Annual Report and Accounts 2024

Building your future

Principality
Building Society
Cymdeithas Adeiladu

Where home matters
principality.co.uk

2024 highlights

for the year ended 31 December 2024

8,120
First time buyers helped
2023: 8,134

71.7
Customer experience score
2023: 67.4

19.8%
Common Equity Tier 1 ratio
2023: 21.8%

81%
Employee engagement
2023: 87%

£49.2 million
Statutory profit before tax
2023: £60.3m

95.7%
Mortgages funded by savers
2023: 89.8%

£51 million
committed to Welsh Housing Associations
2023: £42m

50,217
Supported young people via F.E.I*
2023: 53,320

£1.5 million
Community commitments
2023: £1.3m

* *Financial Education Initiatives*

The above measures, apart from statutory profit before tax, are alternative performance measures (APMs). Further information on these APMs can be found in the Strategic report, with definitions included within the glossary.


welcome

Strategic Report

Chair's Review of the Year

for the year ended 31 December 2024

Welcome to our Annual Report and Accounts

It is my privilege to write to you for the first time as Chair of your Society, and to introduce Principality Building Society's Annual Report and Accounts for 2024. I want to start by extending my thanks to you, our Members, for your trust and support. Everything we do as a Society is with you in mind, and making a difference in the communities we're proud to serve.

Supporting our Members and Communities

This past year has brought economic challenges, with rapidly rising costs impacting families across the country. We understand the challenges of saving for life's uncertainties, or accessing affordable and secure homes in the current environment.

In times like these, the role of mutuals becomes even more essential. As a mutual, we're owned by you, our Members, not shareholders. Our commitment to supporting our Members, particularly during difficult times, is at the heart of who we are. We're led by Member voices, respond to their needs and reinvest our profits for the benefit of our customers, colleagues, communities and wider society, ensuring we continue to be a responsible, sustainable and future-focused business - just as we have for the past 165 years.

It is heartening to see that the value mutuals bring has been recognised at a national level, with the new government in Westminster elected with the intention to double the size of the UK's co-operative and mutuals sector. In a bid to support diverse business models that bring innovation and new products to the market, the newly elected government has signalled for regulatory reforms to ensure a level playing field for mutuals, while also aiming to address barriers to accessing finance.

Pictured: Simon Moore, Chair

At the same time, the FCA and PRA new secondary objectives to support the competitiveness and growth of the UK financial services sector came into force, reinforcing the need for regulators and policymakers to recognise the value of diverse business models.

The substantial growth of the mutual sector across the country, coupled with renewed government support, marks a unique turning point. We are proud to stand as part of this movement, delivering meaningful impact where it matters most.

That means running a purposeful business that delivers upon our strategy, while delivering strong financial results.

I'm proud to share that we've done just that. This year we've seen record growth in both our savings, and retail mortgage books, delivering real value for our Members.

We've also focused on initiatives that provide real help where it's needed most. Whether through affordable housing options, as one of the market leaders in passing on higher saving rates to our Members, with our average savings rate being well above market average (4.06% versus 3.33% on the high street)[1], or our continued presence on the high street, we are here to help Members navigate these uncertain times.

True to our purpose, we regularly seek Member views on important issues through our Member Pulse forum. In the past, more than 70% told us that having a branch presence is an important factor when choosing a financial provider. That's why we've continued to invest in our branch network, even as others withdraw.

Together, we're making a meaningful impact delivering value today, while safeguarding the future of our Society.

Executive Committee and Board

As Chair, my focus remains on strengthening the leadership and expertise of our Board and Executive Committee to keep our Members' interests at the heart of our decision-making.

I am delighted to announce that we welcomed Karen Maguire to our Board in September, whose wealth of audit and risk management expertise has brought real value to the role, adding strength to our Audit Committee. We have also recently welcomed Garry Stran, a recognised leader with a proven track record of commercial success. He brings valuable strategic experience, particularly in technology and customer-focused change.

I am also pleased to welcome Maria Timon Samra, former Chief Executive of one of our charity partners, Tŷ Hafan, who brings invaluable experience from the charitable sector, which closely aligns with our purpose and community focus, and will play an important role as we continue to reinforce our commitment to serving communities for good. Her insights from her extensive transformation and change experience at executive level will be important as we transform our technology and digital capabilities to be fit for the future.

Everyone at Principality, from the Board, senior leaders and Principality colleagues remains committed to putting you, our Members, first.

Future focus

I hold firm to the belief that Principality Building Society is one of the most exciting organisations in the UK today. Born in Wales, we're proud of our heritage, and our ambitions that stretch beyond our borders.

To achieve our goals for 2030, we aim to grow from a respected Welsh institution into a leading mutual, recognised and valued across the UK for the difference we make. It's about expanding our reach while staying true to our roots and serving Members as we've always done but on a larger scale.

A key part of this journey is investing in the future of our digital offering, starting with our recently refreshed website. While this marks an important step, our ambitions extend further, with plans to grow our digital savings portfolio, enhancing the ways Members engage with us.

We're building a future where tradition and innovation work hand-in-hand, with our online offering acting as an extension to our branch network, providing the same level of service to customers wherever they choose to interact with us.

Our purpose is clear: to be a modern mutual that exists for you, our Members. As we continue to grow, I am inspired by the trust you place in us and the dedication of our colleagues, who work tirelessly to ensure that Principality remains a Society that Members can rely on.

Thank you for your ongoing support. Together, we are building a brighter future – one that strengthens our communities, delivers real impact, and reaffirms our commitment to being here for good.

Simon Moore
Chair

18 February 2025

[1] CACI's CSDB, Stock, Weighted Average Interest Rate for November 2023 – October 2024

Chief Executive's Review of the Year

for the year ended 31 December 2024

Dear Members,
I'm pleased to share that 2024 has been another strong year for your Society, delivering robust financial results and impact beyond our scale in line with our ambitious strategy.

We have seen record growth in both savings and mortgages, helping more Members to save and more customers to own their own home and are on track to meet the 2030 ambition statements agreed by your Board in 2022.

A number of investments this year, and in previous years, such as technology improvements, a multi-year Operational Excellence programme and our continued investment in our customer experience, underpin our 2024 successes, along with our continued commitment to the high street.

Better Homes
Access to affordable housing remains one of the most pressing challenges of our time.

Against a difficult economic backdrop, we are delivering on our ambition for better homes. We now support 87,558 (80,883 in 2023) people to have their own home, whilst helping over 8,120 first time buyers take their first steps onto the property ladder (8,134 in 2023).

As a mutual, we can take a long-term approach to developing meaningful partnerships at a local and national level with stakeholders across governments, local authorities and partners to deliver large-scale housing developments and solutions to develop affordable housing for people who aren't able to get onto the housing ladder.

As a result, our Commercial division now supports the majority of housing associations in Wales, funding meaningful, affordable housing in our communities.[1]

Pictured: Julie-Ann Haines, Chief Executive Officer

This year, we provided £25m in long-term financing to Cardiff-based housing association Hafod, supporting the construction of 300 affordable homes over the next 5 years.

Work has also completed on the final phase of The Mill development in Cardiff, which has spanned a decade of effort, and resulted in 800 homes being built, half of which are affordable - offering discounted, intermediate or social rents.

In addition, Principality's long-time partnership with Carmarthenshire and Pembrokeshire based not-for-profit housing association Bro Myrddin resulted in £6m of funding towards 30 new energy efficient, social and affordable homes, with the objective of building sustainable neighbourhoods in Wales.

We've also continued to invest in our operations to make it easier for Members and brokers to do business with us, which is why we've been named Best Building Society for Customer Service 2024 by What Mortgage Awards for the seventh consecutive time.

Secure Futures
It has never been more important to save for life's uncertainties and our role is to get more people saving more regularly and ensure everyone has the tools and support they need to develop positive saving habits - creating a society of resilient savers.

2024 has been another record year for savings. We have seen more accounts opened than ever before, with our savings balances increasing by £1.7bn, from £9.1bn to £10.8bn.[2]

This significant growth in savings supports our mortgage ambition, which is funded by savers' deposits.[3]

As a mutual building society, we know that offering fair value is important to our Members. We are consistent in providing higher saving rates to our Members (4.06% versus 3.33% on the high street).[4]

We have encouraged our savers in Wales to compare their current savings rates with other available rates on the market, after our analysis of market data found that £14.5bn of savings held in Wales was sitting in accounts earning 1% or less. We've also launched new products to help people to save more regularly.

In addition to our branch network, we're championing access to cash on the high street through our partnership with OneBanx, a terminal in some of our branches that allows customers from other banks and building societies to deposit and withdraw cash from their personal or business current accounts.

Fairer Society
As a mutual, it's important that we share our success with our Members, colleagues and communities.

We are on a mission to ensure young people receive meaningful opportunities, helping them gain skills and experiences that prepare them for their futures. We are also passionate about tackling big issues at the local level, in your communities. That's why we contribute up to 3% of our profit before tax each year, to causes that benefit communities.

I'm delighted to share that we've supported the financial education of 50,000 children and young people, and donated £245,000 to our charity partners Tŷ Hafan and Hope House Tŷ Gobaith children's hospices in 2024, through colleague and Member fundraising. This takes our total contribution across the partnership to £752,000.

We also launched the fourth round of our Future Generations Fund, which supports local communities in our heartland, with new funding in excess of £0.5m.

Our dedication to diversity and inclusion has been recognised too, with Principality winning the Financial Services Company of the Year Award from the National Centre for Diversity. This achievement would not be possible without our excellent colleague networks, who play a crucial role in fostering an inclusive culture within the Society.

Events like the annual Pride Cymru march, where our colleagues celebrated with local businesses and community members, as the headline sponsor for the second year in a row, underscore this commitment.

Fit for the Future: Investing in Your Society
Over the past year, we have taken significant and difficult steps to simplify our operating model, allowing us to better serve both our savings and mortgage customers, along with our commercial lending clients, while streamlining costs to create the capacity for purposeful growth.

As a modern mutual, we are led by our Members, who have told us that they value both our strong presence on the high street and the convenience of enhanced digital services.

That is why I am pleased to continue our commitment to a long-term presence on our high streets and communities that underpin Member experience. A clear demonstration of this commitment is the relocation of our Swansea branch, to a more central high street location that will help raise our visibility and access for local communities.

At the same time, we have launched our new website allowing us to continue to improve the experience across both digital and physical channels. We are creating a future where digital and personal service work together, ensuring that Members always have a choice in how they interact with us.

These strategic steps are integral to building a Society that is responsive to the changing needs of Members today and prepared for the future.

Some of these changes have unfortunately impacted colleagues, with a number of redundancies as we restructured our operations. I am grateful for the support and exceptional customer service that colleagues have continued to provide every day.

We also welcomed Simon Moore, our new Chair at the beginning of the year. With over 30 years' experience in the financial sector, Simon brings a wealth of insight and expertise to Principality. His deep understanding of the financial services and mutual landscape and strong connections to Wales' business community are already proving invaluable. I am pleased to be working alongside him, as his expertise will be instrumental as we continue to evolve and serve our Members.

Strong financial results

We have again delivered robust financial results, as we navigate a volatile external environment in the UK and across the globe.

We have seen significant growth in retail lending of £1.2bn, increasing our total residential lending from £9.3bn to £10.5bn supported by our responsible lending practices and conservative risk management approach.

Savings growth of £1.7bn has been equally significant, as we have sought to offer value to our Members through our branches, whilst delivering growth in our digital savings channels. Our commercial lending business remained flat, with balances of £0.8bn through 2024 as we wait for demand to return in commercial investment and commercial development sectors. At the same time, we continue to broaden our support for housing associations in Wales.

Total assets are now over £14.1bn, up by £1.6bn from £12.5bn in 2023, evidencing that our strategy of creating sustainable and purposeful growth is delivering.

As signalled last year, we have seen an expected reduction in net interest margin (NIM) from 1.52% to 1.22% as the Bank of England base rate remained more stable than in the previous year.

Underlying profit before tax was £40.3m (2023: £60.3m), with the fall in profits driven by a reduction in NIM and one-off costs associated with our operating model changes. Reported profit before tax was £49.2m (2023: £60.3m) recognising fair value gains in the year.

Meanwhile, we maintained a strong liquidity and capital position to support continued growth and investment in the Society for the benefits of Members, with strong liquidity (LCR 2024: 231%, 2023: 203%) and capital with a CET1 of 19.8% (2023: 21.8%).

2024 has been another successful year, helping more people to save and to have a place to call home, whilst delivering robust financial results. This ensures that we can continue in our journey of transforming the Society through investment, for the benefit of our Members, clients and colleagues.

Outlook

As we look to 2025 and beyond, the Society continues to be equipped to navigate the challenging economic and political landscape that we operate in.

A lower base rate horizon and lower inflation could suggest a more positive outlook for UK consumers and the economy, albeit there remains concern around the cost of living for the most vulnerable within our communities.

A new government installed in Westminster and a new cabinet in Wales may well bring opportunities in terms of new policies as they seek to address the challenges of the housing sector and create the conditions for growth in the wider economy. We will continue to work with stakeholders and government in these areas to ensure that our Members voices are heard.

I am confident the Society will continue to adapt and invest for the long term, with our purpose remaining at the heart of everything we do. Whether it's helping more people into homes or building financial resilience for life's uncertainties, we remain committed to support our Members, colleagues and communities for another 165 years.

Thank you for your continued support of your Society.

Julie-Ann Haines
Chief Executive Officer

18 February 2025

[1] Principality Commercial is currently working with 18 of Wales' 33 housing associations
[2] £1.7bn includes interest
[3] Percentage of mortgages funded by savers (2024: 95.7%, 2023: 89.8%)
[4] On average, Principality has paid 4.06% for its savings rates compared to the market average of 3.33% between November 2023 and October 2024. (Source: CACI's CSDB, Stock, Weighted Average Interest Rate for November 2023 – October 2024)

Business Model and Strategy

for the year ended 31 December 2024

Our Purpose and Vision

As a mutual, we're owned by our Members, not shareholders. We're led by Member voices, respond to their needs and reinvest our profits for the benefit of our customers, colleagues, communities and wider society, ensuring we continue to be a responsible, sustainable and future-focused business - just as we have for the past 165 years.

This is why we're reimagining the role of Principality, as we seek to have more of a positive impact on society and the lives of our customers, colleagues and communities.

We believe that home is the heart of life, where plans, decisions and memories are made. Our purpose is to help everyone prosper in their homes at every stage of life.

Our vision is to help build a society of savers, where everyone has a place to call home and our ambition is to have more impact than ever before, ensuring our purpose is at the heart of everything we do.

Our Business Model

As a mutual, we're driven by our purpose.

We've always operated ethically, responsibly and socially and now we must evolve to do it more sustainably and innovatively if we want to achieve transformative impact and create a lasting legacy on society.

It's in our DNA.

Our business model operates across three primary lines of business; retail mortgages, commercial lending and savings, whilst our distribution channels allow us to reach customers through branches, our broker network, over the phone and increasingly - digitally. We're owned by and run for the benefit of our half a million Members – our savers and borrowers. Over 95% of our funds are raised from Members' savings, enabling us to provide loans to a broad range of customers, from first time buyers through to housing associations and regional housing developers.

We do this whilst continuing our journey to become a more progressive building society, driving social innovation and creating sustainable impact. We're working to deliver net zero across our operations and give further social impact focus to our work by investing in future generations of young people and becoming an even more inclusive organisation - where everyone feels like they belong.

Our Strategy

Our strategy helps us to deliver on our purpose and underlines our focus on our core mortgage and savings business, driving sustainable, purposeful growth through customer-focused products and services, whilst delivering excellent customer experience.

This drives our key activities and progress towards achieving our vision and is continually measured through a clear set of Key Performance Indicators aligned to our strategic outcomes.

Our strategic pillars guide us and provide the link between our purpose/vision and our strategic ambitions.

Better Homes	2030 Ambition Statements	A more accessible housing market	By 2030, we will support over 15,000 customers to buy their first home and commit a total of £400m to housing associations whilst funding the building of 750 new homes each year.
		More savers, saving more regularly	By 2030, we'll support 1,000,000 savers, and increase the number of customers saving regularly to 150,000, helping them achieve their savings goals and build financial resilience; more than doubling the number today.
Secure Futures		Supporting future generations and tackling big issues at a local level	By 2030, we will have worked to positively change the lives of overlooked and under-represented young people, and helped communities thrive in a sustainable way by investing a minimum of 3% of our profits each year.
		A journey to net zero	By 2030, we will achieve net zero in Scopes 1 and 2, with a 50% reduction in Scope 3 emissions and we will achieve net zero in all Scopes by 2040.
Fairer Society		Empowered colleagues making more things possible for our customers	By 2030, we will have diversity of the right skills and capabilities in place to drive a high-performing, innovative and customer-centric culture that enables us to make more things possible for our customers.
		Hopes and aspirations made possible for customers	By 2030, we will be making customer hopes and aspirations possible in a way that helps society work for everyone: fairer, more equal and thriving, and our relentless focus on customer centricity will be demonstrated by our industry leading customer experience measures across all channels.
Underpinned by:		Keeping us safe	Our strategic ambitions are underpinned by our need to keep our business compliant and we will always take the steps needed to ensure that we can safely operate.

Transforming our Society

Society is changing and we must change with it. The systemic economic, social and environmental challenges we face locally, nationally and globally demand more innovative, sophisticated and collaborative approaches and solutions, to drive social innovation and create sustainable impact.

Living in the homes we desire and saving for the futures we deserve has never been more difficult. The world is changing rapidly and we know we need to continue to adapt as a business to make sure we meet the needs of our Members and their families. We continue to do this through maintaining our high street presence, having branches embedded in local communities and delivering exceptional face-to-face customer service. We're also investing in improving our online presence, with a new website to ensure more customers can more easily access our products and services digitally.

Strategic Key Performance Indicators

We measure how our strategy is performing through our Strategic Key Performance Indicators (SKPIs) that are aligned to our strategic outcomes and objectives. The percentage of women in leadership is a new SKPI as of 2024.

2024 Strategic Key Performance Indicators

Better Homes	Secure Futures	Fairer Society
• Total number of homeowners • Total number of first time buyers • Total number of new homes funded • Total committed to RSL lending (£)	• Total number of savers • Total number of customers saving regularly • Total number of young people accessing opportunities	• Reduction in CO2 emissions across our operations • Amount of funds distributed for social impact activity (£) • Percentage of women in leadership roles

Better Homes

SKPI	2024	2023
Total number of homeowners	87,558	80,883
Total number of first time buyers	8,120	8,134
Total number of new homes funded	247	76
Total committed to RSL lending	£51m	£42m

Secure Futures

SKPI	2024	2023
Total number of savers	453,082	417,505
Total number of customers saving regularly[1]	81,871	73,554
Total number of young people accessing opportunities[2]	50,217	53,320

Fairer Society

SKPI	2024	2023
(Increase)/reduction in CO2 emissions across our operations	(42)	181
Amount of funds distributed for social impact activity	£1.5m	£1.3m
Percentage of women in leadership roles	46%	39%

[1] *Customers with a positive movement in their balance for any 4 months in the previous 6 months*
[2] *Total number of young people accessing opportunities provided by the Society, including financial education, work experience and opportunities created from the Future Generations Fund partnership*

The Strategic Key Performance Indicators, apart from statutory profit before tax, are alternative performance measures (APMs) which are internally used to inform key management decisions. Further information on these APMs can be found in this Strategic Report (definitions are included within the glossary).

	2024	2023
Financial Performance Measures		
Net Interest Margin[1]	1.22%	1.52%
Statutory Profit Before Tax	£49.2m	£60.3m
Underlying Profit Before Tax[2]	£40.3m	£60.3m
Common Equity Tier 1[3]	19.8%	21.8%
Management Expense[4]	0.94%	0.99%
Stakeholder Experience		
Employee Engagement[5]	81.0	87.0
Customer Experience[6]	71.7	67.4
Broker Experience[7]	86.6	81.9

[1] Net interest margin is calculated as net interest income divided by average total assets. See page 16 for further details
[2] See page 14 for a reconciliation of underlying profit before tax
[3] The reduction in CET1 is due to book growth, particularly in the IRB retail portion of the Society's mortgage lending
[4] See page 15 for a reconciliation of the movement in the management expense ratio
[5] Source: Based on the Peakon survey. The result refers to the degree to which our employees feel connected to their work, their colleagues, and the wider business
[6] Source: Based on Qualtrics survey customer data for the 12 months ended 31 December 2024, comparative for 2023 restated to use Qualtrics. Customer Experience has replaced Net Promoter Score as an APM
[7] Source: Based on Qualtrics survey broker data for the 12 months ended 31 December 2024

Financial Review

for the year ended 31 December 2024

Income statement overview

Continuing operations	2024 £m	2023 £m	2022 £m	2021 £m	2020 £m
Net interest income	162.0	181.3	153.9	129.1	108.6
Other income	2.2	2.3	4.8	3.0	2.7
Fair value gains/(losses)	8.9	–	5.8	9.6	(4.1)
Operating expenses	(124.6)	(119.6)	(100.2)	(93.1)	(79.9)
Impairment provisions release/(charge)	3.6	(3.5)	(14.8)	15.4	(9.1)
Other provisions (charge)/release	(2.9)	(0.2)	(0.2)	–	1.7
Statutory profit before tax	**49.2**	**60.3**	**49.3**	**64.0**	**19.9**

Statutory profit before tax for 2024 is £49.2m (2023: £60.3m), with underlying profit before tax of £40.3m (2023: £60.3m). Both measures reflect further strong performance of the Society, albeit lower profits than prior year due to a £19.3m reduction in net interest income due to growth in the savings portfolio coupled with a higher average cost of funding than the prior period, and a £5m increase in operating expenses due to increased investment to ensure the Society remains fit for the future.

Included within these operating expenses is £2.9m expenditure relating to the operating model restructure, separate to the restructuring provision below.

Loan loss provisions have reduced during the year resulting in a credit of £3.6m (2023: charge of £3.5m), and other provisions have increased resulting in a charge of £2.9m (2023: charge of £0.2m) primarily due to the recognition of a £2.7m restructuring provision relating to redundancy costs from the operating model restructure.

The table below details the adjustments made to statutory profit before tax to arrive at underlying profit before tax:

	2024 £m	2023 £m	2022 £m	2021 £m	2020 £m
Statutory profit before tax	49.2	60.3	49.3	64.0	19.9
Adjusted for:					
Fair value (gains)/losses	(8.9)	–	(5.8)	(9.6)	4.1
Additional pension charge for GMP equalisation[1]	–	–	–	–	0.1
Underlying profit before tax	40.3	60.3	43.5	54.4	24.1

[1] *Guaranteed Minimum Pension (GMP)*

The purpose of the underlying profit before tax measure is to reflect Management's view of the group's underlying performance, presented to aid comparability across reporting periods by adjusting for items which affect statutory measures but are deemed to be uncontrollable in nature. This aligns to measures used by Management to monitor the performance of the business.

The only difference between statutory and underlying profit before tax is fair value movement, which represent the change in value of certain assets and liabilities to reflect underlying market rates. In 2024, there was a fair value gain of £8.9m (2023: £-m).

Adjusted ManEx

An alternative variation of the management expense ratio (ManEx) is used internally by Management to monitor the underlying operating expenses of the Society, and is an alternative performance measure used to calculate the Rewarding Excellence Award available to all eligible colleagues.
The table below provides a reconciliation of the standard ManEx ratio to the Society's adjusted ManEx:

	2024 £m	2023 £m
Total operating expenses	124.6	119.6
Specific in-year strategic change and investment expenditure	(9.1)	(6.9)
Fixed asset impairment	–	(3.4)
Exceptional non-recurring items	(1.6)	(1.2)
Underlying operating expenses	**113.9**	**108.1**
Community commitments	(1.5)	(1.3)
Other items adjusted for remuneration purposes	(5.2)	(2.4)
Adjusted operating expenses	**107.2**	**104.4**
Statutory Management Expense ratio	0.94%	0.99%
Adjusted Management Expense ratio	0.80%	0.88%

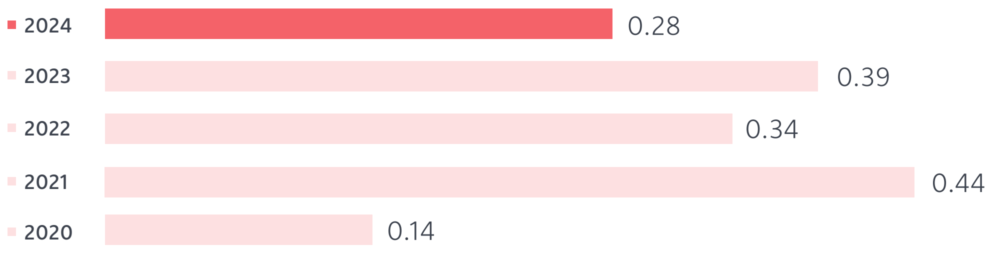
Operating expenses are adjusted by removing strategic change and investment spend, and other exceptional one-off items, as neither costs relate to the day-to-day running costs of the Society and therefore removing them provides an accurate measure of the ongoing cost to run the business. Strategic change and investment spend includes discretionary expenditure under a number of change programmes, and includes significant investment in continuous improvement and capability uplift projects, ensuring the Society remains fit for the future. Exceptional one-off items predominately relates to restructuring costs.

Expenses are further adjusted to remove community commitments and other items that are outside of the control of colleagues, and therefore removed for remuneration purposes after the agreement of the Remuneration Committee. Community commitments refer to the expenditure relating to our commitment to donate up to 3% of our annual profit before tax to social purposes. Both statutory and adjusted ManEx have reduced due to management of the running costs of the Society, alongside the £1.6bn growth in total assets.

Return on Assets

Return on assets (ROA), calculated as statutory profit after tax (PAT) divided by average total assets, has decreased by 0.11% compared with the prior year. This is a result of a reduction of £9.8m in PAT driven by the falling interest rate environment impacting net interest income, and growth in average total assets of £1.6bn, as both mortgage and savings portfolios have experienced significant growth in 2024 and 2023.

Return on assets %



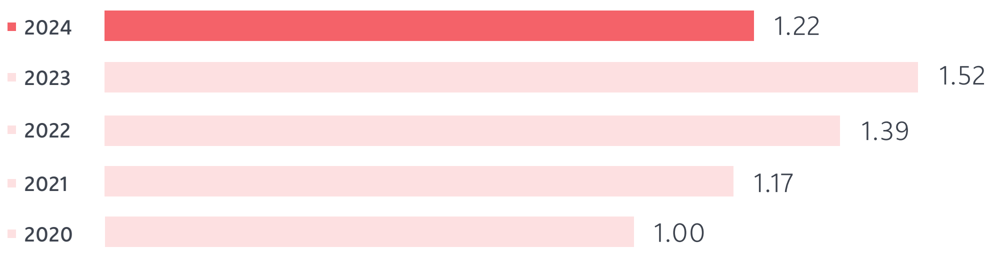
In the years since the pandemic, the fluctuations in profit due to movements in loan loss provisions have stabilised. As shown on page 18, the loan loss provision charge/(release) has resulted in material movements in PAT in prior years, however as cost of living pressures have now eased impairment provisions are no longer a primary driver of PAT and therefore ROA.

Net Interest Margin

Our net interest margin for the year was 1.22% (2023: 1.52%). Net interest margin has decreased as the Bank of England base rate has fallen from its peak of 5.25% to 4.75% as at 31 December 2024, and as the Society pays out more interest to savers, with average cost of funds increasing by 0.95% in 2024 reflecting a period of sustained high interest rates. Net interest income has fallen in absolute terms by £19.3m (2023: increase of £27.4m), primarily driven by an increase in interest payable on retail savings of £144m (2023: increase of £164m) while interest receivable from retail mortgages has increased by £133m (2023: increase of £82m), alongside other less material movements in liquid asset and wholesale funding interest.

Our lending continues to be primarily funded by Members' retail savings, with 96% (2023: 90%) of loans and advances to customers funded in this way. Interest rates paid on savings are impacted by the level of interest earned on mortgages.

Net interest margin %

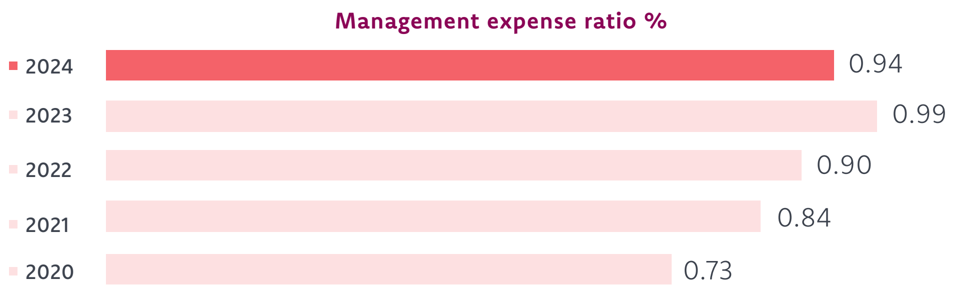


Expenses

We recognise that operating efficiently is a significant factor in achieving optimal Member value, and as such expenses remain a key area of focus. Expenses increased in the year to £124.6m (2023: £119.6m), however as a percentage of average total assets they have fallen, as shown by the reduction in the ManEx ratio below. A key driver for the £5m increase in expenses experienced in 2024 is continued investment into the Society, including an internal restructure to ensure the Society's operating model is fit for the future.

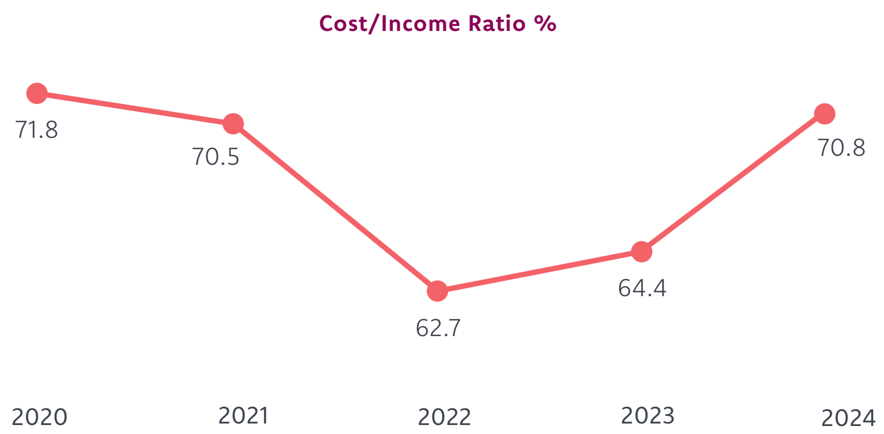
The year-on-year operating expenses comparison is set out in the table below:

	2024 £m	2023 £m
Retail financial services	120.8	116.0
Commercial lending	3.0	3.0
Secured personal lending	0.8	0.6
Total operating expenses	**124.6**	**119.6**
Management expense ratio	0.94%	0.99%
Cost income ratio	70.8%	64.4%



ManEx increased from 2020 as the intangible assets capitalised during the hybrid transformation programme began to amortise, then following further strategic investment in the Society in 2023. ManEx has now fallen by 0.05% in 2024, due to the focus on managing the Society's cost base while experiencing record growth in both our mortgage and saving portfolios, contributing to a rise in total average assets.

The cost income ratio compares costs as a proportion of total income. This has increased due to a reduction in net interest margin, uplifts in strategic spend and other one-off items during the year as noted above, including the £2.9m restructuring costs.



Impairment provisions for losses on loans and advances

	2024 £m	2023 £m
Retail mortgage lending	(1.9)	5.2
Commercial lending	(1.1)	(1.3)
Secured personal lending	(0.7)	(0.3)
Treasury assets	0.1	(0.1)
Total (release)/charge	**(3.6)**	**3.5**

Impairment release totalled £3.6m in 2024 compared with a £3.5m charge in 2023.

The group continues to have a low level of arrears, reflecting our prudent lending criteria, credit quality and underwriting standards. After a fall in house prices in 2023, house prices rose by over 3% in 2024, which is reflected in the release in impairment provisions for the year. The outlook within our economic forecasts has also improved, particularly in relation to HPI and base rate. These considerations have been taken into account in determining the level of provisions to be held. The business is well positioned to deal with the future economic uncertainty that exists. The fall in secured personal lending provisions reflect the continued run off of the secured personal lending book.

The total loan loss impairment provisions held on the statement of financial position were as follows:

	2024 £m	2023 £m
Retail mortgage lending	18.5	20.4
Commercial lending	10.6	11.6
Secured personal lending	1.5	2.6
Total	**30.6**	**34.6**

Provisions for liabilities

Provisions are recognised in respect of various customer claims. At 31 December 2024, the group held a provision of £2.4m (2023: £2.6m). This reflects Management's best estimate of the costs required to settle its remaining obligations and takes account of expected customer behaviour, costs expected to be incurred, and an assessment of the exposure population. The provision is monitored on an ongoing basis with customer trends and behaviour analysed to ensure the level of provision held is appropriate.

In addition, a £2.7m provision has been recognised in 2024 in respect of redundancy pay relating to the operating model restructure.

Taxation

The tax charge for the year was £12.6m (2023: £13.9m). The effective tax rate for the group was 25.6% (2023: 23.1%). The corporation tax rate for 2024 was 25%, compared to a blended statutory tax rate of 23.5% for the prior year, due to an increase in the corporation tax rate from 19% to 25% in April 2023.

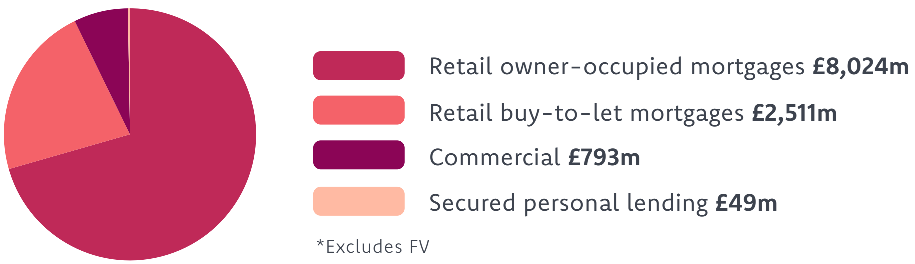
Statement of financial position overview

Total assets have increased by £1.6bn in the year to £14.1bn (31 December 2023: £12.5bn), primarily driven by growth in our retail lending portfolio of £1.2bn, to £10.5bn (31 December 2023: £9.3bn), and £0.3bn increase in balances with the Bank of England as a result of the growth in our savings portfolio of £1.7bn, to £10.8bn (31 December 2023: £9.1bn).

The retail mortgage portfolio has continued to grow as a result of our investment in our mortgage platform, increasing our mortgage on-boarding capability and capacity to grow further. Our ambition for the year was to continue our growth trajectory from 2023, increasing the number of homeowners while reducing our ManEx ratio, ensuring value for Members.

	2024 £m	2023 £m	2022 £m	2021 £m	2020 £m
Liquid assets and balances with other credit institutions	2,505.5	2,021.8	1,887.8	1,807.9	1,569.6
Loans and advances to customers	11,284.5	10,115.6	8,883.3	9,204.9	9,033.1
Other assets	319.2	389.2	136.8	108.1	93.1
Total assets	**14,109.2**	**12,526.6**	**10,907.9**	**11,120.9**	**10,695.8**
Retail savings	10,798.8	9,084.6	7,943.7	8,187.5	7,588.5
Wholesale funding	2,447.9	2,575.1	2,262.3	2,200.1	2,378.1
Other liabilities	108.7	149.9	55.6	138.7	145.8
Total liabilities	**13,355.4**	**11,809.6**	**10,261.6**	**10,526.3**	**10,112.4**
Reserves	753.8	717.0	646.3	594.6	583.4
Total liabilities and equity	**14,109.2**	**12,526.6**	**10,907.9**	**11,120.9**	**10,695.8**

Loans and advances to customers by portfolio*



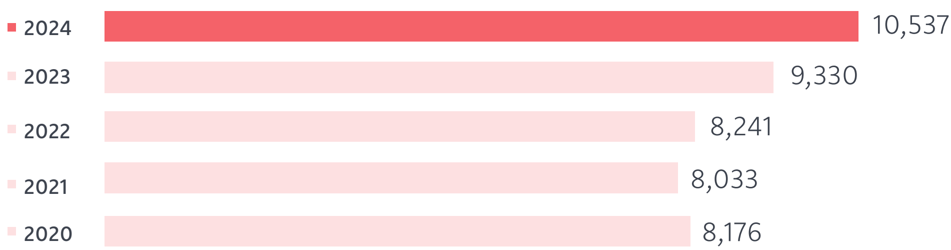
*Excludes FV

We have continued to focus on growing our prime residential lending and commercial property lending. There has been a net increase in loans and advances to customers of £1.1bn (2023: increase of £1.3bn) to £11.4bn excluding fair value adjustments (2023: £10.3bn), due to the increased on-boarding and customer servicing capacity created by our investments in technology over the past 5 years.

i. Retail financial services and secured personal lending

Gross retail mortgage lending, which is the total balance of new mortgages completed in the year excluding redemptions, was £2.4bn (2023: £2.2bn). Net retail mortgage lending in the year, which is the increase in the mortgage book excluding accounting adjustments, increased to £1.2bn (2023: £1.1bn).

Net retail loans and advances to customers £m*



Excludes FV

The retail mortgage book remains the largest portfolio of the business at £10.5bn (2023: £9.3bn). This includes both lending to homeowners and a buy-to-let portfolio of £2.5bn (2023: £2.4bn). The support for both residential and buy-to-let borrowers helps provide a broad range of products to both current and any future Members. All buy-to-let lending is assessed against stringent interest cover and loan-to-value criteria.

We also hold a secured personal lending portfolio of £49m (2023: £63m), secured against residential property by a second charge. This business is in run off with balances reducing by £14m (2023: £17m reduction) in the year.

Our retail mortgage and secured personal lending portfolios reflect the prudent nature of our lending policies, with 73% (2023: 80%) of exposures having a balance to indexed valuation of less than 75%, and 91% (2023: 93%) less than 90%.

The increase in the proportion of higher LTV loans is due to increased lending to higher LTV customers as we support more first time buyers. The exposures are well spread by geographical areas within England and Wales, albeit with a larger share of lending by region in Wales, which by value constitutes 25% of lending (2023: 27%) in the retail mortgage and secured personal lending portfolios.

The number of retail mortgage lending cases fully secured by a first charge currently with arrears of more than 3 months is 480 (2023: 453), which as a percentage of the portfolio is 0.55% (2023: 0.56%), comparing favourably with the industry average of 1.1%*. There was a modest increase in the number of properties taken into possession during the year to 20 (2023: 11), representing 0.02% of the retail portfolio which compares favourably with the industry average of 0.06%*.

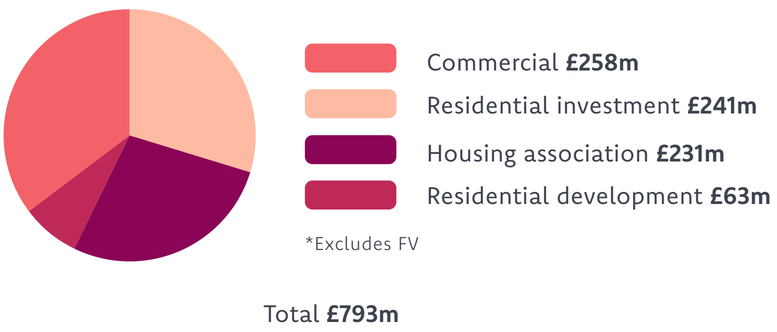
* UK Finance arrears and possession data at 7 November 2024.

ii. Commercial lending

The Society provides loans secured on residential and commercial property across England and Wales, with 50% (2023: 51%) of lending situated in Wales. The commercial lending portfolio is composed of lending against both residential property and registered social landlords representing 67% (2023: 66%) of balances and commercial property exposures representing 33% (2023: 34%).

The commercial lending portfolio had 2 exposures greater than 3 months in arrears at the year-end (2023: nil). The continued high interest rate environment has seen some commercial lending customers fall into forbearance due to interest cover covenant (ICC) breaches although there are only 4 customers currently in arrears (2023: 1 customer). Focus is maintained on all borrowers experiencing difficulty to ensure positions are tightly managed and the potential for losses arising is realistically and conservatively assessed. Joint action plans are implemented with borrowers wherever possible to minimise the likelihood and extent of defaults.

Net commercial loans and advances by portfolio*



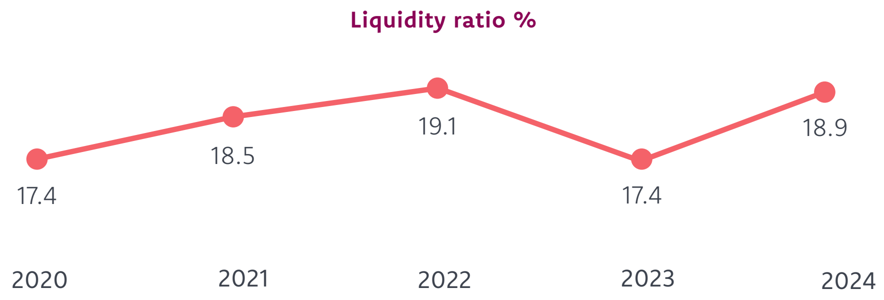
Defined benefit pension scheme

The Society operates a defined benefit pension scheme, which is closed to new entrants and to further accrual. In 2023, the Scheme purchased a new annuity policy to wholly cover the liabilities associated with the scheme ('buy in'). As a result only a small deficit of £0.1m remains at 31 December 2024 (2023: £0.6m).

The scheme is subject to a triennial valuation by the scheme's independent actuary. The most recent valuation, with a reference date of 30 September 2022, was completed as planned during 2023. This triennial valuation and the subsequent annual update in 2024 formed the basis for the accounting position at 31 December 2024 and resulting actuarial valuation. The Society continues to work closely with the Trustees of the scheme to ensure the remaining pension risk to the Society is appropriately managed and further reduced.

Liquidity ratio

We hold liquid assets to ensure we have sufficient access to funds to meet our financial obligations in both normal and stressed scenarios. We continue to maintain a robust liquidity position, with a liquidity ratio at the year end of 18.9% (2023: 17.4%) as a proportion of shares, deposits, and loans. Our liquidity is made up of cash, balances with the Bank of England and investments in credit institutions. Included within liquidity is cash held in respect of collateral deposit posted by counterparties. Liquidity levels at the end of the year have increased due to net retail cash inflows as growth in the savings portfolio exceeded mortgage lending.



The Liquid Asset Buffer as defined by the Prudential Regulatory Authority (PRA) includes highly liquid assets, typically central bank and sovereign exposures. At the year end, the proportion of the group's available liquidity which was buffer eligible was 87% (2023: 83%). Of the total liquid assets, none (2023: none) were less than A rated under Fitch credit ratings.

The PRA monitors liquidity using the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), measures introduced as part of the CRD IV regulatory changes. The group's Liquidity Coverage Ratio, a measure of our ability to withstand a short-term liquidity stress, was 231% at the year end (2023: 203%), well above the regulatory requirement. Our NSFR is 147% at the year-end (2023: 134%) which ensures we have a healthy buffer of stable funding over the required amount.

Liquidity

We are a participant in the Bank of England's Term Funding Scheme, and also have access to contingent liquidity through the Bank of England's Sterling Monetary Framework.

Liquid and other eligible assets are set out in the table below:

	2024 £m	2023 £m
Cash and balances with the Bank of England	1,668.8	1,374.9
Securities issued by the UK Government and Multilateral Development Banks	–	24.1
Securities issued by other institutions	481.3	281.0
Total Buffer Eligible Assets	**2,150.1**	**1,680.0**
Loans and advances to credit institutions and other debt securities	355.4	341.8
Total	**2,505.5**	**2,021.8**

Securities issued by other institutions, which includes AAA-rated investments into covered bonds and residential mortgage backed securities (RMBS), have increased due to a more purposeful investment strategy for our liquid assets. Loans and advances to credit institutions is made up of collateral deposits and GIC accounts held by the Friary entities.

Funding

Members' savings are, and will remain, the most important part of the Society's funding base. However, given the highly competitive nature of the mortgage market and the relative cost of wholesale funding sources, it is important that we maintain an appropriate balance between retail and wholesale funding.

Funds are raised from a variety of sources in order to meet the strategic objective of maintaining a diversified funding mix. The largest component is retail savings, which at £10.8bn (2023: £9.1bn) represent 96% (2023: 90%) of all mortgage and loan balances. Retail savings balances have increased by £1.7bn in the year (2023: £1.0bn increase), as the savings book continued to grow.

In May 2024, Friary No.9 was issued which raised £650m of funding (including £150m of retained notes). The total value of external RMBS notes outstanding at the end of the year was £1,305m (2023: £924m).

The Society's long-term credit ratings remain unchanged from the prior year, and are set out in the table below:

	Short-term	Long-term	Outlook
Moody's	P-2	Baa1	Stable
Fitch	F2	A-	Stable

Asset encumbrance

We use our assets as collateral to support the raising of secured funding, primarily as part of the RMBS issuances or pledged under the terms of Bank of England funding schemes. At the end of the year, 18.0% (2023: 23.2%) of the group's assets were encumbered, representing £2.2bn (2023: £2.6bn) of residential mortgage assets and £285m (2023: £301m) of other assets.

Capital

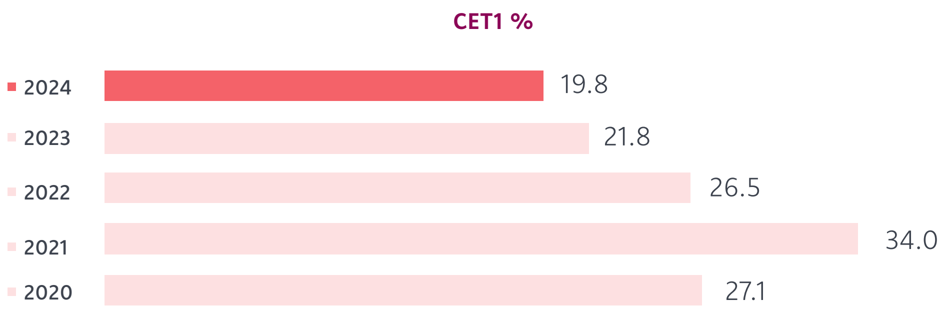
We hold capital to protect Members' deposits by providing a buffer against unexpected losses. The amount of capital required is assessed in relation to our overall risk appetite, the material risks to which the business is exposed and the management strategies employed to manage those risks. At 31 December 2024, capital comprises the group's general reserve, adjusted in line with regulatory rules, which qualifies as Common Equity Tier 1 capital, the very highest quality of capital.

Our primary measure in assessing capital adequacy is the Common Equity Tier 1 (CET1) ratio, which expresses the highest quality capital as a proportion of the sum of the risk weighted assets of the group. The risk weighting for each asset is calculated either by internal models or through standardised calculations dependent on regulatory permissions for each portfolio of assets.

Our CET1 ratio has decreased to 19.8% in the year (2023: 21.8%). The decrease is due to planned book growth, primarily within the residential mortgage sector. The reduction had been expected due to the efficient use of capital to assist in the growth of the book. In 2021, the CET1 ratio was 34% driven by increased profits and a reduction in overall balance sheet, plus a decrease in the level of risk attributed to certain loan assets because of increasing house prices. Since 2021, the CET1 ratio has fallen due to an anticipated post model adjustment (PMA) applied since 2022, relating to the retail Internal Ratings Based (IRB) model redevelopment and as a result of continued book growth.

The ratio still remains strong and our profitability during the year means that we are continuing to generate sufficient capital through our financial performance to support our future lending to households and businesses.

Our Solvency ratio, the ratio of total capital to risk weighted assets, is consistent with our CET1 ratio, at 19.8% (2023: 21.8%).



A further measure of capital strength is the PRA Leverage Ratio, a measure of Tier 1 capital held against total (non-risk-weighted) assets, including certain off-balance sheet commitments. At the end of the year our PRA Leverage ratio was 5.5% (2023: 5.9%) due to increased mortgage book growth.

Impact Beyond Scale

for the year ended 31 December 2024

Creating social value

As a mutual, we're as clear about our purpose and strategy today as we were 165 years ago. As a responsible, sustainable and future-focused business, we're compelled to help our customers, communities and wider society to tackle today's challenges and to help prepare them for a more secure future.

We're incredibly proud that our business success isn't just measured by financial results, but by the real, lasting social value we create and the impact we achieve. Our impact mission is clear: to maximise social value through delivery of the 3 key pillars of our business strategy – Better Homes, Secure Futures, and a Fairer Society. We believe that when social value and financial success go hand in hand, not only does our business grow, but our communities and society can flourish as well. We're embedding this thinking into every corner of our business, committing 3% of our annual profit before tax to fund initiatives that leave a lasting legacy for future generations.

We're empowering everyone to understand the role they play in driving social value. With strong governance, challenging goals around diversity and inclusion and a commitment to educating and involving our colleagues in our environmental sustainability efforts, and in our social impact programmes, we're building a Principality team that's both engaged and inspired to make a difference in tackling the big issues at a local level.

Our positive vision for society, the economy and the environment sets the strategic direction for our impact activity and aligns it with the goals of The Wellbeing of Future Generations Act in Wales. We're working with expert partners and other leading employers to help build a more resilient, inclusive and sustainable economy, with a focus on going further and faster in being a force for good. We're determined to break down systemic barriers and help disadvantaged young people, from primary level through to young adult, to build the knowledge, skills and mindset they need to access meaningful employment. Our 'learning for life' social mobility pathway can help to change lives today and also create lasting, generational change in the communities we serve.

2024 Highlights

Social Value in Business Conference – October 2024

Working with partners Blake Morgan, Cardiff Metropolitan University and the Future Generations Commissioner's Office we developed and hosted our first Social Value in Business Conference – a collaborative network for the next generation of leaders to act and create a more equitable, prosperous, and sustainable Wales – and to set an example for others to follow.

2BEnterprising

We continued our three-year partnership with 2BEnterprising to deliver interactive and inclusive enterprise education to 40,000 children across 50 primary schools in Wales over the next 3 years, working in economically challenged communities. Over 120 colleague volunteers have so far supported this classroom activity, strengthening our local community ties.

The King's Trust

As a new Patron, we're backing the 'Get Into' programmes, specifically designed for young people aged 16-30 who are ready to take their first steps into the workforce. These programmes not only build industry-specific knowledge, skills, and certifications, but also help boost confidence and resilience, key traits for overcoming the challenges they'll face in the world of work.

Young Enterprise

Strengthening our commitment to building money management skills and long-term financial resilience, we've actively supported the Young Enterprise Fiver Challenge since 2020.
The programme, which is delivered in both English and Welsh, is a fantastic introduction to enterprise skills and the world of work and a total of 280,320 learning hours were delivered to almost 19,000 children across England and Wales this year.

Team Wales

We're partnering with Team Wales to deliver a Youth Engagement Programme in 200 primary, secondary, and specialist schools, as well as sports and youth groups across Wales. This initiative, which benefits from the focus on the Commonwealth Games in 2026, is delivered by athletes through interactive classroom workshops, blending the mental and physical benefits of sport with diversity and inclusion, financial and sustainability education.

Future Generations Fund

Since its launch in 2021, we've supported around 130 youth and community groups and charities across Wales, awarding grants to the value of £1.6m. We prioritise projects that increase accessibility to underserved and vulnerable individuals from the most deprived communities. Each round of funding has steadily increased, starting at £100,000 and reaching £500,000 in the most recent round. This year we also launched a new £100,000 Retrofit for the Future fund to improve the sustainability of community buildings and help bring these spaces and places back to life.

Future Generations Leadership Academy

We're a committed sponsor and funder of the Future Generations Leadership Academy, established by the Future Generations Commissioner's Office to support 18 – 30 year olds from diverse backgrounds in developing leadership skills. Running every September to March this ambitious and innovative programme brings together partners from Wales' public, private and voluntary sectors, collaborating to develop participants' understanding of the Wales Wellbeing of Future Generations goals and supporting them to implement their plans to achieve these goals back in their workplaces.

In all our purposeful collaborations we bring distinct strengths to the table, with the determination, passion and financial resources to co-create programmes that focus more intently on addressing challenges around education and employability, that are central to building a healthier economy.

At the core of everything we do is the belief that all hopes and aspirations can be made possible and by opening up access to opportunity, we're building a fairer society where everyone has a chance to succeed.

Members can find out more about our work in environmental sustainability, social impact and diversity and inclusion, in our Principality Impact Report which can be found on our website: **principality.co.uk/home/about-us/building-a-fairer-society**

Climate-related Financial Disclosure Regulations

for the year ended 31 December 2024

Our climate disclosures are compliant with the requirements of the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, and we have voluntarily adopted areas of the Task Force on Climate-related Financial Disclosures (TCFD) framework. Our climate disclosures are structured around four key pillars to provide consistent information on the Society's exposure to, and management of, climate risks and opportunities.

To comply with the Prudential Regulation Authority's Supervisory Statement 3/19 (SS3/19), intended to enhance banks' and insurers' approaches to managing the financial risks from climate change, we've obtained and analysed data relating to both the potential physical and transition risks arising from the portfolio of residential property mortgaged by the Society.

As our work evolves, and the impact of different scenarios is considered, we will assess financial risks by reference to our risk appetite and determine the most appropriate measures and targets to put in place. SS3/19 requires specific disclosures to be made regarding these risks, and these are included within this report.

Governance

Climate change considerations are embedded in our governance model and future planning and, aligning to our purpose, are intrinsic to how we operate. The Executive Committee and Board are fully engaged with our climate strategy, proposition development, risk management, and disclosures and have ultimate oversight of our approach to considering, evaluating, and integrating climate-related risks and opportunities throughout the business on a day-to-day basis.

Underpinning our overall enterprise-wide strategy, elements within the Impact Strategy are focused on climate and sustainability-related initiatives and actions, aligning them with broader ESG considerations.

The Board has previously received the results of an in-depth study on the Society's carbon footprint from climate change consultancy firm, ClimatePartner. The Board remains committed to tackling climate change by reducing our operational emissions and remains committed to the targets we outlined in 2023.

Our Executive Committee received four reports in relation to climate-related activity in 2024. In the first half of the year this included the results of our 2023 carbon footprint, and our new approach to offsetting, called 'Beyond Value Chain Mitigation'. In the second half of the year, they received an update on progress against our carbon reduction SKPI and a paper outlining the work required to achieve our net zero operations targets.

Ownership for responding to the financial risk of climate change rests with the Risk Directorate, with overall responsibility for meeting our net zero ambitions resting with the Chief Impact and Governance Officer.

The Board Risk Committee (BRC) and Executive Risk Committee (ERC) are the key committees responsible for the oversight of the financial risks arising from climate change.

Board Risk Committee (BRC)

The Board has delegated oversight of climate risk management to the Board Risk Committee. The Board Risk Committee receives regular updates on climate-related risk.

Executive Risk Committee (ERC)

ERC is chaired by the Chief Risk Officer (CRO), with membership formed from the Executive Committee. It has delegated authority from BRC to monitor and review the risk exposures in accordance with our Enterprise Risk Management Framework (ERMF), Board risk appetite, and our strategy and medium-term plan. Climate risks are managed, documented and captured at department level. These risks are assessed quarterly, with assessments reported to ERC on a quarterly basis.

Remuneration Committee
The Remuneration Committee has oversight of the review of colleague remuneration schemes for the financial year. Performance of our Impact Strategy in relation to our progress towards net zero remains intrinsically linked to remuneration, with carbon reduction one of the elements of the 2024 variable remuneration scheme.

Supply chain governance
Seeking to be a sustainability-focused organisation includes our supply chain and we have a Supplier Code of Conduct, which suppliers are expected to adhere to. It includes the information we check from suppliers prior to onboarding, and our expectations of suppliers to develop their own sustainability plans to meet both social and environmental commitments.

During 2024 and into 2025, we're rolling out new sustainability clauses in our contracts, starting with pilots among critical suppliers. This proactive approach ensures we remain leaders in sustainable procurement and continuously refine our practices based on feedback.

In 2024, we developed and delivered bespoke training to over 60 Supplier Performance Managers, enabling them to have conversations with their suppliers about our carbon reduction journey and inviting them to join us by measuring and reporting their own emissions. This is already starting to improve our data quality, meaning we can focus on supporting our suppliers to set meaningful carbon reduction targets. To further support this, we also created a bespoke Sustainable Supplier Toolkit, which can be used to help suppliers in the first steps of their net zero journey.

Strategy
A key outcome under the Fairer Society pillar of our enterprise strategy is to deliver carbon net zero in our operations (i.e. excluding our financed emissions) by 2040. We've calculated our corporate carbon footprint for four years and during this time the quality of our data has continued to improve, enabling us to further refine our plan. In 2024, the Board and Executive Committee reaffirmed their commitment to achieve net zero in Scopes 1 and 2 by 2030, and Scope 3 (excluding financed emissions) by 2040. A key focus for 2025 will be reducing Scope 1 emissions, in particular continuing to decarbonise our head office and branch network, by reducing the reliance of our corporate estate on gas, and increasing the usage of renewable electricity.

During 2024, we joined the United Nations Environment Programme Finance Initiative (UNEP-FI) and committed to the Principles of Responsible Banking. Embedding the principles into everything we do, we've committed to taking a leadership role and use our products, services and relationships to support and accelerate the fundamental changes required in our economy. As part of this commitment, we have also joined the Net Zero Banking Alliance.

Further information in relation to our sustainability strategy and journey to net zero is highlighted in our first Impact Report, which is available on our website **principality.co.uk/home/about-us/building-a-fairer-society**

Understanding the risks of climate change
We recognise that climate change is a complex and inherently systemic issue, particularly difficult to model given the long-term nature of the risks. It has potential implications across a number of risks defined through the Enterprise Risk Management Framework (ERMF). We've identified the financial risks associated with climate change and plan to monitor our exposure through the current ERMF.

Climate change will either manifest itself as a physical risk - including acute risks (such as extreme weather-related events), and chronic risks (such as sea-level rise); or transition risk – including policy and legal risks, technology risks, market risks and reputational risks. Due to this, rather than being considered in isolation, climate change represents an overarching risk that will be considered within the assessment of all other risks. We also consider climate-related opportunities, including resource efficiency, energy sources, products and services, markets and resilience.

Physical risk
Physical risks relate to the increasing severity and frequency of climate and weather-related events that may severely damage property and other infrastructure, disrupt business supply chains, impact agricultural output and more broadly can lead to loss of life and population migration. This reduces asset values, results in lower profitability for organisations, damages public finances, and increases the cost of settling underwriting losses for insurers. Indirect effects on the macroeconomic environment, such as lower output and productivity and increased costs, exacerbate these direct impacts.

Transition risk

Transition risks arise from the adjustment towards a carbon-neutral economy and require significant structural changes. The transition will, among other things, prompt a reassessment of a wide range of asset values, a change in energy prices, and a potential fall in income, credit worthiness and wealth of some borrowers. In turn, this may result in credit losses for lenders and market losses for investors. However, the transition to a carbon-neutral economy also presents opportunities for the financial sector.

Qualitative analysis

Physical risks are relatively well recognised, but we believe that the scope and materiality of transition risks are less well understood. The acute and chronic impacts of physical risks have been considered, but crystallisation would occur over the long term. The potential impact of a number of transition risks were considered, including government policy, market sentiment and legal and technology risks. Policy change is expected to represent the highest risk as the implementation of proposed government policies has the potential to influence the value of the housing stock.

Scenario analysis

Scenario analysis does not predict the future, but it allows us to better understand the impact of climate change and how it could affect us. Scenario analysis is a critical tool for strategic planning, risk management and assessing our strategic resilience.

The majority of our carbon-related assets are linked to mortgages, and to understand fully the risks associated with properties currently held as security in support of our mortgage portfolio, we partnered with Hometrack and others to capture relevant physical and transition risk data. Physical risk data includes an assessment of the likelihood of flooding (data provided by Ambiental) and subsidence and coastal erosion (data provided by Terrafirma).

Transition risk data uses EPC ratings for currently mortgaged properties, with Hometrack sourcing the data from the Department for Levelling Up, Housing and Communities (DLUHC).

Three physical risk scenarios of varying severity have been modelled, with the results of the most severe scenario and the single transition risk scenario shown in the following section. These were selected by a climate change working party who determined that the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathways (RCPs) represented a severe, but plausible scenario for Principality Building Society to run. Alternative scenarios, such as the Bank of England's 2021 Climate Biennial Exploratory Scenario (CBES) were also considered, but not deemed to be as severe based on our balance sheet.

Mitigation is considered to different extents within the scenarios, as the transition risks of climate-related scenarios are likely to have a causal link to government policy and, based on historical evidence, it would be reasonable to assume that support packages would be made available to ensure that policy targets are met (e.g. 'Green Homes Grant'). This will be especially significant where the cost of improvements is to be borne by socio-economic groups which do not possess the capital for the initial outlay, or where properties have a cultural or heritage benefit to the UK.

It is noted that our assessment of the retail lending portfolio is indicative and has been modelled conservatively as we continue to build understanding of the potential financial risks from climate change.

The Intergovernmental Panel on Climate Change (IPCC) has derived Representative Concentration Pathways (RCPs), which were used to assess the impact of physical risk on the book, with Hometrack data using the following pathways for their modelling:

RCP	CO2 Emissions	Global Temperature	Net Zero
2.6	Halved by 2050	Unlikely to exceed 2°C (in line with Paris Accord)	Achieved by 2070
6.0	Peak in 2080	More likely to exceed 2°C by 2100	Not Achieved
8.5	Continue on current trajectory	As likely as not to exceed 4°C increase by 2100	Not Achieved

We use this approach to undertake scenario analysis each year to re-assess whether our current climate-related risk management controls are sufficient, and as part of this we'll continue to upskill our internal stakeholders on the impacts of climate change.

Climate change stress testing is run on an annual basis, with year-on-year results reviewed to analyse the impact of any strategic changes on the overall risk in the mortgage portfolio. Climate change is not currently expected to pose a material risk over the next five years.

In 2024, the results of our scenario analysis identified the following impacts:

Physical risk impact

Physical risks related to climate (i.e. flood, subsidence and coastal erosion) have been identified within the current portfolio and scenario analysis has been used to assess the change in risk over a 30 and 50 year period, and approximate the potential financial impact.

Financial risk impact

The risks in the most severe scenario are not considered material at this stage. We will monitor exposure in the future and determine whether any changes to strategy or policy are warranted.

Transition risk impact

Potential transition risks are broad, with little available data from which to quantify impacts. The Society's analysis was therefore driven by data availability and potential impacts assessed, based on current knowledge.

Potential changes to EPC (Energy Performance Certificate) legislation meet these criteria, as the Government could make changes in order to influence CO_2 emissions. We recognise that there is already legislation in place setting minimum EPC ratings for Buy-to-Let properties, which could be tightened and/or expanded in the future.

The EPC data for properties is available in order to complete this analysis. Emissions included in the EPC data are also needed to calculate Scope 3 financed emissions for the total mortgage portfolio.

Our analysis was based on the assumption that the Government applies a policy for a minimum EPC rating for domestic properties, where currently the minimum for rented properties is band E. A severe but plausible scenario where all domestic properties are required to have an EPC of at least C has been modelled.

Risk management

We recognise risks associated with climate change will persist and evolve over time. As changes to our climate, such as global temperatures and more frequent extreme weather events intensify, so will the materialisation of risk at a regional and global level. We continue to identify, evaluate and review existing and emerging risks to ensure our risk management framework develops in tandem with the environment in which we operate.

Climate change creates implications and impacts right across our business. Rigorous and consistent risk management practices are embedded across our Enterprise Risk Management Framework (ERMF) and are designed to identify, assess and mitigate risks to minimise their potential impact and support the achievement of our business strategies. Risks and opportunities are identified at group level, and discussed within Board Risk Committee and Executive Risk Committee.

The framework outlines the strategic approach for risk management and provides an integrated and holistic view of vulnerabilities and risks across the business by describing responsibilities, delegation of authorities, and the methods by which risks are identified, measured, monitored and controlled. Principal risks within our ERMF are assessed and, where relevant, climate change is a consideration in our review of whether the risk exposure is within or outside the agreed appetite.

There are two key elements to the assessment:

- A forward-looking view of the **probability** of an event occurring
- The **impact** should the event occur

Each principal risk is evaluated against criteria that measure the probability of that risk occurring and the impact it would have on the business. When assessing the impact of climate change on our principal risks, the approach remains proportionate.

The framework to support climate-related risk is integrated within our three lines of defence approach to risk management. The day-to-day operations, our first line of defence, have primary responsibility for the identification, assessment, management and monitoring of climate change-related risks. The Risk function is the second line of defence, providing oversight and challenge to the first line as well as horizon scanning for changes in the environment impacting our risks. The Internal Audit function is the third line of defence, providing risk-based independent assurance of our controls and management of climate-related risks. All three lines are responsible for considering both the financial and non-financial risks of climate change when performing their roles.

As our understanding of the risks posed by climate change evolves, we assess the potential impact on the business and our customers, based on short, medium and long-term timeframes, by referencing a range of factors that include the following:

Risk Category	Potential Impacts (Transition and Physical Risk)
Credit risk The risk that borrowers or counterparties do not meet their financial obligations as they fall due.	**Medium-term risks:** • Impact of a greener economy on employment (lack of skills) and increases in energy costs leading to default • Impact on house prices due to government policy such as the stipulation of minimum EPC ratings • Impact of increased household insurance premiums leading to uninsured and/or underinsured homes **Long-term risk:** • Physical damage to property caused by climate change e.g. flooding
Operational risk The risk of loss arising from inadequate or failed internal processes, systems, human error or external events.	**Medium-term risks:** • Availability of employees during a physical event and the impact this would have on our ability to provide Members with a service • Impact on the supply chain in relation to costs and their ability to provide agreed services due to physical impacts • Reconsideration of a third-party relationship due to their attitude to climate change risk **Long-term risks:** • Physical damage to the property portfolio including branches and offices • Loss of systems and data due to physical impacts • Increased use of our services resulting from the crystallisation of a physical risk
Conduct risk The risk of poor outcomes to customers, or an adverse effect on market integrity, arising from the actions and behaviours of employees and the Society as a whole.	**Medium-term risk:** • Potential for increased levels of complaints and disputes because climate-related physical or transition risks result in poor customer outcomes

Risk	Climate-related risks
Liquidity and funding risk Liquidity risk is the risk that the Society has insufficient funds to meet its obligations as and when they fall due. Funding risk is the risk that the Society is unable to access funding markets or is only able to do so at excessive cost.	**Medium-term risks:** • Reduced savings balances due to economic impact of climate change risk on customer wealth • Reduced wholesale funding access following lower investor appetite due to negative perception of Principality in relation to the management of risks associated with climate change
Interest rate risk The risk that the value of income derived from the Society's assets and liabilities is adversely impacted because of changes in interest rates.	**Medium-term risk:** • Macroeconomic market movements impact value of balance sheet assets and liabilities as a result of interest rate movements
Business risk The risk arising from changes to the business model and the risk of the business model or strategy proving inappropriate due to macroeconomic, competitive, geographical, regulatory or other factors.	**Medium-term risks:** • Reputational damage caused by a negative perception of Principality and its perceived response to the climate risk agenda • Managing and meeting Member expectations • Macroeconomic market impacts arising from physical or transition events
Solvency risk The risk that the Society does not maintain sufficient capital resources in excess of minimum regulatory requirements.	**Long-term risk:** • Deterioration of balance sheet assets following physical impacts or as a consequence of a fall in the value of collateral held to support mortgage loans

We define short-term as one to five years, medium-term as five to thirty years and long-term as thirty years and above. The five year short-term window is aligned with our internal medium term plan, and we currently do not identify any material risks in the short-term.

Our culture and risk management philosophy reflects a strong awareness of the current and emerging risk landscape that could affect the delivery of our strategy. We've identified specific climate risks this year in relation to property, people and our supply chain that will be given enhanced oversight in 2025.

In particular, we have identified a strategic opportunity within our commercial lending portfolio to introduce environmental, social and governance (ESG) products, aimed at increasing our market presence in this growing area. To achieve this, our commercial business incentivises property developers through our Green Fund. This rewards them with lower pricing and increased leverage for the adoption of technology in their developments to reduce carbon emissions and running costs of the properties. This is not so much a credit decision, but rather a financial decision, as we choose to reduce our returns to encourage developers to invest in green technology.

Recent examples of developments funded through the Green Fund include ten homes in St Davids, Pembrokeshire and ten homes in Preston-on-Wye, Herefordshire, both for Life Property Group and five bungalows in Batheaston, for Charlcome Homes. All homes are EPC A rated and come with air source heat pumps and PV panels for net zero-ready living.

We will continue to focus on developing appropriate measures for our key climate-related risks and opportunities and evolving our climate risk management information to monitor our key risk indicators, whilst monitoring transition risk related to government policy.

Metrics and Targets

Operational emissions

Scope 1 emissions are created directly by the Society (from self-generated heat and from our fleet vehicles). Scope 2 emissions are indirect emissions from purchased electricity and Scope 3 covers all other indirect emissions from our operations occurring from sources that are not owned or controlled by the Society. Financed emissions relate to the emissions of the financed element of properties included in the mortgage portfolio, and whilst part of Scope 3 (category 15), are reported separately here.

We've always fulfilled our obligations under the government's Streamlined Energy and Carbon Reporting (SECR) initiative and outputs have been monitored closely.

Our 2024 operational emissions can be seen in the table below. These are calculated by ClimatePartner, using a mix of activity, hybrid and spend-based data. Appropriate emission factors are taken from a variety of sources, primarily sourced from DEFRA and Ecoinvent.

While we have made great strides in a number of areas, particularly our use of natural resources (gas and water) and paper, this has been offset by an increase in Scope 3 emissions from other areas. This meant that we did not achieve our carbon reduction target in 2024, with our emissions rising by 13%. This was primarily due to an increase in our operational expenditure and more colleagues commuting to the office.

Emission Source	2024		2023	
	Emissions (t CO_2)	Share %	Emissions (t CO_2)	Share %
Heat (self generated)	236.8	7.1	255.2	8.6
Combustion	1.4	–	2.2	0.1
Refrigerant leakage	1.2	–	–	–
Direct emissions from company facilities	239.4	7.1	257.4	8.7
Vehicle fleet	5.6	0.2	7.9	0.3
Direct emissions from company vehicles	5.6	0.2	7.9	0.3
Scope 1	**245.0**	**7.3**	**265.3**	**9.0**
Electricity (charging vehicle fleet)	1.1	–	1.4	–
Purchased electricity for own use	1.1	–	1.4	–
Scope 2	**1.1**	**–**	**1.4**	**–**
Operational expenditure (all other)	1,777.1	53.0	1,492.0	50.4
Print products	97.9	2.9	108.3	3.7
Office paper	0.3	–	3.8	0.1
Water	1.3	–	1.7	0.1
External data centre	0.3	–	0.3	–
Purchased goods and services	**1,876.9**	**56.0**	**1,606.0**	
Capital expenditure	385.5	11.5	342.7	11.6
Electronic devices	32.9	1.0	9.1	0.3
Capital Goods	**418.4**	**12.5**	**351.8**	**11.9**
Upstream emissions – heat and combustion	39.4	1.2	42.3	1.4
Upstream emissions – electricity	40.3	1.2	42.0	1.4
Upstream emissions – vehicle fleet	1.8	0.1	2.5	0.1
Fuel and energy-related activities	**81.6**	**2.4**	**86.7**	**2.9**
Delivery of letters, leaflets and cheques	30.9	0.9	50.3	1.7
Upstream transportation	**30.9**	**0.9**	**50.3**	**1.7**
Operational waste	18.3	0.5	8.7	0.3
Transport to disposal facility	1.9	0.1	0.1	–
Waste generated in operations	**20.2**	**0.6**	**8.8**	**0.3**
Rental and private vehicles	51.8	1.5	44.1	1.5
Rail	22.6	0.7	14.0	0.5
Hotel nights	13.9	0.4	15.5	0.5
Flights	5.3	0.2	4.0	0.1
Business travel	**93.5**	**2.8**	**77.6**	**2.6**
Employee commuting	437.9	13.1	299.2	10.1
Home office	147.7	4.4	215.5	7.3
Employee commuting	**585.6**	**17.5**	**514.7**	**17.4**
Scope 3	**3,107.0**	**92.7**	**2,696.0**	**91.0**
Overall Results	**3,353.0**	**100.0**	**2,962.6**	**100.0**

Financed emissions

Category 15 of Scope 3 emissions relates to investments. For Principality, this means the financed emissions from our retail mortgage portfolio. As discussed in the Strategy section of this document, despite its limitations, we believe that EPC data currently represents the best available methodology for calculating carbon emissions generated from a property. The table below gives an overview of the carbon emissions of the retail mortgage portfolio. Total CO2 emissions per square metre are calculated for the mortgage portfolio using property level data and adjusted by the loan-to-value (LTV) ratio to derive estimated carbon emissions financed by the Society.

Scope 3 mortgage emisssions:	Total	2024 Owner occupier	BTL	Total	2023 Owner occupier	BTL
Property Metrics						
Volume of properties - With a valid EPC	67,731	49,427	18,304	60,390	42,773	17,617
Volume of properties - Total book	86,708	64,366	22,342	79,890	57,988	21,902
Property floor area in million metres[2] (i) - With a valid EPC	5.90	4.57	1.32	5.42	4.03	1.39
Property floor area in million metres[2] (ii) - Total book	7.55	5.96	1.61	7.18	5.47	1.73
Absolute Scope 3 carbon dioxide emissions (CO2e) in million tonnes (Mt) per year (y) for mortgages						
On properties with a valid EPC (iii)	0.26	0.19	0.07	0.23	0.17	0.06
On whole book using interpolated EPC data (iv)	0.33	0.25	0.08	0.31	0.23	0.08
Absolute carbon dioxide emissions in kilograms per square metre of floor area per year (kgCO2e/m2/y) using interpolated EPC data	43.76	41.98	49.94	42.65	41.77	45.19
LTV weighted Scope 3 carbon dioxide emissions (CO2e) in million tonnes (Mt) per year (y) for mortgages						
On whole book using interpolated LTV weighted data (v)	0.19	0.15	0.05	0.17	0.13	0.04
LTV weighted carbon dioxide emissions in kilograms per square metre of floor area per year (kgCO2e/m2/y) using interpolated data (vi)	25.97	25.02	28.47	23.89	24.37	22.26
Data Score (v)	**3.44**	**3.46**	**3.36**	**3.49**	**3.52**	**3.39**

Methodology

The calculation of Scope 3 financed emissions is calculated in line with the Global GHG Accounting and Reporting Standards, and aligns to the PCAF (Partnership of Carbon Accounting Financials) standard, using estimated carbon emissions based on EPC ratings. A weighted LTV of the mortgage is then applied to calculate the proportion of the property value financed by the Society.

PCAF guidance suggests using the property value at origination, but there are drawbacks of using this metric as it doesn't accurately reflect current financing for customers who have increased their borrowing as house prices have increased. Using a more recent house valuation would therefore give a better representation of the LTV ratio and estimated financed emissions of the book.

Property values for loans originated up to, and including, August 2023 have been derived through internal calculations using HPI (House Price Index). Loans originated after August 2023 retain their value at origination.

Data quality score

A weighted data quality score of 3.44 has been calculated for financed emission data by:

- Using emissions data in publicly accessible EPCs available for approximately 78% of the total mortgage book. These are given a data score of 3
- Interpolated EPC data across the remaining 22% of the portfolio. Properties without an EPC are assumed to have the same EPC characteristics as the properties with an EPC. These are given a data score of 5

The calculation of the data score is based on allocating a score from 1 to 5 based on the accuracy of the data used. The closer the score is to 1 the higher the data quality. A score of 1 or 2 is based on actual building emissions, a score of 3 or 4 is based on estimated building emissions based on floor area, and a score of 5 is estimated building emissions based on number of buildings. Principality does not have access to actual building emissions, therefore a score closer to 3 would indicate higher data quality for the Society.

Comments

Estimated total emissions have increased 0.03 $MtCO_2e$ per year from the 2023 disclosure (0.33 from 0.31) largely due to an increase in the number of properties, with a similar increase of 1kg CO_2e per square metre per year (43.76 vs 42.65). Financed emissions have increased 2.1kg CO_2e per square metre per year since 2023, due to an increase in the average LTV of properties where loans have been advanced in the last 12 months. The data score has improved in 2024 due to a higher proportion of new business written having a valid EPC.

Targets

Principality has the following targets:

1. Net zero in Scopes 1 and 2 by 2030
2. Net zero in Scope 3 (excl. financed emissions from the mortgage book) by 2040, but with a 50% reduction by 2030

Our baseline year was originally 2021, which was the first year of reporting. However, as the UK was still largely in lockdown due to the COVID-19 pandemic, the results did not represent a typical year so we have amended this to 2023. Progress against these targets is monitored and reported on an annual basis.

Although we would like to set a target for the decarbonisation of the mortgage book, we don’t believe it is possible to set a meaningful target until there is more certainty over the UK Government’s policy and investment plans in relation to achieving its net zero commitment under the Paris Agreement. We continue to support this initiative in a number of ways, including contributing to various working groups led by organisations such as UK Finance, and the Building Societies Association, to lobby and influence government policy on issues including the decarbonisation of the UK housing stock.

We’re conscious of the various dependencies that impact the achievement of the UK Government’s goals in relation to decarbonising the built environment, including the decarbonisation of the National Grid, the rate of retrofitting existing properties and the rate of development of new homes that are compliant with the Future Homes Standard. Whilst we have no control over much of this, we support the development of new low carbon homes in a number of ways through our commercial lending business, with 76% of new homes funded by Commercial rated EPC B or above (2023: 86%).

As a mutual building society, climate change action is at the heart of what we do – protecting and supporting our local, national and global communities. Our dedicated Sustainability Manager, supported by a wider Impact Working Group, continues to drive this work forward across all areas of the business to identify where we can deliver positive change, big or small. However, we know that to make a material reduction in our carbon footprint and achieve our net zero ambitions we’re going to need to make big changes to our systems and processes. Realistically, some of these things may take years to implement before we start seeing the benefits.

At Principality, we consider ourselves an ethical organisation and strive to ensure that all ESG-related risks across the business are well managed. We are therefore working closely with ESG rating providers to ensure that this is reflected in our ESG assessment scores as far as possible.

Risk Overview

for the year ended 31 December 2024

Our business is exposed to a diverse range of risks in the execution of our strategy and in undertaking our day-to-day activities. These risks are mitigated to an extent by the straightforward nature of our business model and the products we offer. Our culture and risk management philosophy reflects a strong awareness of the current and emerging risk landscape, which could affect the delivery of our strategy. We take risks only where they are understood, monitored and proportionate.

We manage risks by:

- Operating a business model underpinned by strong risk governance
- Adopting an Enterprise Risk Management Framework which covers all risks and is supported by a clearly defined 'three lines of defence' model
- Monitoring and managing risks within risk appetite as set by the Board
- Ensuring we maintain sufficient capital and liquidity to enable the business to survive a combination of severe but plausible market and firm-specific stresses.

Principal risks

The key risks to which we are exposed are outlined below:

Solvency risk

The risk that the Society's capital, which acts as a buffer against losses, might not be sufficient to cover unexpected financial setbacks or downturns in the market.

Operational risk

Risk of incurring issues resulting from inadequate or failed internal processes, people or systems, or from external events.

Credit risk

The potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Interest Rate risk

The risk that the value and/or income derived from the Society's assets and liabilities may change adversely as a result of changes in interest rates.

Model risk

The risk of adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.

Conduct risk

The risk of poor or unfair outcomes to customers or an adverse effect on market integrity arising from the actions and behaviours of employees and the Society as a whole.

Business risk

Risk associated with business plans and strategies including increasing/decreasing saving/lending plans for new products, expanding existing services, enhancing infrastructure, material changes in the external environment.

Liquidity and Funding risk

The risk that the Society has insufficient funds to meet obligations as and when they fall due, or the inability to access funding markets or to do so only at excessive cost.

Legal and Regulatory risk

The risk that the Society comes under scrutiny or is threatened financially, organisationally or reputationally as a result of failure to comply with UK and other relevant laws, regulations and codes of conduct. This includes via contractual arrangements and outsourcing arrangements with third parties.

Model Risk has been introduced as a new principal risk for the Society in 2024, following the implementation of the PRA Supervisory Statement on Model Risk Management Principals for Banks (SS1/23), effective May 2024. The inclusion of this risk reflects the evolving regulatory landscape and the critical role of models in decision-making processes.

a) Business risk

Whilst all business areas are responsible for managing their own risks, the risks arising from any changes to our strategy or business model are monitored by our Chief Risk Officer (CRO) and are primarily the responsibility of the Board and the Board Risk Committee, whose remit encompasses all risk categories on a Society-wide basis.

(i) Market background and uncertainties

The competition within both mortgage and savings markets from 'Challenger' and mainstream UK banks continues to increase as they focus on service delivery and non-investment banking activities, resulting in a squeeze on the Society's Net Interest Margin (NIM). We're focusing on maximising our effectiveness and efficiency through our Operational Excellence programme, but cost pressures continue to arise from the pace and complexity of regulatory changes, as well as required levels of investment in technology to further enhance our digital savings capability. Market disruptions, global inflationary pressures and the resultant fiscal and monetary policy decisions have the potential for significant near-term impacts on the core markets in which we operate, but we also recognise the implications for our longer-term business strategy as Member and customer behaviour and preference evolve in response to the availability of digital technology.

(ii) Risk mitigation

The Board maintains a robust strategic planning process, which is subject to oversight by the Risk function and supported by a capital and liquidity stress testing programme. Consolidated business performance and risk reporting are provided to the Board and senior risk committees whose remit encompasses the oversight of all risk categories and an assessment of emerging strategic risks.

b) Credit risk

Credit risk arises primarily from loans to retail and commercial customers and from the investments held by the Society's Treasury function.

(i) Market background and uncertainties

During 2024, interest rates in the UK remained high as inflation moved towards the Bank of England's 2% target. The expectation of lower interest rates allowed for reduction in borrowing costs and a slight easing in household affordability pressure that signalled recovery in the UK housing market.

With the expectation of low levels of economic growth, inflation returning to target, slow growth in house prices and ongoing geopolitical uncertainty, interest rate cuts and borrowing costs remain uncertain. Against this backdrop, we continue to base our plans on cautious, realistic assumptions and test against a range of economic scenarios, including those that recognise the risk of a severe, but plausible, recession.

(ii) Risk mitigation

The quality of individual lending decisions and subsequent management and control of mortgage exposures, together with the application of a credit policy that reflects our risk appetite, have a direct impact on the success of our strategy. Each business area: residential lending, commercial lending, and treasury, has a Credit Risk Policy Statement setting out the Board's risk appetite including structures and responsibilities, definitions of risk and risk measurement and approach to monitoring.

Day-to-day management of credit risk is undertaken by specialist teams using credit risk management techniques to measure, mitigate and manage credit risk in a manner consistent with risk appetite. Credit risk portfolios are subject to regular stress testing to simulate outcomes from specific test scenarios that lead to assessment of the potential impact on capital requirements and mortgage loss provisions.

(iii) Retail credit risk

We continue to focus on the underlying quality of new lending in prime residential and buy-to-let mortgages, ensuring that the mix of overall portfolio exposures remains within our risk appetite. We continue to underwrite all mortgage applications individually, thus ensuring that our assessment of credit worthiness and affordability takes account of current circumstances.

As pressures on household finances remain, our affordability assessment makes a prudent estimate of essential household expenditure. An interest rate stress is applied to ensure that the proposed mortgage is affordable in the event of increases in interest rates.

A substantial proportion of our customers benefit from fixed rate products, which provide certainty of their mortgage payment and protection against interest rate rises that might occur during the fixed rate period.

New retail lending is restricted to advances secured against properties in England and Wales. Our second charge lending business, Nemo Personal Finance Ltd, ceased originating new loans in 2016.

The concentration in the UK market could be exacerbated by overexposure to one geographical location or reliance on particular product types within the portfolio. We manage this risk by monitoring the geographical distribution of lending and by setting new lending risk limits in specific segments of the mortgage market. Regular stress testing is undertaken, which seeks to establish the extent to which losses may emerge under a range of scenarios and primarily considers the impact of economic events on rates of default.

During 2024, we've seen a small increase in mortgage repossessions driven by higher interest rates. The increase is broadly in line with the overall mortgage portfolio growth, and reflects the financial pressures that have been placed on borrowers through consumer price inflation and elevated interest rates.

(iv) Commercial credit risk

Commercial risk appetite is regularly reviewed in the light of changing economic and market conditions and is subject to a formal annual review. We remain cautious with regard to commercial lending and continue to adopt a strategy of maintaining long-term relationships. Commercial lending against income-producing real estate continues to operate within a framework of conservative lending criteria, principally focusing on the underlying income stream and debt servicing cover, as well as recognising property value. We have continued to individually assess new opportunities to lend, whilst seeking to limit our exposure to areas of the commercial lending market that we feel will be more exposed to fluctuations in UK economic performance.

Concentration risk within the commercial portfolio is controlled and monitored via a series of credit exposure limits. Commercial lending relationships are subject to regular reviews to ensure that facilities are performing in accordance with the terms of original sanction. Watch-list procedures are in place that grade borrowers in line with the perceived severity of the risk and are designed to identify cases of potential cause for concern to facilitate early risk mitigation or forbearance activity, where appropriate. When accounts are in default, careful consideration is given to the most appropriate resolution strategy. In particular, the Commercial Lending operation will engage in extensive dialogue with customers and advisors, and enlist external professional support where required to ensure that the optimal approach is chosen, taking account of the needs of all stakeholders.

Responsibility for the overall quality of the lending book and the adequacy of credit procedures and controls rests with the commercial lending division, with oversight provided by the Society's Credit Risk function, Credit Risk Committee and Board Risk Committee (BRC).

(v) Treasury credit risk

Treasury credit risk arises from the investments held to meet liquidity requirements and is managed by the Treasury function within policy limits. Treasury counterparty lines of credit are reviewed on a weekly basis by the Finance Committee. Changes to lines and limits are approved by the Board Risk Committee within a framework prescribed by the Board.

c) Liquidity and funding risk

Determining the appropriate mix and amount of liquidity and funding to hold is a key decision for the Board, which recognises that we must remain a safe and attractive home for Members' retail deposits in addition to providing adequate levels of profitability.

(i) Market background and uncertainties

Throughout 2024, the UK has faced moderate economic growth, affected by persistent inflationary pressures and high interest rates. The Bank of England continues in its efforts to control inflation through cautious rate cuts, although core inflation and wage growth remain of concern. The new Government's fiscal policy is constrained by high public debt, with limited availability for spending. The UK labour market remains tight, with continued low unemployment and faced with ongoing skill shortages and wage pressures.

There are still uncertainties around inflation trends, future interest rate movements, consumer and business confidence and continued global geopolitical risks. The pace of recovery is delicate, with external shocks and domestic fiscal constraints posing risks to sustained growth.

The cost-of-living pressure remained high, and the increased focus on consumer duty has intensified the competition on savings, resulting in a squeeze in margin.

(ii) Risk mitigation
Day-to-day management of liquidity is the responsibility of the Balance Sheet Management function. The Finance Committee exercises control over levels of liquidity through the operation of strict liquidity policies and close monitoring, receiving weekly reports on current and projected liquidity positions.

The Board determines the level of liquid resources required to support the Society's strategy through the review of the annual Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken as part of the development of the Society's Corporate Plan. Stress tests considering a range of severe but plausible scenarios and their impact on the Society, particularly with respect to retail savings outflows, ensure that the Society has sufficient liquid assets to withstand liquidity stresses. The Board approved the most recent ILAAP in November 2024.

The Society has a diverse funding base, with a strong history of attracting and retaining retail funds through its range of product offerings, while maintaining a presence in the wholesale market, supported by external credit ratings. As part of its funding strategy, the Society issued £500m of Retail Mortgage-Backed Securities in May 2024 (including £150m of retained notes), helping to maintain its strong liquidity and funding position.

d) Market risk
The Treasury function is responsible for managing our exposure to all aspects of market risk within the operational limits set out in the Treasury Policy Statement. Oversight is provided by the Financial Risk function, Finance Committee, Executive and Board Risk Committees.

Currency risk is not considered to be material as almost all transactions are conducted in Sterling.

(i) Market background and uncertainties
In November 2024, as the inflation rate fell and approached its target of 2%, the Bank of England's Monetary Policy Committee reduced the base rate from 5% to 4.75%, continuing the reverse in interest rate increases since 2021. Within the minutes of the November 2024 meeting, the Monetary Policy Committee projected that the monetary policy would need to continue to remain restrictive for sufficiently long periods, until the risks of inflation returning sustainably to the 2% target in the medium-term had dissipated further, reflecting a high level of uncertainty over the degree and pace of base rate reduction going forward.

(ii) Interest Rate risk
Interest rate risk principally arises from the imperfect matching of interest rates between different financial instruments. The provision of fixed rate lending products with various interest rate features and maturity profiles, supported by variable rate retail savings and wholesale funding, creates interest rate risk exposures. Another form of interest rate risk arises from the imperfect correlation between re-pricing of interest rates on different assets and liabilities, referred to as basis risk.

(iii) Risk mitigation
Interest rate risk is subject to continual review and management within the risk appetite set by the Board. Risks relating to specific products are mitigated through appropriate related product terms and conditions, offer procedures, and close analysis of the mortgage pipeline and early redemption behaviour. Derivative instruments are used to manage various aspects of interest rate risk, including the net basis positions where appropriate, and in accordance with the terms of the Building Societies Act 1986.

On a monthly basis, the Finance Committee considers the impact of a number of interest rate risk and basis risk stress tests on the balance sheet, using both earnings and economic value measures. In addition, our Executive and Board Risk Committees review options and strategies available to manage the impact of any potential future changes in interest rates. Our forecasts and plans take account of the risk of interest rate changes and are stressed accordingly.

We continue to ensure that we maintain a significant proportion of discretionary variable rate savings and mortgages on our balance sheet, which provides flexibility to manage the impacts of a change in Bank of England base rate. We have a series of Board approved limits that ensure the impact of a change in base or market interest rates has limited effects on both the net interest income generated and the economic value of the balance sheet.

e) Model risk

Model risk is the risk of adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions. Model risk is managed through the Model Risk Framework and within a defined risk appetite set by the Board. This framework stipulates the Society-wide requirements, such as roles and responsibilities, governance, independent oversight and assurance.

(i) Regulatory background

The PRA Supervisory Statement on Model Risk Management Principles for Banks (SS1/23) states that effective model risk management starts with a comprehensive governance and oversight framework supported by effective model lifecycle management. The Society's approach to defining and managing model risk is outlined within our Model Risk Policy. Controls have been designed to encourage activities that are commensurate to the risk of the model under consideration.

The framework described within the Model Risk Policy encapsulates processes involved throughout the model lifecycle. The overarching objective of the processes and activities involved is to ensure models are fit-for-purpose and that they help the business to make the right decisions.

(ii) Specific risks

Model risks may materialise due to:

- Inadequate model lifecycle management (e.g. modelling processes, validation processes, risk control processes)
- Absence of a model inventory (or a poorly managed model inventory)
- Absence of model performance monitoring (or poorly specified model performance monitoring)
- Incomplete or untimely Model Risk MI and Reporting

Consequences of Model risks materialising:

- Inability to identify weaknesses and limitations of our models leading to poor business decisions
- Deterioration in the Society's prudential positions
- Non-Compliance against specific legislation/ regulations leading to restrictions on business activities (e.g. the removal of the Society's IRB status)
- Damage to the Society's reputation

(iii) Risk mitigation

Management of these risks involves identification, assessment, mitigation, monitoring and reporting; these processes help to limit potential adverse outcomes and detrimental impacts on the Society.

Responsibility for oversight of Model risk is delegated from Board Risk Committee (BRC) to the Model Governance Committee (MGC). MGC assesses whether models are deemed fit for purpose and monitors model risk exposure on a Society-wide basis. Two sub-committees, namely the Credit Model Governance Committee (CMGC) and the Financial Model Governance Committee (FMGC), have also been established to focus on the governance activities for credit models and financial models, respectively.

Examples of activities that support risk mitigation include:

- Strong governance arrangements through appropriate committees (MGC/FMGC/CMGC)
- A well-maintained model inventory and material and complex Deterministic Quantitative Model (DQM) information capture
- A robust independent model validation review process
- A range of supportive, engaging and well-controlled policies, standards and guidelines
- Accurate and timely MI (Model Risk Data)

f) Operational risk

We assess our exposure to, and management of, operational risks by reference to eight categories:

Risk Category	Brief Definition
Change management	The risk of non-delivery and/or poor quality of change delivered.
Financial crime	The risk of losses or reputational damage arising from illicit activity related to financial transactions and assets, money laundering, bribery, and corruption.
Financial management	The risk of losses or reputational damage arising from weak financial management or inadequate management information to support decision-making.
Data management	The risk the Society does not fulfil its legal and customer obligations in the management of personal data.
Business continuity	The risk that our business operations are interrupted due to a lack of resiliency of people, property, processes, systems, third party providers, or availability/integrity of information/data.
Information and cyber security	Risk that an internal and/or external cyber attack leads to unauthorised access, use, disclosure, modification, or destruction of our information/ data resulting in operational disruption, financial loss or reputational damage.
Information technology	Risk of service disruption arising from non-cyber related incidents.
Physical assets	The risk that business premises are unfit or unsecure, resulting in workplace unavailability and/or security issues.
People	The risk of failure to maintain and develop the appropriate level of skilled resource, maintain employee relations, provide a safe environment in line with legislative requirements and comply with ethical, diversity and discrimination laws.
Health and safety	Risks to health and safety of staff and customers.
Supplier and procurement	The risk of loss arising from the failure of a key supplier or outsourcing arrangements or in the failure of third party service providers to meet agreed target levels of service.

(i) Market background and uncertainties

The external environment continues to evolve, with challenges arising from technological innovation, increased customer expectations and emerging regulatory standards. The sector as a whole has become exposed to increased levels of operational risk, driven by a range of developing factors. These include: needing to respond quickly to economic conditions and regulatory initiatives that are increasing demand for consumer protection and support; the rapid pace of technological advancement increasing the reliance on digital platform and providers; growing geopolitical instability leading to increased levels of international conflict that has heightened the UK's cyber threat level; and the evolution of sophisticated financial crime deception techniques targeting consumers.

We recognise that failure to keep pace with these developments could introduce risk to the stability of the Society. As a result, we continue to invest in new technology to improve the quality of data, resilience of our systems and platforms and improving the reliability of our internal processes to support important business services whilst ensuring we retain a strong focus on governance to minimise integration and change risk. New ways of working increase the extent to which outsourcing is used to deliver services to customers. A strong focus on improving the management and oversight of services delivered by third parties reduces the risk the third parties pose to the Society. We continue to focus on our cyber security maturity by investing in proportionate and effective controls that enhance our detection and monitoring capabilities. We have committed to enhancing our financial crime analytic and monitoring capabilities, whilst following developments in regulatory economic crime reforms aimed at increasing consumer protection and reducing fraud.

From a people risk perspective, we've taken steps to improve the efficiency of our operations and enhance our digital capabilities, which has resulted in a restructure of our business. These changes, whilst difficult, mean we can make a multi-year commitment to our high street presence in Wales.

As a modern mutual, we are led by our Members, who have told us that they value both our strong presence on the high street and the convenience of enhanced digital services. We're committed to delivering for our Members, whether that's face-to-face in one of our 53 branches across Wales and the borders, or through digital platforms they can access from anywhere.

While these changes will impact a number of our colleagues, we are committed to minimising that impact wherever possible and supporting affected colleagues through the transition.

The steps we take today will ensure we remain a strong organisation, able to meet the ever-evolving needs of our Members.

(ii) Risk mitigation

We manage our exposure to operational risk by assessing the causes and consequences of events and near misses and the quality of our controls. We also share information with peer organisations and trade associations, and consider information and research from industry bodies. In addition to any direct loss attributable to risks in these categories, the reputational impact of such an event may damage the Society, so this too is considered.

Our Enterprise Risk Management Framework sets out the strategy to identify, assess and manage operational risk, with senior management having responsibility for understanding the nature and extent of the impact on each business area and for embedding appropriate controls to mitigate those risks. The framework is updated periodically to take account of changes in business profile, new product development, the external operating environment and best practice guidance. Quantitative metrics are collated each month to function as early warning indicators for these risks, and these are reviewed and monitored closely.

The crystallisation of operational risks is captured through the recording of risk events, including those that result in financial losses or near misses. The analysis of events is used to identify any potential systemic weaknesses in operational processes and in the controls for our operational risks. The Internal Capital Adequacy Assessment Process (ICAAP) considers an appropriate amount of capital to be held for operational failures.

g) Solvency risk

Capital acts as a buffer against losses. The Society will ensure that there will be sufficient capital to cover unexpected financial setbacks or downturns in the market. When assessing the adequacy of available capital, the Board considers the material and inherent risks to which we are exposed and the need for capital to be maintained to support the growth of the business.

(i) Market background and uncertainties

The implementation of Basel 3 has resulted in a UK financial system that is much better capitalised than prior to the 2007 Financial Crisis, and the regulatory landscape continues to evolve as Basel 3.1 becomes effective in January 2027.

The UK economic outlook remains uncertain as global inflationary pressures may revive due to continued geopolitical tensions and the resultant fiscal and monetary policy decisions will impact mortgage affordability, unemployment, and house prices in the near term and beyond.

(ii) Risk mitigation

Solvency risk is subject to regular monitoring and is managed within the risk appetite set by the Board. The Board determines the level of capital resources required to support the Society's strategy through the review of the annual Internal

Capital Adequacy Assessment Process (ICAAP) undertaken as part of the development of the Society's Corporate Plan. Stress tests considering a range of severe but plausible scenarios and their impact on the Society ensure that the Society holds sufficient capital to withstand an equivalent stress. The assessment process also includes evaluation of financial risk exposure to physical (e.g. flood, coastal erosion) and transition risks (e.g. environmental legislation, customer demand) related to climate change. The Board approved the most recent ICAAP in December 2024.

(iii) Capital requirements
We use the Internal Ratings Based (IRB) approach to calculate Pillar 1 capital requirements for our first charge retail and commercial lending portfolios. This approach allows us to calculate regulatory capital requirements using internally developed models that reflect the credit quality of our mortgage book and detailed understanding of our customer base and credit risk profile. For other exposures and risk areas, we follow the Standardised approach that uses capital risk weighting percentages set by the PRA. Capital Requirements Directive (CRD IV) sets enhanced minimum capital requirements for firms and we are expected at all times to meet these requirements.

In addition to Pillar 1 capital requirements, we hold capital within Pillar 2 for those risks not captured adequately in Pillar 1 and retain capital buffers that may be drawn down in periods of stress. CRD IV requires firms to hold supplementary capital buffers.

To meet Basel 3 Pillar 3 requirements, we publish further information about our exposures and risk management procedures and policies and align with the Task Force on Climate-related Financial Disclosures (TCFD) principles.

g) Conduct risk

(i) Market background and uncertaintiess
We place good customer outcomes at the heart of our decision-making and this ethos is embedded in our culture, product design, services and communication strategies. Ensuring fair value and good customer outcomes across our channels and products remains a key priority. We have implemented the principles of the FCA's Consumer Duty, after undertaking a comprehensive programme of work to meet the requirements for 'open' products and services in 2023 and for our 'closed' products in 2024.

The Consumer Duty requires a higher standard of consumer care and requires firms to be more initiative-taking in the delivery of good outcomes and more robust in demonstrating and measuring them. A range of activity has been undertaken to ensure that the Society continues to deliver good customer outcomes and meets these increased expectations, including the enhancement of our product governance, reviews of the value offered by our products and services, assessment of the support offered throughout our customer journeys and an uplifted approach to designing and reviewing our customer communications. This is supported by improved monitoring of customer outcomes and Board oversight. The principles of the Consumer Duty will continue to drive cultural change, ensuring that the delivery of good outcomes is embedded across the entire customer journey.

Management of conduct risk at the Society will continue to align with applicable elements of the FCA Business Plan 2024/25 such as, reducing and preventing financial crime and putting customers' needs first. Key internal future developments evolve around the continued work to embed the Consumer Duty, the use of AI, focus on supporting borrowers in financial difficulty, and the ongoing identification and support of vulnerable customers.

(ii) Risk mitigation
Our Conduct Strategy is designed to identify, manage and measure conduct risk by reference to four categories: Customer, Culture, Colleague and Regulatory Conduct. The Conduct Strategy articulates the Board's risk appetite, and key conduct metrics are reported to appropriate committees within our governance structure. We use outcome testing to assess whether we're delivering good outcomes for our customers, and monitor complaints to understand where we need to improve. As well as internal processes, we seek feedback from customers across numerous interactions with us. This 'voice of the customer' is vital in terms of product design, delivering fair value and improving customer communication strategies.

Our Compliance and Conduct function advises on the management of conduct risks and oversees the effectiveness of controls in place to manage the risk of poor customer outcomes. They provide support on all regulatory matters for both day-to-day operations and change programmes. Our Compliance and Conduct Policy sets out high level expectations in relation to the management of conduct risk and this is supported by a suite of 11 customer treatment standards which cover specific areas of conduct such as the treatment of vulnerable customers, handling of complaints, servicing and the provision of help to customers in financial difficulty.

i) Legal and Regulatory risk

(i) Market background and uncertainties

The following matters pose potential risks to the achievement of our strategy:

- Unknown legacy conduct issues may emerge. Regulation relating to the fair treatment of Members and customers continues to be a focus for the financial services industry and the interpretation of fair treatment evolves over time and is influenced by developing case law
- The regulatory landscape continues to evolve and may lead to as yet unidentified risks. As a Member and client-driven business operating in highly regulated markets, we are subject to complaints in the ordinary course of business. In addition, at a sector level, the incidence of regulatory reviews, challenges and investigations remains elevated. Regulatory expectations in respect of conduct standards increase the risk of future sanctions, fines or customer redress.

Our business model and strong Member focus ensure that we are well placed to meet current and emerging requirements.

(ii) Risk mitigation

We've developed processes to monitor and record legal and regulatory pronouncements and notifications. These are assessed by the relevant internal subject-matter experts and, where appropriate, action plans are developed to ensure compliance by the required deadline. The register of pronouncements and notifications is reviewed on a regular basis to ensure that a coordinated approach is adopted to ensure compliance.

We manage implementation of regulatory changes through dedicated prioritised programmes that are closely monitored to ensure appropriate compliance.

All principal risks have the potential to affect more than our specific risk category and could have a significant impact on the business model if these were to crystallise concurrently. In particular, increased regulatory demands could significantly change capital or liquidity requirements which may, in extreme circumstances, threaten the viability of our business model.

Emerging/evolving risks

Alongside the principal risks detailed previously, our exposure to emerging and evolving risks is closely monitored. Our Strategy and Enterprise Risk teams work with the Chief Risk Officer to horizon-scan strategic risks that could materialise in future years and these are then considered by our Board Risk Committee. The most significant emerging risks identified for the coming years are outlined below.

Risk	Mitigating actions
Digital savings capability	
As technology evolves, our current and future Members' needs do too. Whilst we remain committed to our presence on the high street, there is growing demand from Members looking to manage their savings online. There is therefore a risk that our current digital experience and the capability of our current systems are not 'fit for the future' and will need to evolve in the coming years.	We're in the process of restructuring our business model, which will result in a long-term reduction in our cost base. This cost saving can be used to invest in our digital savings capability and ensure we have the right systems and roles in place to provide an enhanced digital customer experience.

Emerging regulation

It's crucial that we continue to remain abreast of emerging legal and regulatory requirements and take initiative-taking steps to plan ahead for any changes.

One of the more notable regulation changes will be Basel 3.1., which outlines updated standards in relation to liquidity and capital by the Basel Committee on Banking Supervision, with an implementation date of 1 January 2028.

We have strong governance structures in place to ensure we regularly horizon-scan and monitor emerging regulation. As noted above, we also have specific risk owners who are accountable for the tracking of legal and regulatory change that could impact the business.

Information technology and cyber security

The threat represented by cyber attacks is expected to remain at an elevated level, considering the frequency and severity of reported attacks instigated against other financial services providers within both the UK and wider markets.

Equally, the emerging risks posed by the increasing using of Artificial Intelligence (AI), as well as the risk of not taking opportunities to use it, are ever-evolving, and being considered.

We continue to invest in our cyber risk management capability alongside the investment in our core product offering. We regularly assess this capability via a variety of means including third party penetration testing.

Small 'test and learn' activities have also been conducted in a safe environment to enhance our understanding of how AI can help us to be more effective and efficient.

Climate change

Climate change presents far-reaching impacts across all countries and industries. It will require a financial services industry that can manage the associated risks and support customers in making the shift towards a carbon neutral economy.

The two key risks faced by financial services firms are:
Physical risk (risk from increased severity and frequency of weather-related events) and
Transition risk (risk from the adjustment towards a lower carbon economy).

More focus is expected on climate change management as the regulator and consumers become more demanding of firms' environmental sustainability credentials.

We are in the process of ensuring climate consideration becomes embedded strategically within the business and have completed the initial analysis of the current book alongside potential outcomes from different scenarios.

These form the basis of the targets we are establishing for the reduction of carbon in our operations, more details of which are provided in the Climate-related Financial Disclosures.

We now track and monitor specific climate risks in relation to our property, people, and third party management to ensure we mitigate 'here and now' risks as well as future risks associated with climate change.

It is acknowledged that our response will develop as more data and regulatory guidance becomes available and the Society will closely monitor industry developments.

Approval of the Strategic Report

This Strategic Report (on pages 4 to 45) has been approved by the Board of Directors and is signed on behalf of the Board by:

Iain Mansfield
Chief Financial Officer
18 February 2025

Governance

Corporate Governance Report

for the year ended 31 December 2024

Dear Member,
I am pleased to present our Corporate Governance Report for the financial year ended 31 December 2024. The Board is committed to maintaining the highest standards in the way that the Society is governed and managed. The Society's approach to corporate governance is based on the Principles and Provisions of the 2018 UK Corporate Governance Code ('UK Code'). Although the UK Code is primarily aimed at listed companies, the Society's Board is committed to operating in line with best practice standards of corporate governance. For this reason, and to meet the expectations of the Society's Members and other stakeholders, the Board has regard to the 2018 UK Code, in so far as possible where it is relevant to building societies. This Corporate Governance Report sets out how we have done this during 2024.

Board changes

During the year, Sally Jones-Evans retired from the Board on 30 April 2024 after serving a maximum term of 9 years.

The following Directors joined the Board:

- Simon Moore joined the Board on 22 January 2024.
- Karen Maguire joined the Board on 1 September 2024.
- Maria Timon Samra joined the Board on 4 November 2024.
- Garry Stran joined the Board on 6 January 2025.

There have been no other changes to the Board post 31 December 2024 and as at the date of signing the Annual Report and Accounts. The biographies on pages 49 to 52 provide information about your Board of Directors as at 31 December 2024.

AGM

As a mutually owned organisation, the Board is accountable to the Society's Members. The Board is committed to, and proud of, the Society's mutual status and proactively works to balance Member interests with those of other stakeholder groups. We care about Members being able to vote, ask questions and have their say in how we are run, and we are keen to make the event as accessible as possible for our Members. In 2024, we held our AGM in Cardiff, streamed the event online and also held six events in our branches. We plan to offer this again in 2025 and hope you will get involved.

Inclusion, diversity and culture

We remain committed to maintaining diversity of thought, experience and background on our Board and within senior management. The composition of the Board is outlined on page 54.

Environmental, Social and Governance

We're delighted to report that we continue our commitment to set aside up to 3% of our annual profit before tax for social purpose. We have produced our first Impact Report, detailing all of our ESG activities. This is available on our website **principality.co.uk/home/about-us/building-a-fairer-society**

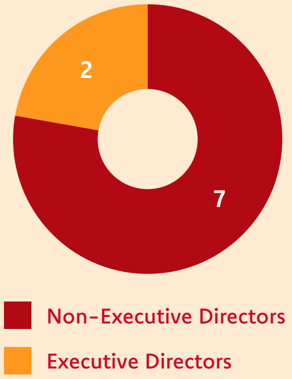
Looking forward

Looking forward to 2025, the Board will continue to focus on the Society's medium and long-term plans to ensure our business model remains fit for purpose. In 2024, the Society announced to colleagues that it will move to a new operating model and the focus in 2025 will be embedding the model and becoming even more efficient.

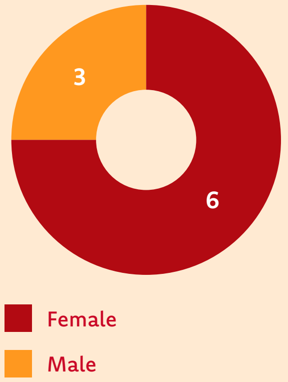
Simon Moore
Chair

Board of Directors

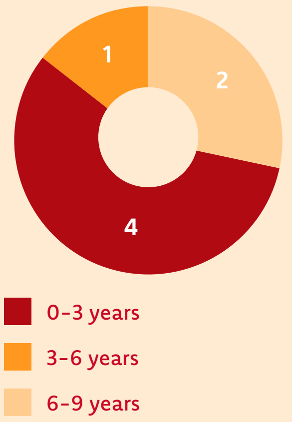
Board Composition



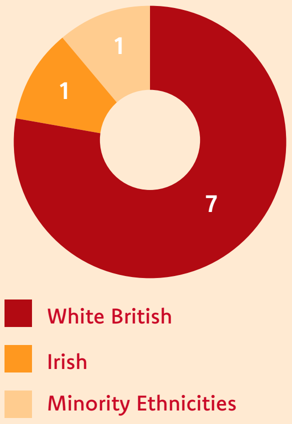
Gender Diversity



Tenure



Ethnicity Diversity



Garry Stran is excluded from the data above on the basis that he joined the Board in January 2025.

Committee Key: **(In bold for Chair)**

A Audit | G Governance and Nominations | RC Remuneration
NRC NED Remuneration | R Risk | (C) Chair

G RC (C)

Joined the Board in January 2024, elected Chair in April 2024.

Simon Moore
Chair of the Board

Skills and experience
I have over 30 years in the financial sector working for Lloyds Banking Group, Chase Manhattan Bank, ABN AMRO and Barclays Bank, including as Managing Director for Barclays Commercial Wales and the Southwest. I serve as Chair of another leading mutual organisation, LV=, the UK life assurance company, as well as serving on a number of other boards.

External appointments
Chair of Liverpool Victoria Financial Services Limited and Non-Executive Director of W.H. Ireland Group PLC.

Joined the Board in May 2016.

Julie-Ann Haines
Chief Executive Officer

Skills and experience
I was appointed Chief Executive Officer in 2020, prior to that I had been the Society's Customer Director since 2012. Before joining Principality, I was a senior manager in sales, marketing and technology for companies such as Sainsbury's and HBOS. Working closely with customers has always been a critical part of what I do.

External appointments
Member of the UK Finance Mid-Tier Strategic Advisory Committee.
Member of the International Advisory Board of Cardiff Business School.
Trustee of the Wales Millennium Centre and Deputy Chair for BSA.

A G R

Joined the Board in July 2021.

Jonathan Baum
Senior Independent Director

Skills and experience
I have 30 years of experience in domestic and international banking within globally renowned organisations including Lloyds Banking Group, Barclays Bank plc and GE Capital.

External appointments
I am Non-Executive Director at Ford Credit Europe.

G R RC

Joined the Board
in September 2024.

Karen Maguire
Non-Executive Director

Skills and experience
I am a qualified accountant (ACA) with a degree in Law. I trained and qualified with KPMG in South Wales, gaining experience across audit, risk management, internal audit and governance and across a broad industry range including financial services. Executive roles have included Head of Risk and Head of Investor Relations at Admiral Group Plc and Chief Financial Officer for Confused.com, Penguin Portals and ZPG Group.

External appointments
I am a Council member of Clifton College Group where I chair the Audit, Risk and Compliance Committee.

G **RC** A

Joined the Board
in April 2018.

Claire Hafner
Non-Executive Director

Skills and experience
I am a qualified accountant (ACA) and have an MA in Languages and Economics. I trained and qualified at Ernst & Young in the Financial Services audit department followed by a further three years in corporate tax. During my career, I have performed a broad range of roles across multiple sectors including a term of six years as a Non-Executive Director of the West Bromwich Building Society.

External appointments
Non-Executive Director of Glendrake Limited.

G R

Joined the Board
in November 2024.

Maria Timon Samra
Non-Executive Director

Skills and experience
I have gained a breadth of experience both locally and internationally, in senior executive roles such as CEO of Tŷ Hafan, Transformation Partner at Unisys, Managing Director at KPMG, Digital Transformation Director at Barclaycard, Director of Client Services at (a US LLP) Professional Software Systems, and Interim CIO for Dŵr Cymru Welsh Water.
I have been ‘hands on’ delivering complex digitally enabled business transformation and cultural change programmes.

External appointments
I am a Director at Timon Samra Associates Ltd.

R G RC

Joined the Board
in May 2023.

Shimi Shah
Non-Executive Director

Skills and experience
I have been actively involved in building and running businesses, incubators, innovation policy, fund management, and venture capital for over 20 years across the US, Europe, and the Middle East and am also a prolific and active Angel Investor across those territories in my own right. During my career I have built and managed significant investments and portfolios and served with some of Europe's leading private equity firms with investments in over 50 companies.

External appointments
I am on the Boards of The Royal Mint Limited, Miratech Limited and Impact Holdings. I am also an active member of the Young President's Association (YPO), currently serving on the Chapter Committee.

Joined the Board
in December 2019.

Iain Mansfield
Chief Financial Officer

Skills and experience
I was appointed Chief Financial Officer in July 2022. My remit extends across Finance and Treasury, Commercial Lending, Strategy, Nemo, Procurement and Corporate Property. I joined the Society in January 2015, initially as Finance Director for Nemo (Principality's second-charge loans subsidiary), before becoming Nemo's Managing Director. Prior to my current role, I was appointed Chief Operating Officer in October 2017 and joined the Board in December 2019. I am also a Director and Chair of Nemo Personal Finance Ltd. I am a Chartered Accountant with more than 20 years' experience across retail banking and start-up and private equity owned consumer financial services businesses in the UK.

External appointments
Non-Executive Director at Hafren Dyfrdwy.

G R A

Joined the Board
in January 2025.

Garry Stran
Non-Executive Director

Skills and experience
I have over 25 years of executive experience across the financial services sector, with a focus on credit risk management and operational and cultural transformation. I have held senior and Non-Executive level positions at Nationwide, PCF Bank, WH Ireland and Computershare Loan Services. I have a proven track record of supporting organisations to execute strategic transformational change, with a focus on technology and customer value.

External appointments
I am a Non-Executive Director at Recognise Bank Limited and W H Ireland Group PLC.

G RC

Joined the Board in September 2019.

Debra Williams
Non-Executive Director

Skills and experience

During my career, I have held a range of Executive and Non-Executive Director positions and have also worked in a consultancy role with companies in the UK, Europe and the US. My previous experience includes 5 years spent at the Britannia Building Society, as well as senior roles at Tesco Compare and Confused.com

External appointments

Non-Executive Director of Co-Op Insurance and Trustee of the Alacrity Foundation. Chair of GCRE Ltd and a Director of Awen Consulting Services Ltd. I am also a proud ambassador for Tŷ Hafan. I sit as a member of the Society's Colleague Forum.

How the Board operates

The Board met 11 times in 2024. The Chief Impact and Governance Officer attends Board meetings and other members of senior management regularly attend meetings of the Board and its committees to present matters relating to their respective business and subject matter areas. Board meetings are structured to ensure that the Board considers and discusses a range of matters relating to the Society's strategy, performance, operations and culture. The Board receives updates at each meeting on the work of its principal committees to ensure that all Board members are aware of significant issues. Should matters arise that require consideration between scheduled Board meetings, an additional meeting would be arranged. An additional meeting was held for the organisational restructure discussion.

Board Committees met throughout 2024 with the number of Board and Board Committee meetings in the same month varying from one meeting up to five. Audit Committee met six times in 2024, Board Risk Committee met six times in 2024, Governance and Nominations Committee met five times in 2024 and Remuneration Committee met seven times in 2024.

Directors who are unable to attend a meeting are provided with the supporting papers in advance and have the opportunity to provide comments to the Society Chair or to the relevant Committee Chair.

Attendance record at scheduled meetings 31 December 2024.

	Board	Audit	Board Risk	Remuneration	Governance and Nominations
Simon Moore	10/10			3/4	4/4
Sally Jones-Evans	4/5			2/3	0/1
Jonathan Baum	14/14	6/6	6/6		5/5
Claire Hafner	14/14	6/6	6/6	7/7	5/5
Julie-Ann Haines	13/14				
Karen Maguire	3/4	2/2			2/2
Iain Mansfield	14/14				
Shimi Shah	14/14		6/6	7/7	2/3
Maria Timon Samra	3/3		1/1		1/1
Debra Williams	10/14	6/6		7/7	4/5

The Role of the Board

The Board is the governing body of the Society. The Board derives its powers from the Society's Rules and Memorandum (the Rules), which are based on the provisions of the Building Societies Act 1986 and other applicable law and regulations that the Society must comply with. The responsibilities of the Board are set out in a formal 'schedule of matters reserved' to the Board. The Board reviews its 'schedule of matters reserved' annually.

The Board spent their time on the following key agenda item topics in 2024:

- Performance and risk (40%)
- Strategy and market (31%)
- Customer, Members and stakeholders (13%)
- Governance (10%)
- Culture and leadership (6%)

The Board is responsible for:

- Formulating the Society's strategy, business model and monitoring progress against the agreed strategy and ensuring the sustainability of the Society's business model
- Promoting the long-term success of the Society, whilst acting in the best interests of both current and future Members
- Maintaining a sound system of control and setting the Society's appetite for risk
- Ensuring that Board and Executive succession planning is in place and approving any key appointments
- Approving significant projects with spend over £5m
- Fostering transparency and honesty and ensuring that good standards of behaviour permeate throughout all levels of the Society
- The proper conduct of all aspects of the Society's affairs, including regulatory requirements and consumer duty
- Approving the Society's Whistleblowing Policy and its annual statement on the steps being taken to mitigate modern slavery and human trafficking risks to which the Society is exposed
- Approving the Society's Remuneration Policy, upon the recommendation of the Remuneration Committee
- Ensuring that there is an appropriate culture in place across the Society which aligns with its strategy and values. The Board is committed to ensuring that a diverse and inclusive culture is in place, which enables all colleagues to feel accepted and valued. Fostering an appropriate culture encourages colleagues from all backgrounds to feel confident in their ability to achieve their best

In order to allow the Board to spend sufficient time on items of the most strategic importance, the Board delegates a number of oversight responsibilities to its committees. The delegation of a Board responsibility to a committee is made on the basis that membership of each of the committees comprises Non-Executive Directors with the most relevant skills, knowledge and experience required for that subject area. The responsibilities of each committee of the Board are outlined within their respective Terms of Reference, which are subject to annual review by the Board and can be viewed on the Society's website. In addition, the Board also maintains a schedule of matters which are reserved for its decision, which is also subject to annual review and is available on the website. The Board oversees the work of each of the committees by receiving regular reports from each committee chair on the key matters considered following each committee meeting. In addition, each committee carries out a review of its own effectiveness and reports on the outcome of this to the Board.

The Board has full and timely access to all relevant information to enable it to discharge its duties effectively. The Chair is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings. The content of management information presented to the Board is reviewed regularly to ensure that it remains relevant to the Society business model and operating environment, and to ensure it is sufficient to enable the independent Non-Executive Directors to assess and monitor the Society's progress. All Directors have access to the advice and services of the Society's Secretary. Members of the Board may take independent professional advice at the Society's expense in the furtherance of their duties. The Society's Secretary is responsible for ensuring that Board procedures are followed.

Governance Framework

Under the Society's Rules, the Board must comprise no more than 14 and no less than seven Directors and, under the UK Code, at least half of the Board should comprise Non-Executive Directors. At 31 December 2024, the Society's Board comprised the Chair, six independent Non-Executive Directors and two Executive Directors. This composition is designed to be able to meet the needs of the business and allow for efficient operation of the Board's Committees.

Board Composition

The Board Composition Policy is reviewed regularly. At its last review, the Board concluded that it remains satisfied that this policy continues to appropriately reflect the importance of building an inclusive culture in which the whole organisation works together and where diversity is valued.

Chair: Simon Moore
Responsible for setting the Board's agenda, leading the Board and ensuring the Board's effectiveness.

Board: Nine Directors (as at 31 December 2024)
Responsible for the overall conduct of the Society's businesses and setting strategy.

Governance and Nominations Committee
Chair:
Simon Moore

Board Risk Committee
Chair:
Jonathan Baum

Audit Committee
Chair:
Claire Hafner

Remuneration Committee
Chair:
Debra Williams

Chief Executive Officer
Julie-Ann Haines

Executive Risk Committee

Executive Committee

Directors' skills and experience

An effective Board comprises individuals with the right mix of knowledge, skills and experience. Ensuring this objective is achieved is one of the responsibilities of the Chair, supported by the Governance and Nominations Committee. Each year a review of knowledge, skills and experience is undertaken and a matrix recorded to inform any recruitment needs or training requirements.

The Board possesses a good mix of knowledge, skills and experience, including:

Strategy

- Board experience
- FS industry experience
- Emerging and future technologies
- ESG experience

Financial Acumen

- Financial planning, management and reporting
- Operational management
- Control environments
- Statutory and regulatory reporting

Risk Management

- Prudential and conduct risk
- Risk management frameworks
- Operation resilience
- Knowledge of the ICAAP, ILAAP, RPP and TPS

Culture and Leadership

- Culture change
- Delivering good customer outcomes
- Wellbeing, diversity and inclusion

Governance

- Governance framework
- Stakeholder engagement

Non-Executive Directors

The Non-Executive Directors are expected to have a broad range of skills, knowledge and experience to exercise independent judgement on strategy, performance, risk management and corporate governance.

In addition, the purpose of the Non-Executive role is to:

- Constructively challenge strategy proposals presented by the Chief Executive Officer and Executive Directors
- Scrutinise and challenge operational performance against the Corporate Plan
- Assess the integrity of the financial information and controls
- Assess the adequacy of the Society's risk management framework and systems of internal control
- Assess whether current and future resources are commensurate with the Society's objectives
- Determine the broad policy for Executive remuneration
- Be satisfied that an appropriate culture is in place

Non-Executive Directors devote time to meeting Members and colleagues from across the business as a means of experiencing the culture in the business at first hand. By visiting branches, offices and attending meetings of the Colleague Forum and the Annual General Meeting, Non-Executive Directors are able to hear from Members and a broad range of colleagues at all levels of the business to better understand matters which are of direct interest to them. The Board also gains insight into the culture within the business through reviewing the outcome of colleague surveys and information presented from a wide range of sources including the People, Compliance and Conduct and Internal Audit teams.

Time commitment

One of the key criteria which is taken into account when appointing a Non-Executive Director is whether they are able to commit sufficient time to the role with the Society. Time commitment of the Non-Executive Directors is reviewed by the Chair upon appointment and is monitored carefully by the Governance and Nominations Committee. Any additional roles that a Non-Executive Director wishes to take up following appointment requires the prior approval of the Board.

Independence

The Board reviews the independence of its Non-Executive Directors annually. The UK Code outlines criteria for assessing the independence of a Non-Executive Director. A compromise of independence is presumed where Non-Executive Directors have been recent employees of the Society, held a material business relationship with the Society, received any additional fee other than their Director's fee, or have close family ties or significant links to the Society. In addition, the UK Code presumes that a Non-Executive Director who has served more than nine years on the Board is no longer independent. The Non-Executive Directors' independence was specifically considered at the December Governance and Nominations meeting, which concluded that all Non-Executive Directors continue to remain independent. At the time of Simon Moore's appointment as Chair, the Board was satisfied that he met the independence criteria as outlined within the UK Code.

Garry Stran joined our Board in January 2025, we have included this in this Annual Report as he will stand for election at our AGM. Garry Stran was appointed following a comprehensive external search managed by Teneo and led by Jonathan Baum (Senior Independent Director), as Garry Stran and Simon Moore (Chair) serve on WH Ireland's Board together. The Governance and Nominations Committee concluded during the process that Garry Stran is independent.

Senior Independent Director

Jonathan Baum is the Board-appointed Senior Independent Director. This particular role is responsible for acting as a sounding board for the Chair, serving as an intermediary for other Directors, and being available to Members if they have concerns which they have not been able to resolve through the normal channels of the Chair, Chief Executive Officer or other Board Directors, or for which such contact is inappropriate.

Chair and CEO

The offices of Chair and Chief Executive Officer are separate and held by different individuals. The Chair is not involved in the day-to-day management of the Society, but is responsible for the following matters which are outlined within a role profile, which is subject to review and approval by the Board:

- The leadership and operation of the Board, ensuring that it promotes high standards of corporate governance
- Leading the development of the Society's culture and standards
- Ensuring the effectiveness of the Board, its Committees and individual Directors are subject to annual evaluation

- Ensuring that the Society engages effectively with its key stakeholders
- Setting the agenda, style and tone of Board discussions
- Ensuring that Directors receive accurate, timely and clear information
- Developing the Board Succession Plan
- Ensuring that a comprehensive induction programme for new Non-Executive Directors joining the Board is maintained and that existing Non-Executive Directors receive the necessary ongoing training to be able to contribute fully to the Board

The Chief Executive Officer's primary responsibilities are the day-to-day management of the Society, the implementation of the Board-approved strategies and policies, and chairing the Executive Committee. Her full responsibilities are also outlined within a role profile which is reviewed and approved by the Board. The Chair and the Chief Executive Officer maintain a close working relationship. The Executive Committee oversees the day-to-day operations of the Society's business and formally meets every week. These meetings focus on topics relating to people, change, the market and performance, as well as reviewing matters which are due to be presented to the Board. The Executive Committee is composed of the Chief Executive Officer, one other Executive Director and six members of the Senior Leadership Team.

Appointments to the Board – Induction and Training Programme

Further details about the Non-Executive recruitment process can be found in the Report of the Governance and Nominations Committee. Candidates to fill Non-Executive Director vacancies on the Board are sought in various ways, including through press advertisements and with the assistance of external search consultants. Candidates must meet the tests of fitness and propriety as prescribed by the FCA and must receive approval, where necessary, from the PRA and FCA before taking up their role. The Society's Rules require that all new Directors must stand for election at the Annual General Meeting in the year following their appointment to the Board. Members of the Society have the right to nominate candidates for election to the Board, subject to the Society's Rules and compliance with PRA and FCA requirements. No such nominations were received prior to the Society's 2024 AGM.

The Chair is responsible for ensuring that each Non-Executive Director receives induction training, upon joining the Board, and subsequent ongoing training which is tailored to their individual needs and requirements.

The Society's induction programme for new Non-Executive Directors covers all aspects of the Society's operations and the regulatory environment in which the Society operates. This enables new members of the Board to function effectively as a Board member, as quickly as possible. The induction programme is reviewed annually by the Governance and Nominations Committee to ensure that it remains appropriate, and includes a series of meetings with Executives, Non-Executive Directors and the Society's Secretary. As well as briefings from members of senior management, new Non-Executive Directors also have the opportunity to attend key management meetings and to visit all areas of the business. Keeping up to date with key business developments is essential in order to ensure that Directors properly discharge their responsibilities.

This is achieved through:

- Presentations made to the Board from industry specialists, executives and senior managers drawn from within the business on key developments and significant matters
- Providing the Board with updated financial plans, budgets and forecasts which are regularly reviewed and discussed
- Providing Board members with access to external training sources
- Providing the Board with regular updates on the economic and regulatory environments within which the Society operates

The Society's Secretary maintains an ongoing Board training and development programme and during 2024 the following areas were addressed:

- Artificial Intelligence
- Internal Ratings Based (IRB) approach to capital requirements
- Covered Bonds
- Board development session with an External Advisor

Whistleblowing

The Society has arrangements in place for colleagues, contractors and temporary workers to raise concerns about possible misconduct, wrongdoing and behaviour towards others by colleagues and third parties, including those related to non-financial matters. Concerns can be raised confidentially or anonymously via various channels, including an online portal and a telephone line hosted by an independent third party.

All colleagues receive annual training on the Society's whistleblowing policies and procedures, which includes how to raise concerns both internally and by reporting directly to the Financial Conduct Authority or the Prudential Regulation Authority. Additional training is provided for managers. The training is reviewed annually.

Claire Hafner is the Whistleblowers' Champion and is responsible for ensuring and overseeing the integrity, independence and effectiveness of our processes to ensure we protect whistleblowers from being victimised because they have disclosed reportable concerns.

The Board recognises that having effective and trusted confidential whistleblowing arrangements is key in supporting the Society's open and honest culture. The Board receives an Annual Whistleblowing Report. During the 12 months to 31 December 2024, a total of seven concerns were raised, of which none were formally investigated as whistleblowing (12 months to 31 December 2023: three concerns raised, of which none were investigated as whistleblowing). The remainder were managed utilising other internal channels.

Conflict of interest

The Society Secretary maintains a Register of Directors' Interests (the Register) which records actual or potential conflicts of Board members' interests. The Board approves the Register annually, and Directors are required to notify the Board of any changes to their interests throughout the year. The Board has considered the current external appointments of all Directors, which may give rise to a conflict. In any matter where a Director's interest does present an actual conflict, in accordance with the Society's Memorandum and Rules and the Building Societies Act 1986, the Director shall not vote or be counted in the quorum, when that matter is considered.

Individual Performance Evaluation

The Society has a framework in place to ensure that all Directors and individuals appointed to relevant senior manager positions have the appropriate fitness and propriety to properly discharge their responsibilities, both at the time of their appointment and duration of their appointment. The Chair is responsible for attesting annually the fitness and propriety of the Society's independent Non-Executive Directors and the Chief Executive Officer.

The Senior Independent Director is responsible for leading the evaluation of the Chair's performance, in conjunction with the other Non-Executive Directors, and for conducting their annual 'fit and proper' assessment. The Chief Executive Officer is responsible for carrying out the annual performance appraisal and 'fit and proper' assessment for each of the Executive Directors. Each of the relevant 'fit and proper' assessments were carried out during the course of 2024 and the Chair attested that each Non-Executive Director is 'fit and proper' and has the requisite knowledge and skills to be able to discharge their responsibilities effectively.

Board Performance Review

The collective effectiveness of the Board is subject to an external evaluation every three years. In 2024, this was conducted by Nasdaq who specialise in performing board evaluations. Nasdaq observed Board and Committee meetings, conducted interviews with the Board Directors and Secretary and reviewed questionnaires completed by attendees of meetings.

The review found the Board to be high performing and effective. Whilst recognising that 2024 had been a period of much change for the Board, relationships were strong and the Chair had settled in well. The review identified strong alignment on the strategic direction of the Society, whilst retaining diversity of thought amongst the Directors. Themes arising from the review which will result in action being taken to further strengthen Board governance, include:

- Review and simplify the Board Skills Matrix ensuring alignment to the strategic needs of the organisation
- Ensure that the induction process is tailored to each individual Director's skills and experience
- Review the approach to Board information, MI and papers to ensure good qualitative opinion and guidance
- Increase the amount of Non-Executive Director stakeholder engagement
- Consider additional training on specialist areas to elevate Directors' understanding, such as Cyber and ESG
- Review senior leader succession and talent management

Progress with work to implement the actions arising from the previous evaluation has been regularly monitored by the Board and the Governance and Nominations Committee and all actions were completed and closed within the period agreed.

Section 172

Although Principality, as a building society, is not required to follow the Companies Act, we seek to apply section 172 requirements where appropriate. Our Corporate Governance Report set out on pages 47 to 60 includes a summary of how the Board has carried out its duties in promoting the success of the organisation, this includes the Board's activities, engagement with stakeholders and how it demonstrates its commitment to doing the right thing. The next section outlines how the Board engages with stakeholders and remains cognisant of their needs when running the business.

Stakeholder engagement

Directors are required to act in the way they consider, in good faith, would be most likely to promote the success of the Society for the benefit of Members as a whole, and in doing so have regard to a number of key areas:

- The likely consequences of any decision in the long-term
- How the interests of colleagues are considered
- How constructive relationships with wider stakeholder groups are fostered (e.g. suppliers)
- How a reputation for high standards of business conduct is maintained
- Consideration of how any community and the environment is impacted by our operations
- The need to act fairly and balance the interests of Members
- The Society is committed to two-way engagement

As a Building Society, we put our Members at the centre of all the decisions made by the Board, but also understand how important it is to take into account the views and needs of all our key stakeholders. Listening to, and acting upon, the views of our stakeholders helps us to fulfil our purpose and to develop our strategy in a way that continues to benefit our key stakeholder groups over the long-term. The Society is part of both a local and global community and our operations impact a range of stakeholders.

The Society is committed to fostering and maintaining good communications with Members. The Society has an on-line community of Members called Member Pulse. This enhances our ability to canvass Member views on topics quickly and at scale, ensuring we continue to make decisions that are underpinned by the viewpoints and needs of our Members.

In accordance with the UK Corporate Governance Codes provision to keep engagement mechanisms under review, the Board enhanced engagement with Principality colleagues. In addition to the Colleague Forum in place which advises on more operational issues, we introduced a Colleague Panel, where colleagues are invited to meet the Board Directors and provide their views on strategic topics. We've found this to be a successful development in engagement for the Board Directors and wider workforce as the Directors have met more colleagues and listened to more colleague voices on key strategic issues. In 2024, the Colleague Panel discussed the Society's property strategy, diversity and inclusion, colleague networks and colleague performance.

Annual General Meeting ('AGM')

The Society seeks to encourage all eligible Members to participate in the AGM, either by attending in person or via a live-stream, and by voting. The AGM provides Members with the opportunity to hold the Board to account through raising questions and voting either for or against any of the resolutions on the agenda at that meeting. A resolution on the Report on Directors' Remuneration is included on the agenda. The voting process is overseen by independent scrutineers, who also attend the Meeting in person to count votes cast by Members. The results of the vote are published on the Society's website. In accordance with the Society's rules, all eligible Members are sent the Notice of the AGM at least 21 days prior to the Meeting. All Directors attend the Meeting unless their absence cannot be avoided. All Directors who stood for election or re-election in 2024 were duly elected or re-elected. All Directors will again stand for re-election at the 2024 AGM. Karen Maguire, Maria Timon Samra and Garry Stran will stand for election at the AGM in 2025.

Following the success of the 2024 AGM, the 2025 AGM is planned to be a hybrid event where Members can either access a live-stream of the AGM via the internet or physically attend in person. There will be a live-stream of the event at a selection of our branches where Members can join local teams to take part in the AGM.
The AGM will take place at 11am on Friday 11th April 2025 at The Marriott Hotel, Cardiff.
More details can be found in our Notice of AGM.

Board activity

To enable the Board to use its time effectively, a forward-looking programme of meetings and a rolling Board agenda is maintained. There is sufficient flexibility in the Board's agenda to ensure that the Board can address emerging matters in a timely manner. The following table provides a sample of some of the matters the Board has considered during the year:

Responsibility	Key Activity
Standing agenda items	• Management information to facilitate the monitoring of Key Performance Indicators and Key Risk Indicators • Reports from the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer and other Executives on performance and risk matters, including non-financial information • Reports from the Board Committee Chairs on key matters considered and decisions made at the last Committee meeting • Reports from the Board members on any meetings and interactions with stakeholders
Strategy	• Strategy and Business Model Review • Corporate Plan • Marketplace developments • Macro-economic assumptions • Transformation programme • Impact Report which covers all aspects of ESG and Impact Strategy
Financial reporting and performance	• Annual Report and Accounts and Interim Financial Statements • Long-term Viability Statement Review • Letter of Representation to the Auditors • Summary Financial Statement • Quarterly Performance Review • Budget and Quarterly re-forecasts
Risk management	• ILAAP and ICAAP • Regulatory matters • Recovery and Resolution Plan • Approval of risk appetite and tolerance • Information security and cyber resilience • Operational resilience and outsourcing • Senior Manager Certification Regime and Responsibilities Map • Treasury Policy Statement • Wholesale funding decisions • Lending policies • Covered Bond programme
People, culture and remuneration	• Colleague engagement surveys • Culture, including People Programme and diversity and inclusion • Member and stakeholder engagement • Colleague Forum updates • Remuneration Policy

Governance	• Approval of Board Committee Terms of Reference • Schedule of Matters Reserved to the Board • Board Effectiveness Review, including Action Plan • Annual General Meeting Notice and Proxy Form • Adoption of Part II to Schedule 10 of the Building Societies Act 1986 and Sections 68 and 69 of the Statements and Elections • Approval of Modern Slavery and Human Trafficking Statement • Whistleblowing Policy and Whistleblowing Champion's Report • Approval of Conflicts of Interest and Directors' Outside Interests • Review of the framework governing the Delegation of Authority

Audit, risk and internal control

The Board is responsible for determining the nature and extent of the risks the Society is willing to take to achieve its long-term strategic objectives. This is detailed in the Society's Risk Appetite Statement. The Board is responsible for ensuring that management maintains an effective system of risk management and internal control and for assessing its effectiveness. The Society has a robust Enterprise Risk Management Framework (ERMF) in place, supported by a system of internal controls and processes to manage risk. The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. For 2024, the Board is satisfied that the ERMF is appropriate.

Internal control over financial reporting

The Society's financial reporting process has been designed to provide assurance regarding the reliability of financial reporting and preparation of financial statements, as well as consolidated financial statements, in accordance with International Financial Reporting Standards (IFRS). Internal controls and risk management systems are in place to provide assurance over the preparation of the financial statements. Information on the work of the Audit Committee can be found on page 65. Financial information submitted for inclusion in the financial statements is attested by individuals with appropriate knowledge and experience. The Annual Report and Accounts are scrutinised throughout the financial reporting process by relevant senior stakeholders before being submitted to the Audit Committee, which provides challenge, before recommending to the Board for approval. The Audit Committee also discusses control conclusions and recommendations arising from the audit with the external auditor. Based on the reports provided to the Audit Committee, it was concluded, not withstanding some IT observations are noted on page 67, that the controls over financial reporting are effective. More information on the Society's risk management and internal control systems can be found on pages 66 to 67 of the Governance Report.

Remuneration

The Board is responsible for determining the Society's remuneration policies and practices, including Executive and senior management remuneration. Information on the work of the Remuneration Committee and the Report of the Directors on remuneration can be found on page 69.

Simon Moore
Chair

18 February 2025

Governance and Nominations Committee Report

for the year ended 31 December 2024

Committee responsibilities

The Governance and Nominations Committee is responsible for oversight of the Board and Executive Management Succession Plan and making recommendations for new appointments to the Board. The Society's Board is strongly committed to promoting diversity and making appointments on merit, against objective criteria.

Committee membership

The Governance and Nominations Committee is a Board Committee and in 2024 comprised all of the Non-Executive Directors. The Committee met on five occasions during the year. The Committee regularly invites the Chief Executive Officer, the Chief Impact and Governance Officer and the Chief People Officer to attend the meetings, along with other colleagues from across the business, where appropriate.

Activity during the year

During the year, the Committee appointed Teneo (who have no other relationships with the Society) to support the process, which led to the appointment of Simon Moore as Chair, Karen Maguire and Maria Timon Samra as Non-Executive Directors. All appointments are subject to extensive external checks and, where required, regulatory approval. All new Non-Executive Directors undergo a tailored and comprehensive induction programme on appointment.

During the year the Committee has by way of its annual calendar of activity:

- Reviewed the size and composition/diversity of the Board and its committees
- Reviewed the mix of the skills and experience of the Board
- Agreed that as a minimum, at least two Directors should have a diverse background
- Reviewed the Board and Senior Management Succession Plans
- Reviewed the time commitment of Non-Executive Directors
- Reviewed and agreed a Board development plan and activity designed to support this
- Reviewed the induction programme for new Non-Executive Directors
- Received a report on the arrangements in place which enable the Society to comply with the provisions contained in the Corporate Governance Code as far as the Code can reasonably be applied to a building society
- Received regular reports on corporate governance related developments
- Received regular reports on the progress being made with work to implement the actions arising from the 2023 internally facilitated review of the Board's effectiveness and that of its committees

The Committee is responsible for monitoring progress with work to meet the gender diversity targets set out in the Board Diversity Policy and the wider target for gender diversity put in place by the Board on agreeing to support the Women in Financial Services Charter. In September 2016, the Board agreed to establish a five-year diversity target of 33.3%. The table below shows the ratio of women to men in senior management positions within the Society over the period 31 December 2022 to 31 December 2024.

At 31 December 2024, 66.66% (2023: 62.5%) of Board members were female.

Other matters

Following each Governance and Nominations Committee meeting, the Chair of the Committee provides an oral update to the Board on matters considered by the Committee. In addition, minutes of Committee meetings are available to the Board, if further detail is required.

Ratio as at 31 December 2022	Ratio as at 31 December 2023	Ratio as at 31 December 2024
39%	39%	46%

Board Risk Committee Report

for the year ended 31 December 2024

The Committee seeks to ensure the continued safety and security of the Society by ensuring all principal and significant emerging risks are identified, managed, monitored and mitigated as effectively as possible. The Committee recommends to the Board risk appetite measures in respect of these risks. Exposure against risk appetite is monitored at each meeting and is integral to the Society's business planning and forecasting.

The Committee is also responsible for ensuring the continued adequacy of the Society's financial resources and recovery plans. To this end, the Committee reviews the output of stress testing and scenario analysis, using such assessments to inform its view of potential, albeit unlikely, adverse outcomes.

Committee membership

During 2024, the Committee comprised four independent Non-Executive Directors, Jonathan Baum (Chair), Claire Hafner, Shimi Shah and Maria Timon Samra (from December). The Committee regularly invites the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer to attend the meetings, together with other colleagues from across the business, where appropriate. The Committee met on six occasions during the year.

Management of risk

The Society has developed and implemented an Enterprise Risk Management Framework (ERMF), which sets out the Board's approach to managing risk and the provision of oversight by defining and documenting the Society's purpose and objectives, risk appetite and tolerance and governance and control systems.

a) Risk culture

The Society operates a simple business model and senior management places significant emphasis on ensuring a high level of engagement is maintained between individual business functions and colleagues at all levels, with regard to the awareness and effective management of risk. A key element of the Society's risk culture is a genuine emphasis on putting Members' interests and needs first. This is reflected, for instance, in the absence of sales-related incentives for any colleagues.

b) Three lines of defence model

The ERMF employs a 'three lines of defence' model to ensure clear independence of responsibilities for risk control, oversight and governance. This is key to ensuring that risk management is embedded across the Society, encouraging colleagues to take ownership for identification and management of risk within their respective areas of operation.

Three lines of defence model:

First line of defence	Second line of defence	Third line of defence
Day-to-day risk management	Risk oversight and compliance	Audit
Every employee is responsible for managing the risks which fall within their day-to-day activities. The first line of defence ensures all key risks within their operations are identified, monitored and mitigated by appropriate controls.	Dedicated teams within the Society's Risk and Compliance functions are responsible for providing independent oversight and challenge of activities conducted in the first line.	The Society's Internal Audit function provides independent assurance of the activities in both the first and second lines of defence.

c) Risk management

Primary responsibility for the identification, assessment, control, mitigation and monitoring of risk rests with the business, the first line of defence.

Oversight and governance are provided through specialist support functions including Risk, Finance and Compliance and Conduct. The role of these functions is to maintain and review policies, establish quantitative limits and qualitative standards, which are consistent with the Society's risk appetite. These functions additionally monitor and report on compliance with those limits and standards and provide a holistic oversight role to the management of risk.

The Society's Internal Audit function provides independent assurance regarding the activities of the business and of the specialist functions across the Society and reports on the effectiveness of the control environment to the Audit Committee on a quarterly basis. The Committee monitors the arrangements for assessing risk inherent in the Society's activities on behalf of the Board.

d) Risk appetite and tolerance

The Board approves risk appetite statements identifying and defining the types and levels of risk it is willing to accept in the pursuit of its strategic goals. This provides the business with a framework within which decision-making and planning can be undertaken.

Board risk appetite statements are linked to the Society's strategy and are supported by a broad suite of Board-level risk metrics designed to monitor the Society's exposure to principal risks.

e) Planning and stress testing

The Society undertakes stress testing, scenario analysis and contingency planning to understand the impact of unlikely, but severe risk events, to better enable it to react should events of this severity occur. A range of multi-risk category stress tests, reverse stress tests and operational risk scenario analyses are undertaken with the results forming a central component of the Society's capital and liquidity adequacy assessments.

Reverse stress testing is a key component of the Society's existing stress testing framework and considers extreme events that could result in failure of the Society. As such, it complements the existing ICAAP and ILAAP processes, helping to improve risk identification and measurement. A qualitative approach is used to explore potential scenarios, which, if crystallised, could result in failure of the Society. This is supplemented by quantitative assessments which determine the potential impact to the Society's capital or liquidity arising as a consequence of the scenarios. A key outcome from the process is to consider whether any of the scenarios considered are sufficiently plausible to necessitate a change to the Society's strategy, require mitigating actions to be taken, or require supplementary management information to monitor the likelihood of crystallisation.

The Society is aware of the potential long-term risks which climate change represents to its business model and to the wider economy. The Society's stress testing framework includes the assessment of the financial risks emanating from climate change, which takes into account current relevant risks in addition to those which may plausibly arise in the future. The Society will take a strategic approach to managing the financial risks arising from climate change based on the outcome of assessments undertaken (both physical and transition). The Committee will review the output of these assessments and re-appraise the approach to the management and mitigation of the associated risks where necessary.

f) Recovery and resolution planning

The UK and European regulatory authorities require all banks and building societies to formulate plans to minimise both the risk of failure and the impact of failure. The recovery plan outlines the steps the Society can take to prevent failure, whilst the resolution plan includes information required by the Bank of England to establish an orderly resolution of the Society's affairs, in the event that recovery cannot be achieved. The process of preparation for such extreme events enables the Board to plan actions it would take to recover from adverse conditions which would otherwise lead to failure. The recovery plan represents a 'menu of options' for the Society to manage firm-specific or market-wide stress and which can be incorporated into a credible and executable plan.

g) Governance and control

There is a formal structure for managing risks across the Society, which is documented in detailed risk management policies. These policies, and associated limits, are owned and reviewed at least annually by the following committees, which report to the Board Risk Committee and the Board.

Each committee includes appropriate representation drawn from the Executive Committee (ExCo), divisional management and risk specialists:

- **Executive Risk Committee (ERC)** is chaired by the Chief Risk Officer and is responsible for oversight and monitoring of all principal risks across the Society and reviewing risk exposures
- **Model Governance Committee (MGC)** is chaired by the Chief Financial Officer and is responsible for the approval and oversight of models used by the Society to assess and quantify exposure to credit risk and to assist in the quantification of impairment provisions required under IFRS 9
- **Credit Risk Committee (CRC)** is chaired by the Head of Prudential Risk and is responsible for monitoring and reviewing exposure to credit risks in the Society's retail and commercial loan portfolios
- **Operational Risk Committee (ORC)** is chaired by the Chief Operating Officer and is responsible for monitoring and reviewing exposure to operational and financial crime risks arising from the Society's day-to-day activities
- **Finance Committee (FC)** is chaired by the Chief Financial Officer and, in addition to its financial management responsibilities, has responsibility for the assessment and management of financial risks and relevant risk appetites

Activity during the year

The following outlines the Committee's activities and areas of focus during the year:

Topic	Activity
Strategy and Risk Appetite	• Review of Strategic Risk Appetite and Tolerance Statements • Approval and monitoring of Operational Resilience Framework • Review of approach for Assessment of Climate Change Risks • Oversight of Consumer Duty Implementation and annual attestation
Policy	• Annual review and approval of Treasury Policy Statement and Retail and Commercial Lending Policies • Review of Second Line Assurance Plan, including annual approval of Compliance and Conduct Monitoring Plan
Stress Testing	• Annual review and recommendation of the ICAAP to the Board • Annual review and recommendation of the ILAAP to the Board • Annual review and recommendation of the Recovery and Resolution Plan (RRP) to the Board
Risk Management	• Review of Credit Risk profile of mortgage portfolios • Review of annual Money Laundering Reporting Officer's Report • Review of Data Protection Officer's Report • Approval of Cyber Risk Penetration Testing Programme, review of Cyber Risk Management and results of Penetration Testing Programme • Review of risk exposure relative to appetite and tolerance measures
Risk Monitoring	• Approval of the overall level of insurance for the Society, including Directors' and Officers' Liability insurance • Review of CRO's report and Key Risk heat map • Horizon scanning • Oversight of Executive Risk Committee and subsidiary Risk Management Committees, including IRB Model and Model Risk Management Framework • Review of Compliance and Conduct Risk monitoring activity and relevant Internal Audit Reports • Review of the Integrated Assurance Plan, including Internal Audit

Following each meeting, the Chair of the Committee provides an oral update to the Board on matters considered by the Committee. In addition, minutes of Committee meetings are available to the Board, if further detail is required.

Audit Committee Report

for the year ended 31 December 2024

Committee responsibilities

The Audit Committee assists the Board in fulfilling its oversight responsibilities in respect of matters relating to financial reporting, internal control, and internal and external audits. The Committee acts as Audit Committee for both the Society and its subsidiary business, Nemo Personal Finance Limited.

The Committee is responsible for ensuring that the key accounting policies and judgements supporting the Society's financial statements are appropriate. This work is supported by the external auditor, Deloitte LLP ('Deloitte').

Committee membership

The Audit Committee is a Board Committee and in 2024 comprised four independent Non-Executive Directors, Claire Hafner (Chair), Jonathan Baum, Debra Williams and Karen Maguire (from September 2024). The Committee met on six occasions during the year.

The Board continues to be satisfied that the Committee has the requisite levels of knowledge and understanding relevant to the markets in which the Society operates. In accordance with the UK Corporate Governance Code ('UK Code'), at least one Committee member has recent and relevant financial experience.

The Committee regularly invites the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor and representatives from the Society's external auditor, Deloitte, to attend the meetings, along with other colleagues from across the business, where appropriate.

The overlap of membership between the Committee, the Board Risk Committee and the Remuneration Committee is one of the mechanisms for ensuring that the linkage between the Audit Committee and other Board Committees means there are no gaps or unnecessary duplication.

Hedge Accounting

The Committee recognises that hedge accounting remains a particularly complex area of activity. Significant volatility in economic conditions has directly contributed to an increase in the level of volatility in the valuation of hedging instruments in the year. The Committee was given training on hedge accounting principles and concluded that the valuation, completeness, and appropriateness of hedge accounting remained appropriate in the year.

Financial Reporting Judgements and Estimates

The Committee has conducted detailed reviews of the interim and year-end financial statements, and Pillar 3 disclosures, which are published on the Society's website. The reviews included consideration of the narrative reports, together with the description of the business model, strategy, and the risks inherent in the business model. Following its review, the Committee recommended these documents to the Board for approval. As a result of discussions with both management and the external auditor, the Committee determined that the key risks of misstatement of the group's financial statements related to the following areas where judgements are required:

- **Going concern and viability assessment.** During the year, the Committee has received regular reports from the Chief Financial Officer outlining the basis on which it is reasonable for the group to continue to prepare its financial statements on a going concern basis and has continued to be satisfied that it is appropriate to consider the Viability Assessment over a three-year planning horizon. It assessed, together with the Board Risk Committee, the levels of capital and availability of funding and liquidity, together with outputs of stress tests and reverse stress tests. The Committee also considered risks from business activities and current and forecast economic factors such as the impacts from high levels of interest rates, inflation, and on-going volatility in the economic environment.

- **Impairment provisions on loans.** During the year, the Committee has closely monitored the output from the IFRS 9 impairment provision models and the performance of the Society's loan books. The level of impairment suggested by the models and the assumptions which inform the models are key areas of judgement. The Committee has given careful consideration to the appropriateness of the methodologies used by management to assess the likelihood of losses (Probability of Default) and the severity of losses (Loss Given Default) against each loan book, in conjunction with the overall adequacy of the provisions held against those loan books. The Committee concluded that the assumptions that are used to inform management's assessment as to the adequacy of impairment provisions, remain appropriate. The Committee has continued to monitor the volatility in the economic environment, including actions taken to manage the impact of the high-interest rate environment on the performance of the Society's loan books and consequent impact on the IFRS 9 impairment provision.
- **Fixed asset impairment.** The Committee has been kept informed with the outcome of the fixed asset impairment review relating to the Society's corporate property. The Committee remains supportive of the methodology used in the impairment review, including the identification of potential impairment indicators and the calculation of recoverable amounts of fixed assets. The Committee is supportive of the decision to recognise no fixed asset impairment in 2024.
- **Provisions for regulatory and customer redress.** The Committee has considered the assumptions made by management in connection with the scale of the provision recognised for this purpose. The level of provision reflects management's best estimates of complaint volumes, customer behaviour, the rate at which these claims are upheld, and the level of redress paid on each complaint. The Committee continues to be satisfied that the scale of the provision recognised for this purpose is appropriate.
- **Retirement benefit obligations.** The Committee has considered the key assumptions used by the Scheme Actuary to determine the liability under IAS 19 in connection with the Society's Defined Benefit Retirement Scheme obligation. The Committee agreed that the assumptions used for this purpose were reasonable. Following the Society performing a 'buy-in' of the pension scheme in 2023, the scheme is now effectively de-risked apart from a small, remaining uninsured element.

After reviewing reports by management and after consulting with the Society's external auditor, the Audit Committee was satisfied that the financial statements appropriately addressed the critical judgements and key estimates. The Committee is also satisfied that the significant assumptions used for determining the value of the group's assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

Deloitte, as the Society's external auditor, has reported on both the interim and year-end financial statements and the Committee considered those reports prior to recommending approval of the financial statements to the Board. Deloitte has reported to the Committee on the work carried out in relation to the most significant areas of audit risk and where accounting assumptions and estimates have been applied by management. Management confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. Deloitte calculated its materiality level and the clearly trivial threshold which were presented to the Committee at the planning stage, and these were accepted by the Committee. The Auditor provided the Committee with a summary of misstatements, which exceeded the clearly trivial threshold which had been identified during the course of the testing, and no material amounts remain unadjusted. The Committee is also responsible for considering the annual Deloitte management letter and has received reports from management on progress with work to address findings set out in the management letter during the year.

Assessment of internal controls/oversight of the internal control framework

Management is responsible for establishing and maintaining a robust control environment and is designed to evolve as the risks faced by the Society change over time. The Committee is responsible for monitoring and ensuring the operating effectiveness of those controls. This work is primarily driven through the work performed by the Internal Audit function. Members of the Committee are actively involved in planning the work undertaken by the Chief

Internal Auditor, which is designed to reflect a risk-based approach, having regard to the risks embedded in the Society's operations. The Committee receives regular reports on the operating effectiveness of the systems and controls framework including financial controls, internal controls, the regulatory reporting framework, and risk management systems.

The Committee is responsible for approving the annual Internal Audit plan and receives regular reports from the Chief Internal Auditor on the adequacy of resources available to that department, results of any unsatisfactory audits and associated action plans, and progress of management's implementation of audit recommendations and adherence to the control framework. In order to preserve the independence of the Chief Internal Auditor, the individual performing that role continues to have a dual reporting line to the Chief Executive Officer and Chair of the Audit Committee. The Chief Internal Auditor also has direct access to the Society's Chair. In addition, the Committee also monitors the effectiveness of the Internal Audit function. This work includes monitoring the progress of the Internal Audit team against the Audit Plan and reviewing progress with work to implement audit recommendations. During the year, the Committee received a report on the effectiveness of the Internal Audit function from the Chief Internal Auditor and has reviewed the Internal Audit Charter.

During the year, the Committee also considered carefully the risks associated with management circumventing the control framework. Work undertaken by the Internal Audit team during the year and by Deloitte, as part of the annual audit cycle, has enabled the Committee to be satisfied that the overall control framework remains robust. Deloitte identified IT control deficiencies during the prior year audit, and management has been working to rectify these throughout 2024, with all deficiencies expected to be rectified in early 2025. Despite these deficiencies, the Committee remains confident that the overall control environment remains sufficiently robust.

The Committee has met with Deloitte privately during the year.

The Audit Committee is responsible for considering, on behalf of the Board, whether the Annual Report and Accounts(AR&A) taken as a whole, is fair, balanced and understandable and provides the information necessary to Members to assess the group's performance, business model and strategy. In justifying this statement, the Audit Committee has considered the robust process which operates in creating the Annual Report and Accounts, which includes the following:

- Changes to regulatory requirements, including the UK Corporate Governance Code, are considered on an ongoing basis
- Key accounting judgements which are presented to the Audit Committee for approval
- Whether the description of the group's business model is accurate; whether the narrative reports explain the financial statements; whether the principal risks and uncertainties faced by the group are clearly described, together with mitigating actions and whether the group's projected solvency and liquidity positions over the next three years are adequate to support the going concern assessment
- Whether there are any significant control weaknesses, or failings which should be brought to the attention of the Society's Members
- A thorough process of review and evaluation of the inputs into the accounts to verify accuracy and consistency, including review by senior management
- A meeting of the Audit Committee to review and consider the draft AR&A in advance of the final sign-off. The Chair of the Audit Committee reports the Committee's conclusions to the Board and final sign-off is provided by the Board of Directors. As part of the Committee's assessment of the AR&A, prior to reporting to the Board on this topic, the Committee draws on reports prepared by, and discussions with, the Chief Financial Officer and members of his senior management team. The Committee is satisfied that senior members of the Finance team are fully familiar with the fair, balanced and understandable requirement. The Committee receives assurance from members of the Executive team that they consider the content for which they are responsible is fair, balanced, and understandable.

The Committee also receives an early draft of the AR&A to enable members of the Committee to conduct a timely review and challenge the content of the report.

Regulatory reporting

During the year, the Committee received such reports as considered necessary on the production and integrity of regulatory returns.

Auditor independence and effectiveness

The Audit Committee is responsible for assessing the effectiveness of the annual audit process, monitoring the independence and objectivity of the external auditor, and making recommendations to the Board in relation to the appointment, reappointment, remuneration and removal of the external auditor.

As part of its annual assessment of the effectiveness of the external audit process, the Committee conducts a formal review whereby members of the Committee and senior members of the Finance team consider the performance, qualifications, expertise, resources, independence, and objectivity of the external auditor. The results of the review are discussed by the Committee without the external auditor being present and any actions or suggestions about the external process are subsequently discussed with the external auditor. During the year, the Committee has also reviewed and approved the external auditor's overall work plan, which further ensures that the process is effective.

There is periodic rotation of the audit partner responsible for the audit engagement, and each year the external audit firm confirms to the Audit Committee that it considers itself to be independent as defined by the current rules of the Financial Reporting Council. David Heaton has served as Audit Partner from 2022 and is expected to serve for five years. In 2025, the Society intends to re-tender for the position of external auditor with any change taking effect after the AGM. Deloitte will remain the external audit firm until the year ended 31 December 2026.

In order to safeguard auditor objectivity and independence, the Committee maintains a formal policy which governs the engagement of the external auditor for non-audit services. The policy is designed to ensure that the provision of such services does not have an impact on the external auditor's independence and objectivity. This policy identifies services which can only be undertaken with appropriate authority from the Committee Chair or the Committee where non-audit fees will exceed pre-set thresholds. The external auditor may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. Non-audit services prohibited by ethical standards are not permitted to be undertaken under any circumstances.

The Committee receives a schedule of fees for non-audit work paid to the audit firm at each meeting, an annual report on the non-audit services being provided and the cumulative total of non-audit fees. The audit fee for the year in respect of the group was £1,111k (inc. VAT). Non-audit fees, mainly in relation to further assurance services, were £272k (inc. VAT).

Other matters

Following each Audit Committee meeting, the Chair of the Committee provides an oral update to the Board on matters considered by the Committee. In addition, minutes of Committee meetings are available to the Board, if further detail is required.

Remuneration Committee Report

for the year ended 31 December 2024

The Remuneration Committee

On behalf of the Remuneration Committee, I am pleased to share the Director's Remuneration Report for the year ended 31 December 2024 detailing pay, incentives and benefits for our Directors.

The Remuneration Report is split into the following key sections:

- The Remuneration Committee, which details membership and the role and responsibilities of the Committee
- The Directors' Remuneration Policy, which outlines the policy on which remuneration is paid; including performance measures, maximum possible payments and specific scenarios such as loss of office
- The Annual Report on Remuneration, which details all elements of remuneration for our Executive and Non-Executive Directors in 2024 and sets out how we plan to implement the policy in 2025

Committee activity in 2024

In addition to standard items in line with the Terms of Reference, the Remuneration Committee made some key considerations and additional decisions during the 2024 financial year which are outlined below.

- **Culture and Reward** – In 2024, we revised and relaunched our Performance Excellence Framework to strengthen the link between strategy and individual performance. This supports a broader piece of work around transforming our culture. This has been applied to all colleagues including Executive Directors.
- **Pay reviews** – The Society continued to pay minimum rates above those published by the Real Living Wage Foundation and we continued to provide most support to our lowest paid colleagues. Pay for Executive Directors in 2024 included additional market rate increases, as pay was at risk of falling significantly behind market.
- We also developed and agreed our Executive Pay Principles, to ensure we have a clear framework when setting and reviewing Executive Pay.
- **Variable pay performance** - Following good Society performance against the agreed targets, our schemes will pay out between target and stretch. The outturn for the Rewarding Excellence Award (REA) for all colleagues, was 10.80% of salary. The outturn for the Leading Excellence Award (LEA) for Executive Directors was 22.27% of salary and for the remaining Executive Committee 15.94% - 28.61%, depending on role and individual performance. In assessing the outturn, the Committee updated the target for one of the Enterprise Objectives, which increased the final outturn marginally. As it does each year, the Committee considered the outcome of the LEA in the context of performance in 2024 and whether there were matters to consider, that were not already reflected in the scheme performance measures. Following this review the Committee decided to make a discretionary reduction to the outturn of 2% of salary for the LEA scheme for Executive Directors.
- **Variable pay decisions** – We approved two new variable pay schemes in 2024 for the wider workforce. The Leadership Performance Excellence Award (LPEA), and the Colleague Performance Excellence Award (CPEA). These schemes were launched in 2024 and Executive Directors are not eligible for these new schemes. In addition, we reviewed and approved the performance outturns for the 2023 schemes and approved the targets and measures for our 2025 schemes.

- **Reward Roadmap** – We approved the reward strategy and roadmap taking us to 2030. This articulates where we will focus our reward activities for the next few years and ensures we have clear and guiding principles aligned to the wider business strategy.
- **Executive team** – There were no changes to our Executive Directors during 2024.

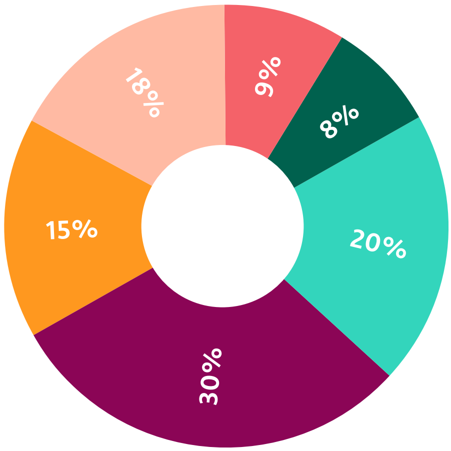
Conclusion

For 2024, we confirm we operated in line with the Directors' Remuneration Policy, detailed within this report. The Remuneration Committee is satisfied that the Directors' Remuneration Policy operated as intended throughout 2024.

The Committee has not exercised any discretion in 2024 other than that noted above.

This report is approved by the Remuneration Committee.

Proportion of time spent by the Remuneration Committee



- Oversight of remuneration across the Society
- Procedural issues
- Regulatory reporting
- Performance award metrics and outcomes
- Variable pay design
- Pay strategy and approach

Key roles and responsibilities

The Committee is responsible for the oversight of the development and implementation of the Society's remuneration policies and practices. This is to ensure they are appropriate to enable the Society to attract, retain and reward individuals with the right skills, experience, knowledge and behaviours to support the achievement of the Society's purpose and strategy.

Further details of the functions carried out by the Committee can be found in the Remuneration Committee Terms of Reference, which are available on our website

Committee membership

The Committee membership comprises of the Chair of the Board and three independent Non-Executive Directors. For 2024, membership included:

- **Debra Williams** – Non-Executive Director (Chair of the Remuneration Committee as of 1 January 2024).
- **Simon Moore** - Chair of the Board and Non-Executive Director.
- **Claire Hafner** – Non-Executive Director (Chair of the Remuneration Committee until 31 December 2023).
- **Shimi Shah** – Non-Executive Director.

Claire Hafner stepped down as Chair of the Committee to take on the role of Chair of the Audit Committee from 1 January 2024. Debra Williams has taken on the responsibility of Chair of the Remuneration Committee from this date.

Committee meetings

Only members of the Committee have the right to attend Committee meetings. Once a year, other Non-Executive Directors are invited to attend the Remuneration Committee to participate in the discussion on Variable Pay outturns. The Chief Executive Officer, Chief People Officer and Head of Reward are invited to attend on a regular basis. Other colleagues may be invited to attend all or part of any meeting, as and when appropriate and necessary. PricewaterhouseCoopers LLP ('PwC'), our independent external advisers, also attend the Committee meetings. No individuals have participated in discussions relating to their own remuneration.

External advisers

The Committee retained PwC as independent external remuneration consultants whom the Committee re-appointed following a tender process in 2021. During the year, the Committee sought independent advice from PwC in relation to Executive Director remuneration and regulatory developments. PwC is a signatory to the voluntary Code of Conduct in relation to remuneration in the UK. The Committee reviews all other services provided by PwC to ensure they continue to be independent and objective and is satisfied that PwC is providing independent, robust and professional advice.

A fixed fee structure has operated since appointment to cover standard services, with any additional items charged on a time/cost basis. PwC is also appointed separately to provide the Society with advice on taxation matters.

Key roles and responsibilities

The Committee is responsible for the oversight of the development and implementation of the Society's remuneration policies and practices. This is to ensure that remuneration policies and practices are appropriate to enable the Society to attract, retain and reward individuals with the right skills, experience, knowledge and behaviours to support achievement of the Society's purpose.

Further details of the functions carried out by the Committee can be found in the Remuneration Committee Terms of Reference, which are available on our website.

Directors' Remuneration Policy

Overview

Our Members tell us that the Society's people are special; we strive to be an employer of choice so that we can continue to attract and retain talented and passionate people. Therefore, the Directors' Remuneration Policy is deliberately designed to:

- Ensure that the business is run safely and successfully for our Members.
- Recognise the PRA and FCA regulatory requirements in relation to remuneration, and the principles of the Corporate Governance Code.
- Support the delivery of our overall 'Framing our Future' business strategy, by ensuring we are a trusted business for the mutual benefit of customers, colleagues and communities. Our Directors' Remuneration Policy forms part of our broader people strategy.

The Directors' Remuneration Policy aims to:

- Attract, motivate, reward and retain high quality Executive Directors who can deliver the purpose of our organisation, ensuring that Principality continues to provide value to Members and to be profitable in a competitive and often uncertain marketplace. This is done by positioning all aspects of pay and benefits for Directors, both in terms of total amount and structure (i.e. the balance of fixed and variable pay), at around market levels for similar roles within the UK mutual building society sector, as well as more broadly where this is appropriate.
- Promote the right behaviours that align with the Society's short-term strategy, position on risk, deliver good outcomes for retail customers, as well as its culture as a Member owned mutual Building Society.
- Encourage sound conduct and risk management practices by setting capital and liquidity hurdles to be met before any variable pay award can be made and, for the Executive Directors, deferring an element of variable pay.
- Align remuneration with the Society's strategy including a focus on our purpose, Members, colleagues and the communities in which we work, while ensuring our approach is fair and inclusive.

Measures taken by the Committee to avoid or manage conflicts of interest:

- Declarations of interests must be confirmed by Committee members at the start of meetings.
- No Executive Director member sits on the Remuneration Committee.
- No individual is present when decisions about their own remuneration are being made.
- Non-Executive Director remuneration is determined by a separate Remuneration Committee, which is led by the Chief Executive Officer and Chief People Officer.

Alignment with the Corporate Governance Code provisions

In developing our Directors' Remuneration Policy, we have considered the requirements of the UK Corporate Governance Code ('The Code') as set out in the table below. Whilst not a requirement for the Society, we are committed to considering the application of 'The Code' to our policy and disclosures, to the extent that it is relevant and practicable to do so. Whilst 'The Code's' focus is primarily on Executive Director remuneration, as the structure of reward at the Society is primarily designed for the workforce as a whole, in our case the characteristics apply Society-wide and not just to the Executive Director team.

Code requirement	How the Committee has considered the requirement when determining policy and practices
Clarity – remuneration arrangements should be transparent and promote effective engagement with the workforce	Information regarding our pay and benefit structures including eligibility (where applicable) is available to all colleagues on our intranet. Throughout the year, colleagues are invited to join Colleague Panel sessions with the Board on a range of strategic topics to share their views as well as colleague views being shared with the Board through our quarterly engagement survey. The full Directors' Remuneration Policy is clearly laid out in the Directors' Remuneration Report. All colleagues within the Society are eligible for the Rewarding Excellence Award (REA), promoting engagement across the workforce.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand	Clear disclosure is within this report of the rationale and operation of each element of Directors' remuneration. There are two variable pay schemes which apply to Executive Directors. Each scheme has clear targets as detailed within this report. Participants are sent copies of relevant documents and scheme rules. Additionally, all Material Risk Takers (MRTs), which includes Executive Directors, sign their acceptance and understanding of the variable pay scheme rules. Executive Directors are incentivised via schemes for which the performance metrics and maximum payment details are disclosed within this report.
Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	The design of our remuneration arrangements is approved by the Remuneration Committee with input from our external advisors to ensure best practice is applied and alignment to regulatory requirements including delivering good outcomes for retail customers. Specifically, the Leading Excellence Award (LEA) has an element of deferral (further detail included within this report) which is held back to enable us to reward and retain our most Senior Leaders, and consider if risk adjustments are required. The Society operates a framework for adjustments to variable pay which considers events which may result in an adjustment to scheme payments being paid. Furthermore, our variable pay schemes have gateways which focus on capital and liquidity controls, risk management, financial targets and individual minimum performance levels. Additionally, the Remuneration Committee can apply malus and clawback to an award made to an Executive Director, Senior Leader and/or MRT, in order to recover pay if new information becomes available. Malus and clawback triggers are outlined in our variable pay scheme rules and within this policy. The results relating to variable pay schemes are subject to audit and governance checks, as appropriate.
Predictability – The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy	We have fixed, on target, and maximum variable pay opportunities. Therefore, we do not have any uncapped variable pay. Scenario charts within this report illustrate potential payments under each element of variable remuneration. Key areas of Committee discretion are clearly outlined within this report and are also detailed within our variable pay scheme rules.

Proportionality – The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance	Variable pay schemes are reviewed each year to maintain alignment to strategy. The targets, weightings and stretch are defined within the scheme each year which are approved by the Remuneration Committee. Our schemes have an individual gateway, such that it is not payable if the individual's performance does not meet requirements. Any Executive Director on a Final Written Warning will not be entitled to receive an award.
Alignment to culture – Incentive schemes should drive behaviours consistent with company purpose, values and strategy	The remuneration policies have been created in order to support the strategy of the Society. Executive Director remuneration outcomes are considered alongside the context of the remuneration of the wider workforce. Variable pay is based on strategic KPIs agreed by the Remuneration Committee, which measure the delivery of the business strategy. The LEA has a substantial proportion directly linked to Leadership behaviours.

Policy on remuneration of Executive Directors

The following table sets out the key elements of remuneration for Executive Directors.

Base Salary	
Link to strategy	To attract and retain Executive Directors who have appropriate capabilities, skills, and experience to deliver the purpose and strategy of the organisation.
Operation	The Committee undertakes a review of the Executive Directors' base salaries each financial year, taking into account factors such as individual role, experience, and business performance, market conditions, and the level of salary increase applied to other colleagues across the Society. Other increases may be implemented in cases such as new responsibilities, progress in role / development and market conditions. The base salary of newly appointed Executive Directors is positioned based on market conditions, skills and experience, and salary relative to other Executives.
Maximum potential value	There is no formal cap set on salaries. Increases are typically in line with the rest of the workforce.
Performance conditions and assessment	N/A although individual performance is considered when planning base pay increases.

Variable pay – Rewarding Excellence Award (REA)	
Link to strategy	To support attraction, motivation, engagement, and retention of our colleagues. This supports achievement of targets for the Society and delivery of strategic objectives, including demonstrating strong commitment to Members.
Operation	The REA is an annual all-colleague variable pay scheme which includes the Executive Directors. Each year a number of key business measures are identified and threshold, target and stretch performance targets are approved by the Remuneration Committee, taking into account a number of factors which may include the Society's strategy, short-term priorities, and the market environment. There are initial gateway requirements for the award which consist of risk, capital and liquidity conditions, financial targets, individual performance and the absence of any material regulatory breaches. Subject to approval, payment will be made in March following the financial year end. There will be no partial deferral of payment. Colleagues who join the scheme part way through the scheme year will be entitled to receive a pro-rated award based on full months worked. The Remuneration Committee can apply malus and clawback to an award made to an Executive Director, Senior Leaders and MRTs. We may reduce and/or recover all or part of the payment. Malus and clawback are outlined in our variable pay scheme rules.
Maximum potential value	**Potential payments for Executive Directors:** Nil for threshold performance. 6% of salary for achieving target. 12% of salary for attaining highly stretching targets.
Performance conditions and assessment	Performance conditions are chosen to demonstrate a strong commitment to our customers, whilst recognising the importance of meeting our profit targets to keep our business safe. Each year at mid-year and end of year the variable pay scheme measures are assessed by the Remuneration Committee to assess the scheme gateways and performance of the measures in relation to variable pay and calculate payment.

Variable pay – Leading Excellence Award (LEA)	
Link to strategy	The LEA aims to incentivise long-term sustainable performance and alignment with interests of Members. Annual awards that pay out when challenging performance measures, around strategic and enterprise-wide goals, are met. Focus on strategic and enterprise-wide measures which look at longer term performance and leadership of the Society drives the shared ownership of objectives.
Operation	The LEA is an annual incentive scheme for Executive Directors and Senior Leaders, with an element of deferred payment. Each year a number of key business measures are identified and threshold, target and stretch performance targets are approved by the Remuneration Committee, taking into account a number of factors which may include the Society's strategy, short-term priorities, and the market environment. There are initial gateway requirements for the award which consist of capital and liquidity conditions, financial targets, individual performance and the absence of any material regulatory breaches. Subject to approval, a proportion of the award is paid in the March following the scheme year and annually thereafter as detailed in the deferral table in the Remuneration Report. Colleagues who join the scheme part way through the scheme year will be entitled to receive a pro-rated award based on full months worked. The Remuneration Committee can apply malus and clawback to an award made to an Executive Director if it is discovered that the award should not be paid. Malus and clawback are outlined in our variable pay scheme rules.
Maximum potential value	**Potential payments for Executive Directors:** Nil for threshold performance. 19% of salary for achieving target. 38% of salary for attaining highly stretching targets.
Performance conditions and assessment	Performance conditions are chosen to focus on strategic and enterprise-wide measures which look at longer term performance and leadership of the Society. Each year at mid-year and end of year the variable pay scheme measures are assessed by the Remuneration Committee to evaluate the scheme gateways and performance of the measures in relation to variable pay and calculate payment.

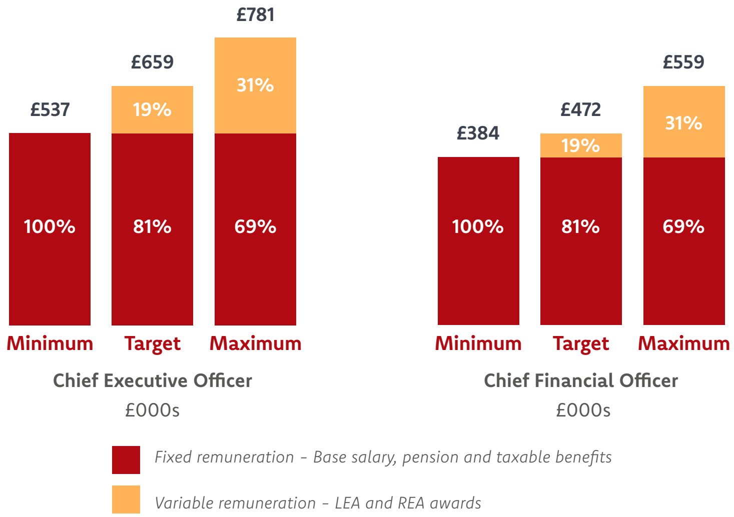
Pension	
Link to strategy	To attract and retain Executives and Executive Directors who have appropriate capabilities, skills, and experience to deliver the purpose and strategy of the organisation.
Operation	The Society operates a single defined contribution pension scheme and all colleagues have the opportunity to participate. Newly appointed Executives or Executive Directors are entitled to receive a pension contribution that is in line with that of the workforce, currently 9% of base salary.
Maximum potential value	Pension contribution of 9% of base salary or equivalent cash allowance.
Performance conditions and assessment	N/A

Benefits	
Link to strategy	To attract and retain Executives and Executive Directors who have appropriate capabilities, skills, and experience to deliver the purpose and strategy of the organisation.
Operation	Executive Directors and Executives are entitled to fully funded family private medical insurance, critical illness cover, life assurance and annual health checks. New appointments are entitled to the above benefits.
Maximum potential value	There is no maximum level; however, the overall value is determined by the nature of the benefit offering which is subject to change each year.
Performance conditions and assessment	N/A

Performance scenario illustrations

The below graph shows the remuneration that each of the Executive Directors could earn for 2025 in line with our Directors' Remuneration Policy as a minimum, at target and as a maximum. These are calculated using Executive Director salaries as at February 2025.

Fixed remuneration figures include salary, pension and taxable benefits. The variable remuneration percentages are shown as a proportion of total fixed remuneration. Target and maximum variable pay opportunities are calculated using base salary.



Malus and clawback

Awards made to MRTs (including Executive Directors) are subject to malus and clawback provisions.

The Remuneration Committee reserves the right to apply malus at the time of payment or at any time before. In doing so they can reduce or remove any award (or deferred portion of an award) including in the following circumstances:

- A significant downturn in the financial performance of the Society resulting in a breach of the initial gateway requirements.
- A significant change in the risk profile of the Society arising from a deterioration in the external macro-economic environment.
- Material failure in risk management, regulatory compliance and/or business conduct.
- Reasonable evidence of serious misconduct on the part of the individual.
- Reasonable evidence of a failure or misconduct for which the individual could be deemed indirectly responsible by virtue of their role or seniority.

In determining any such reduction, the Remuneration Committee shall act fairly and reasonably but its decisions shall be final and binding.

Clawback is defined as when an individual agrees to, or is required by the Society, to return an amount of remuneration under certain circumstances.

The Remuneration Committee reserves the right to reclaim any net of tax cash bonuses paid (i.e. reduced for the amount of income tax and National Insurance contributions), for a three-year period or such longer period as may be required by relevant laws, regulations or guidance issued by the Prudential Regulation Authority, Financial Conduct Authority or any successor body, in the event of the following:

- Material misstatement of the Society's Financial Report and Accounts.
- Error in the calculation of performance measures.
- Reasonable evidence of serious misconduct on the part of the individual.
- Where the employee:
  a) Participated in, or was responsible for, conduct which resulted in significant losses to the Society; or
  b) Failed to meet appropriate standards of fitness and propriety.
- Some other substantive or serious reason.

Policy on remuneration of Non-Executive Directors

The table below sets out the sole element of Non-Executive Directors' remuneration and how it operates.

Fees	
Link to strategy	There are set fees for all Non-Executive Directors, to attract and retain individuals with appropriate knowledge and experience to ensure the purpose of the Society is fulfilled and all governance, regulatory, legal and financial obligations are met.
Operation	The fees are set with reference to the market and taking into account the time commitment and contribution required. Each Non-Executive Director receives a basic fee which is standard for all Non-Executive Directors, apart from the Chair who receives a higher fee to reflect the additional level of responsibility. A Senior Independent Director (SID) also receives an additional fee. An additional Directors' fee is then paid to the Non-Executive Directors who act as Chairs of the various committees. The fees applied to newly appointed Non-Executive Directors is consistent with those paid to existing Non-Executive Directors.
Maximum potential value	There is no 'maximum' fee opportunity.

The elements detailed above are the only elements of remuneration paid to Non-Executive Directors.

Non-Executive Directors are not eligible to participate in any form of variable remuneration scheme and do not receive pensions or other benefits. Travel and subsistence expenses are reimbursed.

Approach to recruitment remuneration

The remuneration arrangements for appointees will be in line with the policy tables above. In addition the Society may offer a relocation package where appropriate and necessary, this would be in line with our relocation policy.

Where there is an internal promotion the policy allows the flexibility to preserve existing remuneration arrangements granted before the individual joined the Board.

Where a new recruit forfeits remuneration awards or opportunities in order to join Principality, we may consider replacing these. This will be done, as far as possible, on a 'like-for-like' basis, with the size of the buy-out award being no higher than what has been forfeited. Any such awards will be in line with the requirements of the PRA / FCA remuneration rules.

Directors' service contracts

The Chief Executive Officer has a service contract that can be terminated by either party on one year's notice or by the payment by the Society of an amount equivalent to one year's remuneration. The other Executive Directors have service contracts that can be terminated by the Society on one year's notice or by the payment by the Society of an amount equivalent to one year's remuneration, and by the Executive Director giving six months' notice.

Executive Director	Date of appointment as a Director of the Society
Chief Executive Officer – Julie-Ann Haines	14/09/2020 (Appointed as CEO) 18/05/2016 (Appointed as Executive Director)
Chief Financial Officer – Iain Mansfield	15/07/2022 (Appointed as CFO) 31/12/2019 (Appointed as Executive Director)

Non-Executive Directors are initially appointed for a term of three years unless terminated earlier by either party giving no less than three months' notice.

Loss of office

The policy for loss of office for each element of Executive Director remuneration is set out in the table below:

Element	Policy
Fixed remuneration	Salary, pension, and contractual benefits continue during the notice period. Payments in lieu of notice of salary only. Payments in lieu of notice are granted at the discretion of the Remuneration Committee.
Variable remuneration	Executive Directors who are not employed by the Society on the date that a proportion of the award is to be paid, or are under notice of dismissal or have tendered resignation, will not be entitled to receive that proportion of the award or any proportion due thereafter. This is with the exception of any colleague who has left or is leaving the Society either as a result of redundancy, or due to the completion of a fixed-term contract, or where the Remuneration Committee determines that it is appropriate in the circumstances for the individual to retain eligibility for variable remuneration. Payments would be pro-rated accordingly to reflect months in business worked during the scheme year.

Consideration of remuneration for individuals elsewhere in the Society

The Committee does not currently consult employees on Remuneration Policy for Directors but it does take into consideration remuneration arrangements for the wider population in the Society when determining Executive Director remuneration. This includes consideration of where our wider colleague population is positioned against market data and broader people metrics.

As part of voluntarily adopting the Corporate Governance Code (The Code) for listed companies, throughout the year colleagues are invited to provide feedback via the Colleague Forum and our quarterly engagement survey. This enables the Society to ensure employees' views are reflected in Board discussions and decisions.

Consideration of Member views

The Remuneration Committee takes into consideration Member feedback given at the AGM when determining policy and outcomes. In our recent AGMs we have received a significant majority vote in favour of our remuneration reports.

Annual Report on Remuneration

This section of the report sets out remuneration awarded to Executive Directors and Non-Executive Directors for 2024. All remuneration decisions have been made in accordance with the Directors' Remuneration Policy, detailed within the Directors' Remuneration Policy section of this report.

Single total figure of remuneration of Executive Directors

The below graph and table provide a summary of the audited single total figure of remuneration for the 2024 financial year for each of the Executive Directors and a comparison to the prior year. Benefits comprise of life assurance, critical illness insurance and private medical insurance. Robert Michael Jones' 2023 taxable benefits also include legacy car allowance and pension contributions.

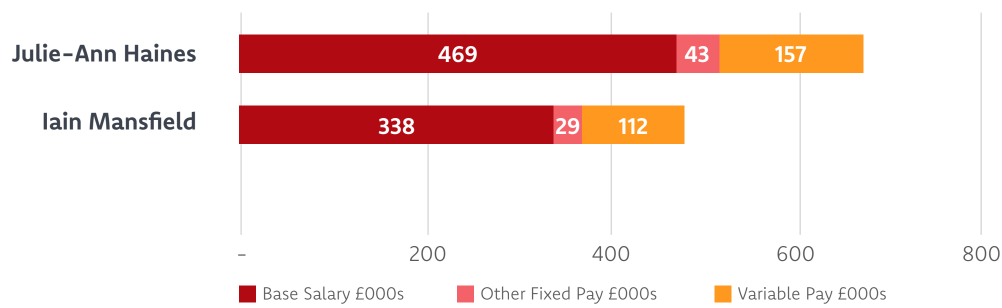
Audited information Individual	Year	Base Salary £000	Taxable Benefits £000	Pension £000	Total Fixed Remuneration £000	Variable Pay £000	Total Remuneration £000
Chief Executive Officer Julie-Ann Haines	2024	469	5	38	512	157	669
	2023	397	4	32	433	159	592
Chief Financial Officer Iain Mansfield	2024	338	3	26	367	112	479
	2023	314	3	25	342	115	457
Chief Risk Officer Robert Michael Jones*	2024	N/A	N/A	N/A	N/A	N/A	N/A
	2023	155	6	23	184	N/A	184

** Robert Michael Jones resigned from the Society on 30 June 2023. The 2023 remuneration reported here represents his remuneration for the period he was employed in the year i.e 6 months.*
Robert Michael Jones' successor is not an Executive Director and therefore the current Chief Risk Officer's remuneration has not been included here.

For February 2024, it was agreed that Executive Director base salaries would be assessed in line with an in-depth review of market competitiveness, following a strong performance year for the Society and several years of moderation on Executive Director pay.

When reviewing the 2024 pay increases for the Chief Executive Officer and Chief Financial Officer, it was determined that their salaries were misaligned to that of peers in other similar sized building societies (our primary reference point). Given the moderation in Executive pay in recent years, their performance and experience levels, an increase of 19% was applied to the Chief Executive Officer's pay for 2024, increasing it to £475,000; and an increase of 8% was applied to the Chief Financial Officer, increasing it to £340,000. In line with changes to the wider workforce, the pension opportunity for the Executive Directors increased to 9% of salary from May 2024.

Variable pay outturns were lower in 2024 than 2023 resulting in a decrease in payout against the schemes.



Remuneration Committee Report

Variable remuneration outcomes

Variable remuneration for Executive Directors consists of both the Rewarding Excellence Award (REA) and the Leading Excellence Award (LEA). The outcomes of both schemes for 2024 are detailed in the sections below.

Rewarding Excellence Award

All eligible colleagues, including Executive Directors, will receive an REA award for 2024 of 10.80% of base salary.

Performance measure	Weighting	Threshold performance	Target performance	Stretch performance	Performance result	Performance outturn
Financial Performance Adjusted ManEx[1]	30%	0.86%	0.84%	0.82%	0.8%	3.60%
Customer Service Qualtrics Score	30%	64.0	68.0	70.0	71.7	3.60%
Key Strategic Measure Net Savings Growth[2]	30%	£525m	£687m	£1,064m	£1,353m	3.60%
Carbon footprint CO_2 Reduction[3]	10%	50 tCO_2e	80 tCO_2e	110 tCO_2e	Increased by 41.5 tCO_2e	0.00%

1. A detailed breakdown of adjusted ManEx is included in the financial review on page 15
2. Net savings growth is the growth in customers savings, excluding accrued interest
3. CO2 Reduction measures the reduction of our carbon footprint

Leading Excellence Award

The LEA is only awarded to Executive Directors and Senior Leaders. The total LEA award for 2024 will be 22.27% of base salary for the Chief Executive Officer and Chief Financial Officer including achievement against the Leadership Promises measure.

Performance measure	Weighting	Threshold performance	Target performance	Stretch performance	Performance result	Performance outturn as % of salary
Strategic KPIs Progress Better Homes, Secure Futures and Fairer Society outcomes[1]	33.33%	4 measures (out of 9) at or above target	6 measures (out of 9) at or above target	8 measures (out of 9) at or above target	7 out of 9 measures achieved	9.50%
Enterprise Objectives Progress longer term strategic ambitions[2]	33.33%	6 measures (out of 12) at or above target	8 measures (out of 12) at or above target	11 measures (out of 12) at or above target	9 out of 12 measures achieved	8.44%
Leadership Promises Individual assessment[3]	33.33%	Developing	Strong	Outstanding	Strong	CEO – 6.33%, CFO – 6.33%

[1] Our core SKPIs will drive a continued focus on maintaining our longer term Society outcomes. The targets are based on a total of nine SKPIs. Further details on SKPIs can be found in the Strategic Report section of the Annual Report.
[2] During 2024 we have focussed on 12 short to medium term Enterprise Objectives which each have a defined success measure(s) and focus on in-year priorities to deliver our longer term goals. For 2024, examples included, working to create a differentiated savings brand and customer experience, and simplifying our business to become more efficient and effective. The Committee updated the target for one of the Enterprise Objectives measures, to reflect business decisions that were made after the targets were set at the beginning of the performance year.
[3] The outturn for this measure is based on an individual performance rating.

The Committee considered the outcome of the LEA in the context of performance in 2024 and whether there were matters to consider, that were not already reflected in the scheme performance measures. Following this review the Committee decided to make a discretionary reduction to the outturn of 2% of salary for the LEA scheme for Executive Directors.

The impact of deferral

For Executive Directors, 60% of the award for 2024 performance is payable in March 2025, with the remaining 40% deferred. The table below shows the percentage of the LEA which will be paid in each year and any payments yet to be made.

Variable pay received	2024	2025	2026	2027
2024 performance period	–	60%	20%	20%
2023 performance period	60%	20%	20%	–
2022 performance period	20%	20%	–	–

To receive each proportion of their award an individual must be employed on the corresponding payment date to be considered for payment. All other individuals will not be entitled to receive that proportion of the award or any proportion due thereafter.

Payments to past Directors

There were no payments to past Directors in 2024.

Payments for loss of office

There were no payments for loss of office in 2024.

Remuneration of the Chief Executive Officer over time

The table below shows the total remuneration of the Chief Executive Officer for the current and prior years.

Total remuneration includes base salary, pension, taxable benefits and variable pay awards under both the REA and LEA.

Year ended	Chief Executive Officer	Total remuneration £000	Actual variable pay received as a percentage of maximum opportunity %
2024	Julie-Ann Haines	669	66%
2023	Julie-Ann Haines	592	80%
2022	Julie-Ann Haines	501	60%
2021	Julie-Ann Haines	508	73%

Chief Executive Officer pay ratio

The Chief Executive Officer pay ratio provides a snapshot of the overall pay differential that exists between the Chief Executive Officer (the highest paid person within the organisation), against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles. This means that when all colleagues' pay is listed from highest to lowest, the median is the middle value in that list, and the percentiles represent the lower and upper quartile position.

The table overleaf shows that the Chief Executive Officer's total remuneration is 16 times that of the median colleague and has changed compared to previous years due to the increase to the Chief Executive Officer's salary in 2024. The ratio remains consistently lower than peer group comparators in Financial Services.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2024	Option A	22:1	16:1	11:1
2023	Option A	20:1	14:1	10:1
2022	Option A	19:1	14:1	10:1
2021	Option A	20:1	14:1	10:1

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2024 are:

	25th percentile	Median	75th percentile
Total remuneration	£31,234	£43,488	£60,282
Salary	£25,745	£35,947	£50,000

Notes to the Chief Executive Officer pay ratio:

- Employee data includes full time equivalent total remuneration for all permanent and fixed term UK employees employed as at 31 December 2024. Variable pay is based on actual outcomes for 2024 as detailed above. Colleagues on sick leave, parental leave or career breaks at this date were excluded to ensure most accurate like for like comparison data.
- In previous years we have calculated this ratio following the spirit of the Option A CEO Pay Ratio guidelines. For 2024 we have developed a more robust data set and process for calculation of CEO pay ratio in line with the guidelines. We assessed this against 2023 data and found no difference. We will now continue to apply this process and methodology to CEO pay ratio.
- Our approach to reward ensures that remuneration (including base pay, variable pay and benefits) at Principality is transparent, fair, free from discrimination and aligned to the external market.

Non-Executive Directors Remuneration

The following table provides the fee structure for our Non-Executive Directors, effective February 2024. Our fees contain a base fee element and an additional element for chairing a committee, to reflect the additional level of responsibility.

Non-Executive Director fees have been treated the same way as the wider workforce in terms of consideration of market competitiveness and the same level of increase applied to them. Where appropriate, this has resulted in a 4% increase to fees. It was our view that the Senior Independent Director fee had fallen behind market and as such, an additional increase was applied to bring the annual fee from £6,300 to £10,000. This is reflective of the additional responsibilities the role holds.

It was agreed in 2024 that, fees for chairing a committee would be aligned, given the view that time commitments across these roles are similar. The Audit Committee and Risk Committee Chair fees, which have historically been higher, have been increased by 4%, and the fees for other Committee Chairs matched to this.

Role and fee structure	Base	Committee Chair	SID	Total fees
Chair / Chair of Noms and Gov	£160,000			£160,000
Senior Independent Director			£10,000	£10,000
Remuneration Committee Chair	£57,876	£15,288		£73,164
Risk Committee Chair	£57,876	£15,288		£73,164
Audit Committee Chair	£57,876	£15,288		£73,164
Committee Member	£57,876			£57,876

The following table provides the audited information showing a single total figure of remuneration for the 2024 financial year for each of the Non-Executive Directors and compares this figure to the prior year.

Audited information Non-Executive Directors	Fees	
	2024 £000	2023 £000
Sally Jones-Evans - Chair of the Board of Directors (until April 2024)	50	134
Simon Moore - Non-Executive Director (from January 2024) and Chair of the Board of Directors (from April 2024)	151	-
Claire Hafner - Chair of the Audit Committee (from January 2024)	73	68
Debra Williams - Chair of the Remuneration Committee (from January 2024)	73	55
Jonathan Baum - Chair of the Board Risk Committee and Senior Independent Director	83	75
Shimi Shah - Non-Executive Director	58	37
Karen Maguire - Non-Executive Director (from September 2024)	19	-
Maria Timon Samra - Non-Executive Director (from November 2024)	9	-
Ian Greenstreet — Chair of the Audit Committee (from April 2023 until December 2023)	-	71
Derek Howell - Chair of Audit Committee and Senior Independent Director (until March 2023)	-	19
Total	**516**	**459**

Annual percentage change in remuneration of Directors and employees

The following table shows the percentage change in remuneration of each of the Directors from 2023 to 2024 compared with the average for all other employees. Data for all employees has been calculated on a full-time equivalent basis for comparison purposes and reflects all employees as at 31 December 2024. Executive Directors are based on actuals across the year.

Non-Executive Director fees increased by 4% in the year in line with other Senior Leaders, with the exception of the Chair whose fees increased by 19%.

Additionally, the performance of our variable pay schemes were stronger in 2024 than in 2023.

% change in remuneration year-on-year						
	Salary/Fees		Benefits		Variable Pay	
	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23
Executive Directors					**REA and LEA**	
Julie-Ann Haines	18%	10%	19%	9%	-13%	46%
Iain Mansfield[1]	8%	17%	4%	-28%	-9%	47%
Non-Executive Directors[2]						
Chair	19%	12%		-		-
All Non-Executive Directors	4%	5%		-		-
All employees					**REA only**	
Change in average salary[3]	5.7%	2%	17.6%	3%	-4%	11.77%

Remuneration Committee Report

[1] The increase in salary for the CEO and CFO was due to additional adjustments made following market assessment and salaries were adjusted to reflect market conditions for these roles. Additionally, the performance of the variable pay schemes was not as strong in 2024 compared to that in 2023.
[2] Non-Executive Director fees increased by 5% in the prior year in line with other Senior Leaders, with the exception of the Chair whose fees increased by 12%.
[3] The change in all employee average salary in the prior year was low because there was no colleague pay review. The 2023 pay review was brought forward from February 2023 to November 2022. The year on year change therefore is as a result of in-year increases and changes to the colleague population. The increase to benefits is as a result of the increase to our pension contributions from 8% to 9% resulting in a large proportion of colleagues increasing their contributions, as well as the increased cost of our core benefits such as Life Assurance, Critical Illness and Private Medical Insurance. Additionally, the performance of the variable pay schemes was not as strong in 2024 compared to that in 2023.

Relative importance of spend on pay

The following table sets out the changes in underlying Profit Before Tax for 2024 and 2023 and compares these with overall spend on remuneration. The Society only seeks to retain sufficient profit to maintain capital ratios and allow for investment in the business, returning any surplus above this to Members. Therefore, total assets have also been included in the table below as the level of growth in mortgage and savings balances are a more appropriate comparator. Employee remuneration costs consist of wages and salaries, National Insurance costs, and other pension costs as disclosed within the administrative expenses note to the Financial Statements within the Annual Report and Accounts. Underlying Profit Before Tax excludes fair value movements and reflects the true trading performance of the business. This is further explained in the Financial Review section of the Annual Report and Accounts.

The increase in employee remuneration costs reflects increase to salaries following February 2024 pay review and increase to pension contributions in May 2024.

	2024	2023	Percentage change %
Total assets	£14,109m	£12,527m	12.63
Employee remuneration costs	£65.9m	£61.5m	7.15
Underlying profit before tax	£40.3m	£60.3m	-33.17
Headcount (number of full-time equivalent employees)	1,225	1,228*	-0.24

** 2023 headcount has been corrected*

Material Risk Takers (MRTs)

MRTs are defined as those 'whose professional activities have a material impact on the firm's risk profile'. The Remuneration Committee is responsible for approving remuneration policies, maintaining oversight of the remuneration of MRTs and for ensuring the remuneration paid to MRTs is in line with regulatory requirements. Details of the MRT remuneration arrangements for 2024 are included in the Pillar 3 document which is available on our website.

Looking ahead to 2025

The Committee undertakes a review of the Executive Director base salaries effective from 1 February of each financial year, taking into account factors such as individual and business performance, market conditions, and the level of salary increase applied to other colleagues across the Society.

For February 2025, it was agreed that Executive Directors' base salaries would be reviewed in line with the wider workforce. Our Chief Executive Officer and Chief Financial Officer base salaries have been increased by 2.8%. It is noted that we are moving behind the market and will review this further in 2025 to see if further increases are required to be market aligned for the future.

The new salaries for these two roles are as follows:

Chief Executive Officer: £488,300

Chief Financial Officer: £349,520

No changes will be made to the benefits provided to Executive Directors for 2025. The variable pay schemes for Executive Directors for 2025 will continue to be the LEA and REA schemes with no change to target or maximum potential values.

Non-Executive Director fees have been increased, resulting in an increase of the base Non-Executive Director fee to £60,000 and £165,000 for the Chair of the Board. All remaining fees have been increased by 2.8% in line with the wider workforce.

Statement of Member voting

The Society is committed to open and honest dialogue with our Members and take an active interest in voting outcomes. The voting results for the 2023 Director's Remuneration Report are set out below.

Approval

This report is approved by the Remuneration Committee.

Votes for 19,414	**Votes against** 1,590
% in favour 92.43%	**% against** 7.57%

** 498 votes were witheld*

Directors' Report

for the year ended 31 December 2024

The Directors are pleased to present the Annual Report and Accounts and Annual Business Statement of the Society and its subsidiary undertakings for the financial year ended 31 December 2024. The Directors confirm that, to the best of their knowledge, the Annual Report and Accounts, taken as a whole, is fair, balanced, provides an understandable assessment of the Society's position and prospects and provides the information necessary to Members to assess the Society's performance, business model and strategy. Further information is provided in the Report on the Audit Committee on pages 65 to 68.

Directors

The names of the Directors at the date of this report, together with brief biographical details, are listed on pages 49 to 52. Details of changes affecting the composition of the Board are set out in the Corporate Governance Report on pages 54 to 56. In accordance with the UK Corporate Governance Code, and as permitted by Society Rule 26(1), all of the Directors retire and stand for re-election at the Annual General Meeting. All Directors are eligible and willing to continue serving on the Board and there have been no other nominations. During the year, no Director of the Society was, or has since, been beneficially interested in the share capital of, or any debentures of, any connected undertaking of the Society. The Society has made qualifying third party indemnity provisions for the benefit of its Directors and Officers, which remain in force at the date of this report.

Auditor

At the Annual General Meeting on 19 April 2024, the Members passed a resolution that Deloitte LLP be reappointed as auditor for the ensuing year.

Responsibilities of the Directors

The following statement, which should be read in conjunction with the statement of the auditor's responsibilities on page 97, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, the Report of the Remuneration Committee, the Annual Business Statement and the Directors' Report.

The Directors are required by the Building Societies Act 1986 to prepare, for each financial year, Annual Accounts which give a true and fair view of the income and expenditure of the Society and the group for the financial year and of the state of affairs of the Society and the group as at the end of the financial year and which provide details of Directors' emoluments in accordance with Part VIII of the Act and regulations made under it. In preparing the Annual Accounts, the Directors are required to:

- Select appropriate accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed
- Prepare the Annual Accounts on the going concern basis, unless it is inappropriate to presume that the Society will continue in business for the next 12 months.

The Act states that references to International Accounting Standards accounts giving a true and fair view, are references to their achieving a fair presentation. 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 Society and its connected undertakings.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society and its subsidiary undertakings:

- Keeps accounting records in accordance with the Building Societies Act 1986
- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities. So far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware. Each of the Directors, whose names and functions are listed on pages 49 to 52, have taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

The Directors are also responsible for the integrity of statutory and audited information on the Society's website **principality.co.uk**

The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. Information in these financial statements is provided under the legislation of the United Kingdom.

Directors' statement pursuant to the Disclosure and Transparency Rules

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the Directors have included a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Society. This information is contained principally in the Strategic Report. The Directors confirm that, to the best of each of their knowledge and belief:

- The financial statements, prepared in accordance with IFRS' as adopted by the UK, present fairly the assets, liabilities, financial position and profit of the group and Society
- The management report contained in the Strategic Report includes a fair review of the development and performance of the business and the position of the group and Society as well as a description of the principal risks and uncertainties that they face.

Long-term viability statement and going concern

The Society's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out within the Strategic Report and the Risk Report. In addition, notes 31 to 33 of the Annual Accounts include the Society's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk, liquidity risk and market risk.

In common with many financial institutions, the Society meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business. The Society's forecasts and objectives, which take into account potential changes in trading performance and funding retention, indicate that the Society expects to be able to operate at adequate levels of both liquidity and capital for at least the next 12-month period.

Consequently, after reviewing the Society's forecasts and the risks it faces, the Directors are satisfied that there are no material uncertainties that may cast significant doubt about the Society's ability to continue as a going concern and have, therefore, continued to adopt the going concern basis in preparing these Annual Accounts, as explained in note 1 to the Accounts.

In accordance with the UK Corporate Governance Code, the Directors have assessed the prospects and the ongoing viability of the Society over a longer period than the 12-month period required by the going concern basis of accounting. The Directors' assessment of the medium-term prospects of the Society is based on the Society's corporate plans, which project the Society's performance, profitability, capital, liquidity and funding position over a three-year period.

The assessment included a review of the Society's current position relative to the market and a review of the Society's strategic priorities over the medium-term, including management actions to achieve these strategic goals. The assessment also included a robust review of the Society's principal risks and uncertainties, which were taken into account to ensure that the possible likelihood or impact of these risks materialising would not materially impact the prospects of the Society and to ensure that the necessary control framework was in place to mitigate the impact of these risks on the future prospects of the business. Specifically, the Directors took account of those risks that could result in events or circumstances that might threaten the Society's business model, future performance, solvency or liquidity and reputation, including the social, economic, political and regulatory environments and climate change. The Directors concluded that the medium-term prospects of the Society are satisfactory and that the financial strength of the business remains healthy throughout the period of assessment.

The Directors have assessed the viability of the Society with the period of assessment being a three-year period, to the end of 2027. Having considered various options, the Directors determined that a three-year period is an appropriate period for the purposes of the Society's viability assessment. This period reflects the Society's three-year corporate planning horizon over which the prospects of the Society and the principal risks threatening these prospects are assessed as outlined above, and also the period over which associated stress testing is performed. In arriving at their conclusion on the longer-term viability of the Society, the Directors considered the following:

- The Society's prospects over the three-year period as outlined above
- Stress testing carried out on the 2025-2027 business plans through the Society's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process. The key economic stress test modelled reflected a market-wide fall in residential house prices of 30%, unemployment reaching 8% and the Bank Base Rate reaching a high of 6.75%, each of which would adversely impact upon the level of losses experienced within the Society's loan portfolio. The Directors concluded that the impact of this severe economic environment would not threaten the longer-term viability of the Society
- The potential impact of climate related financial risks
- The principal risks facing the Society and the control framework in place to manage and mitigate these risks (as outlined in the Risk Report), including an assessment of the likelihood and impact of these risks on the Society. This includes specific consideration of the significant economic and political uncertainties associated with current inflationary pressures (domestic and global) and the events in Ukraine

There are inherent limitations in preparing long-term financial plans with regard to a number of factors including, but not limited to, social, economic, political, regulatory and climate factors. The Directors consider that the outer years of the financial planning period are more difficult to predict and therefore these years have a greater degree of uncertainty. However, based on the results of this assessment, the Directors concluded that they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Strategic Report

The Society's strategic report information required by Schedule 7 to the Accounting Regulations and the capital structure of the Society are set out in the Strategic Report on pages 4 to 45.

Anti-Corruption and Anti-Bribery matters

The Society is committed to maintaining the highest standards of ethics and integrity in the way in which it operates and by abiding by the law. The Society complies with the UK Bribery Act and any act of fraud, bribery or corruption is treated seriously by the Society. The Society expects its business partners to adopt the same approach.

All colleagues including the Chief Executive Officer and members of the Senior Leadership team have been trained in recognising and understanding bribery and corruption risks. The Society's exposure to potential bribery and corruption risks is reviewed annually and the outcome of that review is reported to the Society's Operational Risk Committee. Everyone in the business must comply with the Society's Bribery and Conflicts of Interest Policy.

The Chief Executive Officer is responsible for reminding all colleagues of the Society's values and zero tolerance approach to all forms of bribery and corruption.

The Society uses an e-learning solution to support anti-bribery training and assessments. Details of the Risk Committee's remit, which includes adherence to the Bribery and Conflicts of Interest Policy, can be found on the Society's website.

Colleagues

More information on how the Society engages and supports it colleagues can be found in the Impact Beyond Scale section on pages 24 to 25.

Country by country reporting

The following information is disclosed in accordance with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country by country reporting (CBCR):

a) Name, nature of activities and geographical location

Principality Building Society is the parent company and a list of the subsidiaries can be found in note 21 of these accounts. The principal activities of the Society can be found in the Strategic Report. All group companies operate in the United Kingdom only.

b) Average number of employees

The average number of employees is disclosed in note 10.

c) Annual turnover

Net operating income is set out in the Consolidated Income Statement.

d) Pre-tax profit or loss

Profit before taxation is set out in the Consolidated Income Statement.

e) Corporation tax paid

Corporation tax paid is set out in the Consolidated Statement of Cash flows.

f) Public subsidies received

No public subsidies were received in 2024.

Charitable and political donations

In 2024, the Society made donations to charities of £1.5m (2023: £1.3m). No political donations were made by the Society in the current or prior year.

Creditor payment policy

Our policy is to agree terms and conditions with suppliers that outline the way in which business is to be transacted, including the terms of payment, and to pay in accordance with contractual and other legal obligations. The Society's creditor days stood at six days at 31 December 2024 (2023: four days).

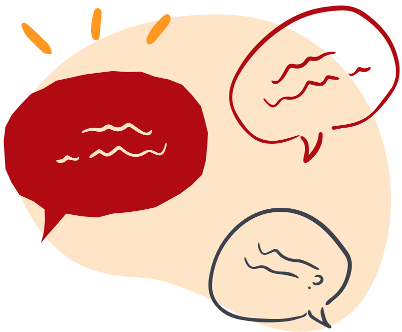
Whistleblowing policy

Our Whistleblowing policy sets out the arrangements in place which enable colleagues (and others) to raise concerns relating to wrongdoing. The Society's Board reviewed and approved the Whistleblowing policy at its December 2024 meeting alongside receiving the annual Board Whistleblowing Champions Report.

On behalf of the Board of Directors:

Simon Moore
Chair

18 February 2025



Financial Statements

Independent Auditor's Report to the Members of Principality Building Society

for the year ended 31 December 2024

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the Society's affairs as at 31 December 2024 and of the group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the group and Society income statements;
- the group and Society statements of comprehensive income;
- the group and Society statements of financial position;
- the group and Society statement of changes in Members' interests;
- the group and Society cash flow statements;
- the material accounting policy information; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom international accounting standards.

Basis for opinion

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

We are independent of the group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and the Society for the year are disclosed in note 9 to the financial statements. We confirm that that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the Society.

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

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • IFRS 9 Financial Instruments - Expected Credit Loss ("ECL") provisioning. Within this report, key audit matters are identified as follows: - Similar level of risk
Materiality	The materiality that we used for the group financial statements was £6.0m (2023: £5.7m) which was determined on the basis of 0.8% (2023: 0.8%) of net assets.
Scoping	All material entities in the group are within our audit scope and audited to an appropriate lower-level component performance materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed by the group audit engagement team.
Significant changes in our approach	There are no significant changes in our approach in the current year.

Conclusions relating to going concern

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

Our evaluation of the Directors' assessment of the group's and society's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls around Director's going concern assessment;
- assessing the Director's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- assessing the group and Society's compliance with capital and liquidity requirements;
- with the involvement of prudential regulation specialists, assessing the information supporting the liquidity and capital forecasts, including stress testing and reverse stress testing performed by the Directors;
- assessing historical accuracy of forecasts prepared by Directors, by comparing historical forecasting to actual results; and
- assessing the appropriateness of the going concern disclosures in the financial statements.

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

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

Key audit matters

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

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

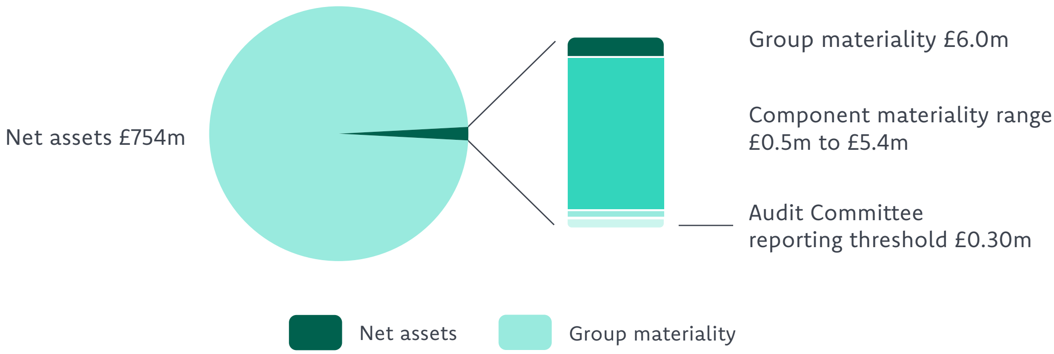
IFRS 9 Financial Instruments – Expected Credit Loss provisioning	
Key audit matter description	In accordance with IFRS 9 Financial Instruments, expected credit losses are recognised for all residential and commercial mortgages that are held at amortised cost. Estimating these expected credit losses requires the use of complex models and application of judgement and estimation to assumptions. These assumptions are informed using historical behaviour and experience through different economic cycles as well as credit bureau data. The group held £30.6m of impairment provisions (2023: £34.7m) against total loans and advances to customers of £11,391m (2023: £10,223m). Our key audit matter on ECL provisioning relates specifically to the appropriateness of the assumptions within the economic forecasts selected, and the weightings applied, which are based on a range of forecasts that take account of current and historical macroeconomic conditions. Judgement is involved in selecting key assumptions and weightings. And the appropriateness of recognised post model adjustments (PMAs). Given the material effect of the significant judgement taken in deriving the above, we also considered that there is a potential for fraud risk through possible manipulation of this balance. The group's loan loss provision balances are detailed within note 17. The group's associated accounting policies are detailed on pages 109 – 112 with detail about judgements in applying accounting policies and key sources of estimation uncertainty on pages 116 – 117. The Directors' consideration of the effect of the future economic environment is disclosed on page 18. The Audit Committee's consideration of the matter is described on page 66.
How the scope of our audit responded to the key audit matter	Our audit procedures included obtaining an understanding of the relevant controls around the loan impairment process and the determination of the judgements within the model. We challenged the Directors' consideration of the future economic environment, with the involvement of our economic specialists, we assessed the Directors' approach as well as comparing modelling assumptions to publicly available data from peer organisations, regulators, and economic commentators. With the involvement of our internal credit modelling specialists, we evaluated the completeness and accuracy of post model adjustments recognised in relation to the cost of living crisis, this included considering macroeconomic factors to assess whether recognition remains appropriate. We reconciled the loan book to the general ledger and substantively tested a sample of loans to assess the completeness and accuracy of the data used in the provision calculation. We also assessed the relevance and reliability of information provided by third party institutions, which are used in the model. We performed a stand back assessment of the overall provision recognised by management across the retail and commercial loan book portfolios. We considered the potential climate change impact on ECL provision
Key observations	Based on our audit procedures above, we concluded that the group's ECL provision is reasonably stated and is supported by a methodology that is appropriately applied.

Our application of materiality

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

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

	Group financial statements	Society financial statements
Materiality	£6.0m (2023: £5.7m)	£5.4m (2023: £4.9m)
Basis for determining materiality	0.8% of net assets (2023: 0.8% of net assets)	0.8% of net assets (2023: 0.8% of net assets)
Rationale for the benchmark applied	We have continued to determine it appropriate to use net assets as the benchmark for materiality. This is based on professional judgement and taking consideration of the financial measures most relevant to users of the financial statements. The group and the Society are balance sheet driven businesses and net assets is understood to be regulatory capital, which is of significant interest for users of the financial statements including regulators.	



Performance materiality

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

	Group financial statements	Society financial statements
Performance materiality	65% (2023: 65%) of group materiality	65% (2023: 65%) of Society materiality
Basis and rationale for determining performance materiality	Due to IT control deficiencies identified in the prior year, we continue to be unable to adopt a control reliance strategy in performing audit procedures over key lending and savings balances. As part of our response, we have maintained a reduced performance materiality level of 65% of materiality. We have not reduced performance materiality further due to the moderate and isolated level of prior-year uncorrected and corrected misstatements and the low likelihood of errors occurring based on our previous experience.	

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £302,000 (2023: £285,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group wide controls and assessing the risks of material misstatement at the group level. Based on that assessment, we performed an audit of the Society and its material subsidiaries (Nemo Personal Financing Limited, Friary no.7, Friary no.8 and Friary no.9), providing full scope and coverage of 100% (2023: 100%) of the group's net assets and a 99% (2023: 97%) coverage on revenue and 99% (2023: 99%) coverage on profit before tax. This was executed at levels of materiality applicable to each individual entity which were lower than group materiality and in the range of £0.5m to £5.4m (2023: £0.6m to £4.9m).

We, as the group auditor, were responsible for performing the audit of each subsidiary. At the group level we also tested the consolidation process.

Our consideration of the control environment

Due to IT control deficiencies identified by our IT specialists in the prior year, in respect of user access review and privilege user access, remaining unmitigated, we continue to take a non-controls reliance auditing strategy over the residential first charge, commercial lending and savings cycles. This increased the extent of our substantive audit procedures over these balances and in some areas, also altered the nature of our substantive procedures. We have not taken a controls reliance approach during our current year audit.

We have also obtained an understanding of the relevant controls within the financial reporting, treasury and loan impairment processes.

The Audit Committee has performed their own assessment of the internal control environment as set out on pages 66 - 67.

Our consideration of climate-related risks

In planning our audit, we made enquiries of management to understand the extent of the potential impact of climate change risk on the group's financial statements.

As disclosed in note 2, management concluded that there was no material impact on the financial statements. Our evaluation of this conclusion included performing enhanced risk assessment procedures over the key judgements and estimates in areas where we considered that there was greatest potential for climate change impact. This was principally in relation to the ECL.

We also considered the consistency of the climate change disclosures, included in the Strategic Report on pages 26 - 35, with the financial statements and our knowledge from our audit.

Other information

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

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

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

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

We have nothing to report in this regard.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in relation to IFRS 9 Financial Instruments - Expected Credit Loss ("ECL") Provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. The key laws and regulations we considered in this context included those set by the Financial Conduct Authority and other conduct related matters. In addition, we considered the regulation set by the Prudential Regulation Authority relating to regulatory capital and liquidity requirements which are fundamental to the group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified IFRS 9 Financial Instruments - Expected Credit Loss ("ECL") Provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Building Societies Act 1986

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

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

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

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

In our opinion the information given on page 90 of the financial statements for the financial year ended 31 December 2024 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Other matters which we are required to address

Audit tenure

Following the recommendation of the Audit Committee, we were appointed at the Annual General Meeting by the Members of the Society on 27 April 2007 to audit the financial statements for the year ending 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 December 2007 to 31 December 2024.

Consistency of the audit report with the additional report to the Audit Committee

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

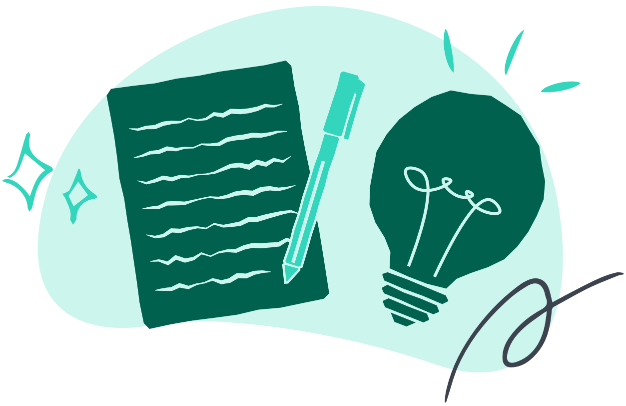
Use of our report

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

David Heaton
Senior Statutory Auditor

For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
18 February 2025

David Heaton



Financial Statements

for the year ended 31 December 2024

Consolidated income statement

	Notes	2024 £m	2023 £m
Interest receivable and similar income	4	724.4	574.1
Interest payable and similar charges	5	(562.4)	(392.8)
Net interest income		**162.0**	**181.3**
Fees and commission receivable	6	2.9	3.5
Fees and commission payable		(2.4)	(2.7)
Net fee and commission income		**0.5**	**0.8**
Other operating income		1.7	1.5
Other fair value gains	8	8.9	–
Net operating income		**173.1**	**183.6**
Administrative expenses	9	(113.8)	(105.2)
Depreciation and amortisation	22 & 23	(10.8)	(11.1)
Other impairment losses	22 & 23	–	(3.3)
Operating expenses		**(124.6)**	**(119.6)**
Impairment provision release/(charge) on loans and advances	19	3.6	(3.5)
Provision for liabilities	20	(2.9)	(0.2)
Operating profit and profit before taxation		**49.2**	**60.3**
Taxation expense	13	(12.6)	(13.9)
Profit for the year		**36.6**	**46.4**

Consolidated statement of other comprehensive income

	Notes	2024 £m	2023 £m
Profit for the year		36.6	46.4
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on retirement benefit obligations	12	0.1	(13.4)
Tax charge on retirement benefit obligations	13	–	3.2
Items that may be reclassified subsequently to profit and loss:			
Gain on fair value through other comprehensive income		–	2.6
Tax credit on fair value through other comprehensive income	13	–	(0.6)
Total comprehensive income for the year		**36.7**	**38.2**

All items dealt with in arriving at the profit before tax and the profit for the financial year, and the preceding financial year, relate to continuing operations.

The accounting policies and notes on pages 107 to 165 form part of these accounts.

Income statement of the Society

	Notes	2024 £m	2023 £m
Interest receivable and similar income	4	716.2	565.7
Interest payable and similar charges	5	(558.8)	(390.4)
Net interest income		**157.4**	**175.3**
Fees and commission receivable	6	2.9	3.5
Fees and commission payable		(2.4)	(2.8)
Net fee and commission income		**0.5**	**0.7**
Other operating income		1.7	1.4
Income from investments	7	16.8	21.3
Other fair value gains	8	7.6	–
Net operating income		**184.0**	**198.7**
Administrative expenses	9	(113.0)	(104.5)
Depreciation and amortisation	22 & 23	(10.8)	(11.1)
Other impairment losses	22 & 23	–	(3.3)
Operating expenses		**(123.8)**	**(118.9)**
Impairment provision release/(charge) on loans and advances	19	3.0	(3.7)
Provision for liabilities	20	(2.8)	(0.1)
Operating profit and profit before taxation		**60.4**	**76.0**
Taxation expense	13	(11.1)	(12.5)
Profit for the year		**49.3**	**63.5**

Statement of other comprehensive income of the Society

	Notes	2024 £m	2023 £m
Profit for the year		49.3	63.5
Items that will not be reclassified subsequently to profit and loss:			
Actuarial loss on retirement benefit obligations	12	0.1	(13.4)
Tax charge credit on retirement benefit obligations	13	–	3.2
Items that may be reclassified subsequently to profit and loss:			
Gain on fair value through other comprehensive income		–	2.6
Tax credit on fair value through other comprehensive income	13	–	(0.6)
Total comprehensive income for the year		**49.4**	**55.3**

All items dealt with in arriving at the profit before tax and the profit for the financial year, and the preceding financial year, relate to continuing operations.

The accounting policies and notes on pages 107 to 165 form part of these accounts.

Consolidated statement of financial position

	Notes	2024 £m	2023 £m Restated[1]	2022 £m Restated[1]
Assets				
Cash in hand and balances with the Bank of England		1,668.8	1,374.9	1,566.9
Loans and advances to credit institutions	14	308.4	329.4	277.1
Debt securities	15	528.3	317.5	160.2
		2,505.5	**2,021.8**	**2,004.2**
Derivative financial instruments	16	246.6	308.9	369.0
Loans and advances to customers:				
Loans fully secured on residential property		11,018.6	9,832.0	8,495.7
Other loans		265.9	283.6	299.3
	17	**11,284.5**	**10,115.6**	**8,795.0**
Intangible fixed assets	22	15.7	19.1	23.5
Property, plant and equipment	23	25.6	29.8	36.3
Investment properties	23	7.8	5.6	5.8
Current tax assets		3.3	5.6	6.3
Deferred tax assets	28	2.1	5.3	2.9
Other assets		1.2	1.3	0.5
Prepayments and accrued income		16.9	13.6	13.8
Total assets		**14,109.2**	**12,526.6**	**11,257.3**
Liabilities				
Shares	24	10,798.8	9,084.6	8,113.6
Deposits and debt securities:				
Amounts owed to credit institutions	25	744.8	1,129.4	1,286.2
Amounts owed to other customers		250.1	183.6	255.0
Debt securities in issue	26	1,453.0	1,262.1	820.0
		2,447.9	**2,575.1**	**2,361.2**
Derivative financial instruments	16	67.5	110.1	63.6
Other liabilities	27	13.1	12.9	13.7
Provision for liabilities	20	5.1	2.6	2.8
Accruals and deferred income		12.1	12.9	10.9
Deferred tax liabilities	28	10.9	10.8	11.8
Retirement benefit obligations	12	0.1	0.6	0.9
Total liabilities		**13,355.5**	**11,809.6**	**10,578.5**
General reserve		753.0	716.3	680.1
Other reserves		0.7	0.7	(1.3)
Total equity and liabilities		**14,109.2**	**12,526.6**	**11,257.3**

[1]£185.6m (2023) and £352.8m (2022) previously reported within amounts owed to credit institutions has been re-classified as debt securities in issue in 2024, this is to align reporting of all residential mortgage backed securities. Further details are set out in note 1 on page 108.

The accounting policies and notes on pages 107 to 165 form part of these accounts.
These accounts were approved by the Board and authorised for issue on 18 February 2025.

Signed on behalf of the Board:

Simon Moore
Chair

Julie-Ann Haines
Chief Executive Officer

Iain Mansfield
Chief Financial Officer

Financial Statements

Statement of financial position of the Society

	Notes	2024 £m	2023 £m Restated[1]	2022 £m Restated[1]
Assets				
Cash in hand and balances with the Bank of England		1,668.8	1,374.9	1,566.9
Loans and advances to credit institutions	14	203.8	219.4	180.4
Debt securities	15	528.3	317.5	160.2
		2,400.9	1,911.8	1,907.5
Derivative financial instruments	16	205.0	265.0	333.4
Loans and advances to customers:				
Loans fully secured on residential property		10,969.4	9,762.3	8,415.7
Other loans		265.9	290.4	299.2
	17	11,235.3	10,052.7	8,714.9
Subsidiary asset	21	0.1	0.1	0.1
Intangible fixed assets	22	15.7	19.1	23.5
Property, plant and equipment	23	25.1	29.3	35.8
Investment properties	23	7.8	5.6	5.8
Current tax assets		3.5	5.6	6.2
Deferred tax assets	28	2.0	5.2	2.8
Other assets		1.3	1.3	0.5
Prepayments and accrued income		16.9	13.6	13.7
Total assets		**13,913.6**	**12,309.3**	**11,044.2**
Liabilities				
Shares	24	10,798.8	9,084.6	8,113.6
Deposits and debt securities:				
Amounts owed to credit institutions	25	1,765.1	1,940.8	1,716.3
Amounts owed to other customers		250.1	183.7	255.0
Debt securities in issue	26	320.2	330.1	289.8
		2,335.4	2,454.6	2,261.1
Subsidiary liability	21	1.4	1.3	1.7
Derivative financial instruments	16	67.5	110.1	63.6
Other liabilities	27	12.7	13.1	13.7
Provision for liabilities	20	3.4	0.7	0.6
Accruals and deferred income		11.8	11.0	10.0
Deferred tax liabilities	28	1.5	1.7	2.7
Retirement benefit obligations	12	0.1	0.6	0.9
Total liabilities		13,232.6	11,677.7	10,467.9
General reserve		680.3	630.9	577.6
Other reserves		0.7	0.7	(1.3)
Total equity and liabilities		**13,913.6**	**12,309.3**	**11,044.2**

[1] *The deferred tax liability in 2022 and 2023 previously included £9m in relation to fair value volatility on financial instruments within securitisation entities. This has now been released and is only held within the consolidated accounts. Further details are set out in note 1 on page 107 and note 28 on page 145*

The accounting policies and notes on pages 107 to 165 form part of these accounts.
These accounts were approved by the Board and authorised for issue on 18 February 2025.

Signed on behalf of the Board:

Simon Moore
Chair

Julie-Ann Haines
Chief Executive Officer

Iain Mansfield
Chief Financial Officer

Statement of changes in Members' interests

	2024			2023		
	General Reserve £m	Fair Value through OCI Reserve £m	Total equity attributable to Members £m	General Reserve £m	Fair Value through OCI Reserve £m	Total equity attributable to Members £m
Group						
At 1 January	716.3	0.7	717.0	680.1	(1.3)	678.8
Comprehensive income for the year	36.7	-	36.7	36.2	2.0	38.2
At 31 December	**753.0**	**0.7**	**753.7**	**716.3**	**0.7**	**717.0**
Society						
At 1 January				568.6	(1.3)	567.3
Effect of prior year adjustment for deferred tax liability[1]				9.0		9.0
At 1 January (restated[1])	630.9	0.7	631.6	577.6	(1.3)	576.3
Comprehensive income for the year	49.4	-	49.4	53.3	2.0	55.3
At 31 December	**680.3**	**0.7**	**681.0**	**630.9**	**0.7**	**631.6**

[1]*The 2023 opening reserves have increased by £9m due to a change to the treatment of the deferred tax liability within the Society, there has been no impact to total assets. Further details set out in note 1 on page 107.*

The group's capital at 31 December 2024 comprises the general reserve adjusted in line with regulatory rules. The group complied with all regulatory capital requirements throughout the current and prior year.

Consolidated statement of cash flows

	2024 £m	2023 £m Restated[1]
Net cash flows from operating activities (see below)	397.1	(338.5)
Cash flows from investing activities		
Purchase of intangible assets	(0.9)	(0.2)
Purchase of property, plant and equipment	(4.2)	(2.7)
Purchase of investment securities	(273.8)	(184.7)
Proceeds from sale and maturity of investment securities	65.1	31.5
Net cash flows from investing activities	**(213.8)**	**(156.1)**
Cash flows from financing activities		
Interest paid on debt securities in issue	(113.0)	(36.8)
Proceeds from issuance of debt securities in issue	500.0	500.0
Redemption of debt securities in issue	(296.3)	(109.3)
Repayment of lease liabilities	(1.1)	(1.1)
Net cash flows from financing activities	**89.6**	**352.8**
Increase/(decrease) in cash and cash equivalents	272.9	(141.8)
Cessation of cash ratio deposit scheme[2]	35.7	–
Cash and cash equivalents at the beginning of year	1,670.0	1,811.8
Cash and cash equivalents at the end of year	**1,978.6**	**1,670.0**
Represented by:		
Cash and balances with the Bank of England[2]	1,669.7	1,340.0
Loans and advances to credit institutions repayable on demand	308.9	330.0
	1,978.6	**1,670.0**
Cash flows from operating activities		
Profit before taxation	49.2	60.3
Adjusted for:		
Depreciation and amortisation	10.8	11.1
Charge on defined benefit scheme	–	(0.2)
Impairment on loans and advances to customers	(3.6)	3.5
Impairment on fixed assets	–	3.4
Change in fair values	(13.5)	(149.0)
Other provisions	2.5	(0.2)
Interest on debt securities in issue	110.3	59.3
Non-cash items included in profit before tax	(1.5)	(2.2)
Changes in net operating assets		
Loans and advances to customers	(1,171.8)	(1,123.8)
Other operating assets	(3.3)	(0.8)
Derivative financial instruments	19.7	106.7
Shares	1,723.8	949.4
Deposits	(318.1)	(230.3)
Other operating liabilities	0.1	1.7
Contributions paid into defined benefit scheme	(0.4)	(13.5)
Taxation paid	(7.1)	(13.9)
Net cash flows from operating activities	**397.1**	**(338.5)**

[1] The 2023 cashflow has been restated to reflect the re-classification of £185.6m from amounts owed to credit institutions (cash flows from operating activities) to debt securities in issue (cash flows from financing activities). Further details are set out in note 1 on page 108.
[2] In December 2023 there is a difference of £35.7m to the statement of financial position in cash and cash equivalents due to the cash ratio deposit scheme with the Bank of England (BoE). This scheme has now been replaced by the BoE levy in 2024, allowing the ring-fenced £35.7m which was previously unavailable to be available as cash and cash equivalents.

Statement of cash flows of the Society

	2024 £m	2023 £m
Net cash flows from operating activities (see below)	502.3	(14.1)
Cash flows from investing activities		
Purchase of intangible assets	(0.9)	(0.2)
Purchase of property, plant and equipment	(4.2)	(2.7)
Purchase of investment securities	(273.9)	(184.7)
Proceeds from sale and maturity of investment securities	65.1	31.5
Dividend from subsidiary	16.8	21.3
Net cash flows from investing activities	**(197.1)**	**(134.8)**
Cash flows from financing activities		
Interest paid on debt securities in issue	(25.9)	(5.0)
Repayment of lease liabilities	(1.1)	(1.1)
Net cash flows from financing activities	**(27.0)**	**(6.1)**
Increase / (decrease) in cash and cash equivalents	278.2	(155.0)
Cessation of cash ratio deposit scheme[1]	35.7	–
Cash and cash equivalents at the beginning of year	1,559.8	1,714.8
Cash and cash equivalents at the end of year	**1,873.7**	**1,559.8**
Represented by:		
Cash and balances with the Bank of England[1]	1,669.7	1,340.0
Loans and advances to credit institutions repayable on demand	204.0	219.8
	1,873.7	**1,559.8**
Cash flows from operating activities		
Profit before taxation	60.4	76.0
Adjusted for:		
Depreciation and amortisation	10.8	11.1
Charge on defined benefit scheme	–	(0.2)
Impairment on loans and advances to customers	(3.0)	3.7
Impairment on fixed assets	–	3.4
Change in fair values	(13.5)	(149.0)
Other provisions	2.8	0.1
Interest on debt securities in issue	25.9	16.4
Subsidiary dividend	(16.8)	(21.3)
Non-cash items included in profit before tax	(1.4)	(2.0)
Changes in net operating assets		
Loans and advances to customers	(1,186.1)	(1,141.2)
Increase in loans from subsidiary companies	0.1	(0.3)
Other operating assets	(3.4)	(0.7)
Derivative financial instruments	17.3	115.0
Shares	1,723.9	949.4
Deposits	(109.2)	151.0
Other operating liabilities	1.0	0.8
Contributions paid into defined benefit scheme	(0.4)	(13.5)
Taxation paid	(6.1)	(12.8)
Net cash flows from operating activities	**502.3**	**(14.1)**

[1] In December 2023 there is a difference of £35.7m to the statement of financial position in cash and cash equivalents due to the cash ratio deposit scheme with the Bank of England (BoE). This scheme has now been replaced by the BoE levy in 2024, allowing the ring-fenced £35.7m which was previously unavailable to be available as cash and cash equivalents.

Notes to the accounts

for the year ended 31 December 2024

1. Accounting policies

Basis of preparation
The group and Society financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) that are applicable. International accounting standards which have been adopted for use within the UK have also been applied in these financial statements.

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities held at fair value and all derivative contracts, and on a going concern basis, as discussed in the Directors' Report, under the heading 'Long-Term Viability Statement and Going Concern'.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless noted otherwise.

New and amended standards adopted by the group
There have been no new or amended standards adopted by the group in 2024.

Effective from 1 January 2024, the group has prospectively adopted IFRS 9 Financial Instruments in relation to micro fair value hedges. The key changes in the group's accounting policies for micro fair value hedges include:

1. Hedge effectiveness testing: under IFRS 9, the group applies a more flexible, principles-based approach to hedge effectiveness testing, replacing the previous quantitative threshold of 80-125% under IAS 39.
2. Risk management alignment: IFRS 9 better aligns hedge accounting with the group's risk management practices, allowing for a more accurate reflection of these strategies in the financial statements.
3. Rebalancing: the concept of rebalancing introduced by IFRS 9 allows the group to adjust hedge relationships to maintain effectiveness.

The adoption of IFRS 9 hedge accounting has not resulted in changes to the group's financial position or performance. Adoption of other amendments to existing standards and annual improvements applicable in 2024 did not have any impact on the group's accounting policies and did not require retrospective adjustments.

Restatements of prior periods

1) A deferred tax liability was previously held within the Society to recognise tax on fair value movements within securitisation entities, as the tax charge for the securitisation entities does not take these movements into account. The deferred tax liability remains the same, however it is now only recognised at a group level as it relates to securitisation entities. This change in treatment impacts the prior year comparatives. This is due to a change in our internal treatment as opposed to a change in tax rules. There has been no significant impact on the income statement for either year.

Comparatives have been restated as shown below. Only impacted balances are shown:

Statement of financial position of the Society extract for the year ended 31 December 2023	As previously presented £m	Adjustments £m	As restated £m
Deferred tax liabilities	10.7	(9.0)	1.7
General reserve	621.9	9.0	630.9

The changes have been made to the opening position for the year ended 31 December 2023, therefore an extract from December 2022 has been provided below:

Statement of financial position of the Society extract for the year ended 31 December 2022	As previously presented £m	Adjustments £m	As restated £m
Deferred tax liabilities	11.7	(9.0)	2.7
General reserve	568.6	9.0	577.6

These restatements do not change total assets for the prior years. As shown above, net assets increase by £9m, as liabilities are reduced. Changes to the statement of changes in Member's interests are shown below, only impacted balances are shown:

Statement of changes in Members' interest extract for the year ended 31 December 2023	As previously presented £m	Adjustments £m	As restated £m
At 1 January	568.6	9.0	577.6
Comprehensive income for the year	53.3	–	53.3
At 31 December	621.9	9.0	630.9

2) There has been a reclassification during the year which impacts the prior year comparatives. Within the consolidated statement of financial position, residential mortgage backed securities previously reported as amounts owed to credit institutions have now been reclassified as debt securities in issue.

   This has been reflected in a restatement to the consolidated statement of cash flows as movements are now reported as cash flows from financing activities, previously cash flows from operating activities.

Comparatives have been restated as shown below. Only impacted balances are shown:

Consolidated statement of cash flows for the year ended 31 December 2023	As previously presented £m	Adjustments £m	As restated £m
Interest paid on debt securities in issue	(14.4)	(22.4)	(36.8)
Redemption of debt securities in issue	(39.3)	(70.0)	(109.3)
Net cash flows from financing activities	445.2	(92.4)	352.8
Interest on debt securities in issue	36.3	23.0	59.3
Deposits	(299.7)	69.4	(230.3)
Net cash flows from operating activities	(430.9)	92.4	(338.5)

Basis of consolidation
The group financial statements consist of the financial statements of the ultimate parent (Principality Building Society) and all entities controlled by the Society (its subsidiaries and special purpose entities).

A subsidiary is an entity the operating and financing policies of which are controlled directly or indirectly by the Society. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commenced. Intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

Investments in subsidiaries
Investments in subsidiaries are recorded in the Society's statement of financial position at cost, less impairment for cost of shares, and amortised cost for loans to subsidiaries.

Securitisation transactions
The group has securitised certain mortgage loans by the transfer of the loans to Special Purpose Entities (SPEs) controlled by the group. The securitisation enables a subsequent issuance of debt by the SPEs to investors who gain the security of the underlying assets as collateral. The SPEs are fully consolidated into the group's accounts under IFRS 10.

The transfer of the mortgage loans to the SPEs is not treated as a sale by the Society. The Society continues to recognise the mortgage loans on its own statement of financial position after the transfer because it retains their risks and rewards through the receipt of substantially all of the profits or losses of the SPEs. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the SPEs.

To manage interest rate risk, both the Society and the SPEs enter into derivative transactions in the form of interest rate swaps. Interest rate swaps with external counterparties in relation to securitisation transactions are recognised in accordance with IAS 39.

Interest receivable and payable
Interest receivable and payable for loans and advances to customers and customer accounts are recognised in the income statement using the effective interest method (EIR).

The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the expected product life. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the product or, when appropriate, a shorter period, to the net book value of the financial asset or financial liability.

Where calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the product (for example prepayment options) but does not consider future credit losses. The calculation includes all amounts received or paid by the group that are an integral part of the overall return and the direct incremental transaction costs related to the acquisition or issue of a product.

Interest income on debt securities, derivatives and other financial assets accounted for at either fair value through the statement of other comprehensive income or fair value through profit or loss is included in interest receivable and similar income.

Once a financial asset or a group of similar financial assets has been written down because of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission and Other income
Loan origination fees are reflected in the calculation of the effective interest rate on a loan. Fees received for loan servicing and other business processes is reflected in the income statement in the period in which the activity is carried out. The group receives trail commission based on the performance of previous sales of insurance products. Income is recognised when it is highly probable that it will be received. Other fees and commissions and other income are recognised on an accruals basis when the service has been provided.

Classification and measurement of financial assets and liabilities

Financial assets
At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Thereafter, financial assets are classified and measured in 1 of the 3 following measurement categories:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income (FVOCI);
- those to be measured subsequently at fair value through profit or loss.

The classification and subsequent measurement of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows.

Debt instruments

Debt instruments comprise the group's cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and loans and advances to customers. Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method, net of provision for impairment. Interest earned from these financial assets is included in interest receivable and similar income. Impairment losses are presented as a separate line item in the income statement.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in fair value are taken through OCI and, on derecognition, the cumulative gain or loss previously recognised in OCI is reclassified to the income statement. Interest is recognised using the effective interest method and included in interest receivable and similar income.
- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL.

Financial liabilities

Financial liabilities comprise shares, amounts owed to credit institutions and other customers and debt securities in issue. Financial liabilities are initially recognised at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred. Thereafter, most financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is adjusted for the amortisation of any transaction costs, premiums, and discounts. The amortisation is recognised in interest expense and similar charges using the effective interest method.

In certain instances, financial liabilities will be classified and measured at FVTPL. This classification is adopted where such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Changes in fair value are recognised in other fair value gains/losses.

Impairment losses on loans and advances to customers and credit institutions

In accordance with IFRS 9, the group uses a three-stage model for impairment based on changes in credit quality since initial recognition. Each stage represents a change in the credit risk of a financial instrument since origination.

Credit risk is measured using Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD). If a significant increase in credit risk (SICR) since initial recognition is identified but the asset is not yet deemed to be credit impaired, the financial instrument is moved from stage 1 to stage 2. Financial instruments that are deemed to be credit impaired are moved to stage 3. This assessment is performed monthly.

Financial instruments in stage 1 have their expected credit loss (ECL) measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Financial instruments in stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

Significant increase in credit risk

Retail financial services and secured personal lending

There are three main components to the staging criteria for the retail financial services and secured personal lending portfolios. To move from stage 1 to stage 2, a loan is required to meet at least 1 of the following criteria:

1. Forbearance activity
2. PD grade deterioration over a predetermined threshold relative to the starting point
3. 30 days past due

Loans are moved from stage 2 to stage 3 when they are credit impaired. Loans are considered to be credit impaired if they are 90 days past due or the borrower has been declared bankrupt.

Subject to the characteristics of the borrower, a loan will move back from stage 2 or 3 following a reversal of the criteria described above after completing a 6 (retail financial services) or 12 (secured personal lending) month probation period.

Commercial lending

There are two main components to the commercial lending staging criteria. To move from stage 1 to stage 2 a loan is required to meet at least 1 of the following criteria:

1. Risk grade deterioration - all loans are assigned a risk grade between 1-10 based on a range of qualitative and quantitative factors. A risk grade deterioration of between 1 and 2 risk grades relative to the starting point will trigger a stage movement
2. 30 days past due

Loans subject to forbearance are included in the commercial lending model although forbearance does not automatically trigger a stage movement.

Loans are moved from stage 2 to stage 3 when they are credit impaired. Loans are considered to be credit impaired if they are 90 days past due or the borrowers risk grade has increased beyond a predetermined threshold, this is 1 risk grade for forbearance accounts and 2 risk grades otherwise.

Subject to the characteristics of the borrower, a loan will move back from stage 2 or 3 following a reversal of the criteria described above.

Expected Credit Loss Models

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD is the likelihood of a borrower defaulting on its financial obligation either in the next 12 months or over the remaining lifetime of the obligation
- EAD is based on the amounts the group expects to be owed at the time of default
- LGD represents the group's expectation of the extent of loss on defaulted exposures

The calculation of PD is specific to each loan portfolio as set out below:

Portfolio	Approach to PD Calculation
Retail financial services and secured personal lending	Calculated via a behavioural scorecard approach, using internal account level specific data including arrears history and external credit profile data provided by credit reference agencies.
Commercial lending	Based on defined internal risk grading methodologies, using a combination of qualitative and quantitative measures including forward looking factors.

Financial Statements

Treasury assets

Significant judgements included within the treasury assets expected credit loss model include the Credit Default Swaps (CDS) price and the haircut applied within the LGD model. Significant judgements are reviewed on an ongoing basis as part of the IFRS 9 model governance process or earlier where new treasury assets are acquired.

Asset class	Significant increase in credit risk	Expected credit loss model
Cash in hand and balances with the Bank of England	A significant increase in credit risk is deemed to have occurred if the credit rating of UK Treasury drops below investment grade. All balances with the Bank of England are in stage 1.	PDs for balances with the Bank of England are based on the CDS price of UK Treasury.
Loans and advances to credit institutions	A significant increase in credit risk is deemed to have occurred if the credit rating of the credit institution drops below investment grade. All loans and advances to credit institutions are in stage 1.	PDs for loans and advances to credit institutions are based on the CDS price of the credit institution.
Debt securities	A significant increase in credit risk is deemed to have occurred if the credit rating of the debt issuer drops below investment grade. All debt securities are in stage 1.	PDs for debt securities are based on historical default rate of comparable rate securities.

Forward-looking information in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward looking information. The group has performed historical analysis and identified the economic variables impacting credit risk and expected credit losses for each portfolio. Forecasts of these economic variables together with probability weightings are supplied by an external provider. Economic scenarios are selected which take account of a range of possible economic outcomes.

Loans and advances to credit institutions

Where swaps are not centrally cleared, the International Swaps and Derivatives Association (ISDA) Master Agreement is Principality's preferred agreement for documenting derivative activity. For certain counterparties a Credit Support Annex (CSA) has been executed in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between counterparties to mitigate the market contingent counterparty risk inherent in the outstanding positions.

Derivative financial instruments and hedge accounting

The group undertakes transactions in derivative financial instruments, which are interest rate swaps. The group's derivative activities are entered into for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the group's assets, liabilities, and positions. All derivative transactions are for economic hedging purposes. Financial instruments are initially recognised at fair value.

i) Derivative financial instruments

Derivatives are initially measured at fair value and are subsequently re-measured to fair value at each reporting date with movements recorded in the income statement. Fair values are calculated by discounted cash flow models using yield curves that are based on observable market data or are based on valuations from counterparties. Fair values are calculated using mid-prices. All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal ability and intention to settle net, the derivative is classified as a net asset or liability, as appropriate.

Where cash collateral is received, to mitigate the risk inherent in amounts due to the group, it is included as a liability within 'amounts owed to credit institutions'. Where collateral is given, to mitigate the risk inherent in amounts due from the group, it is included as an asset in 'loans and advances to credit institutions'.

ii) Hedge accounting
When transactions meet the criteria specified in IAS 39 (for portfolio fair value hedges) or IFRS 9 (for micro fair value hedges), the group applies fair value hedge accounting so that changes in the fair value of the underlying asset or liability that are attributable to the hedged risk are recorded in the income statement to offset the fair value movement of the related derivative.

To qualify for hedge accounting at inception the hedge relationship must be clearly documented. At inception the derivative must be expected to be highly effective in offsetting the hedged risk, and effectiveness must be assessed on an ongoing basis throughout the life of the hedge relationship. Under IAS 39, a hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk are expected to be offset by the hedging instrument within a range of 80% to 125%. Under IFRS 9, the hedge effectiveness requirements include demonstrating an economic relationship between the hedged item and the hedging instrument, and ensuring that the hedge ratio aligns with the entity's risk management strategy.

To calculate the changes in fair value of the hedged item attributable to the hedged risk, the group uses the hypothetical derivative method. The hypothetical derivative method involves establishing a notional derivative that would be the ideal hedging instrument for the hedged exposure (normally an interest rate swap or forward contract with no unusual terms and a zero fair value at inception of the hedge relationship). The fair value of the hypothetical derivative is then used as a proxy for the net present value of the hedged future cash flows against which changes in value of the actual hedging instrument are compared to assess effectiveness and measure ineffectiveness.

Within its risk management and hedging strategies, the group differentiates between macro and micro fair value hedging strategies, as set out below. In accordance with its hedging strategy, the group matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations. The group uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

Portfolio (macro) fair value hedges
The group applies macro fair value hedging to its fixed rate savings and mortgages. The group determines hedged items by identifying portfolios with homogenous characteristics based on their contractual interest rates, maturity and other risk characteristics. Loans or deposits within the identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The interest rate swaps are designated appropriately to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

The aggregated fair value changes in the hedged loans are recognised as part of the fair value adjustment for hedged risk as detailed in note 16. At the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures and regardless of the results of the retrospective hedge effectiveness testing, the group voluntarily de-designates the hedge relationships and re-designates them as new hedges. From the date of de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the original hedged life.

Micro fair value hedges
The group applies micro fair value hedging when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for interest rate risk in a micro fair value hedge relationship are interest only fixed rate commercial lending mortgages. These hedge relationships are assessed on an ongoing basis to ensure they meet the hedge effectiveness criteria. If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the group discontinues hedge accounting from

the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

In a portfolio hedge, the adjustment is included in fair value adjustments for hedged risk. In the case of a micro hedge, the carrying value of the hedged item is adjusted for the change in value of the hedged risk.

The group discontinues hedge accounting when:

- i) it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge;
- ii) the derivative expires, or is sold, terminated or exercised; or
- iii) the underlying item matures or is sold or repaid.

The group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge. If the derivative no longer meets the criteria for hedge accounting, the cumulative fair value hedging adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the underlying item is sold or repaid, the unamortised fair value adjustment is immediately reflected in the income statement.

Taxation

The tax expense represents the sum of the current tax charge and deferred tax movement.

The current tax charge is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax liabilities are defined as the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are defined as the amounts of income taxes recoverable in future periods. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

In contrast, deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Both current and deferred tax balances are calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply to the period when the liability is settled or the asset is realised.

Leases

All leases entered into are recognised as a right of use asset and a corresponding lease liability on the date the leased asset is ready for use. Assets and liabilities arising from a lease are initially measured at the present value of the lease payments over the term of the lease. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the group's incremental borrowing rate is used.

The finance cost is charged to the income statement to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Intangible assets

Computer software

IAS 38 'Intangible Assets' requires the capitalisation of certain expenditure relating to software development costs. Software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Web costs are capitalised where the expenditure is incurred on developing an income-generating website. Where software costs are capitalised, they are amortised using the straight-line method over their estimated useful lives which is three to seven years. The amortisation periods used are reviewed annually. Costs associated with maintaining software are expensed as they are incurred.

Investment properties, property, plant and equipment
Investment properties comprise parts of freehold properties that are not used in the business. These primarily include The Friary and other commercial units within Principality Buildings or Principality House on Queen Street, Cardiff, which are used to generate rental income. Investment properties are stated at cost less accumulated depreciation and any provision for impairment.

Freehold and long leasehold properties comprise mainly branches and office buildings. Property, plant and equipment is stated at cost less accumulated depreciation and provision for impairment, as appropriate. Additions and subsequent expenditure are included in the asset's carrying value or are recognised as a separate asset only when they improve the expected future economic benefits to be derived from the asset. Valuations are completed annually by independent surveyors.

Properties in the course of construction for production, supply for administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Land is not depreciated. Depreciation on other assets is provided using the straight-line method to allocate costs less residual values over estimated useful lives, as follows:

Freehold property (including investment properties)	2% - 4%
Leasehold property	2% or unexpired period of the lease
Major alterations to buildings	5% - 10%
Plant, equipment, fixtures and fittings	10% - 15%
Computer equipment	20% - 33%
Motor vehicles	25%

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the date of each statement of financial position. Where the cost of freehold land can be identified separately from buildings, the land value is not depreciated. Fixed assets are considered for impairment testing within the smallest identifiable group of assets that generates largely independent cash inflows, and any impairment is recognised immediately in the income statement.

Gains and losses on disposal are determined by comparing the net disposal proceeds with the carrying amount of the asset and are included in the income statement.

Pension costs
The Society operates two pension schemes, a defined contribution scheme and a defined benefit scheme.

A defined contribution scheme is one into which the group and the employee pay fixed contributions, without any obligation to pay further contributions. Payments into the defined contribution scheme are charged to the income statement as they become payable in accordance with the rules of the scheme. The majority of the group's employees are members of this scheme.

A defined benefit scheme is one that defines the benefit an employee will receive on retirement, depending on such factors as age and length of service. Defined benefit pension scheme assets are measured using closing market values. Scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. This scheme closed to future accruals on 31 July 2010.

The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in other operating income. Actuarial gains and losses are recognised in full in the statement of other comprehensive income.

Qualifying insurance policies are reflected in plan assets at their fair value, which is defined as the present value of the related defined benefit obligations. The difference between the fair value of plan assets and the cost of the policy is treated as an actuarial loss which is recognised in full in the statement of other comprehensive income.

In September 2023 the Society contracted into a pension buy-in where an annuity (insurance policy) was purchased transferring the responsibility for meeting scheme members' benefits to Legal and General Investment Management (LGIM), significantly reducing the risk and related liability from the Pension trustees and the Society with the only residual risk relating to the solvency of the insurer. The premium paid in return for the buy-in policy was £13.5m, in addition to £0.7m of costs. An additional premium in the region of 1.3% of scheme liabilities in respect of GMP equalisation is expected to be required to complete the buy-out in a future period, alongside further advisor costs.

Segmental reporting
A business segment is defined as a group of assets and operations providing products and services that are subject to different risks and returns from the other business segments. The group considers that business segments are its primary reporting format for segmental analysis. Business segments are reported in a manner consistent with the internal reporting provided to the Board which has been identified as the chief operating decision maker.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, other amounts due from banks and short-term Government securities.

Provisions and contingent liabilities
A provision is recognised when there is a present obligation because of a past event, it is probable that the obligation will be settled, and it can be reliably estimated. Where it is not probable that the obligation will be settled and/or it cannot be reliably estimated, a contingent liability is disclosed in the notes to the accounts.

Advertising and promotional costs
Advertising and promotional costs are expensed as incurred. Where payment has been made in advance of the rendering of the service or the delivery of goods, a prepayment is recognised. The costs are then recognised in the income statement on a straight-line basis over the term of the contract.

Sale and repurchase agreements
Investment and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain within the group, and the counterparty liability is included separately on the statement of financial position as appropriate. Similarly, where the group borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the statement of financial position.

2. Judgements in applying accounting policies and critical accounting estimates

The preparation of these financial statements involves making judgements in the application of accounting policies which affect the amounts recognised. In addition, critical accounting estimates and assumptions are made that could have a significant impact on the reported amounts of assets and liabilities within the next financial year and beyond.

The critical judgements and the most significant areas where accounting estimates are made are as follows:

a) Significant judgements in applying accounting policies

Significant increase in credit risk

As described in note 1 on page 111, one of the primary tests for determining whether a loan has experienced a significant increase in credit risk is PD grade deterioration over a predetermined threshold relative to the starting point, expressed as a percentage increase.

Management judgement is applied in determining the thresholds to use in the assessment. The aim of the approach is to allow for the movement of loans through the stages in sequential order, such that loans entering stage 3 and default should ordinarily be expected to originate from the stage 2 population.

Sensitivity analysis has been performed on the staging criteria. A 10% variance has been selected as this is deemed to be the maximum variation likely to occur over a 12 month period in the current economic environment. The impact of 10% of the loans currently in stage 1 moving to stage 2 and assigned an average non-arrears stage 2 PD and the impact of 10% of loans currently in stage 2 moving to stage 1 are as follows:

Stage	Retail financial services £m	Secured personal lending £m	Commercial lending £m
Stage 1 to stage 2	4.3	0.0	2.4
Stage 2 to stage 1	(1.0)	(0.0)	(0.4)

Post model adjustment – refinance risk
Whilst there have been reductions to the Bank of England base rate, it currently still remains at 4.75%. There remains a risk that this may place additional affordability pressures on customers due to refinance within the next 60 months. There is a risk that customers may struggle to afford their mortgage repayments when their rate resets, as a number of customers are currently paying fixed rates much lower than current market rates. The refinance period is 60 months in line with the current maximum fixed term period. In order to address this risk a group of 1,239 customers (2023: 3,493 customers), based on credible evidence that they will be unable to afford their mortgage payments when they refinance and their payments increase, deemed most at risk has been identified. Customers remain in stage 1, however a PMA of £0.8m (Dec 2023: £3m) has been calculated using average stage 2 ECLs to recognise the increased risk. Shortening the refinance period to 18 months would decrease the PMA by £0.3m.

Removal of the cost of living post model adjustment
A cost of living PMA was previously held to reflect the risk that high levels of inflation and cost of living pressures could impact a cohort of customers identified by data provided by an external third party. This resulted in a PMA of £1.3m in 2023. As inflation has reduced to 2.5% in the year to December 2024, this has now been released.

b) Sources of key estimation uncertainty

Impairment provision on loans and advances
The key sources of estimation uncertainty applied in determining expected credit loss provisions are forward looking UK macro-economic variables and the number and probability weightings of macro-economic scenarios used.

Further information is included in note 19.

Climate Change
Management has considered the potential impact of climate change particularly in respect of the impact on expected credit losses, such as the impact on collateral values and probability of default. It is Management's current view that the impact on the financial statements is immaterial given that the most material impact of climate change is expected to incur beyond the maturity date of the fixed rate mortgages currently on book.

3. Business segments

The group operates three main business segments: retail financial services, commercial lending and secured personal lending. These segments are used for internal reporting to the Board which is responsible for all significant decisions. Transactions between the business segments are on normal commercial terms and conditions. All items relate to continuing operations.

	2024			
	Retail financial services £m	Commercial lending £m	Secured personal lending £m	Total £m
Net interest income	134.3	23.1	4.6	162.0
Other income and charges	0.7	1.5	–	2.2
Fair value gain	8.9	–	–	8.9
Net operating income	**143.9**	**24.6**	**4.6**	**173.1**
Operating expenses	(120.9)	(2.9)	(0.8)	(124.6)
Impairment provision release for losses on loans and advances	1.8	1.1	0.7	3.6
Provision for liabilities	(2.8)	–	(0.1)	(2.9)
Operating profit and profit before taxation	**22.0**	**22.8**	**4.4**	**49.2**
Taxation expense				(12.6)
Profit after taxation				**36.6**

	2023			
	Retail financial services £m	Commercial lending £m	Secured personal lending £m	Total £m
Net interest income	150.5	25.0	5.8	181.3
Other income and charges	1.1	1.2	–	2.3
Fair value gain	–	–	–	–
Net operating income	**151.6**	**26.2**	**5.8**	**183.6**
Operating expenses	(116.0)	(3.0)	(0.6)	(119.6)
Impairment provision for losses on loans and advances	(5.1)	1.3	0.3	(3.5)
Provision for liabilities	(0.1)	–	(0.1)	(0.2)
Operating profit and profit before taxation	**30.4**	**24.5**	**5.4**	**60.3**
Taxation expense				(13.9)
Profit after taxation				**46.4**

The group operates entirely within the UK, and therefore a geographical segment analysis is not presented.

	Group	
	2024 £m	2023 £m
Total assets by business segments		
Retail financial services	13,292.7	11,668.8
Commercial lending	766.0	793.4
Secured personal lending	50.5	64.4
Total assets	**14,109.2**	**12,526.6**
Total liabilities and equity by business segment		
Retail financial services and commercial lending	14,058.7	12,462.2
Secured personal lending	50.5	64.4
Total liabilities and equity	**14,109.2**	**12,526.6**

Retail financial services and commercial lending are part of the same legal entity and liabilities are not shown for each business segment for internal reporting purposes.

4. Interest receivable and similar income

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
On loans fully secured on residential property	443.8	312.0	439.1	306.1
On other loans	22.7	20.6	22.7	20.6
On debt securities	20.9	11.9	21.6	11.9
On other liquid assets	99.9	76.3	95.7	73.8
On derivative financial instruments	137.1	153.3	137.1	153.3
	724.4	**574.1**	**716.2**	**565.7**

5. Interest payable and similar charges

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
On shares held by individuals	400.6	253.9	400.6	253.9
On deposits and debt securities	151.5	118.0	105.6	83.3
On lease liabilities	0.1	0.2	0.1	0.2
On derivative financial instruments	10.2	20.7	52.5	53.0
	562.4	**392.8**	**558.8**	**390.4**

6. Fees and commission receivable

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Insurance and related financial service products	0.2	0.8	0.2	0.8
Mortgage related administration fees	2.7	2.7	2.7	2.7
	2.9	**3.5**	**2.9**	**3.5**

7. Dividends

Income from investments of £16.8m (2023: £21.3m) relates to a dividend paid, at £168 per share, during the year from Nemo Personal Finance Limited to Principality Building Society. As Nemo is a wholly owned subsidiary of Principality Building Society the income is reduced to nil within the group accounts upon consolidation.

8. Other fair value gains and losses

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
(Losses)/gains on derivatives in hedging relationships	(11.3)	(142.1)	(11.3)	(142.1)
Gains/(losses) on derivatives not in hedging relationship	6.9	(6.5)	5.6	(6.5)
(Losses)/gains on derivatives	(4.4)	(148.6)	(5.7)	(148.6)
(Losses)/gains on economic hedged items	(2.1)	12.2	(2.1)	12.2
Gains/(losses) on hedged items attributable to the hedged risk	15.4	136.4	15.4	136.4
Gains/(losses) on hedged items	13.3	148.6	13.3	148.6
	8.9	**-**	**7.6**	**-**

Other fair value gains and losses represent the difference between changes in the fair values excluding interest flows of the hedging derivatives and the changes in the fair values excluding interest flows of the underlying hedged items.

9. Administrative expenses

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Wages and salaries	57.4	53.9	57.4	53.9
Social security costs	5.1	4.7	5.1	4.7
Other pension costs	3.4	2.9	3.4	2.9
	65.9	61.5	65.9	61.5
Other administrative expenses	47.9	43.7	47.1	43.0
	113.8	**105.2**	**113.0**	**104.5**

Auditor’s remuneration is stated inclusive of value added tax.

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Other administrative expenses include:				
Auditor's remuneration				
For audit of the Society's Annual Accounts	1.0	0.9	1.0	0.9
For audit of the Society's subsidiaries	0.1	0.1	–	–
Total	**1.1**	**1.0**	**1.0**	**0.9**
For other services				
Further assurance services (interim review and treasury related assurance services)	0.3	0.2	0.3	0.2
Total other services	**0.3**	**0.2**	**0.3**	**0.2**

10. Employees

The average number employed including Executive Directors was:

	Full-time		Part-time	
	2024 Number	2023 Number	2024 Number	2023 Number
Society's head office	829	767	77	129
Society branches	194	189	125	143
Employed by the group	**1,023**	**956**	**202**	**272**

11. Emoluments of the Society's Directors

Directors' emoluments are shown as part of the Report of the Remuneration Committee in accordance with Schedule 5, paragraphs 4 and 5 to the Building Societies (Accounts and Related Provisions) Regulations 1998. Total Directors' emoluments for the year were £1.6m (2023: £1.7m).

12. Retirement benefit obligations

The group operates two pension schemes, a defined contribution scheme and a defined benefit scheme.

The Society is aware of the ruling of Virgin Media v. NTL Pension Trustees, and after investigating the likelihood and quantification of any potential impact, concluded that there is no contingent liability in respect of the Society's defined benefit pension scheme.

Defined contribution scheme

The group operates a defined contribution scheme, the Group Flexible Retirement Plan (GFRP). A defined contribution scheme is one into which the group and the employee pay contributions, without any obligation to pay further contributions. Staff employed after 1 January 2001 and those staff who were formerly members of the defined benefit scheme are eligible to join this scheme. The cost to the group and Society of employer's contributions (before salary sacrifice arrangements) to the scheme in 2024 was £3.4m (2023: £3.1m). There were no contributions outstanding or prepaid at the end of the year.

Defined benefit scheme

A defined benefit scheme is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary. Staff, including Executive Directors, who entered service before 1 January 2001 were eligible to join the Society's Defined Benefit Scheme which is designed to provide pension entitlements based on career average salary (final salary until 31 December 2005) with assets held outside the Society in a separate fund administered by the Trustees of the pension fund. Membership of the scheme was, however, available at the discretion of the Society, and a small number of new members were admitted to the scheme on this basis subsequent to 1 January 2001. As the scheme is now fully insured there will be no further admissions to the scheme.

The defined benefit scheme closed to future accruals on 31 July 2010 and was replaced with an enhanced defined contribution scheme, the GFRP, described in the above section.

During 2012, the Trustees of the defined benefit scheme agreed their first buy-in of the pensioner element of the scheme with Legal & General Assurance Society Limited (LGAS). The buy-in involved the purchase of a bulk annuity policy by the scheme under which Legal & General assumed full responsibility for the benefits payable to the scheme's active pensioners at the time. The buy-in took effect from September 2012.

In September 2023 a second buy-in with LGAS was transacted which covered all remaining members of the pension scheme the buy-in was funded utilising the existing scheme assets and additional contributions from the Society totalling £13.5m. A further contribution of £0.4m was made in March 2024 to reimburse the pension scheme for the calculated premium in respect of amending and restating the historical buy-in contract for the known and anticipated future differences between RPI and CPI on the benefits insured and the benefits actually paid to members. Additional contributions may be required in future periods to cover any additional liabilities arising from GMP equalisition not covered by the contributions made to date.

The pensioner liability and the matching annuity policy remain within the scheme and the Society retains responsibility for the pensioner payroll, which is reimbursed by LGAS.

Scheme management consists of a Board of Trustees, comprising four individuals, three of which are Society Nominated Trustees and one Member Nominated Trustee. The power of appointment and removal of the Trustees is vested in the Society in accordance with the Trust Deed.

The Trustees have continued to act in accordance with the Statement of Investment Principles adopted on 6 December 2013 as required by Section 35 of the Pensions Act 1995. The scheme's investment assets, excluding the insured assets which are held by Legal and General Assurance, are held under a Fiduciary Management arrangement with LGIM. Under the Fiduciary Management agreement, the Trustees make the key strategic decisions relating to the scheme's investments (after taking appropriate advice), and have appointed LGIM as the Fiduciary Manager, giving LGIM discretion over the implementation and day-to-day management of the scheme's investments. Barnett Waddingham are engaged to provide oversight on the Fiduciary Manager.

The Society also funds the cost of life assurance cover for staff members, and provides unfunded pensions directly to certain Directors and employees who retired prior to 1997.

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £50.3m (2023: £50.4m).

The major assumptions used for the purpose of the actuarial valuation were as follows:

	At 31 December				
	2024 %	2023 %	2022 %	2021 %	2020 %
Rate of increase of pensions in payment:					
CPI 3%	2.15	2.05	2.00	2.40	2.10
CPI 5%	2.70	2.55	2.60	2.80	2.40
CPI 3% Fixed	-	-	-	-	3.00
Discount rate	5.40	4.50	4.70	1.80	1.30
Inflation assumption (RPI)	3.25	3.10	3.20	3.35	2.95
Inflation assumption (CPI)	2.75	2.60	2.65	2.80	2.40

The assumptions used for the valuation at 31 December 2024 take into account the estimated impact of the RPI reforms from 2030 and will be reviewed at least annually as more information becomes available.

The assumptions on mortality are determined by the following tables:

	2024	2023
Retired and non-retired members	S3NA CMI 2023 LTR 1.00%	S3NA CMI 2022 LTR 1.00%
The assumptions are illustrated by the following years of life expectancy at age 60:		
Retired members		
Males currently aged 60	26.0	25.8
Females currently aged 60	28.9	28.7
Non-retired members		
Males currently aged 40	27.2	26.9
Females currently aged 40	30.1	29.9

The retirement benefit obligation relating to the scheme recognised in the statement of financial position is made up as follows:

	At 31 December				
	2024 £m	2023 £m	2022 £m	2021 £m	2020 £m
Target return funds	-	-	-	-	-
Multi asset	-	-	18.2	46.7	40.2
LDI	-	-	12.7	9.6	11.7
Annuities	50.1	55.6	17.6	24.7	26.0
Bonds and cash	0.5	0.2	1.1	3.7	4.8
Total fair value of plan assets	**50.6**	**55.8**	**49.6**	**84.7**	**82.7**
Present value of funded obligations	(50.0)	(55.9)	(50.0)	(81.0)	(84.9)
Present value of unfunded obligations	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)
Net surplus/(deficit) recognised in the statement of financial position	**(0.1)**	**(0.6)**	**(0.9)**	**3.2**	**(2.7)**

During the year, the pension scheme's deficit reduced slightly at the end of the year, primarily as a result of the scheme completing a buy in.

The actual loss on plan assets was £2.5m during the year (2023: £3.1m loss).

The amounts recognised in the income statement are as follows:

	Group & Society	
	2024 £m	2023 £m
Analysis of the amounts recognised in the income statement		
Interest on pension scheme assets	(2.4)	(2.5)
Interest on pension scheme liabilities	2.4	2.3
Net interest expense	–	(0.2)
Past service cost	–	–
Total amount recognised in the income statement	**–**	**(0.2)**
Analysis of amount recognised in statement of other comprehensive income		
Gain on scheme assets in excess of interest	(4.9)	(7.2)
Experience losses on liabilities	0.4	(6.0)
Gains from changes to demographic assumptions	(0.4)	0.9
Gains from changes to financial assumptions	5.0	(1.1)
Total remeasurement	**0.1**	**(13.4)**
Analysis of the movement in the statement of financial position deficit		
Deficit in scheme at beginning of year	(0.6)	(0.9)
Movement in year:		
Net interest expense	–	0.2
Remeasurements	0.1	(13.4)
Contributions paid and accrued	0.4	13.5
Past service cost	–	–
(Deficit)/surplus in scheme at end of year	**(0.1)**	**(0.6)**
Analysis of the movement in the fair value of pension scheme assets		
Fair value of assets at the beginning of the year	55.8	49.6
Interest on assets	2.4	2.5
Society contributions	0.4	13.5
Benefits paid	(3.1)	(2.6)
Return on plan assets less interest	0.6	(45.0)
Change in fair value of the annuity policy	(5.5)	37.8
Fair value of assets at the end of the year	**50.6**	**55.8**
Analysis of the movement in the present value of the pension scheme liabilities		
Present value of liabilities at the beginning of the year	56.4	50.5
Interest expense	2.5	2.3
Remeasurement losses/(gains):		
Actuarial gains and losses arising from changes in demographic assumptions	0.4	(0.9)
Actuarial gains and losses arising from changes in financial assumptions	(5.1)	1.1
Actuarial gains and losses arising from experience adjustments	(0.4)	6.0
Benefits paid	(3.1)	(2.6)
Past service cost	–	–
Present value of liabilities at the end of the year	**50.7**	**56.4**

Significant actuarial assumptions in the determination of the defined benefit obligation are the discount rate, inflation rate and life expectancy. The sensitivity analysis below represents the net impact on the scheme liabilities taking into account the change in the value of both the scheme's liabilities and the bulk annuity contract. No allowance has been made for any changes to the non-insured asset value. The weighted average duration of the liabilities is 13 years and the duration of insured pensioners is estimated to be around 10 years.

	Group and Society	
	Increase 0.25% £m	Decrease 0.25% £m
Discount rate	(1.6)	1.6
Inflation	1.3	(1.3)
Life expectancy (+1 year/-1 year)	1.7	(1.7)

Sensitivities of 0.25% have been used to reflect a significant but reasonably likely market event that causes a one-off shock to the actuarial assumptions. The sensitivity analysis above may not be representative of the actual change in the scheme liabilities as it is unlikely that the change in assumptions would occur in isolation of one another, some of the assumptions may be correlated.

13. Taxation

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Current tax				
UK corporation tax charge for the year	12.5	15.8	11.3	14.5
Adjustments in respect of prior years	(0.5)	(0.2)	(0.5)	(0.3)
	12.0	**15.6**	**10.8**	**14.2**
Deferred tax				
Deferred tax charge/(credit) for year	0.2	(1.2)	(0.1)	(1.2)
Adjustments in respect of prior years	0.4	(0.5)	0.4	(0.5)
	0.6	**(1.7)**	**0.3**	**(1.7)**
Taxation expense	**12.6**	**13.9**	**11.1**	**12.5**

The corporation tax rate applied to 2024 is 25%. The corporation tax rate applied to 2023 was a blended tax rate of 23.5%, due to the corporation tax rate increasing from 19% to 25% in April 2023. No banking surcharge applies in 2024, as this reduced to 3% in April 2023 and is applied to profits over £100m (previously 8% over £25m).

The actual tax charge for the year differs from that calculated using the statutory rate of corporation tax in the UK.

The differences are explained below:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Profit before taxation	**49.2**	**60.3**	**60.4**	**76.0**
Profit multiplied by the statutory rate of corporation tax at 25% (2023: 23.5%)	12.3	14.2	15.1	17.9
Effects of:				
Impact of banking surcharge at 8.0%*	-	0.6	-	0.6
Impact of rate change	-	(0.2)	-	-
Expenses not deductible for tax purposes/(income not taxable)	0.2	-	(4.2)	(5.1)
Adjustments to prior years	0.1	(0.7)	0.2	(0.7)
Timing differences	-	-	-	(0.2)
Taxation on profit from ordinary activities	**12.6**	**13.9**	**11.1**	**12.5**

*Banking surcharge at 8% for Q1-2023. Reduced to 3% from 1 April 2023. No charge in 2024.

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Current tax				
Relating to retirement benefit obligations	(2.6)	(0.8)	(2.6)	(0.8)
	(2.6)	**(0.8)**	**(2.6)**	**(0.8)**
Deferred tax				
Relating to retirement benefit obligations	2.6	(2.4)	2.6	(2.4)
Gain on fair value through other comprehensive income	-	0.6	-	0.6
	2.6	**(1.8)**	**2.6**	**(1.8)**
Total charged to other comprehensive income	**-**	**(2.6)**	**-**	**(2.6)**

14. Loans and advances to credit institutions

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Loans and advances to credit institutions	308.4	329.4	203.8	219.4

Included in the above amount for the group is £180.6m of collateral given under Credit Support Annex (CSA) agreements (2023: £191.0m).

15. Debt securities

	Group and Society	
	2024 £m	2023 £m
Issued by other borrowers and unlisted	498.5	293.4
Issued by UK government	29.8	–
Issued by Supranational entities	–	24.1
	528.3	**317.5**

Debt securities are held at fair value through other comprehensive income.

The movement in debt securities is summarised as follows:

	Group and Society	
	2024 £m	2023 £m
At 1 January	317.6	160.2
Additions	273.8	184.8
Disposals and maturities	(65.1)	(31.5)
Gains/(losses) from changes in fair value	–	2.6
Increase in accrued interest	2.0	1.4
At 31 December	**528.3**	**317.5**

16. Derivative financial instruments

The group undertakes transactions in derivative financial instruments, which are interest rate swaps.

The group only enters into derivative contracts for risk management purposes, as explained in note 1. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount is recorded gross and is the quantity of the derivative contracts' underlying instrument. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

	Group			
	Contract/notional amount		Fair value	
	2024 £m	2023 £m	2024 £m	2023 £m
Derivative assets:				
Interest rate swaps	7,787.7	6,703.5	246.6	308.9
Total recognised derivative assets	**7,787.7**	**6,703.5**	**246.6**	**308.9**
Derivative liabilities:				
Interest rate swaps	5,286.2	4,420.2	67.5	110.1
Total recognised derivative liabilities	**5,286.2**	**4,420.2**	**67.5**	**110.1**

	Society			
	Contract/notional amount		Fair value	
	2024 £m	2023 £m	2024 £m	2023 £m
Derivative assets:				
Interest rate swaps	6,431.6	5,498.6	205.0	265.0
Total recognised derivative assets	**6,431.6**	**5,498.6**	**205.0**	**265.0**
Derivative liabilities:				
Interest rate swaps	5,286.2	4,420.2	67.5	110.1
Total recognised derivative liabilities	**5,286.2**	**4,420.2**	**67.5**	**110.1**

Derivative financial instruments held or issued for hedging purposes

The group uses derivatives for economic hedging purposes as part of its asset and liability management in order to reduce its exposure to market risks by hedging specific financial instruments. Where possible, the group applies hedge accounting. The accounting treatment explained in note 1 depends on the nature of the item hedged and compliance with the IAS 39/IFRS 9 hedge accounting criteria.

Derivatives in economic hedge relationships

Included in this classification are any derivatives entered into by the group in order to economically hedge its exposures for risk management purposes that are not designated in hedge relationships as they do not meet the IAS 39 hedge accounting criteria.

This table shows the split of derivatives between those in a fair value hedge relationship and those in an economic hedge relationship, this has been further split by derivative assets and liabilities.

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Derivatives				
Total derivatives in economic hedge relationships				
Interest rate swaps	3,340.7	2,710.2	1,984.5	1,505.3
Total derivatives used as fair value hedges				
Interest rate swaps	9,733.3	8,413.5	9,733.3	8,413.5
Derivative assets in economic hedge relationships				
Interest rate swaps	1,572.5	1,244.9	216.3	40.0
Derivative assets used as fair value hedges				
Interest rate swaps	6,215.2	5,458.6	6,215.2	5,458.6
Derivative liabilities in economic hedge relationships				
Interest rate swaps	1,768.2	1,465.3	1,768.2	1,465.3
Derivative liabilities used as fair value hedges				
Interest rate swaps	3,518.1	2,955.0	3,518.1	2,955.0

The table below shows the breakdown of the fair value movement in the underlying hedged items between micro, macro and economic hedge relationships.

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Fair value hedges				
Micro hedges				
Commercial loans	226.2	192.9	226.2	192.9
Wholesale	300.0	300.0	300.0	300.0
FV adjustment on hedged item (asset)	10.2	(5.3)	10.2	(5.3)
FV adjustment on hedged item (liability)	(10.5)	29.7	(10.5)	29.7
Macro hedges				
Residential and commercial loans	6,861.1	5,826.6	6,861.1	5,826.6
Retail savings	2,346.0	2,080.1	2,346.0	2,080.1
FV adjustment on hedged item (asset)	(11.7)	(200.9)	(11.7)	(200.9)
FV adjustment on hedged item (liability)	(3.5)	40.2	(3.5)	40.2
Other underlying adjustments				
Amortisation/unwinds	2.1	(12.2)	2.1	(12.2)

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Hedging strategy outcome				
Micro hedge – asset				
Commercial loans – hedged items	10.2	(5.3)	10.2	(5.3)
Commercial loans – hedged instruments	(10.2)	6.4	(10.2)	6.4
Micro hedge – liability				
Wholesale – hedged items	(10.5)	29.7	(10.5)	29.7
Wholesale – hedged instruments	11.0	(29.8)	11.0	(29.8)
Macro hedge – asset				
Residential and commercial loans – hedged items	(11.7)	(200.9)	(11.7)	(200.9)
Residential and commercial loans – hedged instruments	1.5	184.5	1.5	184.5
Macro hedge – liability				
Retail savings – hedged items	(3.5)	40.2	(3.5)	40.2
Retail savings – hedged instruments	9.0	(19.0)	9.0	(19.0)
Economic hedge items				
Amortisation/unwinds	2.1	(12.2)	2.1	(12.2)
Economic hedge instruments				
Dedesignation	–	–	–	–
Economic hedges – awaiting designation	(6.9)	6.5	(6.9)	6.5
Economic hedges– securitisation	–	–	1.3	0.1

The Society's fair value gains and losses shown in the table above are split by hedge relationship type and whether the fair value movement was related to an asset or a liability.

The group and Society's derivatives are shown in the table below based on their remaining term to maturity and subsequently by their hedge relationship.

Group As at 31 December 2024	Less than 1 month £m	Between 1 month and 3 months £m	Between 3 months and 12 months £m	Between 1 year and 5 years £m	More than 5 years £m	Total £m
Fair value hedges – derivatives						
Micro hedge						
Commercial interest rate swaps	–	4.2	6.2	60.8	155.2	226.4
EMTN interest rate swaps	–	–	–	300.0	–	300.0
Macro hedge						
Retail mortgages interest rate swaps	144.0	205.0	1,635.0	4,682.0	135.0	6,801.0
Commercial interest rate swaps	–	2.7	–	42.7	14.7	60.1
Savings interest rate swaps	135.0	221.0	1,270.0	720.0	–	2,346.0
Economic hedges						
Retail mortgages interest rate swaps	–	–	–	220.0	102.0	322.0
Commercial interest rate swaps	–	–	–	14.6	16.7	31.3
Savings interest rate swaps	–	–	95.0	150.0	–	245.0
Dedesignated swaps	–	–	–	–	30.0	30.0
	279.0	**432.9**	**3,006.2**	**6,190.1**	**453.6**	**10,361.8**

Society As at 31 December 2024	Less than 1 month £m	Between 1 month and 3 months £m	Between 3 months and 12 months £m	Between 1 year and 5 years £m	More than 5 years £m	Total £m
Fair value hedges – derivatives						
Micro hedge						
Commercial interest rate swaps	–	4.2	6.2	60.8	155.2	226.4
EMTN interest rate swaps	–	–	–	300.0	–	300.0
Macro hedge						
Retail mortgages interest rate swaps	144.0	205.0	1,635.0	4,682.0	135.0	6,801.0
Commercial interest rate swaps	–	2.7	–	42.7	14.7	60.1
Savings interest rate swaps	135.0	221.0	1,270.0	720.0	–	2,346.0
Economic hedges						
Retail mortgages interest rate swaps	–	–	–	220.0	102.0	322.0
Commercial interest rate swaps	–	–	–	14.6	16.7	31.3
Savings interest rate swaps	–	–	95.0	150.0	–	245.0
Securitisation interest rate swaps	–	–	–	1,356.2	–	1,356.2
	279.0	**432.9**	**3,006.2**	**7,546.3**	**423.6**	**11,688.0**

Group As at 31 December 2023	Less than 1 month £m	Between 1 month and 3 months £m	Between 3 months and 12 months £m	Between 1 year and 5 years £m	More than 5 years £m	Total £m
Fair value hedges – derivatives						
Micro hedge						
Commercial interest rate swaps	–	0.7	–	39.9	160.3	200.9
EMTN interest rate swaps	–	–	–	300.0	–	300.0
Macro hedge						
Retail mortgages interest rate swaps	100.0	195.0	865.0	4,411.0	208.0	5,779.0
Commercial interest rate swaps	–	2.5	1.0	23.2	30.9	57.6
Savings interest rate swaps	10.0	175.0	1,185.0	706.0	–	2,076.0
Economic hedges						
Retail mortgages interest rate swaps	–	–	–	195.0	60.0	255.0
Commercial interest rate swaps	–	–	–	3.3	2.0	5.3
Savings interest rate swaps	–	–	25.0	15.0	–	40.0
	110.0	**373.2**	**2,076.0**	**5,693.4**	**461.2**	**8,713.8**

Society As at 31 December 2023	Less than 1 month £m	Between 1 month and 3 months £m	Between 3 months and 12 months £m	Between 1 year and 5 years £m	More than 5 years £m	Total £m
Fair value hedges – derivatives						
Micro hedge						
Commercial interest rate swaps	–	0.7	–	39.9	160.3	200.9
EMTN interest rate swaps	–	–	–	300.0	–	300.0
Macro hedge						
Retail mortgages interest rate swaps	100.0	195.0	865.0	4,411.0	208.0	5,779.0
Commercial interest rate swaps	–	2.5	1.0	23.2	30.9	57.6
Savings interest rate swaps	10.0	175.0	1,185.0	706.0	–	2,076.0
Economic hedges						
Retail mortgages interest rate swaps	–	–	–	195.0	60.0	255.0
Commercial interest rate swaps	–	–	–	3.3	2.0	5.3
Savings interest rate swaps	–	–	25.0	15.0	–	40.0
Securitisation interest rate swaps	160.5	–	145.6	898.8	–	1,204.9
	270.5	**373.2**	**2,221.6**	**6,592.2**	**461.2**	**9,918.7**

17. Loans and advances to customers

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Fully secured on residential property	11,125.4	9,939.5	11,075.3	9,874.7
Fully secured on land	265.9	283.6	265.9	283.6
	11,391.3	**10,223.1**	**11,341.2**	**10,158.3**
Provision for impairment losses	(30.6)	(34.7)	(29.1)	(32.0)
Effective interest rate adjustments	18.5	15.4	17.9	14.6
Fair value adjustment for hedged risk	(94.7)	(88.2)	(94.7)	(88.2)
	11,284.5	**10,115.6**	**11,235.3**	**10,052.7**

Retail financial services and secured personal lending
The split of loans between stages 1, 2 and 3 is as follows:

Stage	31 December 2024 %	31 December 2023 %
1	81	82
2	18	17
3	1	1

The split of the loans within stage 2 by staging reason is as follows:

Staging reason	31 December 2024 %	31 December 2023 %
PD grade deterioration	94	95
30-60 days past due	6	5
Forbearance	-	-

Commercial
The split of loans between stages 1, 2 and 3 is as follows:

Stage	31 December 2024 %	31 December 2023 %
1	88	85
2	10	13
3	2	2

The split of the loans within stage 2 by staging reason is as follows:

Staging reason	31 December 2024 %	31 December 2023 %
Risk grade deterioration	57	37
30-60 days past due	2	4
Forbearance	41	59

18. Asset encumbrance

The wholesale funding initiatives of the group require that, from time to time, certain assets become encumbered as collateral against such funding. Assets that have been utilised in this way cannot be used for other purposes. The group's principal forms of encumbrance relate to secured funding transactions and third party sale and repurchase agreements, with encumbrance also arising from excess collateral balances and cash collateral posted. As at 31 December 2024, the encumbrance ratio was 18.0% (31 December 2023: 23.2%). All other assets are defined as unencumbered.

An analysis of the group's encumbered and unencumbered on-balance sheet assets as at 31 December 2024 and 2023 is set out below.

	2024		2023	
	Encumbered £m	Unencumbered £m	Encumbered £m	Unencumbered £m
Cash in hand and balances at the Bank of England	-	1,668.8	-	1,374.9
Loans and advances to credit institutions	284.8	23.6	301.0	28.4
Debt securities	-	528.3	-	317.5
Derivative financial instruments	-	246.6	-	308.9
Loans and advances to customers	2,249.1	9,035.4	2,600.0	7,515.6
Consolidated other assets	-	72.6	-	80.3
Total	**2,533.9**	**11,575.3**	**2,901.0**	**9,625.6**

19. Provision for impairment losses

Group 2024	Retail £m	Commercial lending £m	Secured personal lending £m	Total £m
New loans	3.1	1.0	-	4.1
Settled loans	(1.8)	(2.5)	(0.4)	(4.7)
Changes in model assumptions	(3.1)	-	-	(3.1)
Changes in credit quality	-	0.5	(0.8)	(0.3)
Balance sheet impact	**1.8**	**1.0**	**1.2**	**4.0**
(Utilisation)/recoveries	**-**	**0.1**	**(0.5)**	**(0.4)**
Income statement impact	**1.8**	**1.1**	**0.7**	**3.6**

Group 2023	Retail £m	Commercial lending £m	Secured personal lending £m	Total £m
New loans	4.8	1.1	-	5.9
Settled loans	(1.8)	(1.3)	(0.9)	(4.0)
Changes in model assumptions	0.6	-	-	0.6
Changes in credit quality	1.4	(1.0)	(0.2)	0.2
Balance sheet impact	**(5.0)**	**1.2**	**1.1**	**(2.7)**
(Utilisation)/recoveries	**(0.1)**	**0.1**	**(0.8)**	**(0.8)**
Income statement impact	**(5.1)**	**1.3**	**0.3**	**(3.5)**

Provision for impairment losses at 31 December 2024 include £30.6m for loan loss provisioning impairment (2023: £34.7m) and £1.5m on other debt instruments (2023: £1.4m). Total ECL coverage as at 31 December 2024 was 0.18% (2023: 0.23%) in respect of retail financial services and secured personal lending and 1.03% in respect of commercial lending (2023: 1.23%). Changes in model assumptions for 2024 relate to changes to the refinance PMA and removal of the cost of living PMA as discussed in note 2.

The following tables analyse the movements in gross loan balances during the year by stage. The difference between gross loan balances shown in the tables below and loans and advances to customers as per the balance sheet relates to commitments and undrawn balances. New loans are those advanced in the year and their subsequent stage movements during the course of the year.

Group 2024	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2024	8,978.9	1,910.5	82.9	10,972.3
Transfers:				
Stage 1 transfers	(298.4)	-	-	(298.4)
Stage 2 transfers	-	253.4	-	253.4
Stage 3 transfers	-	-	45.0	45.0
New loans	2,974.8	258.7	0.9	3,234.4
Settled loans	(1,463.4)	(183.0)	(16.4)	(1,662.8)
Repayments	(251.0)	(61.0)	(4.8)	(316.8)
Gross loan balance at 31 December 2024	**9,940.9**	**2,178.6**	**107.6**	**12,227.1**

Society 2024	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2024	8,949.5	1,883.7	74.4	10,907.6
Transfers:				
Stage 1 transfers	(302.3)	-	-	(302.3)
Stage 2 transfers	-	256.5	-	256.5
Stage 3 transfers	-	-	45.8	45.8
New loans	2,973.9	258.7	0.9	3,233.5
Settled loans	(1,459.0)	(180.0)	(14.9)	(1,653.9)
Repayments	(247.7)	(58.2)	(4.2)	(310.1)
Gross loan balance at 31 December 2024	**9,914.4**	**2,160.7**	**102.0**	**12,177.1**

Group 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2023	8,012.2	1,658.3	65.1	9,735.6
Transfers:				
Stage 1 transfers	(265.4)	–	–	(265.4)
Stage 2 transfers	–	236.9	–	236.9
Stage 3 transfers	–	–	28.5	28.5
New loans	2,733.4	227.7	1.4	2,962.5
Settled loans	(1,234.1)	(151.5)	(10.5)	(1,396.1)
Repayments	(267.2)	(60.9)	(1.6)	(329.7)
Gross loan balance at 31 December 2023	**8,978.9**	**1,910.5**	**82.9**	**10,972.3**

Society 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2023	7,976.5	1,622.0	54.9	9,653.4
Transfers:				
Stage 1 transfers	(267.4)	–	–	(267.4)
Stage 2 transfers	–	239.5	–	239.5
Stage 3 transfers	–	–	27.9	27.9
New loans	2,733.5	227.7	1.4	2,962.6
Settled loans	(1,230.1)	(147.8)	(8.7)	(1,386.6)
Repayments	(263.0)	(57.7)	(1.1)	(321.8)
Gross loan balance at 31 December 2023	**8,949.5**	**1,883.7**	**74.4**	**10,907.6**

The following tables analyse the movements in loan loss provisions during the year by stage.

Group 2024	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2024	10.8	16.5	7.3	34.6
Transfers:				
Stage 1 transfers	(5.6)	–	–	(5.6)
Stage 2 transfers	–	1.6	–	1.6
Stage 3 transfers	–	–	4.0	4.0
New loans	2.0	2.0	0.1	4.1
Settled loans	(1.7)	(1.8)	(1.2)	(4.7)
Changes in credit quality	3.7	(2.5)	(1.4)	(0.2)
Changes in model assumptions	(2.7)	(0.5)	–	(3.2)
Loss allowance at 31 December 2024	**6.5**	**15.3**	**8.8**	**30.6**

Society 2024	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2024	10.7	15.8	5.5	32.0
Transfers:				
Stage 1 transfers	(5.6)	-	-	(5.6)
Stage 2 transfers	-	1.4	-	1.4
Stage 3 transfers	-	-	4.2	4.2
New loans	2.0	1.9	0.1	4.0
Settled loans	(1.7)	(1.8)	(0.8)	(4.3)
Changes in credit quality	3.8	(2.1)	(1.1)	0.6
Changes in model assumptions	(2.7)	(0.5)	-	(3.2)
Loss allowance at 31 December 2024	**6.5**	**14.7**	**7.9**	**29.1**

Group 2023	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2023	14.5	11.3	6.1	31.9
Transfers:				
Stage 1 transfers	(6.4)	-	-	(6.4)
Stage 2 transfers	-	4.2	-	4.2
Stage 3 transfers	-	-	2.2	2.2
New loans	2.9	2.9	0.2	6.0
Settled loans	(1.9)	(0.8)	(1.2)	(3.9)
Changes in credit quality	0.8	(0.7)	-	0.1
Changes in model assumptions	0.9	(0.4)	-	0.5
Loss allowance at 31 December 2023	**10.8**	**16.5**	**7.3**	**34.6**

Society 2023	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2023	14.4	10.3	3.5	28.2
Transfers:				
Stage 1 transfers	(6.4)	-	-	(6.4)
Stage 2 transfers	-	4.4	-	4.4
Stage 3 transfers	-	-	2.0	2.0
New loans	2.9	2.9	0.2	6.0
Settled loans	(1.9)	(0.8)	(0.4)	(3.1)
Changes in credit quality	0.8	(0.6)	0.2	0.4
Changes in model assumptions	0.9	(0.4)	-	0.5
Loss allowance at 31 December 2023	**10.7**	**15.8**	**5.5**	**32.0**

The following tables show an analysis of expected credit losses by PD band and the average provision coverage within each PD band as at 31 December 2024.

Retail and Secured personal lending	2024		2023	
	Sum of ECL £m	Coverage %	Sum of ECL £m	Coverage %
0.00% - 0.11%	0.6	0.02	1.4	0.05
0.11% - 0.17%	0.4	0.02	1.0	0.05
0.17% - 0.25%	0.5	0.03	1.0	0.07
0.25% - 0.41%	0.8	0.06	1.4	0.10
0.41% - 0.60%	0.9	0.08	1.3	0.14
0.60% - 0.88%	1.5	0.20	1.7	0.27
0.88% - 1.49%	2.4	0.44	2.4	0.55
1.49% - 2.96%	2.1	0.87	2.2	1.01
2.96% - 6.84%	1.5	1.51	1.6	1.75
6.84%+	9.3	5.04	8.9	5.51
Total	**20.0**		**23.0**	

Commercial lending	2024		2023	
	Sum of ECL £m	Coverage %	Sum of ECL £m	Coverage %
PD:				
0.28%	0.2	0.1	0.1	0.1
0.56%	0.6	0.3	0.9	0.4
1.13%	1.4	0.4	2.0	0.6
2.25%	1.5	0.9	2.4	1.5
4.50%	2.1	4.3	1.6	3.9
9.00%	0.7	9.0	0.6	10.2
18.00%	0.6	23.0	0.9	15.7
36.00%	0.2	11.1	0.4	14.3
100.00%	3.3	14.3	2.7	17.6
Total	**10.6**		**11.6**	

The IFRS 9 models calculate expected credit losses for each of the scenarios and then apply the relative weightings of the forward-looking economic scenarios to generate the weighted output for each model. The scenarios consist of the following forecasts between December 2025 to December 2029, the figures are as at 31 December for each year:

GDP Growth %	Scenario	Weighting at 31 December 2024 %	2025	2026	2027	2028	2029
	Base	50	5.0	3.5	4.3	3.5	3.9
	Upside	20	9.4	3.8	4.1	3.3	4.0
	Downside	23	6.6	(0.5)	3.2	4.3	4.4
	Severe downside	7	(6.3)	0.8	6.6	4.3	4.0
	Weighted average		**5.4**	**2.4**	**4.2**	**3.7**	**4.1**

Unemployment (Absolute)	Scenario	Weighting at 31 December 2024 %	2025	2026	2027	2028	2029
	Base	50	4.4	4.5	4.6	4.7	4.8
	Upside	20	3.8	3.6	3.8	4.1	4.4
	Downside	23	6.2	7.0	7.0	7.0	6.6
	Severe downside	7	7.5	8.3	8.2	8.0	7.3
	Weighted average		**4.9**	**5.2**	**5.2**	**5.3**	**5.3**

HPI %	Scenario	Weighting at 31 December 2024 %	2025	2026	2027	2028	2029
	Base	50	2.2	3.9	2.6	1.5	2.1
	Upside	20	16.6	7.0	0.1	(2.6)	(0.3)
	Downside	23	(12.5)	(8.4)	2.2	4.2	3.5
	Severe downside	7	(15.2)	(9.6)	2.3	2.9	4.6
	Weighted average		**0.5**	**0.8**	**2.0**	**1.4**	**2.1**

The equivalent scenarios and weightings for the period ending 31 December 2023 were as follows:

GDP Growth %	Scenario	Weighting at 31 December 2023 %	2024	2025	2026	2027	2028
	Base	50	2.7	2.4	3.1	3.3	3.5
	Upside	20	6.4	2.6	3.0	3.2	3.6
	Downside	23	3.4	0.9	(0.7)	4.2	4.0
	Severe downside	7	(10.4)	(1.3)	5.1	3.8	3.3
	Weighted average		**2.4**	**1.9**	**2.3**	**3.5**	**3.6**

Unemployment (Absolute)	Scenario	Weighting at 31 December 2023 %	2024	2025	2026	2027	2028
	Base	50	4.6	4.7	4.7	4.8	4.9
	Upside	20	4.1	3.8	3.9	4.2	4.5
	Downside	23	5.9	7.2	7.2	7.2	6.8
	Severe downside	7	7.7	8.5	8.4	8.1	7.4
	Weighted average		**5.0**	**5.4**	**5.4**	**5.5**	**5.4**

HPI %	Scenario	Weighting at 31 December 2023 %	2024	2025	2026	2027	2028
	Base	50	(4.3)	3.1	4.7	2.6	1.5
	Upside	20	9.2	6.3	2.1	(1.5)	(0.9)
	Downside	23	(14.4)	(11.3)	1.8	5.2	3.3
	Severe downside	7	(20.6)	(10.3)	4.4	4.1	4.0
	Weighted average		**(5.1)**	**0.1**	**3.5**	**2.2**	**1.4**

Other variables are used within the models, including Consumer Price Index, Nominal Mortgage Refinancing and Real Disposable Income per Capita. These have not been included in the analysis above as full details have been provided for the more commonly used variables for comparability.

The IFRS 9 models calculate expected credit losses for each scenario and then apply the weightings to generate the weighted output for each model. Sensitivity analysis has been performed on the impact of each economic scenario. The table below shows the range of ECL impact between the most optimistic and the most severe scenario for each portfolio. The ECL range is the difference between applying a 100% weighting to the most severe downturn scenario and the upside scenario.

Portfolio	2024			2023		
	Upside £m	Downside/ Severe downside £m	ECL Range £m	Upside £m	Downside/ Severe downside	ECL Range £m
Retail financial services	5.5	38.4	32.9	5.0	37.3	32.3
Secured personal lending	0.8	1.9	1.1	1.4	3.8	2.4
Commercial lending	6.1	11.3	5.2	6.1	11.0	4.9

20. Provision for liabilities

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
At 1 January	2.6	2.8	0.7	0.6
Utilisation	(0.4)	(0.4)	(0.1)	–
Addition during the year	2.9	0.2	2.8	0.1
At 31 December	**5.1**	**2.6**	**3.4**	**0.7**

At 31 December 2024, the group held a provision of £5.1m (2023: £2.6m), of which £2.7m relates to a restructuring provision recognised per IAS 19 relating to termination benefits.

The remaining £2.4m is in respect of various claims. This reflects Management's best estimate of the costs required to settle its remaining obligations and takes account of:

- expected customer behaviour
- costs incurred with associated legal claims
- an updated assessment of the remaining exposure population

Although a significant degree of uncertainty remains with regard to the ultimate cost of settling customer claims, the provision balance is expected to be sufficient to meet any remaining obligations. The provision will continue to be monitored and customer trends and behaviour analysed in order ensure the provision remains appropriate.

21. Investments in subsidiary undertakings

	Society	
	2024 £m	2023 £m
Shares in subsidiary undertakings	0.1	0.1
Loans to subsidiary undertakings	–	–
	0.1	**0.1**

	Subsidiary undertakings	
	Shares £m	Loans £m
Movement in investments in subsidiary undertakings:		
At 1 January 2024	0.1	–
Loan repayment	–	–
At 31 December 2024	**0.1**	**–**

	Society	
	2024 £m	2023 £m
Surplus cash received from subsidiaries	1.4	1.3
	1.4	**1.3**

The Society has the following subsidiary undertakings which operated in the United Kingdom during the year and are included in the group accounts:

	Place of registration	Principal activity	Class of shares held	Interest of Society	Direct or indirect
Nemo Personal Finance Limited	England and Wales	Secured personal lending	Ordinary	100%	Direct
Principality Mortgage and Insurance Services Limited	England and Wales	Provision of mortgage and financial advice	Ordinary	100%	Direct
Principality Covered Bond LLP	England and Wales	Covered bond LLP	Ordinary	100%	Direct

Principality Building Society consolidates funding vehicles Friary No.7 PLC, Friary No.8 PLC and Friary No.9 PLC into the group accounts. These companies are not wholly owned by the Society but the Society retains substantially all of the risk and reward of the assets, and therefore the Society's interests in these entities are, in substance, no different than if they were 100% held subsidiary undertakings and consequently they are consolidated into the group accounts. Principality Mortgage and Insurance Services Limited and Principality Covered Bond LLP will be taking the subsidiary audit exemption for the year ending 31 December 2024.

The Ely Bridge development completed in 2024, delivering 800 houses on a brownfield site in Cardiff being a mix of affordable, social and private dwellings ultimately funded by the capital markets. Ely Bridge Development Company Limited was incorporated on 28 March 2012. The company is not-for-profit and limited by guarantee. The Society resigned as a member of the Ely Bridge Development Company Limited in September 2024, and remains liable to contribute £1 to the assets of the company in the event of it being wound up within 12 months of this resignation.

The Society also holds 100% of the ordinary share capital of the following subsidiary undertakings. None of the subsidiary businesses listed below carried out business during the year and so meet audit exemption criteria. All subsidiary businesses were incorporated in the United Kingdom, at the registered address of Principality House, The Friary, Cardiff, CF10 3FA.

- Principality Limited
- Principality Bank Limited
- Principality Financial Management Limited
- Principality Group Limited
- Principality Homes Limited
- Principality Mortgage Corporation Limited
- Principality Personal Loans Limited
- Principality Property Development Services Limited
- Principality Property Services Limited

22. Intangible assets

	Group and Society	
	2024 £m	2023 £m
Cost:		
At 1 January	41.8	41.6
Additions	0.9	0.2
At 31 December	**42.7**	**41.8**
Amortisation:		
At 1 January	22.7	18.1
Charge for the year	4.3	4.6
At 31 December	**27.0**	**22.7**
Net book value:		
At 31 December	**15.7**	**19.1**

Computer software capitalised during the year relates to the investment in the **principality.co.uk** website. Assets in the course of construction which are not yet ready for use and therefore have no amortisation charged against them was nil at 31 December 2024 (2023: nil).

23. Property, plant and equipment

2024	Right of use assets		Land and buildings		Equipment, fixtures, fittings and vehicles		Total	
	Group £m	Society £m	Group £m	Society £m	Group £m	Society £m	Group £m	Society £m
Cost:								
At 1 January 2024	9.1	9.1	57.5	56.4	50.5	50.5	117.1	116.0
Additions	0.2	0.2	1.5	1.5	2.7	2.7	4.4	4.4
Disposals	–	–	(3.4)	(3.4)	–	–	(3.4)	(3.4)
At 31 December 2024	**9.3**	**9.3**	**55.6**	**54.5**	**53.2**	**53.2**	**118.1**	**117.0**
Depreciation:								
At 1 January 2024	4.9	4.9	42.2	41.6	40.2	40.2	87.3	86.7
Charge for the year	1.0	1.0	1.6	1.6	3.9	3.9	6.5	6.5
Disposals	–	–	(1.2)	(1.2)	–	–	(1.2)	(1.2)
Impairment	–	–	–	–	–	–	–	–
At 31 December 2024	**5.9**	**5.9**	**42.6**	**42.0**	**44.1**	**44.1**	**92.6**	**92.0**
Net book value:								
At 31 December 2024	**3.4**	**3.4**	**13.1**	**12.6**	**9.1**	**9.1**	**25.6**	**25.1**
At 31 December 2023	4.1	4.1	15.3	14.8	10.4	10.4	29.8	29.3

2023 Restated	Right of use assets		Land and buildings[1]		Equipment, fixtures, fittings and vehicles		Total	
	Group £m	Society £m	Group £m	Society £m	Group £m	Society £m	Group £m	Society £m
Cost:								
At 1 January 2023	8.7	8.7	56.3	55.2	49.0	49.0	114.0	112.9
Additions	0.4	0.4	1.2	1.2	1.5	1.5	3.1	3.1
Disposals	–	–	–	–	–	–	–	–
At 31 December 2023	**9.1**	**9.1**	**57.5**	**56.4**	**50.5**	**50.5**	**117.1**	**116.0**
Depreciation:								
At 1 January 2023	4.0	4.0	37.1	36.5	36.3	36.3	77.4	76.8
Charge for the year	0.9	0.9	1.7	1.7	3.9	3.9	6.5	6.5
Disposals	–	–	–	–	–	–	–	–
Impairment	–	–	3.4	3.4	–	–	3.4	3.4
At 31 December 2023	**4.9**	**4.9**	**42.2**	**41.6**	**40.2**	**40.2**	**87.3**	**86.7**
Net book value:								
At 31 December 2023	**4.1**	**4.1**	**15.3**	**14.8**	**10.4**	**10.4**	**29.8**	**29.3**

[1] *Land and buildings 1 January 2023 cost restated by £(1.2)m and depreciation restated by £1.8m to reflect disclosure corrections to impairments recorded against costs in prior periods.*

Investment properties	Group and Society	
	2024 £m	2023 £m
Cost:		
At 1 January	13.0	13.0
Additions	0.4	0.3
Disposals	–	(0.3)
Re-classification	3.0	–
At 31 December	**16.4**	**13.0**
Depreciation:		
At 1 January	7.4	7.2
Charge for the year	0.5	0.4
Disposals	–	0.1
Impairment in the year	–	(0.3)
Re-classification	0.7	–
At 31 December	**8.6**	**7.4**
Net book value:		
At 31 December	**7.8**	**5.6**

Included within land and buildings additions is £1.9m (2023: £1.5m) on account of assets in the course of construction. With the exception of investment properties, all properties are occupied by the group.

Each year Principality employs an independent third party to complete all valuations of land and buildings. The appointment of the valuer is completed through a thorough tender process, including assessment of the relevant qualifications of the valuer, to ensure competence and independence.

The valuations were compared to the net book values to assess if an asset should be impaired. No impairment has been recognised in 2024 (2023: £3.4m).

The fair value of investment properties as at 31 December 2024 is £13.0m (2023: £12.0m).

24. Shares

	Group and Society	
	2024 £m	2023 £m
Held by individuals	10,791.0	9,067.1
Other shares	2.3	2.4
Fair value adjustment for hedged risk	5.5	15.1
	10,798.8	**9,084.6**

25. Amounts owed to credit institutions

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Amounts owed to credit institutions	744.8	1,129.4	1,765.1	1,940.8

Included in the above amounts is £182.8m of collateral held under Credit Support Annex (CSA) agreements (2023: £198.4m).

26. Debt securities in issue

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Senior unsecured debt	320.2	330.1	320.2	330.1
Residential mortgage backed securities	1,132.8	932.0	–	–
	1,453.0	**1,262.1**	**320.2**	**330.1**

27. Other liabilities

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Other taxation and social security	0.8	1.4	0.8	1.4
Lease liabilities	3.7	4.4	3.7	4.4
Other creditors	8.6	7.1	8.2	7.3
	13.1	**12.9**	**12.7**	**13.1**

The undiscounted maturity profile of lease payments at 31 December 2024 is shown below:

2024 Group	Property £m	Cars £m	IT Lease £m	Total £m
Year 1	0.8	-	-	0.8
Year 2	0.6	-	-	0.6
Year 3	0.5	-	-	0.5
Year 4	0.4	-	-	0.4
Year 5	0.4	-	-	0.4
5 years >	1.3	-	-	1.3
Total	**4.0**	**-**	**-**	**4.0**

The undiscounted maturity profile of lease payments at 31 December 2023 is shown below:

2023 Group	Property £m	Cars £m	IT Lease £m	Total £m
Year 1	0.9	0.1	0.1	1.1
Year 2	0.9	-	-	0.9
Year 3	0.8	-	-	0.8
Year 4	0.6	-	-	0.6
Year 5	0.5	-	-	0.5
5 years >	1.8	-	-	1.8
Total	**5.5**	**0.1**	**0.1**	**5.7**

28. Deferred tax

The movement in net deferred tax is as follows:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
At 1 January	(5.5)	(8.9)	3.5	0.1
Income statement (charge)/credit	(0.6)	1.6	(0.3)	1.6
Statement of other comprehensive income (charge)/credit	(2.7)	1.8	(2.7)	1.8
At 31 December	**(8.8)**	**(5.5)**	**0.5**	**3.5**

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

	Group		Society		
	2024 £m	2023 £m	2024 £m	2023 £m [1]restated	2022 £m [1]restated
Deferred tax assets:					
Accelerated tax depreciation	1.7	2.2	1.6	2.1	1.5
Other temporary differences	0.4	3.1	0.4	3.1	1.3
	2.1	**5.3**	**2.0**	**5.2**	**2.8**
Deferred tax liabilities:					
Other temporary differences	(10.9)	(10.8)	(1.5)	(1.7)	(2.7)
	(10.9)	**(10.8)**	**(1.5)**	**(1.7)**	**(2.7)**

[1]The deferred tax liability in 2022 and 2023 previously included £9m in relation to fair value volatility on financial instruments within securitisation entities. This has now been released and is only held within the consolidated accounts. Further details are set out in note 1 on page 107.

The deferred tax (charge)/credit in the income statement comprises the following temporary differences:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Accelerated tax depreciation	(0.5)	0.6	(0.5)	0.6
Fair value volatility on financial instruments in securitisation entities	(0.3)	-	-	-
Other movements	0.2	1.0	0.2	1.0
	(0.6)	**1.6**	**(0.3)**	**1.6**

The rate of corporation tax increased to 25% from 1 April 2023, the deferred tax has been calculated at 25%.

The statement of other comprehensive income includes a deferred tax charge of less than £0.1m (2023: £3.2m credit) arising from the actuarial gain on retirement benefit obligations.

29. Financial commitments and contingent liabilities

a) Other provisions for liabilities and charges and contingent liabilities

At 31 December 2024, the group held a provision of £5.1m (2023: £2.6m), which includes £2.7m relating to a restructuring provision and £2.4m in respect of various claims. Further details of these provisions are included in note 20.

At 31 December 2024, the group recognises no contingent liabilities.

b) Income receivable under non-cancellable operating leases

Property rental income earned during the year was £1.0m (2023: £1.2m). At the statement of financial position date, the group and Society had contracted with tenants for the following future minimum lease payments:

	2024 £m	2023 £m
Receivable within 1 year	0.9	0.9
Receivable between 2 and 5 years	3.9	4.0
Receivable after 5 years	4.5	5.3
	9.3	**10.2**

On 28 January 2011, a 25-year lease of floors 1 to 4 of Principality Buildings was granted to Travelodge Hotels Limited.

c) Capital commitments:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Capital expenditure contracted for but not provided for	0.7	4.8	0.7	4.8

d) Loan commitments:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Irrevocable undrawn committed loan facilities	222.1	127.2	222.1	127.2

30. Cash flows from financing activities

For the purposes of the Statements of Cash Flows, provisions for impairment losses are removed from cash and cash equivalents in order to disclose gross figures. A reconciliation is provided below for cash and cash equivalents as per the Statements of Financial Position and the Statements of Cash Flows.

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash in hand and balances with the Bank of England				
As per the Statements of Financial Position	1,668.8	1,339.2	1,668.8	1,339.2
Provision for impairment losses	0.9	0.8	0.9	0.8
As per the Statements of Cash Flows	1,669.7	1,340.0	1,669.7	1,340.0
Loans and advances to credit institutions				
As per the Statements of Financial Position	308.4	329.4	203.8	219.4
Provision for impairment losses	0.5	0.6	0.2	0.4
As per the Statements of Cash Flows	308.9	330.0	204.0	219.8

For the purposes of the Statements of Cash Flows, debt securities in issue and lease liabilities are classified as liabilities arising from financing activities. The table below provides a reconciliation of movements in liabilities arising from financing activities:

	Group		Society	
	2024 £m	2023 £m [1]restated	2024 £m	2023 £m
Debt securities in issue:				
At 1 January	1,262.1	820.0	330.1	289.8
Cash:				
Proceeds from issuance	500.0	500.0	-	-
Redemptions	(296.3)	(109.3)	-	-
Interest paid	(113.0)	(36.8)	(25.9)	(5.0)
Non-cash:				
Accrued interest	110.3	59.3	25.9	16.4
Other non-cash movements	0.5	(0.8)	0.5	(0.8)
Fair value movements	(10.4)	29.7	(10.4)	29.7
At 31 December	1,453.0	1,262.1	320.2	330.1
Lease liabilities:				
At 1 January	4.4	4.9	4.4	4.9
Cash:				
Repayment of lease liabilities	(1.1)	(1.1)	(1.1)	(1.1)
Non-cash:				
Accrued interest	0.1	0.2	0.1	0.2
New leases	0.3	0.4	0.3	0.4
At 31 December	3.7	4.4	3.7	4.4

[1]£185.6m previously reported within amounts owed to credit institutions has been re-classified as debt securities in issue in 2023, this is to align reporting of all residential mortgage backed securities.

31. Financial instruments

Categories of financial instruments

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost.

The accounting policies note describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the financial assets and liabilities in the statement of financial position by the class of financial instrument to which they are assigned and by the measurement basis.

Group As at 31 December 2024	At amortised cost £m	Fair value through OCI £m	Fair value through profit and loss £m	Total £m
Group assets:				
Cash in hand & balances with Bank of England	1,668.8	-	-	1,668.8
Loans and advances to credit institutions	308.4	-	-	308.4
Debt securities	-	528.3	-	528.3
Derivative financial instruments	-	-	246.6	246.6
Loans and advances to customers	11,284.5	-	-	11,284.5
Total financial assets	**13,261.7**	**528.3**	**246.6**	**14,036.6**
Total non-financial assets				72.6
Total group assets				**14,109.2**
Group liabilities:				
Shares	10,798.8	-	-	10,798.8
Amounts owed to credit institutions	743.0	-	1.8	744.8
Amounts owed to other customers	250.1	-	-	250.1
Debt securities in issue	1,444.5	-	8.5	1,453.0
Derivative financial instruments	-	-	67.5	67.5
Total financial liabilities	**13,236.4**	**-**	**77.8**	**13,314.2**
Total non-financial liabilities				41.3
General reserve and other reserves				753.7
Total group reserves and liabilities				**14,109.2**

Society As at 31 December 2024	At amortised cost £m	Fair value through OCI £m	Fair value through profit and loss £m	Total £m
Society assets:				
Cash in hand and balances with Bank of England	1,668.8	-	-	1,668.8
Loans and advances to credit institutions	203.8	-	-	203.8
Debt securities	-	528.3	-	528.3
Derivative financial instruments	-	-	205.0	205.0
Loans and advances to customers	11,235.3	-	-	11,235.3
Investments in subsidiaries	0.1	-	-	0.1
Total financial assets	**13,108.0**	**528.3**	**205.0**	**13,841.3**
Total non-financial assets				72.3
Total Society assets				**13,913.6**
Society liabilities:				
Shares	10,798.8	-	-	10,798.8
Amounts owed to credit institutions	1,763.3	-	1.8	1,765.1
Amounts owed to other customers	250.1	-	-	250.1
Debt securities in issue	311.7	-	8.5	320.2
Derivative financial instruments	-	-	67.5	67.5
Loans from subsidiaries	1.4	-	-	1.4
Total financial liabilities	**13,125.3**	**-**	**77.8**	**13,203.1**
Total non-financial liabilities				29.5
General reserve and other reserves				681.0
Total Society reserves and liabilities				**13,913.6**

Group As at 31 December 2023	At amortised cost £m	Fair value through OCI £m	Fair value through profit and loss £m	Total £m
Group assets:				
Cash in hand and balances with Bank of England	1,374.9	-	-	1,374.9
Loans and advances to credit institutions	329.4	-	-	329.4
Debt securities	-	317.5	-	317.5
Derivative financial instruments	-	-	308.9	308.9
Loans and advances to customers	10,115.6	-	-	10,115.6
Total financial assets	**11,819.9**	**317.5**	**308.9**	**12,446.3**
Total non-financial assets				80.3
Total group assets				**12,526.6**
Group liabilities:				
Shares	9,084.6	-	-	9,084.6
Amounts owed to credit institutions	1,127.5	-	1.9	1,129.4
Amounts owed to other customers	183.6	-	-	183.6
Debt securities in issue	932.0	-	330.1	1,262.1
Derivative financial instruments	-	-	110.1	110.1
Total financial liabilities	**11,327.7**	**-**	**442.1**	**11,769.8**
Total non-financial liabilities				39.8
General reserve and other reserves				717.0
Total group reserves and liabilities				**12,526.6**

Society As at 31 December 2023	At amortised cost £m	Fair value through OCI £m	Fair value through profit and loss £m	Total £m
Society assets:				
Cash in hand and balances with Bank of England	1,374.9	-	-	1,374.9
Loans and advances to credit institutions	219.4	-	-	219.4
Debt securities	-	317.5	-	317.5
Derivative financial instruments	-	-	265.0	265.0
Loans and advances to customers	10,052.7	-	-	10,052.7
Loans and investments in subsidiaries	0.1	-	-	0.1
Total financial assets	**11,647.1**	**317.5**	**265.0**	**12,229.6**
Total non-financial assets				79.7
Total Society assets				**12,309.3**
Society liabilities:				
Shares	9,084.6	-	-	9,084.6
Amounts owed to credit institutions	1,938.9	-	1.9	1,940.8
Amounts owed to other customers	183.7	-	-	183.7
Debt securities in issue	-	-	330.1	330.1
Derivative financial instruments	-	-	110.1	110.1
Loans from subsidiaries	1.3	-	-	1.3
Total financial liabilities	**11,208.5**	**-**	**442.1**	**11,650.6**
Total non-financial liabilities				27.1
General reserve and other reserves				631.6
Total Society reserves and liabilities				**12,309.3**

Carrying and fair values

The table below compares carrying values and fair values of the group's and the Society's financial instruments by category. It is accompanied by an explanation of the methods used to determine fair value.

	Note	2024 Carrying value £m	2024 Fair value £m	2023 Carrying value £m	2023 Fair value £m
Group assets:					
Cash in hand and balances with Bank of England	i.	1,668.8	1,668.8	1,374.9	1,374.9
Loans and advances to credit institutions	ii.	308.4	308.4	329.4	329.4
Debt securities	iii.	528.3	528.3	317.5	317.5
Derivative financial instruments	iv.	246.6	246.6	308.9	308.9
Loans and advances to customers	v.	11,284.5	11,378.3	10,115.6	10,063.6
		14,036.6	**14,130.4**	**12,446.3**	**12,394.3**
Group liabilities:					
Shares	vii.	10,798.8	10,781.6	9,084.6	9,131.0
Amounts owed to credit institutions	viii.	744.8	744.8	1,129.4	1,129.4
Amounts owed to other customers	viii.	250.1	250.1	183.6	183.6
Debt securities in issue	ix.	1,453.0	1,479.4	1,262.1	1,105.1
Derivative financial instruments	iv.	67.5	67.5	110.1	110.1
		13,314.2	**13,323.4**	**11,769.8**	**11,659.2**

	Note	2024 Carrying value £m	2024 Fair value £m	2023 Carrying value £m	2023 Fair value £m
Society assets:					
Cash in hand and balances with Bank of England	i.	1,668.8	1,668.8	1,374.9	1,374.9
Loans and advances to credit institutions	ii.	203.8	203.8	219.4	219.4
Debt securities	iii.	528.3	528.3	317.5	317.5
Derivative financial instruments	iv.	205.0	205.0	265.0	265.0
Loans and advances to customers	v.	11,235.3	11,329.1	10,052.7	10,001.5
Loans to and investments in subsidiaries	vi.	0.1	0.1	0.1	0.1
		13,841.3	**13,935.1**	**12,229.6**	**12,178.4**
Society liabilities:					
Shares	vii.	10,798.8	10,781.6	9,084.6	9,131.0
Amounts owed to credit institutions	viii.	1,765.1	1,765.1	1,940.8	1,940.8
Amounts owed to other customers	viii.	250.1	250.1	183.7	183.7
Debt securities in issue	ix.	320.2	344.9	330.1	355.0
Derivative financial instruments	iv.	67.5	67.5	110.1	110.1
Loans from subsidiaries	x.	1.4	1.4	1.3	1.3
		13,203.1	**13,210.6**	**11,650.6**	**11,721.9**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The following methods and assumptions have been applied in determining fair value:

i) The carrying amount of cash in hand and balances with the Bank of England are assumed to equate to fair value. Balances are held at amortised cost.

ii) The carrying amount of loans and advances to credit institutions with a maturity of under 12 months is assumed to equate to their fair value. Balances would be considered as a Level 2 item within the hierarchy for fair value disclosures.

iii) Debt securities are measured at fair value by reference to market prices, with balances considered as a Level 1 item within the hierarchy for fair value disclosures.

iv) The fair value of interest rate swaps is calculated by utilising discounted cash flow valuation models. Balances are held as fair value through profit and loss, and a breakdown of the fair value hierarchies can be seen in the table below.

v) The fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received after taking account of expected loss provisions, expected levels of early repayment and discounting at current market rates. Balances would be considered as a Level 3 item within the hierarchy for fair value disclosures.

vi) The fair value of loans and advances to subsidiaries at a variable rate is considered to be their carrying amounts with the use of transfer pricing mechanisms. Balances would be considered as a Level 3 item within the hierarchy for fair value disclosures.

vii) The fair value of customer accounts represents the discounted amount of estimated future cash flows expected to be paid, with reference to market-observable interest rates and would be considered as a Level 2 item.

viii) The fair values of amounts owed to credit institutions and amounts owed to other customers are considered to be the amount payable at the date of the statement of financial position. Balances are held at amortised cost, and would be considered as a Level 2 item within the hierarchy for fair value.

ix) The fair values of debt securities in issue and subscribed capital are obtained from market prices. Balances are held at amortised cost, and would be considered as a Level 1 item within the hierarchy for fair value.

x) The fair value of loans from subsidiaries is considered to be their carrying value as the loan is repayable on demand. Balances would be considered as a Level 3 item for fair value disclosures.

	Group			
	2024 £m	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**
Financial assets at fair value through profit or loss:				
Derivative financial instruments	246.6	-	205.1	41.5
Financial assets at fair value through other comprehensive income:				
Debt securities	528.3	528.3	-	-
Total	**774.9**	**528.3**	**205.1**	**41.5**
Financial liabilities at fair value through profit or loss:				
Amounts owed to credit institutions	1.8	-	1.8	-
Debt securities in issue	8.4	8.4	-	-
Derivative financial instruments	67.5	-	26.0	41.5
Total	**77.7**	**8.4**	**27.8**	**41.5**

	Society			
	2024 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit or loss:				
Derivative financial instruments	205.0	–	205.0	–
Financial assets at fair value through other comprehensive income:				
Debt securities	528.3	528.3	–	–
Total	**733.3**	**528.3**	**205.0**	**-**
Financial liabilities at fair value through profit or loss:				
Amounts owed to credit institutions	1.8	–	1.8	–
Debt securities in issue	8.4	8.4	–	–
Derivative financial instruments	67.5	–	26.0	41.5
Total	**77.7**	**8.4**	**27.8**	**41.5**

	Group			
	2023 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit or loss:				
Derivative financial instruments	308.9	–	265.0	43.9
Financial assets at fair value through other comprehensive income:				
Debt securities	317.5	317.5	–	–
Total	**626.4**	**317.5**	**265.0**	**43.9**
Financial liabilities at fair value through profit or loss:				
Amounts owed to credit institutions	1.9	–	1.9	–
Debt securities in issue	330.1	330.1	–	–
Derivative financial instruments	110.1	–	66.2	43.9
Total	**442.1**	**330.1**	**68.1**	**43.9**

	Society			
	2023 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit or loss:				
Derivative financial instruments	265.0	–	265.0	–
Financial assets at fair value through other comprehensive income:				
Debt securities	317.5	317.5	–	–
Total	**582.5**	**317.5**	**265.0**	**-**
Financial liabilities at fair value through profit or loss:				
Amounts owed to credit institutions	1.9	–	1.9	–
Debt securities in issue	330.1	330.1	–	–
Derivative financial instruments	110.1	–	66.2	43.9
Total	**442.1**	**330.1**	**68.1**	**43.9**

The tables above provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Hierarchy for fair value disclosures

Level	Description
1.	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2.	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly (i.e. derived from prices).
3.	Inputs for the asset or liability that are not based solely on observable market data.

The items included within Level 3 are interest rate swaps, the notional amounts for which track the amortisation profile of the mortgage assets within the RMBS structures. The valuations are calculated by Bloomberg, using present value calculations based on market interest rate curves and projected mortgage prepayment amounts. The unobservable inputs relate to the projection of the notional amounts of the swaps, which change over time to match the balance of the underlying mortgage portfolio. There has been one addition within this category during the year therefore total movements throughout 2023 are due to this, along with changes in market rates.

The costs to replace derivatives contracts in the event that a counterparty was unable to honour their contractual obligation are materially equal to the fair value of derivatives disclosed above.

32. Credit risk

The credit risk to which the group is exposed is described in the Risk Overview on pages 37 to 38. Credit risk in relation to loans and advances to customers including first and second charge retail credit risk and commercial lending credit risk is described in section a) below. Credit risk in relation to treasury financial instruments is described in section b).

a) Loans and advances to customers

The group's exposure to credit risk relating to loans and advances to customers can be broken down by security as follows:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
In respect of loans and advances to customers:				
Secured by a first charge on residential property	11,075.3	9,874.7	11,075.3	9,874.7
Secured by a first charge on land	265.9	283.6	265.9	283.6
Secured by a second charge on residential property	50.1	64.8	–	–
Total	**11,391.3**	**10,223.1**	**11,341.2**	**10,158.3**
Provision for impairment losses	(30.6)	(34.7)	(29.1)	(32.0)
Effective Interest Rate adjustments	18.5	15.4	17.9	14.6
Fair value adjustments	(94.7)	(88.2)	(94.7)	(88.2)
Total	**11,284.5**	**10,115.6**	**11,235.3**	**10,052.7**

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The group's exposure to credit risk relating to loans and advances to customers can be broken down by business segment as follows:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
Retail financial services	10,536.9	9,330.3	10,536.9	9,330.3
Commercial lending	793.1	810.6	793.1	810.6
Secured personal lending	49.2	62.9	-	-
Fair value adjustments	(94.7)	(88.2)	(94.7)	(88.2)
	11,284.5	**10,115.6**	**11,235.3**	**10,052.7**

i) Retail financial services and secured personal lending credit risk

Risk concentrations
The group provides loans secured on residential property across England, Scotland and Wales and the Society, as a regional building society, has a geographical concentration in Wales.

The geographical concentration of first and second charge retail loans by account and value is shown below:

	Group by account		Group by value	
	2024 %	2023 %	2024 %	2023 %
In Wales	29.3	31.3	25.0	27.2
Outside Wales	70.7	68.7	75.0	72.8
	100.0	**100.0**	**100.0**	**100.0**

The group holds a high quality buy-to-let portfolio with an amortised cost of £2,511.7m (2023: £2,395.2m). At the end of the year, 80% of buy-to-let mortgages (2023: 81%) were on interest only products and 19% (2023: 19%) were repayable by capital and interest repayments. 1.0% of mortgages were a combination of interest only and capital and interest (2023: less than 0.1%).

Balance to value (BTV) is one of the main factors used to determine the credit quality of loans secured on residential property. The average index linked BTV in respect of the group's loans secured on residential property including mortgages under offer is estimated to be 59.4% (2023: 56.0%). Index-linked BTV banding is shown below:

	Group		Society	
	2024 %	2023 %	2024 %	2023 %
Less than 50%	36.2	41.7	36.3	41.7
More than 50% but less than 75%	37.0	38.0	36.9	37.9
More than 75% but less than 90%	17.7	12.9	17.7	13.0
More than 90%	9.1	7.4	9.1	7.4
	100.0	**100.0**	**100.0**	**100.0**

Performance

The percentage of retail lending cases fully secured by a first charge currently with arrears greater than 3 months is 0.55% (2023: 0.56%) which compares favourably with the industry average of 1.08% (UK Finance arrears and possession data at 7 November 2024). Residential lending cases fully secured by a first charge which were 6 months or more in arrears had arrears balances of £2.2m (31 December 2023: £1.7m) with 253 cases (31 December 2023: 249).

The percentage of secured personal loans currently in arrears of two months or more by number is 7.96% (2023: 8.35%), which by value is 11.81% (2023: 12.77%). These decreases are due to the run off of the book.

The table below provides further information on the first and second charge retail loans secured on residential property by payment due status:

	Group			
	2024		2023	
	£m	%	£m	%
Current	10,486.7	99.1	9,310.2	99.1
Past due up to 3 months	45.8	0.4	37.5	0.4
Past due 3 months up to 6 months	24.0	0.2	18.9	0.2
Past due 6 months up to 12 months	16.2	0.2	17.3	0.2
Past due over 12 months	12.5	0.1	9.4	0.1
Possessions	0.8	-	0.3	-
	10,586.0	**100.0**	**9,393.6**	**100.0**

	Society			
	2024		2023	
	£m	%	£m	%
Current	10,443.8	99.1	9,255.6	99.1
Past due up to 3 months	43.6	0.4	34.4	0.4
Past due 3 months up to 6 months	23.3	0.2	18.1	0.2
Past due 6 months up to 12 months	14.6	0.2	15.1	0.2
Past due over 12 months	10.9	0.1	7.2	0.1
Possessions	0.8	-	0.3	-
	10,537.0	**100.0**	**9,330.7**	**100.0**

Collateral values are updated at the date of each statement of financial position based on the best information publicly available. Land Registry data is used in the Retail Financial Services business segment with Nationwide and Hometrack indices being used in the Secured Personal Lending business segment. Both indices take account of the geographical location of the collateral.

Based on indexed valuations the total collateral held in relation to lending secured against residential property is estimated to be £23,591.4m (2023: £20,887.7m).

The group holds collateral against loans and advances to residential customers in the form of mortgage interests over property. £1.6m (2023: £0.1m) of collateral is held against possession cases. Repossessed properties are made available for sale in accordance with statutory guidelines with proceeds used to reduce or repay the outstanding loan. The group has a statutory duty to obtain the best reasonable price and to sell as soon as it reasonably can. Any collateral surplus on the sale of repossessed properties, after a deduction for costs incurred in relation to the sale, would be returned to the borrower.

Impairment provisions are held against loans and advances to customers in line with the accounting policies which are outlined in note 1. Provisions on retail loans and mortgages by business segment are broken down as follows:

	2024 £m	2023 £m
Retail financial services	18.5	20.4
Secured personal lending	1.5	2.6
	20.0	**23.0**

Forbearance

The group uses a range of forbearance options which are considered based on the borrower's financial circumstances, agreed subject to set criteria and reviewed on a case-by-case basis. Forbearance options include capitalisation of arrears, interest-only concessions, arrangements to underpay and term extensions. Options relate to government initiatives, such as the Mortgage Charter. Repossession of a property will only take place once all alternatives have been reviewed and there are no other solutions available. 20 properties were taken into possession during 2024 (2023: 11) with balances of £1.5m (2023: £0.8m).

The table below sets out the mortgage balances which have had some form of forbearance over the last 12 months. Where accounts have had more than one form of forbearance the balance has been categorised based on the first instance of forbearance.

2024	Revised payment schedule £m	Transfer to interest-only £m	Term extensions £m	Capitalisation of Arrears £m	Other £m	Total £m
Current	9.2	6.1	0.2	0.2	26.9	42.6
Past due up to 3 months	14.3	1.2	0.1	1.1	4.4	21.1
Past due 3 months up to 6 months	9.0	0.3	0.1	0.9	2.2	12.5
Past due 6 months up to 12 months	5.6	0.4	-	0.6	0.4	7.0
Past due over 12 months	2.8	-	-	0.3	0.1	3.2
	40.9	**8.0**	**0.4**	**3.1**	**34.0**	**86.4**

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2023	Revised payment schedule £m	Transfer to interest-only £m	Term extensions £m	Capitalisation of Arrears £m	Other £m	Total £m
Current	7.4	9.6	-	-	20.5	37.5
Past due up to 3 months	8.6	1.0	-	-	3.7	13.3
Past due 3 months up to 6 months	5.9	0.1	-	0.6	0.8	7.4
Past due 6 months up to 12 months	4.3	0.1	-	0.4	1.1	5.9
Past due over 12 months	2.2	0.2	-	-	0.1	2.5
	28.4	**11.0**	**-**	**1.0**	**26.2**	**66.6**

The underlying performance of previous forbearance activities are reflected in the provisioning methodology and are not individually or collectively material.

ii) Commercial lending credit risk

Commercial lending activity is split between lending to private sector landlords and property investors, registered social landlords, and funding for commercial investment property.

Further detail of the group's risk management strategy in relation to commercial lending is described in the Risk Overview on page 38.

The commercial loan portfolio is managed by a relationship team with many years of experience in the commercial property lending business. All lending is subject to a rigorous underwriting process, operating within a well-defined and conservative lending policy.

Risk concentrations
The group's commercial loan portfolio, excluding impairment provisions and fair value adjustments, comprises the following:

	Group and Society			
	2024		2023	
	£m	%	£m	%
Loans to Registered Social Landlords secured on residential property	233.3	28.8	210.7	25.6
Other loans secured on residential property	309.8	38.3	329.4	40.1
Loans secured on commercial property	265.9	32.9	281.7	34.3
	809.0	**100.0**	**821.8**	**100.0**

Loans secured on commercial property are well diversified by industry type and counterparty. An analysis of commercial property loans by industry is provided below:

	Group and Society			
	2024		2023	
	£m	%	£m	%
Retail	92.2	34.6	93.9	33.3
Office	109.4	41.2	112.9	40.1
Industrial	52.6	19.8	60.1	21.3
Leisure	0.5	0.2	2.7	1.0
Land	-	-	-	-
Other	11.2	4.2	12.1	4.3
	265.9	**100.0**	**281.7**	**100.0**

The group provides loans secured on commercial property across England and Wales and the Society, as a regional building society, has a geographical concentration in Wales. An analysis of commercial property loans by geographical location is provided below:

	Group and Society			
	2024		2023	
	£m	%	£m	%
Wales	405.7	50.1	419.3	51.0
Greater London	219.6	27.1	225.3	27.4
South East/East of England	67.4	8.3	57.6	7.0
Midlands	20.7	2.6	21.1	2.6
South West/South of England	62.4	7.7	60.9	7.4
North West/North of England	16.2	2.0	17.1	2.1
Mixed/other	17.0	2.2	20.5	2.5
	809.0	**100.0**	**821.8**	**100.0**

The average loan to value (LTV) in respect of the group's commercial loans is estimated to be 53.1% (2023: 56.1%). LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security, lease term/tenant as well as geographical location.

£0.2m of exposures have an LTV of greater than 100% (2023: nil). None of these are already classified as impaired (2023: nil).

The largest exposure to one counterparty is £62.2m (2023: £55.9m) or 7.7% (2023: 6.8%) of gross balances relating to a number of loans to a Welsh housing association.

Performance

The commercial lending risk procedure for loans and advances to customers is described in the Risk Overview on page 38.

Using the commercial credit risk grading system the commercial loan portfolio is distributed as follows (the figures exclude provision for loan impairment and fair value adjustments):

	Group and Society			
	2024		2023	
	£m	%	£m	%
Exposures not classified as higher risk	750.3	92.7	779.4	94.8
Watch-list	34.9	4.3	25.4	3.1
Impaired or past due up to 3 months	23.8	2.9	17.0	2.1
	809.0	**99.9**	**821.8**	**100.0**

Under the IRB supervisory slotting approach for specialised lending which includes commercial property lending (Income Producing Real Estate – 'IPRE') the book is categorised as follows:

Slot	Standardised £m	Strong £m	Good £m	Satisfactory £m	Weak £m	Default £m	Total £m	%
Registered Social Landlords	233.3	-	-	-	-	-	233.3	28.8
Commercial Investment (including Owner Occupier)	-	1.4	214.8	27.6	2.4	13.3	259.5	32.1
Residential Investment	-	24.0	192.3	19.2	0.3	8.2	244.0	30.2
Commercial Development	-	-	6.4	-	-	-	6.4	0.8
Residential Development	-	-	54.2	10.3	-	1.3	65.8	8.1
	233.3	**25.4**	**467.7**	**57.1**	**2.7**	**22.8**	**809.0**	**100.0**

Watch-list exposures are categorised in line with the perceived severity of the risk to identify cases having the greatest potential cause for concern and to facilitate timely risk mitigation activity. Accounts in the watch-list are typically those which have had a material covenant breach, have persistent arrears (but are not presently >30 days past due) or where there are other concerns about the likelihood of eventual repayment. Defaulted accounts are described as impaired.

The table below provides further information on commercial loans and advances by defaulted and delinquency status:

	Group and Society			
	2024		2023	
	£m	%	£m	%
Unimpaired				
Current	786.0	97.2	807.5	98.3
Past due 1 to 3 months	0.2	-	-	-
Impaired				
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Defaulted but not past due	22.8	2.8	10.8	1.3
Law of Property Act (LPA) Receivers appointed	-	-	3.5	0.4
	809.0	**100.0**	**821.8**	**100.0**

There are two commercial cases (2023: nil) three months or more in arrears. Total arrears of one month or more are £4.8m (2023: £0.2m).

The total collateral held against commercial loans is estimated to be £1,776m (2023: £1,730m). Lending is classified by sector according to the property type held as collateral. The current value of collateral is estimated based on the latest professional valuation adjusted for subsequent commercial property price movements. Where considered necessary, new professional valuations are commissioned.

Provisions are held against impaired loans as follows:

2024	Group and Society		
	Stage 1 £m	Stage 2 £m	Stage 3 £m
Commercial lending provisions	3.5	3.8	3.3
Total provisions	**3.5**	**3.8**	**3.3**

2023	Group and Society		
	Stage 1 £m	Stage 2 £m	Stage 3 £m
Commercial lending provisions	4.2	4.7	2.7
Total provisions	**4.2**	**4.7**	**2.7**

Forbearance

In some cases of default, or in order to avoid a default, action plans are implemented which may require the granting of a concession involving amendments to the contractual terms of a loan. For example, an extension of a maturity or non-enforcement of covenants can often be the best way to avoid default and minimise losses, giving the customer time to take action to improve their situation. Such forbearance activity is always carefully considered with the aim of maximising the benefit and optimising the outcome for both the group and the borrower. In 2024, five (2023: 54) accounts with balances totalling £7.9m (2023: £75.4m) in value were granted forbearance concessions. The total exposure in forbearance at December 2024 stands at balances of £58.4m and 32 accounts (2023: £142.7m, 86 accounts). The potential for losses on these accounts is assessed and considered in the level of overall provisions held against the Commercial lending portfolio. Additionally their status in terms of whether deemed impaired, or placed on the watch-list, is also considered on a regular basis.

b) Treasury financial instruments

The treasury credit risk strategy is described in the Risk Overview on page 38.

The classes of financial instruments to which the group is most exposed to Treasury credit risk are loans and advances to credit institutions, debt securities and financial derivatives. For financial assets recognised in the statement of financial position, the exposure to credit risk equals their carrying amount. For loan commitments and guarantees, the exposure to credit risk is the full amount committed. The following table shows the group's estimated maximum exposure to credit risk without taking into account any collateral held or other credit enhancements.

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
UK Government securities	29.9	–	29.9	–
UK Supranational securities	–	24.1	–	24.1
UK Financial institutions	1,054.4	588.2	907.4	478.1
	1,084.3	**612.3**	**937.3**	**502.2**

None of these exposures was either past due or impaired and there are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

Collateral is not held over loans and advances to credit institutions and debt securities. Collateral of £182.8m (2023: £198.4m) is held over derivative financial instruments.

The following table shows the exposures broken down by Fitch ratings:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
AAA to AA-	822.8	367.5	822.8	367.5
A+ to A-	261.5	244.8	114.5	134.7
BBB+ to BBB-	–	–	–	–
	1,084.3	**612.3**	**937.3**	**502.2**

The geographical distribution of these exposures is as follows:

	Group		Society	
	2024 £m	2023 £m	2024 £m	2023 £m
UK	1,084.3	588.2	937.3	478.1
Multilateral development banks	–	24.1	–	24.1
	1,084.3	**612.3**	**937.3**	**502.2**

The Treasury Risk function monitors exposure concentrations against a variety of criteria including counterparty and country limits and all exposures are well spread across this risk assessment framework.

33. Liquidity risk

The following tables analyse the gross contractual principal cash flows payable under financial liabilities.

2024	Undefined maturity £m	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 year and 5 years £m	More than 5 years £m	Total £m
Group:						
Non-derivative liabilities						
Shares	0.4	6,263.6	2,646.8	1,882.5	-	10,793.3
Amounts owed to credit institutions	182.8	553.0	7.6	(0.4)	-	743.0
Other customers	-	222.9	27.2	-	-	250.1
Debt securities in issue	-	42.0	126.7	1,275.8	-	1,444.5
	183.2	**7,081.5**	**2,808.3**	**3,157.9**	**-**	**13,230.9**
Society:						
Non-derivative liabilities						
Shares	0.4	6,263.6	2,646.8	1,882.5	-	10,793.3
Amounts owed to credit institutions	182.8	602.3	99.1	879.1	-	1,763.3
Other customers	-	222.9	27.2	-	-	250.1
Debt securities in issue	-	-	12.2	299.5	-	311.7
	183.2	**7,088.8**	**2,785.3**	**3,061.1**	**-**	**13,118.4**
Group:						
Derivative liabilities						
Interest rate swaps	-	2.4	6.2	58.5	0.4	67.5
	-	**2.4**	**6.2**	**58.5**	**0.4**	**67.5**
Society:						
Derivative liabilities						
Interest rate swaps	-	2.4	6.2	58.5	0.4	67.5
	-	**2.4**	**6.2**	**58.5**	**0.4**	**67.5**

2023	Undefined maturity £m	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 year and 5 years £m	More than 5 years £m	Total £m
Group						
Non-derivative liabilities						
Shares	2.6	5,008.0	2,245.5	1,813.5	-	9,069.6
Amounts owed to credit institutions	198.4	355.5	570.8	2.8	-	1,127.5
Other customers	-	139.8	45.0	-	-	184.8
Debt securities in issue	-	34.0	120.4	1,088.8	-	1,243.2
	201.0	**5,537.3**	**2,981.7**	**2,905.1**	**-**	**11,625.1**
Society						
Non-derivative liabilities						
Shares	2.6	5,008.0	2,245.4	1,813.5	-	9,069.5
Amounts owed to credit institutions	198.4	382.3	687.7	682.7	-	1,951.1
Other customers	-	139.8	43.7	-	-	183.5
Debt securities in issue	-	-	24.3	299.1	-	323.4
	201.0	**5,530.1**	**3,001.1**	**2,795.3**	**-**	**11,527.5**
Group						
Derivative liabilities						
Interest rate swaps	-	0.5	8.9	86.5	14.2	110.1
	-	**0.5**	**8.9**	**86.5**	**14.2**	**110.1**
Society						
Derivative liabilities						
Interest rate swaps	-	0.5	8.9	86.5	14.2	110.1
	-	**0.5**	**8.9**	**86.5**	**14.2**	**110.1**

34. Market risk

Market risk can be sub-divided into interest rate risk and currency risk.

Interest rate risk
Interest rate risk is the risk that the value of, or income arising from, the group's assets and liabilities changes as a result of movements in market rates. The group reviews the potential impact that six interest rate scenarios (a range of parallel and non-parallel market rate shifts) could have on the market value of its financial assets and liabilities, on a discounted cashflow basis. Account is also taken of those assets and liabilities with embedded optionality, such as pipeline and prepayment risk on fixed rate mortgages.

The group monitors its position daily and operates within parameters set by the Board Risk Committee. The results of each of the six interest rate scenarios (parallel and non-parallel) are actively managed by the Finance Committee to ensure they remain consistent with the Society's current interest rate view. As market risk can manifest itself as both an impact on the group's economic value and/or the group's earnings (or Net Interest Income), both metrics are considered when assessing the level of Interest Rate Risk in the Banking Book and are monitored via Finance Committee and the Board Risk Committee.

As at 31 December 2024, the Economic Value of the group's balance sheet would have decreased by £15.7m in the case of a parallel 2% rate up. A parallel 2% rate up scenario is where rates across the entire yield curve increase by 2%.

Currency risk
The group has no material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

35. Related party transactions

The remuneration of the Directors (including Non-Executive Directors), who are the key management personnel of the group, is set out in the report of the Remuneration Committee.

Loans to and shares held by Directors
There were £0.2m outstanding balances in respect of secured advances made prior to, or during the year, to Directors at the end of the financial year (2023: nil).

In so far as it is required under Section 68(1) and Section 68(3) of the Building Societies Act 1986, details of such loans are maintained in a register kept at Principality Buildings, Queen Street, Cardiff, and a statement containing requisite particulars will be available for inspection by Members at the same address for the period of 15 days prior to the Annual General Meeting to be held on 11 April 2025.

As required by the Society's rules, each Director has a share account. The Society's duty of confidentiality to its Members precludes individual disclosure of these details; the aggregate total of deposits held by Directors was £0.3m (2023: £0.2m).

Directors' transactions
There were no other transactions with Directors during the year.

Transactions with group companies
There were no transactions with group companies during the year.

At the year end the following balances were outstanding:

	Surplus cash paid to Society 2024 £m	Surplus cash paid to Society 2023 £m
Nemo Personal Finance Limited	1.4	1.3
	1.4	**1.3**

The Society enters into derivative financial instruments with the consolidated funding vehicles used in the residential mortgage backed securities programme, described in note 21. As at 31 December 2024, the Society held intercompany derivative liabilities of £41.6m (2023: £43.9m) in respect of these instruments.

Annual Business Statement

for the year ended 31 December 2024

1. Statutory percentages

	At 31 December 2024 %	At 31 December 2023 %	Statutory limit %
The lending limit	2.5	3.1	25.0
The funding limit	18.5	22.1	50.0

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, Sections 6 and 7 of the Building Societies Act 1986 (as substituted by the Building Societies Act 1997) and are based on the consolidated statement of financial position.

2. Other percentages

	At 31 December 2024 %	At 31 December 2023 %
As a percentage of shares and borrowings:		
Gross capital	5.7	6.2
Free capital	5.3	5.7
Liquid assets	18.9	17.3
As a percentage of mean total assets:		
Profit for the year as a percentage of statutory mean total assets	0.28	0.39
Management expenses as a percentage of statutory mean total assets	0.94	0.99

- Gross capital – the aggregate of general reserve and available for sale reserve.
- Free capital – gross capital less intangible assets and property, plant and equipment.
- Liquid assets – the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
- Mean total assets – the average of the total assets in the consolidated statement of financial position at the beginning and end of the year.
- Management expenses – the aggregate of administrative expenses, depreciation and amortisation.

3. Directors

Details of Directors are contained on pages 49 to 52.

Details of Directors' service contracts are included in the report of the Remuneration Committee on page 78.

Documents may be served on any of the Directors c/o Eversheds Sutherland, Reference RP, 1 Callaghan Square, Cardiff CF10 5BT.

No Director or other Officer, including connected persons, has any right to subscribe for share capital in, or debentures of, any connected undertaking of the Society.

Subsidiary companies

Nemo Personal Finance Limited
Chief Executive: Iain Mansfield

Glossary

Additional Tier 1 capital	A component of regulatory capital comprising Permanent Interest-Bearing Shares (PIBS) and other qualifying instruments after regulatory adjustments.
Administered rate	A rate which is set by the Society, such as SVR, and that is at the Society's discretion to change, subject to the terms and conditions of the product.
Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan payment is overdue. Such a customer can also be said to be in a state of delinquency.
Basel III	In December 2010, the Basel Committee on Banking Supervision issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Brand consideration	Brand consideration measures whether a respondent would consider taking a product or service from Principality.
Buffer eligible liquid assets	Includes high quality debt securities issued by a government or central bank, securities issued by a designated multilateral development bank or reserves in the form of sight deposits with a central bank in an EEA State or Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.
Business assets	The total assets of the Society and its subsidiary undertakings as shown in the statement of financial position plus provision for loan impairment, less fixed assets and liquid assets.
Capital Requirements Directive (CRD IV)	European legislation to implement Basel III, which includes the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD).
Carbon net zero	We will reduce our carbon emissions to as low as they can possibly be, across all Scopes.
Commercial lending	Secured loans to a commercial borrower.
Commercial property	Includes office buildings, industrial property, medical centres, hotels, retail stores, shopping centres, multi-family housing buildings, warehouses and garages.
Contractual maturity	The final payment date of a loan or other financial instrument, at which point the entire remaining outstanding principal and interest is due to be repaid.

Common Equity Tier 1 capital	The highest quality form of capital as defined in the Capital Requirements Directive IV, comprising accumulated reserves and qualifying instruments after regulatory deductions.
Common Equity Tier 1 capital ratio	Common Equity Tier 1 capital as a proportion of risk-weighted assets.
Cost income ratio	A ratio that represents the proportion of management expenses (i.e. administrative expenses, depreciation and amortisation) to total income.
Covered bonds	A type of wholesale funding backed by cash flows from mortgages.
Credit risk	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.
Credit Valuation Adjustment (CVA)	An adjustment that represents an estimate of the change to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures.
Debt securities in issue	Transferable certificates of indebtedness including certificates of deposits, and fixed and floating rate notes.
Defined benefit pension scheme	A scheme that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.
Defined contribution pension scheme	A scheme into which the group and the employee pay fixed contributions without any obligation to pay further contributions.
Delinquency	See Arrears.
Effective Interest Rate method (EIR)	The group uses the EIR method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the group makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges.
Euro Medium Term Note (EMTN)	Medium term flexible debt instrument.
Expected Loss (EL)	A regulatory capital calculation to estimate the potential losses on current exposures due to potential defaults over a one-year time horizon. It is the product of PD, LGD and EAD.
Exposure	The maximum loss that a financial institution might suffer if a borrower or counterparty fails to meet its obligations to the group.

Exposure At Default (EAD)	A regulatory capital parameter used to estimate the amount outstanding at the time of default.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The FCA also has responsibility for protecting consumers and promoting healthy competition.
Financial Services Compensation Scheme (FSCS)	A protection fund for depositors of failed institutions. This is funded by the financial services industry and each firm, including the Society, is obliged to pay an annual levy.
Forbearance strategies	Strategies to assist borrowers in financial difficulty, such as extending loan terms, temporarily converting loans to an interest-only basis and agreeing a temporary reduction in payments. Forbearance strategies aim, if possible, to avoid foreclosure or repossession.
Funding limit	The proportion of shares and borrowings not in the form of customer accounts held by individuals.
Impaired loans	Loans where there is evidence to suggest a measurable decrease in the present value of expected cash flows that has occurred after initial recognition of the asset, but before the statement of financial position date.
Individually/collectively assessed impairment allowances	Impairment is measured individually for assets and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available. Collective assessment also covers losses that have occurred but are not yet individually identified on loans subject to individual assessment.
Individual Liquidity Guidance (ILG)	Guidance from the PRA on the required quantity of a firm's liquidity resources and the firm's funding profile.
Internal Capital Adequacy Assessment Process (ICAAP)	The group's internal assessment of the levels of capital that need to be held by the Society to meet its regulatory capital requirements.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.
International Swaps and Derivatives Association (ISDA) master agreement	A standardised contract developed by ISDA and used to enter into bilateral derivative transactions. The contracts grant legal rights of set-off for derivative transactions with the same counterparty. This reduces the credit risk of the derivatives to the extent that negative values offset positive values.

Internal Ratings Based (IRB)	An approach for measuring exposure to credit risks. IRB approaches are more sophisticated and risk sensitive than the standardised approach and may be Foundation or Advanced. IRB approaches may only be used with PRA permission.
Lending limit	The proportion of business assets not in the form of loans fully secured on residential property.
Leverage ratio	A Basel III ratio which measures Tier 1 capital against total on and off balance sheet assets.
LIBOR	London Inter Bank Offered Rate.
Liquid assets	Cash or other assets that can be readily converted to cash without loss of value.
Liquidity Coverage Ratio (LCR)	A liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a severe stress scenario.
Liquidity and funding risk	The risk that the group does not hold sufficient liquidity, in terms of quantity and quality, to meet its liabilities as they fall due.
Loan To Value ratio (LTV)	A ratio showing outstanding loan balance as a percentage of the value of the security.
Loss Given Default (LGD)	The difference between Exposure At Default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Management Expense Ratio	A ratio that measures cost as a proportion of mean assets.
Member	A person who has a share investment or a mortgage loan with the Society.
Net Interest Income	The difference between the interest received on assets and the interest paid on liabilities.
Net Interest Margin	This ratio calculates the net interest income as a percentage of mean total assets.
Net retail mortgage lending	Total movements in the retail mortgage book; includes all inflows and outflows in respect of retail lending.
Net retail savings growth	Total movements in the retail savings portfolio; includes all inflows and outflows in relation to retail savings.

Net Stable Funding Ratio (NSFR)	A liquidity ratio, currently proposed under Basel III, to calculate the proportion of long-term assets that are funded by stable, long-term funding sources (customer deposits and long-term wholesale funding).
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Overnight Indexed Swap rate (OIS)	A rate reflecting the overnight interest typically earned or paid in respect of collateral exchanged. OIS is used in valuing collateralised interest rate derivatives.
Plevin	In November 2014, the Supreme Court ruled in Plevin v Paragon Personal Finance Ltd (Plevin) that a failure to disclose a commission payment on a PPI policy made the relationship between a lender and the borrower unfair under the Consumer Credit Act.
Prudential Regulation Authority (PRA)	The UK prudential regulator, which is a part of the Bank of England and alongside the FCA has responsibility for the oversight of building societies, banks and insurers. The PRA's objective is to promote the safety and soundness of regulated firms.
Probability of Default (PD)	A regulatory capital parameter used to estimate the probability that a borrower will default on their credit obligations in the next 12 months.
Recovery and Resolution Plans	The recovery plan outlines the steps the Society can take to prevent failure. The resolution plan includes the data required by the Bank of England to establish an orderly resolution of the Society's affairs, in the event that recovery cannot be achieved.
Regulatory capital	Capital allowable under regulatory rules, less certain required regulatory adjustments and deductions.
Repurchase agreement (repo)/Reverse repurchase agreement (reverse repo)	A repurchase agreement (repo) is a transaction in which the borrower agrees to sell a security to the lender subject to a commitment to repurchase the asset at a specified price on a given date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the counterparty to the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Residential Mortgage Backed Securities (RMBS)	A category of asset backed security that represents interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Retail loans	Loans to individuals rather than institutions, including residential mortgage lending.
Risk appetite	The articulation of the level of risk that the group is willing to take (or not take) in order to safeguard the interests of the Society's Members whilst achieving business objectives.
Risk-Weighted Assets (RWA)	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
Securitisation	A process by which a group of assets, usually loans, is aggregated into a pool, which is used to back the issuance of new securities. A company transfers assets to a special purpose entity (SPE) which then issues securities backed by the assets. The group has established securitisation structures as part of its funding activities. These securitisation structures use retail mortgages as the asset pool.
Senior unsecured debt funding	Bonds issued by corporate bodies and financial institutions, which are not secured by any collateral and are not subordinated to any other liabilities of the Society.
Shares	Money deposited by Members in a retail savings account with the Society and held as a liability in the statement of financial position.
Shares and borrowings	The total of shares, deposits from banks, other deposits, amounts due to customers and debt securities in issue.
Solvency ratio	A component of regulatory capital measuring of the group's total regulatory capital as a proportion of the group's Risk Weighted Assets.
Special Purpose Entities (SPEs)	Entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. The group uses an SPE set up under a securitisation programme. Where the group has control of these entities or retains the risks and rewards relating to them they are consolidated within the group's results. This term is used interchangeably with SPV (special purpose vehicle).
Standardised approach	The basic method used to calculate credit risk capital requirements under Basel III. In this approach the risk weights used in the capital calculation are determined by PRA supervisory parameters. The standardised approach is less risk-sensitive than IRB.

Stress testing	Various techniques that are used by the group to gauge the potential vulnerability to exceptional but plausible events.
Tier 1 capital ratio	Tier 1 capital as a proportion of Risk-Weighted Assets.
Tier 2 capital	A further component of regulatory capital comprising subordinated debt less certain regulatory deductions.
Underlying management expense ratio	An alternative variation of management expense ratio which removes any costs that are considered to be one off in nature and not indicative of ongoing operating costs. This is an internal measure to demonstrate ongoing costs as a percentage of total average assets.
Value at Risk (VAR)	A technique that estimates the potential loss that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence.

Online

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Member Pulse

Have your say by joining our online community at **principalitypulse.co.uk**

Building your future

• To help us maintain our service and security standards, telephone calls may be monitored and recorded.

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Where home matters
principality.co.uk

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