Half Year Financial Report 2024

Building your future

Principality
Building Society
Cymdeithas Adeiladu

Where home matters
principality.co.uk

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Forward Looking Statements

This interim report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Therefore, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Chief Executive's review

Interim Report

I am pleased to announce that Principality Building Society has delivered a strong performance in the first half of this year, building on two years of progress against our strategy and priorities.

The first half of 2024 has delivered strong balance sheet growth, helping more mortgage and savings customers in our chosen segments. This has been delivered despite a testing backdrop of higher inflation, political uncertainty, and a prolonged period of an elevated Bank of England base rate.

I am especially proud that we've achieved growth in both mortgages and savings, continuing to provide excellent customer experience through our committed and dedicated colleagues, whilst at the same time enhancing our operational efficiency. Our member-owned mutual ethos, responsible lending practices, and conservative interest rate risk management have enabled us to balance the needs of savers and borrowers, whilst ensuring the long-term sustainability of the Society.

As a purpose-led organisation owned by our members, we exist to make the hopes and aspirations of our members possible. We run the Society by listening to what matters to our customers and members. That's why we remain committed to local communities in Wales, not just through having the largest high street branch presence of any bank or building society in Wales, but also through championing access to cash, providing good interest rates, volunteering, community engagement and sponsorships.

Better Homes

Core to our purpose is trying to create a more accessible housing market, where there are more affordable homes and it's easier for first time buyers to get onto the property ladder.

In the first half of the year, we've helped more than 3,576 (30 June 2023: 3,304) first time buyers purchase their first home, and our net retail mortgage lending was £0.6bn (30 June 2023: £0.5bn). This takes us well on our way to our ambition to support over 15,000 customers to buy their first home by 2030.

We've introduced new products, such as shared ownership, joint borrower sole proprietor mortgages, and more affordable options for non-EEA citizens, helping more people onto the housing ladder.

I understand that the challenging economic landscape has caused many of our members to be worried about their mortgage payments. That's why we continue to fully support the Government's Mortgage Charter and remain committed to supporting borrowers through these measures. The proportion of customers in financial difficulty with their mortgage remains at low historic levels, with 0.58% having missed more than 3 months' payments (June 2023: 0.56%).

I am delighted that the excellent service Principality colleagues have given to our members led to us being voted Best Building Society for Customer Service by What Mortgage for the seventh consecutive year, as well as the Best Medium Lender at the Legal & General Mortgage Club awards and the Best Business Outcome Experian award.

In line with our ambition to support housing associations, I'm proud that our Commercial Lending team, now supports 18 out of 33 housing associations in Wales. In June, we provided £25m long-term financing to Cardiff-based housing association Hafod, supporting the construction of 300 affordable homes over the next five years. This forms part of £80m of commitments signed in 2024 and in addition to the £50m loan to Pobl in 2023.

Work is also about to be completed on the final phase of the £100m Mill development in Ely, Cardiff which has spanned seven years since the first phase of home building commenced in 2017. Half of the 800 homes built during the development offer either discounted, intermediate, or social rents. As a mutual, we are able to take a very long-term approach to working with stakeholders across Government, local authorities and partners to deliver this large scale, complex development. We continue to try to influence all of these stakeholders to do more to deliver more new housing given the shortage that impacts our communities across the UK.

Chief Executive's review (continued)

Secure Future - Society of savers

As the cost of living crisis continues, more people are struggling financially. Those on the lowest incomes have been affected the most and have the least in savings. We want to provide our members with competitive savings rates, so we can create a society of resilient savers.

That's why our ambition is to support 1,000,000 savers by 2030 and increase the number of customers saving regularly to 150,000. We're on a mission to engage more savers to save more regularly and ensure everyone ensure everyone has the tools and support to develop positive saving habits.

I'm pleased to say that we now have over 427,085 savers, which is up 2%, including over 72,519 regular savers, with savings through our branches up 5% so far this year. We continue to invest in providing a better experience for customers regardless of the channel customers choose and have made significant improvements to our digital savings journey and our new website will launch in the coming weeks.

As a building society and a mutual, we're owned by our members, not shareholders, so I'm proud to say that on average, we've paid savers 4.00% versus the market average of 3.32%* for the first four months of 2024, resulting in the equivalent of an additional £21m (0.68%) in interest paid to our saving members.

Fairer Society

We're on a mission to ensure young people receive meaningful opportunities, helping them to gain skills and experience and prepare themselves for their futures, while making significant strides to reduce our carbon net zero operations by 2040.

By 2030, we seek to positively change the lives of overlooked and under-represented young people, and helped communities thrive in a sustainable way, contributing a minimum of 3% of our profits each year.

As part of that commitment, I'm pleased to say we plan to issue the fourth iteration of our Future Generation Fund in the second half of the year, which will support local community groups in our heartland, with funding in excess of £0.5m. These funds create impact in communities ensuring that the most disadvantaged have more opportunities.

We also supported financial education for 24,567 school children and young people and donated £121,248 to our charity partners Ty Hafan and Hope House Ty Gobaith children's hospices through colleague and member fundraising.

I'm delighted that this year we were able to purchase carbon credits in the UK for the first time, taking responsibility for our emissions through an innovative permanent carbon removal solution. Through our partnership with UNDO, we'll be permanently removing 339 tonnes of $CO_{2,}$ as part of our long-term commitment to becoming carbon net zero across our operations.

The Society's commitment to diversity and inclusion continues to shine through, I'm delighted that as a result Principality won the Financial Services Company of the Year Award – for the National Centre for Diversity.

Our excellent colleague networks have made big strides in helping the Society along on this journey. One example is how the Pride network hosted local small businesses, colleagues and their friends and family at Principality House ahead of the 25th annual PRIDE Cymru march, for which the Society was the headline sponsor for the second year in a row.

*Source: CACI's Current Account & Savings Database (CSDB), Weighted Average Interest Rate for January 2024 - April 2024.

Chief Executive's review (continued)

Strong Financial Performance

I'm pleased to share that our mortgage book growth of £0.6bn has brought our mortgage balance to £9.9bn (31 December 2023: £9.3bn). Our savings balance has also grown £0.8bn to £9.9bn (31 December 2023: £9.1bn). This brings our total assets to £13.5bn, £1bn higher than December 2023 (£12.5bn).

As signalled in 2023, we have seen an expected reduction of Net Interest Margin to 1.21% (31 December 2023: 1.52%), and therefore a decrease in Underlying Profit to £20.1m (30 June 2023: £39.1m), whilst statutory profit before tax was £22.4m (30 June 2023: £41.0m).

At the same time, there is significant investment underway to ensure the Society is fit for the future, with our strong capital and liquidity positions providing a solid foundation for future growth and investment, all for the benefit of members as we seek to make it easier for them to do business with us.

Providing a safe and secure home for our Members' savings is fundamental to the ongoing success of our business, just as it has been for the past 164 years.

Outlook

Living in the homes we desire and saving for the future we deserve is more difficult than ever before. However, as inflation pressures begin to ease and we anticipate a more stable political environment, the outlook is becoming more optimistic. I'm confident that Principality is well-positioned to leverage our strengths and meet our ambition to have an impact beyond our scale.

Our long-term vision remains steadfast: to help build a society of savers where everyone has a place to call home.

Our strong financial performance means we can continue to invest to protect the long-term relevance of the society to better meet the needs of our customers, colleagues and communities.

Julie-Ann Haines
Chief Executive Officer
2 August 2024

Business review
for the six months ended 30 June 2024

Strategic Key Performance Indicators

We measure our performance through Strategic Key Performance Indicators (SKPIs) which are aligned to our strategic outcomes and ambitions to ensure Members can prosper in their homes at every stage of life.

2024 Strategic Key Performance Indicators (SKPIs)

Better Homes	Secure Futures	Fairer Society
Total number of homes owned	Total number of savers	Amount of funds distributed for social impact activity
Total number of first time buyers	Total number of customers saving regularly	Percentage of women in leadership positions (reintroduced March 2023)
Total number of new homes funded	Total number of young people accessing opportunities	
Total committed to new RSL lending		

Better Homes

SKPI	2024 HY	2023 HY	2023 FY
Total number of homes owned	84,611	77,766	80,883
Total number of first time buyers	3,576	3,304	8,134
Total number of new homes funded	86	20	76
Total committed to new RSL lending	£41m	£17m	£42m

Secure Futures

SKPI	2024 HY	2023 HY	2023 FY
Total number of savers	427,085	415,765	417,505
Total number of customers saving regularly[1]	72,519	77,523	73,554
Total number of young people accessing opportunities	35,421	32,772	53,320

Fairer Society

SKPI	2024 HY	2023 HY	2023 FY
Amount of funds distributed for social impact activity	£0.4m	£0.6m	£1.3m
Percentage of women in leadership positions	41%	40%	39%

[1] Customers who have had a positive movement in their balance any 4 months in the last 6 months.

Business review (continued)
for the six months ended 30 June 2024

Key Performance Indicators

The below performance indicators, apart from statutory profit before tax, are alternative performance measures (APMs) which are used internally to inform key management decisions.

	Six months to 30 June 2024	Six months to 30 June 2023	Year ended 31 December 2023
Financial Performance Measures			
Net retail mortgage growth[1]	£605.3m	£453.9m	£1,088.9m
Net savings growth[2]	£832.2m	£398.1m	£948.1m
Net interest margin	1.21%	1.69%	1.52%
Management expense	0.91%	0.95%	0.99%
Statutory profit before tax	£22.4m	£41.0m	£60.3m
Underlying profit before tax	£20.1m	£39.1m	£60.3m
Common Equity Tier 1 ratio	19.65%	24.85%	21.77%
Stakeholder Experience			
Colleague engagement[3]	86	87	87
Customer experience[4]	69	-	67
Broker experience[5]	86	78	82

1. This movement is calculated excluding any fair value amount attributed to retail mortgages. The difference in fair value adjustments between December 2023 and June 2024 was £46.4m.
2. This movement is calculated excluding any fair value amount attributed to savings. The difference in fair value adjustments between December 2023 and June 2024 was £9.9m.
3. Source: Based on the Peakon Engagement Platform for May 2024. This is the percentage of colleagues who completed the survey.
4. Source: Based on Qualtrics customer survey data for June 2024, comparative for December 2023 restated to use Qualtrics. No available comparison for June 2023.
5. Source: Based on Qualtrics broker survey data for June 2024, comparatives use Maze data however methodology has not changed.

Further information on these APMs can be found within the 2023 Annual Report and Accounts within the strategic report and glossary sections.

Financial performance

Income statement

As detailed in the Chief Executive's review, the underlying profit before tax for the six months to 30 June 2024 was £20.1m (30 June 2023: £39.1m). Statutory profit before tax was £22.4m (30 June 2023: £41.0m). Both measures reflect further strong performance of the Society, albeit lower profits compared to the prior period, primarily due to a fall in net interest margin and increased investment to ensure the Society remains fit for the future. These profits continue to enable the Society to support Members and colleagues.

	30 June 2024 £m	30 June 2023 £m	31 December 2023 £m
Statutory profit before tax	**22.4**	**41.0**	**60.3**
Adjusted for:			
Fair value gains	(2.3)	(1.9)	-
Underlying profit before tax	20.1	39.1	60.3

The purpose of the underlying measure is to reflect management’s view of the group’s underlying performance, presented to aid comparability across reporting periods. This is adjusted for items which affect statutory measures but are deemed to be either non-recurring or fair value movements, which are predominantly driven by swap prices that are outside of management's control. This aligns to measures used by management to monitor the performance of the business.

Business review (continued)
for the six months ended 30 June 2024

Net interest margin

Net interest margin for the period was 1.21% (30 June 2023: 1.69%). Net interest margin rose in the prior period due to the rising rate environment, but with the Bank of England Base Rate having remained at its current rate of 5.25% since August 2023, and the Society paying out more interest to savers, net interest margin has fallen during 2024. The result is a £101m increase in interest receivable and a £118m increase in interest payable.

Fair value movements

Fair value movements represent the change in value of certain assets and liabilities to reflect underlying market rates. These movements are primarily timing differences, which will reverse as the asset or liability approaches maturity. During the period, the group recognised a gain of £2.3m in the income statement (30 June 2023: £1.9m gain) in relation to these movements in fair value.

Operating expenses

Operating expenses increased when compared with the same period last year at £59.5m (30 June 2023: £54.1m). The main drivers of this rise are increased staff costs following our annual pay and benefits review, as well as increased IT spend and further strategic investment to enable and deliver the vision of the Society. The increase in the cost income ratio is due primarily to a decrease in net interest income. Focus on managing the cost base of the Society as a proportion of assets remains a key strategic priority. The management expense ratio has fallen through the first half of 2024 due to the rise in total assets, driven by the increase in the mortgage book and the issuance of the Society's latest residential mortgage-backed security (RMBS), Friary No.9.

Total operating expenses are set out in the table below:

	30 June 2024 £m	30 June 2023 £m	31 December 2023 £m
Retail financial services	57.6	52.2	116.0
Commercial lending	1.5	1.5	3.0
Secured personal lending	0.4	0.4	0.6
Total operating expenses	59.5	54.1	119.6
Management expense ratio[1]	0.91%	0.95%	0.99%
Underlying management expense ratio[2]	0.81%	0.91%	0.88%
Cost income ratio[3]	73.20%	55.37%	64.43%

[1] The management expense ratio measures costs as a proportion of mean assets.
[2] The underlying management expense ratio is as above but with community commitments, strategic investment and exceptional items stripped out of operating expenses.
[3] The cost income ratio measures cost as a proportion of net income.

The underlying management expense ratio within the table above strips out items of expenditure totalling £7.0m (30 June 2023: £1.1m) that are either one-off in nature or do not relate to the day-to-day running costs of the business; these items have been removed to provide an accurate measure of the ongoing cost to run the business.

Impairment provisions for losses on loans and advances

The group continues to have a low level of arrears, reflecting our prudent lending criteria, credit quality and underwriting standards. The performance of the group's loan portfolios continues to be strong, with the percentage of arrears in our retail portfolio at 0.49% (31 December 2023: 0.46%), which compares favourably to the industry average of 1.11%[4]. The impairement provision release of £(0.8)m reducing provision balances to £33.7m (30 June 2023: charge of £3.7m to £35.1m) is a result of a more optimistic economic outlook for the remainder of 2024 and beyond, as interest rates stabilise and the high levels of inflation seen in previous periods have reduced, offset by the increase in the retail portfolio and the impact of actual house price reductions reflected in the book. The fall in commercial lending relates to changes in the book as a result of settlements in the first half of the year. The secured personal lending portfolio continues to run off, with provisions reducing in line.

[4] Source: UK Finance arrears and possession data as at May 2024, Arrears greater than 2.5% of balances.

Impairment provisions for losses on loans and advances (continued)

Total impairment provisions held are as follows:

	30 June 2024 £m	30 June 2023 £m	31 December 2023 £m
Retail mortgages	20.6	19.2	20.4
Secured personal lending	2.0	3.3	2.6
Commercial lending	11.1	12.6	11.6
Total	33.7	35.1	34.6

Total ECL coverage as at 30 June 2024 was 0.21% (2023: 0.24%) in respect of retail financial services and secured personal lending and 1.14% in respect of commercial lending (2023: 1.27%).

Statement of financial position

Total assets have increased to £13.5bn (31 December 2023: £12.5bn), driven by the growth in our retail mortgage portfolio and the latest RMBS issuance, Friary No.9, which was successfully issued in May 2024 with £500m of external notes issued and a further £150m of notes retained. Also during the period, Friary No.5 was wound up. Mortgage growth is the result of our investment in technology, increasing our mortgage on-boarding capability and capacity to grow further. The Society aims to continue this growth trajectory, increasing the number of homeowners while maintaining a scalable organisation.

Loans and advances to customers

The retail mortgage portfolio increased to £9.9bn (31 December 2023: £9.3bn) with a net growth of £0.6bn. The quality of the loans remains strong with an average balance to value of 59.5% (31 December 2023: 56.0%). The commercial lending portfolio remained flat at £0.8bn (31 December 2023: £0.8bn). The secured personal lending portfolio continued to run off, decreasing to £56.7m (31 December 2023: £62.9m).

Funding

Funding levels are closely monitored to maintain a diverse and balanced funding base. The majority of funding comes from retail savings, which has increased to £9.9bn (31 December 2023: £9.1bn) as a result of raising interest rates to attract more savings. Retail savings balances are the primary method of supporting our retail lending with 91.8% (31 December 2023: 88.9%) of the total loans funded in this way.

Capital and liquidity

The group's Common Equity Tier 1 ratio, which measures qualifying capital reserves as a proportion of risk weighted assets, is 19.7% as at 30 June 2024 (31 December 2023: 21.8%). This includes a post model adjustment (PMA) as a result of regulatory changes which came into effect on 1 January 2022. The model redevelopment is in an advanced stage with consultation ongoing with the PRA. The PMA applied is based on the expected capital requirement following model completion. The reduction in the period is as a result of the growth in the retail mortgage portfolio and an increase in higher loan to value (LTV) lending as the Society supports more first time buyers.

The PRA leverage ratio, a measure of Tier 1 capital held against total (non-risk-weighted) assets, including certain off-balance sheet commitments, has reduced to 5.6% at the end of the period (31 December 2023: 5.9%). The capital position remains robust and both ratios are well above the minimum regulatory requirements.

The business continues to hold a conservative buffer of high quality liquid assets, with a liquidity ratio of 19.4% (31 December 2023: 17.4%), the growth in the period a result of the £0.4bn increase in liquid assets primarily due to the RMBS issuance. The Liquidity Coverage Ratio (LCR) is 201% at 30 June 2024 (31 December 2023: 203%), which remains well above the current regulatory minimum of 100%.

Business review (continued)
for the six months ended 30 June 2024

Principal risks and uncertainties

The principal risks and uncertainties affecting the group were set out in the Risk Overview section of the Strategic Report in the Annual Report and Accounts for the year ended 31 December 2023. These risks are categorised as: credit, market, liquidity and funding, solvency, conduct, legal and regulatory risk, operational, and business risk. These categories are common to most financial services firms in the UK.

These remain the principal risks to the group at 30 June 2024.

Although the business is exposed to a number of potential risks and uncertainties, it is well placed to meet these challenges, with a diversified and flexible funding base, and strong levels of capital and liquidity.

Iain Mansfield
Chief Financial Officer
2 August 2024

Condensed consolidated income statement
Group interim results for six months to 30 June 2024

	Notes	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
Interest receivable and similar income	3	351.2	250.4	574.1
Interest payable and similar charges	4	(272.7)	(154.7)	(392.8)
Net interest income		78.5	95.7	181.3
Fees and commission receivable	5	1.6	1.8	3.5
Fees and commission payable		(1.2)	(1.3)	(2.7)
Net fee and commission income		0.4	0.5	0.8
Other operating income		0.5	0.6	1.5
Other fair value gains	6	2.3	1.9	-
Net operating income		81.7	98.7	183.6
Administrative expenses	7	(54.0)	(48.6)	(105.2)
Depreciation and amortisation		(5.5)	(5.5)	(11.1)
Other impairment losses		-	-	(3.3)
Operating expenses		(59.5)	(54.1)	(119.6)
Impairment credit for losses on loans and advances	14	0.8	(3.7)	(3.5)
Provisions for liabilities credit/(charges)	11	(0.6)	0.1	(0.2)
Operating profit and profit before taxation		22.4	41.0	60.3
Taxation expense	9	(5.6)	(9.6)	(13.9)
Profit for the period/year		16.8	31.4	46.4

Condensed consolidated statement of other comprehensive income
Group interim results for six months to 30 June 2024

	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
Profit for the period/year	16.8	31.4	46.4
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on retirement benefit obligations	-	(1.1)	(13.4)
Tax on retirement benefit obligations	(0.1)	0.2	3.2
Items that may be reclassified subsequently to profit and loss:			
Gain/(loss) on assets at fair value through other comprehensive income	0.6	0.8	2.6
Tax on assets at fair value through other comprehensive income	(0.1)	(0.2)	(0.6)
Total comprehensive income for the period/year	17.2	31.1	38.2

Condensed consolidated statement of financial position
Group interim results as at 30 June 2024

	Notes	30 June 2024 £m (Unaudited)	30 June 2023 £m (Unaudited)	31 December 2023 £m (Audited)
Assets				
Liquid assets:				
Cash in hand and balances with the Bank of England		1,727.9	1,258.2	1,374.9
Loans and advances to credit institutions		336.9	264.9	329.4
Debt securities		382.4	293.1	317.5
		2,447.2	1,816.2	2,021.8
Derivative financial instruments		339.0	492.1	308.9
Loans and advances to customers:				
Loans fully secured on residential property		10,377.5	8,925.2	9,832.0
Other loans		271.5	305.9	283.6
	10	10,649.0	9,231.1	10,115.6
Current tax assets		10.5	8.0	5.6
Intangible fixed assets		17.6	21.2	19.1
Property, plant and equipment		26.1	35.5	29.8
Investment properties		8.0	5.8	5.6
Deferred tax assets		4.4	3.0	5.3
Other assets		1.4	1.8	1.3
Retirement benefit obligations	8	-	-	-
Prepayments and accrued income		12.6	10.8	13.6
Total assets		13,515.8	11,625.5	12,526.6
Liabilities				
Shares		9,907.0	8,500.5	9,084.6
Deposits and debt securities:				
Amounts owed to credit institutions		760.4	1,640.6	1,315.0
Amounts owed to other customers		249.4	206.3	183.6
Debt securities in issue		1,713.0	448.7	1,076.5
		2,722.8	2,295.6	2,575.1
Derivative financial instruments		113.1	85.4	110.1
Current tax liabilities		-	-	-
Other liabilities		11.8	8.4	12.9
Provisions for liabilities	11	2.9	2.6	2.6
Accruals and deferred income		8.3	8.2	12.9
Deferred tax liabilities		15.4	12.9	10.8
Retirement benefit obligations	8	0.3	2.0	0.6
Total liabilities		12,781.6	10,915.6	11,809.6
General reserve		733.1	710.6	716.3
Other reserves		1.1	(0.7)	0.7
Total equity and liabilities		13,515.8	11,625.5	12,526.6

Condensed consolidated statement of changes in Members' interests
Group interim results for six months to 30 June 2024

	Six months to 30 June 2024 (Unaudited)		
	General Reserve £m	Fair Value through OCI reserve £m	Total equity attributable to Members £m
Balance at 1 January 2024	716.3	0.7	717.0
Comprehensive income for the period	16.8	0.4	17.2
At 30 June 2024	733.1	1.1	734.2

	Six months to 30 June 2023 (Unaudited)		
	General Reserve £m	Fair Value through OCI reserve £m	Total equity attributable to Members £m
At 1 January 2023	680.1	(1.3)	678.8
Comprehensive income for the period	30.5	0.6	31.1
At 30 June 2023	710.6	(0.7)	709.9

	Year to 31 December 2023 (Audited)		
	General Reserve £m	Fair Value through OCI reserve £m	Total equity attributable to Members £m
At 1 January 2023	680.1	(1.3)	678.8
Comprehensive income for the period	36.2	2.0	38.2
At 31 December 2023	716.3	0.7	717.0

All items dealt with in arriving at the profit for the period, and the preceding financial periods, relate to continuing operations. The accounting policies and notes on pages 14 to 28 form part of these accounts.

Condensed consolidated statement of cash flows
Group interim results for six months to 30 June 2024

	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited) Restated	Year ended 31 December 2023 £m (Audited) Restated
Net cash flows from operating activities	**53.5**	**(157.7)**	**(430.9)**
Cash flows from investing activities			
Purchase of intangible assets	(0.6)	-	(0.2)
Purchase of property, plant and equipment	(2.0)	(2.3)	(2.7)
Purchase of investment securities	(58.9)	(134.9)[2]	(184.7)
Proceeds from sale and maturity of investment securities	4.0	3.4[2]	31.5
Net cash flows from investing activities	**(57.5)**	**(133.7)**	**(156.1)**
Cash flows from financing activities			
Interest paid on debt securities in issue	(38.0)	(7.9)	(14.4)
Proceeds from issuance of debt securities in issue	500.3	0.4	500.0
Redemption of debt securities in issue	(61.6)	(22.7)	(39.3)
Repayments of lease liabilities	(0.5)	(0.5)	(1.1)
Net cash flows from financing activities	**400.2**	**(30.7)**	**445.2**
(Decrease)/increase in cash and cash equivalents	396.2	(322.1)	(141.8)
Cash and cash equivalents at beginning of period/year	1,668.6	1,810.4	1,810.4
Cash and cash equivalents at end of period/year	**2,064.8**	**1,488.3**	**1,668.6**
Represented by:			
Cash and balances with the Bank of England	1,727.9	1,223.4[1]	1,339.2[1]
Loans and advances to credit institutions	336.9	264.9	329.4
	2,064.8	1,488.3	1,668.6
Operating activities			
Profit before taxation	22.4	41.0	60.3
Adjusted for:			
Depreciation and amortisation	5.5	5.5	11.1
Charge on defined benefit pension scheme	-	-	(0.2)
Impairment on loans and advances to customers	(0.8)	3.7	3.5
Impairment on fixed assets	-	-	3.4
Change in fair values	26.4	70.1	(149.0)
Change in other provisions	0.2	(0.4)	(0.2)
Interest on debt securities in issue	39.6	8.0	36.3
Other non-cash items included in profit before tax	(9.6)	(0.8)[2]	(2.2)
Changes in net operating assets			
Loans and advances to customers	(579.0)	(518.8)	(1,123.8)
Other operating assets	1.0	1.7	(0.8)
Derivative financial instruments	(27.2)	(101.2)	106.7
Shares	832.2	399.4	949.4
Deposits	(246.6)	(48.3)	(299.7)
Other operating liabilities	(5.0)	(7.3)	1.7
Contributions paid into defined benefit scheme	(0.4)	-	(13.5)
Taxation paid	(5.2)	(10.3)	(13.9)
Net cash flows from operating activities	**53.5**	**(157.7)**	**(430.9)**

[1] In December 2023 there is a difference of £35.6m (June 2023: £34.8m) to the statement of financial position relates to the cash ratio deposit previously held with the BoE. The cash ratio deposit scheme has now been replaced by the BoE levy in 2024.
[2] Correction of prior misclassification of £55.2m purchase of investment securities.

Notes to the accounts
for the six months ended 30 June 2024

1. Basis of preparation

The condensed consolidated set of financial statements of the group for the half-year ended 30 June 2024 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (IAS) 34 Interim Financial Reporting. The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted for use within the UK. The accounting policies adopted are consistent with those of the previous financial year.

Going concern

The Directors have assessed the viability of the group, taking into account business strategy, principal risks and current economic conditions. The approach taken is consistent with that undertaken at the 2023 year-end.

The Directors have considered the resilience of the group, taking account of its current position, the risks facing the business in severe but plausible scenarios and the effectiveness of any mitigating actions. The assessment has considered the potential impacts on the business model, future performance, capital adequacy and liquidity. The group's financial forecasts have been refreshed and take consideration of the macroeconomic environment, the performance of the group's lending portfolios and the availability of funding.

The group's 2023 Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) have been approved by the Board. Both are completed annually and use internal scenarios aligned to the Bank of England severity benchmarks and reflect the specific nature of the group's business. Included within these scenarios are substantial falls in residential and commercial property prices, increases in unemployment, changes to interest rates, inflation and reduced funding availability within wholesale and retail markets.

Having considered the plans and forecasts for the group, the Directors remain satisfied that the group has adequate resources and no material uncertainties that lead to significant doubt about the group's ability to continue in business for the foreseeable future. Accordingly, the financial statements continue to be prepared on a going concern basis.

New and amended standards adopted by the group

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

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.

Impact of standards issued but not yet applied

There are no material impacts expected from issued standards and amendments to existing standards that are not yet applicable.

Notes to the accounts
for the six months ended 30 June 2024

1. Basis of preparation (continued)

Judgements in applying accounting policies and critical accounting estimates

The critical judgements and areas of critical accounting estimates remain consistent with those disclosed in the 2023 Annual Report and Accounts. This relates to impairment provisions on loans and advances (note 14, pages 23-28) and retirement benefit obligations (note 8, page 18), where sensitivity analysis has been performed and key judgements are reviewed.

2. Business segments

The group operates three business segments: retail financial services, commercial lending and secured personal lending.

Transactions between the business segments are on normal commercial terms and conditions.

	Six months to 30 June 2024 (Unaudited)			
	Retail financial services £m	Commercial lending £m	Secured personal lending £m	Total £m
Net interest income	64.1	11.9	2.5	78.5
Other income and charges	0.3	0.6	-	0.9
Fair value gain	2.3	-	-	2.3
Net operating income	66.7	12.5	2.5	81.7
Operating expenses	(57.6)	(1.5)	(0.4)	(59.5)
Impairment provision for losses on loans and advances	(0.3)	0.5	0.6	0.8
Provision for other liabilities and charges	(0.1)	-	(0.5)	(0.6)
Operating profit and profit before taxation	8.7	11.5	2.2	22.4
Taxation expense				(5.6)
Profit after taxation				16.8

	Six months to 30 June 2023 (Unaudited)			
	Retail financial services £m	Commercial lending £m	Secured personal lending £m	Total £m
Net interest income	80.5	12.3	2.9	95.7
Other income and charges	0.4	0.7	-	1.1
Fair value gain	1.9	-	-	1.9
Net operating income	82.8	13.0	2.9	98.7
Operating expenses	(52.2)	(1.5)	(0.4)	(54.1)
Impairment provision for losses on loans and advances	(3.7)	0.2	(0.2)	(3.7)
Provision for other liabilities and charges	-	-	0.1	0.1
Operating (loss)/profit and loss before taxation	26.9	11.7	2.4	41.0
Taxation credit				(9.6)
Profit after taxation				31.4

Notes to the accounts
for the six months ended 30 June 2024

2. Business segments (continued)

	Year ended 31 December 2023 (Audited)			
	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.

	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
Total assets by business segments			
Retail financial services	12,707.7	10,744.4	11,668.8
Secured personal lending	66.1	83.5	64.4
Commercial lending	742.0	797.6	793.4
Total assets	13,515.8	11,625.5	12,526.6
Total liabilities and equity by business segment			
Retail financial services and Commercial lending	13,449.7	11,542.0	12,462.2
Secured personal lending	66.1	83.5	64.4
Total liabilities and equity	13,515.8	11,625.5	12,526.6

3. Interest receivable and similar income

	Group		
	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
On loans fully secured on residential property	206.3	133.9	312.0
On other loans	10.8	11.4	20.6
On debt securities	8.7	3.9	11.9
On other liquid assets	51.1	31.7	76.3
On derivative financial instruments	74.3	69.5	153.3
	351.2	250.4	574.1

Notes to the accounts
for the six months ended 30 June 2024

4. Interest payable and similar charges

	Group		
	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
On shares held by individuals	188.4	99.3	253.9
On deposits and debt securities	78.3	45.3	118.0
On lease liabilities	0.1	0.1	0.2
On derivative financial instruments	5.9	10.0	20.7
	272.7	154.7	392.8

5. Fees and commission receivable

	Group		
	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
Insurance and related financial service products	0.4	0.4	0.8
Mortgage related fees	1.2	1.4	2.7
	1.6	1.8	3.5

6. Other fair value gains and losses

	Group		
	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
Gains/(losses) on derivatives in hedging relationships	15.1	70.2	(142.1)
Gains/(losses) on derivatives not in hedging relationships	5.5	1.8	(6.5)
Gains/(losses) on derivatives	20.6	72.0	(148.6)
(Losses)/gains on economic hedged items	(2.7)	5.3	12.2
(Losses)/gains on hedged items attributable to hedged risk	(15.6)	(75.4)	136.4
(Losses)/gains on hedged items	(18.3)	(70.1)	148.6
	2.3	1.9	-

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.

Notes to the accounts
for the six months ended 30 June 2024

7. Administrative expenses

	Group		
	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
Wages and salaries	26.9	25.0	53.9
Social security costs	2.6	2.3	4.7
Other pension costs	1.6	1.5	2.9
	31.1	28.8	61.5
Other administrative expenses	22.9	19.8	43.7
	54.0	48.6	105.2

8. Retirement benefit obligations

The Society is aware of the legal ruling of Virgin Media Ltd v NTL Pension Trustees II Ltd, recently upheld by the Court of Appeal. The Society is aware that this ruling may have implications for other defined benefit schemes in the UK, and is assessing whether there is any potential impact upon the Society, though currently no conclusion has been reached and therefore the likelihood and quantification of any potential impact is unknown.

	Group		
	30 June 2024 £m (Unaudited)	30 June 2023 £m (Unaudited)	31 December 2023 £m (Audited)
Fair value of plan assets	52.4	46.5	55.8
Present value of funded and unfunded obligations	(52.7)	(48.5)	(56.4)
Pension scheme deficit	(0.3)	(2.0)	(0.6)

The pension scheme deficit has decreased from £(0.6)m at 31 December 2023 to £(0.3)m at 30 June 2024, primarily as a result of a contribution from the Society for £0.4m, a residual payment required to complete the buy in transaction, during the period. For further information on this transaction, see note 12 in the 2023 Annual Report and Accounts.

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 of a 0.25% increase or decrease in each assumption. 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.

	Group	
	Increase 0.25% £m	Decrease 0.25% £m
Discount rate	(1.5)	1.5
Inflation	1.3	(1.3)
Life expectancy (+1 year/ -1 year)	1.6	(1.6)

9. Taxation

The effective tax rate for the group for the 6 months to 30 June 2024 is 25% (30 June 2023: 23.4%), and is calculated by estimating the annual effective tax rate expected for the full financial year, before being applied to the pre-tax income of the interim period.

The effective statutory rate of corporation tax for the year ending December 2023 was 23.1%. On 1st April 2023, the corporation tax rate increased from 19% to 25% and is now charged at 25% for 2024, this was a blended rate of 23.5% in 2023. The banking surcharge rate reduced to 3% and is now applied to profits over £100m (previously 8% over £25m). The June 2023 and December 2023 tax charges include the banking surcharge due to annual and estimated annual profits being above £25m.

The actual tax charge for the period differs from that calculated using the statutory rate of corporation tax in the UK as follows:

	Group		
	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
Profit before tax	22.4	41.0	60.3
Profit multiplied by the standard rate of corporation tax at 25% (2023: 23.5%)	5.6	9.6	14.2
Effects of:			
Expenses not deductible for tax purposes	-	(0.2)	-
Adjustments to prior years	-	-	(0.7)
Impact of banking surcharge	-	0.3	0.6
Impact of rate change	-	0.2	(0.2)
Timing differences	-	(0.3)	-
Tax charge	5.6	9.6	13.9

10. Loans and advances to customers

	Group		
	30 June 2024 £m (Unaudited)	30 June 2023 £m (Unaudited)	31 December 2023 £m (Audited)
Fully secured on residential property	10,529.2	9,314.5	9,939.5
Fully secured on land	271.6	305.9	283.6
	10,800.8	9,620.4	10,223.1
Provision for impairment losses	(33.7)	(35.1)	(34.6)
Unamortised loan origination fees	16.5	13.1	15.3
Fair value adjustment for hedged risk	(134.6)	(367.3)	(88.2)
	10,649.0	9,231.1	10,115.6

11. Provisions for liabilities

	Group		
	30 June 2024 £m (Unaudited)	30 June 2023 £m (Unaudited)	31 December 2023 £m (Audited)
At beginning of the period/year	2.6	2.8	2.8
Utilisation during the period/year	(0.3)	(0.1)	(0.4)
Addition/(release) for the period/year	0.6	(0.1)	0.2
At end of the period/year	2.9	2.6	2.6

The group continues to hold provisions in respect of various customer claims. The provision 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 and 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 behaviours analysed to ensure the provision remains appropriate.

12. Related party transactions

The group had no related party transactions outside the normal course of the business during the six months to 30 June 2024. Transactions for this period are similar to those for the year to 31 December 2023, details of which can be found in note 34 of the 2023 Annual Report and Accounts.

13. Financial instruments

Carrying values and fair values

The table below compares carrying values and fair values of the group's financial instruments by category.

	30 June 2024		31 December 2023	
	Carrying Value £m (Unaudited)	Fair Value £m (Unaudited)	Carrying Value £m (Audited)	Fair Value £m (Audited)
Total assets				
Cash in hand and balances with Bank of England	1,727.9	1,727.9	1,374.9	1,374.9
Loans and advances to credit institutions	336.9	336.9	329.4	329.4
Debt securities	382.4	382.4	317.5	317.5
Derivative financial instruments	339.0	339.0	308.9	308.9
Loans and advances to customers	10,649.0	10,697.1	10,115.6	10,063.6
	13,435.2	13,483.3	12,446.3	12,394.3
Total liabilities				
Shares	9,907.0	9,917.6	9,084.6	9,131.0
Amounts owed to credit institutions	760.4	760.4	1,315.0	1,315.0
Amounts owed to other customers	249.4	249.4	183.6	183.6
Debt securities in issue	1,713.0	1,743.7	1,076.5	1,105.1
Derivative financial instruments	113.1	113.1	110.1	110.1
	12,742.9	12,784.2	11,769.8	11,844.8

Notes to the accounts
for the six months ended 30 June 2024

13. Financial instruments (continued)

Further details on the methods and assumptions which have been applied in determining fair value are set out in note 30 of the 2023 Annual Report and Accounts.

Assets and liabilities measured at fair value

	30 June 2024 (Unaudited)			
	£m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit or loss:				
Derivative financial instruments	339.0	-	254.9	84.1
Financial assets at fair value through other comprehensive income:				
Debt securities	382.4	382.4	-	-
Total	721.4	382.4	254.9	84.1
Financial liabilities at fair value through profit or loss:				
Amounts owed to credit institutions	1.8	-	1.8	-
Debt securities in issue	8.8	8.8	-	-
Derivative financial instruments	113.1	-	29.0	84.1
Total	123.7	8.8	30.8	84.1

	30 June 2023 (Unaudited)			
	£m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit or loss:				
Derivative financial instruments	492.1	-	448.0	44.1
Financial assets at fair value through other comprehensive income:				
Debt securities	293.1	293.1	-	-
Total	785.2	293.1	448.0	44.1
Financial liabilities at fair value through profit or loss:				
Amounts owed to credit institutions	1.9	-	1.9	-
Debt securities in issue	(7.1)	(7.1)	-	-
Derivative financial instruments	85.4	-	41.3	44.1
Total	80.2	(7.1)	43.2	44.1

	31 December 2023 (Audited)			
	£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

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. This is detailed on the following page.

Notes to the accounts
for the six months ended 30 June 2024

13. Financial instruments (continued)

Hierarchy for fair value disclosures

Level	
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 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 were no significant inter-relationships between unobservable inputs that materially affect fair values. There has been one addition within this category during the year, therefore total movements in 2024 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 the derivatives disclosed above.

The fair value of the level 3 derivatives is shown in the table below.

	Group		
	30 June 2024 £m (Unaudited)	30 June 2023 £m (Unaudited)	31 December 2023 £m (Audited)
Financial assets at fair value through profit or loss:			
At beginning of the period/year	43.9	35.7	35.7
Fair value gains/(losses)	8.8	6.0	(16.7)
Fair value additions	32.8	-	16.8
Interest (paid)/received	(1.4)	2.4	8.1
At end of the period/year	84.1	44.1	43.9
Financial liabilities at fair value through profit or loss:			
At beginning of the period/year	(43.9)	(35.7)	(35.7)
Fair value losses/(gains)	(8.8)	(6.0)	16.7
Fair value additions	(32.8)	-	(16.8)
Interest (received)/paid	1.4	(2.4)	(8.1)
At end of the period/year	(84.1)	(44.1)	(43.9)

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for the six months ended 30 June 2024

14. Credit risk

The table below shows the group's estimated maximum exposure to credit risk for all financial assets.

i) Loans and advances to customers

The group's loans and advances to customers can be broken down by security as follows:

	Group		
	30 June 2024 £m (Unaudited)	30 June 2023 £m (Unaudited)	31 December 2023 £m (Audited)
In respect of loans and advances to customers:			
Secured by a first charge on residential property	10,471.4	9,241.6	9,874.7
Secured by a first charge on land	271.6	305.9	283.6
Secured by a second charge on residential property	57.8	72.9	64.8
	10,800.8	9,620.4	10,223.1
Provisions for impairment losses	(33.7)	(35.1)	(34.7)
Effective interest rate adjustments	16.5	13.1	15.4
Fair value adjustments	(134.6)	(367.3)	(88.2)
	10,649.0	9,231.1	10,115.6

The group's exposure to credit risk relating to loans and advances to customers by business segment split by stage in accordance with IFRS 9 is as follows:

	Retail Financial Services		Commercial Lending		Secured Personal Lending	
Stage	30 June 2024 £m (Unaudited)	31 December 2023 £m (Audited)	30 June 2024 £m (Unaudited)	31 December 2023 £m (Audited)	30 June 2024 £m (Unaudited)	31 December 2023 £m (Audited)
1	8,586.2	8,147.2	839.0	802.2	25.9	29.2
2	2,004.0	1,757.5	134.2	126.3	23.2	26.8
3	72.1	59.1	5.9	15.3	7.2	8.5
	10,662.3	9,963.8	979.1	943.8	56.3	64.5

The group's expected credit losses split by stage in accordance with IFRS 9 and by business segment is as follows:

	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
Retail financial services	20.6	19.2	20.4
Secured personal lending	2.0	3.3	2.6
Commercial lending	11.1	12.6	11.6
	33.7	35.1	34.6

Notes to the accounts
for the six months ended 30 June 2024

14. Credit risk (continued)

The group's split of loans by stage in accordance with IFRS 9 and by business segment is as follows:

Retail Financial Services and Secured Personal Lending

Stage	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
1	80.4%	79.6%	81.5%
2	18.9%	19.7%	17.8%
3	0.7%	0.7%	0.7%
	100.0%	100.0%	100.0%

Commercial Lending

Stage	6 months to 30 June 2024 £m (Unaudited)	6 months to 30 June 2023 £m (Unaudited)	Year ended 31 December 2023 £m (Audited)
1	85.7%	86.6%	85.0%
2	13.7%	12.8%	13.4%
3	0.6%	0.6%	1.6%
	100.0%	100.0%	100.0%

The average index-linked loan balance to value (BTV), in respect of the group's loans secured by a first or second charge on residential property, is 59.5% (31 December 2023: 56.0%).

The percentage of retail lending cases fully secured by a first charge, currently with arrears greater than three months is 0.58% (31 December 2023: 0.56%).

Residential lending cases fully secured by a first charge which were six months or more in arrears had arrears balances of £2.1m (31 December 2023: £1.7m) with 273 (31 December 2023: 249) cases.

The percentage of secured personal loans currently in arrears by two months or more by number is 8.01% (31 December 2023: 8.35%), which by value is 12.15% (31 December 2023: 12.77%).

The critical accounting estimates applied in determining expected credit loss provisions are:

- determining criteria for identifying a significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of expected credit losses; and
- establishing the number and relative weightings of forward-looking economic scenarios.

14. Credit risk (continued)

Sensitivity analysis has been performed on the staging criteria. A 10% variance has been selected as this is deemed to be a reasonable variation which could occur over a 12 month period in the current economic environment. The impact of a 10% increase or reduction in the volume of loans in stage 2 is as follows:

Stage	Retail financial services £m	Secured personal lending £m	Commercial lending £m
Stage 1 to Stage 2	4.2	0.1	2.3
Stage 2 to Stage 1	(1.0)	-	(0.5)

Forward looking economic scenarios

Forecasts of economic variables together with probability weightings are supplied by an external provider. Economic scenarios have been selected which take account of a range of possible economic outcomes.

Scenario	Weighting at 30 June 2024 %	2024 Scenario				Weighting at 31 Dec 2023 %	2023 Scenario			
		2024 %	2025 %	2026 %	2027 %		2024 %	2025 %	2026 %	2027 %
HPI (Growth)										
Base	50	0.9	3.2	4.7	2.6	50	(4.3)	3.1	4.7	2.6
Upside	20	7.3	13.3	4.6	(1.4)	20	9.2	6.3	2.1	(1.5)
Downside	23	(2.8)	(12.1)	(4.6)	3.8	23	(14.4)	(11.3)	1.8	5.2
Severe Downside	7	(5.8)	(16.4)	(0.9)	3.7	7	(20.6)	(10.3)	4.4	4.1

Scenario	Weighting at 30 June 2024 %	2024 Scenario				Weighting at 31 Dec 2023 %	2023 Scenario			
		2024 %	2025 %	2026 %	2027 %		2024 %	2025 %	2026 %	2027 %
Unemployment (Absolute)										
Base	50	4.4	4.5	4.6	4.7	50	4.6	4.7	4.7	4.8
Upside	20	4.0	3.8	3.8	4.0	20	4.1	3.8	3.9	4.2
Downside	23	4.8	6.7	7.1	7.1	23	5.9	7.2	7.2	7.2
Severe Downside	7	5.6	8.6	8.3	8.2	7	7.7	8.5	8.4	8.1

Scenario	Weighting at 30 June 2024 %	2024 Scenario				Weighting at 31 Dec 2023 %	2023 Scenario			
		2024 %	2025 %	2026 %	2027 %		2024 %	2025 %	2026 %	2027 %
Nominal GDP (Growth)										
Base	50	3.4	3.2	3.5	3.5	50	2.7	2.4	3.1	3.3
Upside	20	6.0	5.3	3.4	3.3	20	6.4	2.6	3.0	3.2
Downside	23	4.1	3.5	(1.5)	2.7	23	3.4	0.9	(0.7)	4.2
Severe Downside	7	(2.1)	(5.8)	4.4	5.4	7	(10.4)	(1.3)	5.1	3.8

Notes to the accounts
for the six months ended 30 June 2024

14. Credit risk (continued)

Post model adjustment (PMA) - Refinance risk

The increases in the Bank of England base rate and impact on mortgage pricing is expected to 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 3,204 customers (31 December 2023: 3,493) , 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 £2.5m (31 December 2023: £3.0m) 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 £1.6m to £0.9m.

Post model adjustment (PMA) - Cost of living

Whilst inflation has reduced from the record highs observed in previous periods, the cost of living pressures as a result remain, however if the economic outlook continues to improve the pressure will begin to ease and the PMA held will likely reduce. There is a risk that this will result in increased levels of arrears and defaults that have not yet been captured by the model. Data from an external third party has been obtained in order to estimate the potential impact on the retail portfolio. This data has indicated that a group of 2,611 (31 December 2023: 2,653) customers may be adversely impacted by key affordability metrics including food and fuel inflation. In order to capture the risk in relation to this group, a PMA of £1.1m (31 December 2023: £1.3m) has been applied. The PMA is based on customers meeting at least three out of five affordability indicators, reducing to two indicators will increase the PMA by £3.6m, increasing to four indicators will reduce the PMA by £0.8m.

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. The ECL range is the difference between applying a 100% weighting to the most severe downturn scenario and the upside scenario.

Portfolio	Upside £m	Severe Downside £m	ECL Range £m
Retail financial services	5.6	39.0	33.4
Secured personal lending	1.0	2.5	1.5
Commercial lending	6.6	8.1	1.5
Total	**13.2**	**49.6**	**36.4**

14. Credit risk (continued)

The tables below set out information on movements in impairment loss provisions on loans and advances to customers:

	Group			
	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	(4.6)	-	-	(4.6)
Stage 2 transfers	-	3.2	-	3.2
Stage 3 transfers	-	-	1.5	1.5
New loans	1.2	0.4	-	1.6
Settled loans	(0.7)	(0.3)	(0.9)	(1.9)
Changes in credit quality	3.5	(2.7)	(0.9)	(0.1)
Changes in loan model assumptions	(0.3)	(0.3)	-	(0.6)
Loss allowance at 30 June 2024	**9.9**	**16.8**	**7.0**	**33.7**

	Group			
	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 loan model assumptions	0.9	(0.4)	-	0.5
Loss allowance at 31 December 2023	**10.8**	**16.5**	**7.3**	**34.6**

ii) Commercial

Loans secured on commercial property are diversified by industry type with the largest exposure to one counterparty amounting to £62.8m (31 December 2023: £55.9m) or 7.8% (31 December 2023: 6.8%) of gross balances.

Asset quality remains strong with a reduction in impaired balances to £5.9m (31 December 2023: £15.3m), or 0.7% of gross balances (31 December 2023: 1.9%).

The number of accounts in forebearance has decreased to 62 with balances of £104.2m (31 December 2023: 86 accounts with balances of £142.7m).

Notes to the accounts
for the six months ended 30 June 2024

14. Credit risk (continued)

iii) Treasury

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. Provisions for expected credit losses in relation to treasury instruments of £1.5m were held at 30 June 2024 (31 December 2023: £1.5m).

Responsibility statement

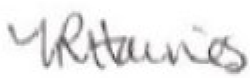
We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the UK;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7 (indication of important events and their impact during the first six months and the description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8 (indication of any related party transactions that have taken place or any changes in the related party transactions described in the last annual report).

By order of the Board,



Julie-Ann Haines
Chief Executive Officer
2 August 2024

Independent review report to Principality Building Society

We have been engaged by the Principality Building Society to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 which comprises the condensed consolidated income statement, condensed consolidated statement of other comprehensive income, condensed consolidated statement of financial position, condensed statement of changes in Member's interests, condensed consolidated statement of cash flows and related notes 1 to 14.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Society are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing 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 Society or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Society a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Independent review report to Principality Building Society (continued)

Use of our report

This report is made solely to the Society in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the Society those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Deloitte LLP
Statutory Auditor
Cardiff, UK
2 August 2024

Other information

The information for the period ended 30 June 2024 is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986. The financial information for the year ended 31 December 2023 has been extracted from the Annual Report and Accounts for that year. The annual accounts for the year ended 31 December 2023 have been filed with the Financial Conduct Authority.

The auditor's report on the 2023 Annual Report and Accounts was not qualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report.

A copy of the this Half Year Financial Report is placed on Principality Building Society's website. The Directors are responsible for the maintenance and integrity of the information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Glossary

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.
Carbon net zero	Net zero means that we will reduce all of our scope 1 and 2 emissions to as little as possible by 2030 as well as the following elements of our scope 3 emissions: paper, water, external data centres, waste disposal, business travel, colleague commuting and home working. We will neutralise residual emissions with net zero aligned carbon removals. Scope 1 emissions - generated by directly owned or controlled sources i.e. fuel combustion and company-owned vehicles. Scope 2 emissions - purchased electricity. Scope 3 emissions - other indirect operational emissions that occur in the supply chain, both upstream and downstream.
Commercial lending	Loans to a commercial borrower.
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.
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.
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.
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.
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.
Leverage ratio	A ratio which measures Tier 1 capital against total on and off balance sheet assets.
Liquid assets	Cash or other assets that can be readily converted to cash without loss of value.

Glossary (continued)

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.
Loan To Value ratio (LTV)	A ratio showing outstanding loan balance as a percentage of the value of the security.
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.
Regulatory capital	Capital allowable under regulatory rules, less certain required regulatory adjustments and deductions.
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.
Shares	Money deposited by Members in a retail savings account with the Society and held as a liability in the statement of financial position.

ONLINE

Visit us at **principality.co.uk**
or on our social channels
@principalitybs
for the latest updates,
including our opening hours.

VISIT

To find your nearest branch
visit **principality.co.uk/branch**

CONTACT

If you would like to get in touch
call us on **0330 333 4000**• or email
us at **enquiries@principality.co.uk**

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.

HYFS 08/24-1

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Cymdeithas Adeiladu

Where home matters
principality.co.uk