–	–
Total book	**1,405,580**	**–**	**–**	**1.196**	**6**	**–**	**–**	**1,196**	**6**
Past due but not individually impaired:									
Up to 3 months	4,770	–	–	203	1	–	–	203	1
3 to 6 months	1,546	–	–	245	1	–	–	245	1
6 to 12 months	124	–	–	–	–	–	–	–	–
Over 12 months	115	–	–	–	–	–	–	–	–
	6,255	**–**	**–**	**448**	**2**	**–**	**–**	**448**	**2**
Past due and individually impaired:									
Up to 3 months	6,852	–	–	–	–	–	–	–	–
3 to 6 months	–	–	–	–	–	–	–	–	–
6 to 12 months	4,774	–	–	–	–	–	–	–	–
Over 12 months	1,104	–	–	–	–	–	–	–	–
	12,730	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Individual impairment provisions of £nil (2021: £nil) are held in respect of loans with renegotiated terms.

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

Further consideration is given in accounting policy 1.7 to the accounts.

Collateral held and other credit enhancements

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

Percentage of exposure that is subject to collateral requirements

	Group		Society		Principal type of collateral held
	2022 %	2021 %	2022 %	2021 %	
Loans and advances to customers	100	100	100	100	Property

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

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
LTV ratio				
Less than 50%	510,685	720,376	510,685	720,376
51 – 70%	468,894	502,864	468,894	502,864
71 – 90%	464,814	179,203	464,814	179,203
Over 90%	30,760	4,188	30,760	4,188
	1,475,153	**1,406,631**	**1,475,153**	**1,406,631**

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Geographical analysis				
East Midlands	77,753	68,512	77,753	68,512
East of England	903,635	957,569	903,635	957,569
London	162,594	140,408	162,594	140,408
North East England	7,958	4,553	7,958	4,553
North West England	38,946	25,019	38,946	25,019
South East England	159,778	127,317	159,778	127,317
South West England	49,718	36,697	49,718	36,697
Wales	15,762	10,066	15,762	10,066
West Midlands	33,406	22,841	33,406	22,841
Yorkshire and the Humber	25,603	13,649	25,603	13,649
Total	**1,475,153**	**1,406,631**	**1,475,153**	**1,406,631**

Liquidity risk

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

Maturity analysis for financial assets and financial liabilities

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

Notes

for the year ended 31st December 2022 (continued)

27. Financial instruments (continued)

Group – 31st December 2022	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial assets						
Cash in hand	277,844	–	–	–	–	277,844
Treasury bills and similar securities	–	–	–	42,425	–	42,425
Loans and advances to credit institutions	28,105	–	–	–	–	28,105
Debt securities	–	–	–	12,936	–	12,936
Derivative financial instruments	5	230	2,560	40,739	–	43,534
Loans and advances to customers	–	1,426	8,048	114,682	1,350,997	1,475,153
Total financial assets	**305,954**	**1,656**	**10,608**	**210,782**	**1,350,997**	**1,879,997**
Financial liabilities						
Shares	1,038,350	31,232	150,030	225,891	–	1,445,503
Amounts owed to credit institutions	39,365	–	–	–	–	39,364
Amounts owed to other customers	53,003	9,648	13,798	171,210	–	247,659
Derivative financial instruments	154	1	57	535	–	747
Total financial liabilities	**1,130,872**	**40,881**	**163,885**	**397,636**	**–**	**1,733,273**

Group – 31st December 2021	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial assets						
Cash in hand	261,327	–	–	–	–	261,327
Treasury bills and similar securities	–	–	–	12,791	–	12,791
Loans and advances to credit institutions	–	22,861	–	–	1,420	24,281
Debt securities	–	–	5,019	–	–	5,019
Derivative financial instruments	–	–	57	5,575	–	5,632
Loans and advances to customers	–	1,096	7,084	98,855	1,299,595	1,406,630
Total financial assets	**261,327**	**23,957**	**12,160**	**117,221**	**1,301,015**	**1,715,680**
Financial liabilities						
Shares	991,867	34,153	138,110	202,315	–	1,366,445
Amounts owed to credit institutions	500	–	501	–	–	1,001
Amounts owed to other customers	45,466	9,269	18,736	173,059	–	246,530
Derivative financial instruments	1,277	–	106	914	–	2,297
Total financial liabilities	**1,039,110**	**43,422**	**157,453**	**376,288**	**–**	**1,616,273**

	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Society – 31st December 2022						
Financial assets						
Cash in hand	277,844	–	–	–	–	277,844
Treasury bills and similar securities	–	–	–	42,425	–	42,425
Loans and advances to credit institutions	28,105	–	–	–	–	28,105
Debt securities	–	–	–	12,936	–	12,936
Derivative financial instruments	5	230	2,560	40,739	–	43,534
Loans and advances to customers	–	1,426	8,048	114,682	1,350,997	1,475,153
Total financial assets	**305,954**	**1,656**	**10,608**	**210,782**	**1,350,997**	**1,879,997**
Financial liabilities						
Shares	1,038,350	31,232	150,030	225,891	–	1,445,503
Amounts owed to credit institutions	39,365	–	–	–	–	39,364
Amounts owed to other customers	53,003	9,648	13,798	171,210	–	247,659
Derivative financial instruments	154	1	57	535	–	747
Total financial liabilities	**1,130,872**	**40,881**	**163,885**	**397,636**	**–**	**1,733,273**

	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Society – 31st December 2021						
Financial assets						
Cash in hand	261,327	–	–	–	–	261,327
Treasury bills and similar securities	–	–	–	12,791	–	12,791
Loans and advances to credit institutions	–	22,832	–	–	1,420	24,252
Debt securities	–	–	5,019	–	–	5,019
Derivative financial instruments	–	–	57	5,575	–	5,632
Loans and advances to customers	–	1,096	7,084	98,855	1,299,595	1,406,630
Total financial assets	**261,327**	**23,928**	**12,160**	**117,221**	**1,301,015**	**1,715,651**
Financial liabilities						
Shares	991,867	34,153	138,110	202,315	–	1,366,445
Amounts owed to credit institutions	500	–	501	–	–	1,001
Amounts owed to other customers	45,466	9,269	18,736	173,059	–	246,530
Derivative financial instruments	1,277	–	106	914	–	2,297
Total financial liabilities	**1,039,110**	**43,422**	**157,453**	**376,288**	**–**	**1,616,273**

Notes

for the year ended 31st December 2022 (continued)

27. Financial instruments (continued)

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

Group & Society – 31st December 2022	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial liabilities						
Shares	1,039,064	31,244	150,112	226,042	–	1,446,462
Amounts owed to credit institutions	39,377	–	–	–	–	39,377
Amounts owed to other customers	53,024	9,648	13,798	171,210	–	247,680
Derivative financial instruments	154	1	57	535	–	747
Total financial liabilities	**1,131,619**	**40,893**	**163,967**	**397,787**	**–**	**1,734,266**

Group & Society – 31st December 2021	On demand £000	Not more than 3 months £000	More than 3 months but not more than 1 year £000	More than 1 year but not more than 5 years £000	More than 5 years £000	Total £000
Financial liabilities						
Shares	991,887	34,164	138,579	207,458	–	1,372,088
Amounts owed to credit institutions	500	–	501	–	–	1,001
Amounts owed to other customers	45,467	9,269	18,773	173,059	–	246,568
Derivative financial instruments	1,277	–	106	914	–	2,297
Total financial liabilities	**1,039,131**	**43,433**	**157,959**	**381,431**	**–**	**1,621,954**

Market risk

Market risk is discussed in the Directors' report.

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

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

	At 31st December 2022 £000	At 31st December 2021 £000
Sensitivity of reported equity and profit to interest rate movements	(1,210)	(1,610)

Derivatives held for risk management

The Group uses derivatives to manage certain risks it faces.

Fair value hedges of interest rate risk

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

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

	Group 2022		Group 2021	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps	43,358	(689)	5,553	(2,174)

Notes

for the year ended 31st December 2022 (continued)

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Society	
	2022 £000	2021 £000	2022 £000	2021 £000
Less than 1 year	394	416	394	416
Between 1 and 5 years	1,038	1,308	1,038	1,308
More than 5 years	–	126	–	126
	1,432	**1,850**	**1,432**	**1,850**

During the year £419,743 was recognised as an expense in the profit and loss account in respect of operating leases (2021: £358,204).

29. Turnover by country

31st December 2022							
	Type of entity	Nature of activity	Location	Turnover (£m)	Number of employees	Profit or loss before tax (£m)	Tax paid (£m)
The Cambridge Building Society	Credit institution	Financial services	United Kingdom	31.9	236	17.0	1.2

31st December 2021							
	Type of entity	Nature of activity	Location	Turnover (£m)	Number of employees	Profit or loss before tax (£m)	Tax paid (£m)
The Cambridge Building Society. The Society's turnover is defined as net interest income.	Credit institution	Financial services	United Kingdom	24.3	225	11.9	1.4

The Society's turnover is defined as net interest income.

30. Related parties

a. Transactions with Directors

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

	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members	Number of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members
	2022	2022 £000	2021	2021 £000
Loans and advances to customers	6	869	6	982

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

The Directors held £114,295 of shares and deposit balances with the Society at 31st December 2022 (2021: £82,621).

b. Key management compensation

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

Total compensation for key management personnel for the year ended 31st December 2022 was £1,112,560. (2021: £1,086,154).

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

c. Transactions with other related parties

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

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

	Group & Society	
	2022 £000	2021 £000
Cost of services provided	4	2
Amounts outstanding	–	–

Defined Benefit Pension Scheme

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

Notes

for the year ended 31st December 2022 (continued)

31. Core capital deferred shares

	Group & Society			
	Number of shares	CCDS £000	Share premium £000	Total £000
At 31st December 2022	150,000	15,000	–	15,000
At 31st December 2021	150,000	15,000	–	15,000

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

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

Distributions to the holders of CCDS are at the sole and absolute discretion of the Board of Directors, save that the amount that can be paid to the holders of CCDS in any financial year is currently capped at £19.08 per share. The level of the cap on distributions is adjusted annually in line with CPI. The Society paid distributions of £386,630 (£2.58 per CCDS) on 1st May 2022 and £424,110 (£2.83 per CCDS) on 1st November 2022. These distributions have been recognised in the statement of movements in members' interests.

32. Capital management

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

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

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

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

	Society	
	2022 £000	2021 £000
Common Equity Tier 1 capital		
General reserves	94,688	81,318
Core capital deferred shares	15,000	15,000
Other reserves	3,621	3,806
Common Equity Tier 1 capital prior to regulatory adjustments	**113,309**	**100,124**
Intangible assets	(1,735)	(730)
Common Equity Tier 1 capital	**111,574**	**99,394**
Tier 2 capital		
Credit risk adjustments	2,037	846
Total capital	**113,611**	**100,240**

33. Post balance sheet events

The Board are not aware of any subsequent events arising after the year ended 31st December 2022 that require inclusion in the Group and Society annual accounts.

Annual Business Statement

for the year ended 31st December 2022

1. Statutory percentages

	2022 %	Maximum Statutory Limit %
Lending limit	5.71	25
Funding limit	16.57	50

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

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

Business assets are defined as total Group assets plus loan impairment provision less liquid assets and fixed assets.

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

2. Other percentages

	2022 %	2021 %
As a percentage of shares and borrowings		
Gross capital	6.57	6.23
Free capital	6.05	5.63
Liquid assets	20.85	18.80
Profit after tax as a percentage of mean total assets	0.76	0.59
Net interest margin as a percentage of mean total assets	1.78	1.42
Management expenses as a percentage of mean total assets	1.08	0.90

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

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

3. Information relating to the Directors and the other officers at 31st December 2022

Name	Occupation	Other Directorships during the year	Date of birth	Date of appointment
Directors				
John Spence (Chairman)	Non-Executive Director	• Spicerhaart Group Ltd • Business Banking Resolution Service Ltd • Church of England Central Services • Essex County Council • Essex Cricket Foundation Ltd (from September 2022)	January 1951	November 2020
Stephen Jack (Vice Chairman)	Non-Executive Director	• MUFG Securities EMEA plc • Golden Lane Housing Limited • Royal Mencap Society (until July 2022)	March 1958	April 2014
Peter Burrows	Chief Executive of The Cambridge Building Society	• Cambridge I.T. Services Ltd • Cambridge Services Ltd • Cambridge Property Services Ltd • Astrea Academy Trust	September 1968	August 2016
Richard Brockbank	Chief Financial Officer	• Cambridge I.T. Services Ltd • Cambridge Services Ltd • Cambridge Property Services Ltd	October 1977	April 2020
Carole Charter	Chief Commercial Officer	• CAMMS Meals on Wheels Ltd	June 1979	April 2020
Lucy Crumplin	Chief Operating Officer	• Tiger Bright Ltd (until July 2022)	September 1977	January 2021
Fiona Hotston Moore	Director of Forensic and Advisory Services	• Securities Industry Management Association Ltd • FRP Advisory Services LLP	February 1965	November 2018
Andrew Jones	Non-Executive Director	None	April 1957	April 2014
Sandhya Kawar	Chief Risk Officer	None	May 1983	April 2022
Andrew Morley	President and Chief Executive Officer	• World Vision International Global Centre • Visionfund International • The Strand at Porth Ltd • The Strand Porth Management Company Ltd	November 1969	April 2014
Andrew Rice	Principal Researcher	None	July 1980	February 2020

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

Correspondence to Directors jointly or individually should be addressed 'Private and Confidential' and c/o Mazars LLP, Chartered Accountants, 30 Old Bailey, London, EC4M 7AU.

Annual Business Statement

for the year ended 31st December 2022 (continued)

4. Information relating to the officers at 31st December 2022

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

Member of the Building Societies Association
Registered Number 82B. Instituted 1850. Incorporated 1945
Head Office, 51 Newmarket Road, Cambridge CB5 8EG
Telephone: 0345 601 3344, website: cambridgebs.co.uk

We've learned a thing or two over the past couple of centuries.

And we'll be here to keep evolving with open minds and local hearts for many centuries more.

We'll be here for those first ever savings accounts. For making that dream home happen. We'll be here for a brew and biscuit when you need to chat. And when the world makes waves, we'll be here to glide through change like a swan on the Cam.

We're not here for profits and the awards don't matter (honestly). Because above all we're here for our members. And whether you're with The Cambridge in branch, online or on-the-go... when life brings you its biggest moments, we'll be here.

The Cambridge Building Society
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