Annual Report and Accounts 2023

Building your future

Principality
Building Society
Cymdeithas Adeiladu

Where home matters
principality.co.uk

2023 highlights

First time buyers helped	Net Promoter Score	Common Equity Tier 1 ratio
8,134 2022: 4,587	**83.9** 2022: 81.6	**21.8%** 2022: 26.5%

Employee engagement	Statutory profit before tax	Mortgages funded by savers
87% 2022: 86%	**£60.3 million** 2022: £49.3 million	**89.8%** 2022: 92.3%

Welsh housing association deal	Supported young people via F.E.I	Community commitments
£50 million	**53,320** (Financial Education Initiatives)	**£1.3 million** 2022: £0.7 million

The above measures, apart from statutory profit before tax, are Alternative Performance Measures (APMs).
Further information on these APMs can be found in the Annual Report and Accounts, with definitions included within the glossary.

Welcome

Strategic Report

Chair's Review of the Year

Welcome to our 2023 Annual Reports and Accounts.

Our role as a mutual building society is, and always will be, focused on supporting you, our Members. We are proud to be able to meet your needs today, helping you to build resilience for life's uncertainties, as well as continuing to support your best interests and invest in your future, over the longer term. So, even in the face of significant macroeconomic challenges, with our balanced approach and robust strategy, I am very happy to say that the past year has been one of significant achievement and progress.

Through mortgage and savings products and our commercial lending, we're able to focus on delivering Better Homes, Secure Futures, and Fairer Society outcomes, helping people to build their financial resilience and supporting the development of affordable and sustainable housing so that more people have a place to call home.

Supporting our communities

Our strong business performance this year means we've been able to allocate more funding to social impact initiatives and deepen our commitment. This is an area of work close to all our hearts. As one of the leading businesses in Wales, with our roots in communities across the country, we believe we have a responsibility to contribute towards meaningful and sustainable change in the places where we live and work. To measure our success, we are starting to map our community engagement initiatives to the Wales Wellbeing of Future Generations Goals, thinking about the impact of the long-term decisions we make.

Pictured: *Sally Jones-Evans, Chair*

We see constant reminders that communities and economies are stronger when opportunities are accessible to all, and through our Future Generations Fund our purpose-led activity has also been instrumental in extending the reach and impact of our community engagement work. In December, our funding reached £1million, thus actively supporting more young people to develop the knowledge, skills, experience, and resilience they need to build a better future. Our ongoing involvement with the groups we have chosen to support has fostered a greater sense of collective responsibility with colleagues across the business, who continue to play a key role in engaging with our communities.

I am also delighted that we have extended our charity partnerships with Tŷ Hafan and Tŷ Gobaith for a further year and am extremely proud of the legacy we have started to build with them.

Executive Committee and Board

It has been a year of great change and transition at the Society. This year we said goodbye to Mike Jones, our Chief Risk Officer (CRO). Much loved and well-respected, Mike took with him our most sincere thanks for his outstanding contribution to the business, both personally and professionally, over the past 25 years. We were delighted to welcome Mike's successor, Rajeev Marwaha, to the role of CRO in June. Highly experienced, Rajeev has almost 20 years of risk management experience in secured and unsecured lending for large banks, building societies, and start-ups including Santander, Nationwide, and Saffron Building Society.

Following an extensive search and selection process for a Chief Operating Officer (COO), a position created with Iain Mansfield's move to become Chief Financial Officer (CFO) last year, Rob Regan, who had been acting in an interim capacity, was appointed to the role on a permanent basis in November. Amongst other projects, Rob is leading on embedding Operational Excellence principles to enhance our ways of working, improve performance, and support our cultural and technological transformation journey.

We said farewell to our Non-Executive Director (NED) Derek Howell, who left the Board after serving for nine years. Derek was the Senior Independent Director, and Chair of the Audit Committee, as well as being a member of the Board Risk and Governance and Nominations Committees. I would like to thank Derek for all his hard work as a valued member of the Board at Principality and wish him all the best for his future endeavours.

Ian Greenstreet has also stepped down from the Board for personal reasons after a short tenure as a NED and Chair of the Audit Committee. We are grateful to Ian for all that he brought to us in 2023 and wish him well. Our longest-serving NED, Claire Hafner, herself a qualified accountant and former CFO, will be stepping up to become Chair of the Audit Committee having served on it as a member for many years. She, in turn, will be succeeded as Chair of the Remuneration Committee by Debra Williams. Both appointments are subject to regulatory approval.

I know you will also join me in welcoming Shimi Shah to our Board as a new Non-Executive Director. Shimi has outstanding experience in venture capital and private equity, managing and investing assets over $1bn in the UK, US, and the Middle East, and has chaired and served on a large number of boards in diverse industry sectors, including the Royal Mint.

I would also like to share with you that having served the maximum 9-year tenure on the Board, I will be stepping down as Chair following the AGM in April. I have been in the role since April 2021, and a Board member since February 2015, and I am extremely proud and privileged to have had the opportunity to serve you, our Members, and also our colleagues and communities. I am delighted to inform you that Simon Moore will be joining Principality as a Non-Executive Director and Chair-Elect, taking the Chair position following my departure, subject to regulatory approval following the AGM.

Simon is highly experienced and respected in the financial services industry. Following a career in the military, he has held roles in Lloyds Banking Group, Chase Manhattan, ABN Amro, and Barclays Bank. Simon has served as Managing Director for Barclays Commercial Wales and the South West. Simon has served as Chair of another leading mutual, LV=, the UK life insurance company, as well as serving on several other boards. I wish him every success as he begins his stewardship of our great organisation.

Future focus

These movements are a reminder that nothing stands still or stays the same. As we've seen this year, we must continue to evolve in an ever-changing and challenging world and continue to invest in the future. It seems that leading through uncertainty is fast becoming the new normal, but our dedicated Executive leadership team, ably led by Julie-Ann Haines, our Chief Executive Officer, and supported by our team of talented and passionate colleagues, successfully steered the Society through 2023 and are preparing with ambition for what the coming year will bring.

They have my thanks, as do you, our Members, for your continued trust and support. This trust is the cornerstone of our mutual society, and we all remain committed to nurturing and strengthening this bond as we move forward together.

Sally Jones-Evans
Chair
19 February 2024

Chief Executive's Review of the Year

Pictured: *Julie-Ann Haines, Chief Executive Officer*

Dear Members,

Despite a year marked by significant challenges, including political upheaval in the UK and across the world, persistent inflationary pressures, and a global cost of living crisis, we have consistently delivered against our strategy. In 2023 we have achieved record mortgage and savings growth, with an improvement in underlying profit levels with Net Interest Margin (NIM) rising to 1.52% (1.39% in 2022).

We have set 2030 ambition statements to ensure that colleagues have clarity on what we want to achieve, the impact we wish to have, and how we must respond over the next few years so that we deliver on Members' needs and expectations and futureproof the Society. The strategy of the organisation is clear, and it has been pleasing to see how this has borne fruit over the past 18 months.

The benefits of investing in technology over the past five years, combined with significant investment in a multi-year Operational Excellence programme, are evident in the progress we have made this year. We've streamlined our mortgage processes, created additional capacity to deliver a better customer and broker experience, and have been able to process much higher mortgage volumes, underpinning our positive growth ambitions. We've been laser-focused on improving the mortgage journey to make it easier for customers to do business with us and, as of December 2023, we celebrated the fact that we had grown our mortgage book by £1.1bn, the largest in our history.

Focusing on what matters to the customer, and how we measure our performance against that is absolutely the culture we want to drive through our investment programme, so I am also delighted that we've achieved an end-of-year Net Promoter Score of 83.9 points (81.6 in 2022). Our commitment to continuing to improve our levels of customer service has been reflected in being voted Best Building Society for Customer Service by 'What Mortgage' for the sixth consecutive year, an award we accepted with great pride. We were also awarded 4* for our mortgage journey from 'Financial Times Advisor'.

Better Homes

Over the year we have seen how the economy can impact personal finances, often limiting the hopes and aspirations of those of you saving for the future, entering the housing market, or facing financial uncertainty. Our colleagues have been working hard to find ways to better support you and our results reflect that hard work. Even in the toughest economic conditions, with core inflation remaining high, six consecutive base rate rises in response to this, and fierce market competition, we've delivered on our 'Better Homes' ambitions, exceeding both our total number of homes owned target of 80,883 (75,425 in 2022) and helping more than 8,130 first time buyers into a new home (4,580 in 2022).

High inflation has put pressure on struggling households and we were delighted to sign up to the government's Mortgage Charter to reassure customers that we're here to help if they are worried about how to pay their mortgage. However, we have seen no material increase in the number of customers needing assistance in paying their mortgages over the past 12 months.

Our support for those aspiring to live in their own homes was strengthened by a long-term commitment from our Commercial team to support the Welsh housing association Pobl Group, whose ambition is to create 10,000 much-needed, affordable homes across Wales by 2030, using sustainable technologies. Offering a range of both buying and renting options, this housing will give more people the opportunity to find a place to call home and a community in which to thrive. We know our business can grow through long-term investment in sustainable developments like this with like-minded organisations and we were delighted that our Commercial team was named 'Funder of the Year' at the Insider Property Awards.

Secure Futures

Building resilience for life's uncertainties has never been more important. Mortgage customers have had to face into significantly higher mortgage rates over the past two years but after ten years of low returns, it was good news for savers as we increased the overall rates we paid to them by 1.74% across the year, increasing from 2.12% to 3.86%. We aim to continue to reward savers, with our average savings rates being well above the market average (2.94% versus 2.31% on the high street [1]) and we have consistently been one of the market leaders.

Our savings balances are up £970m from £8,114m to £9,084m, providing returns for our Members and funding our mortgage growth, which is 90% funded by savers' deposits.

Helping you to make sure your money is in the best place to meet your long-term financial wellbeing, is our founding purpose, and at the heart of being a mutual. We're working hard to ensure we continue to offer fair value to our savings customers. We have also shortened the time it takes to pass on the benefit of those rate rises, from 30 days to 15, and our focus is on remaining competitive and ensuring we can offer strong products to savers in the future.

[1] *CACI's CSDB, Stock, Weighted Average Interest Rate for December 2022 - November 2023*

Fairer Society

Working at the heart of the community, we make the biggest difference when we embrace, engage with, and listen to the people we serve. Whilst the exodus of banks and other building societies from our towns and cities is a worrying trend, we continue to have a reassuring presence on the high street. We have committed to maintaining our branch footprint, giving our Members access to the largest branch network of any bank or building society across Wales and the Welsh borders, with 53 branches and 15 agencies. We continue to look at ways to innovate in this space and are delighted with the trial of OneBanx in Cowbridge, where customers of 23 other banks can access and pay cash into their personal and business bank accounts from within our branches. Our outstanding personal customer service delivered by passionate branch colleagues, rooted in their communities, remains a vital part of our strategy going forward.

Investing in our people to develop an inclusive culture

Wherever colleagues work within the business, they are fully invested in helping us drive purposeful growth. We are developing a culture that's as ambitious as our strategy, harnessing the collective power of an increasingly diverse team in which everyone focuses their unique perspectives and skills on delivering exceptional value to our Members. We're very proud that our commitment to diversity and inclusion has been acknowledged, being named Financial Services Company of the Year 2023, an award from the National Centre for Diversity, which recognises some of the UK's most inclusive employers. We are proud to be an accredited employer by the Living Wage Foundation and we continue to seek to provide our colleagues with meaningful salary increases to support them in the ongoing cost of living crisis.

Social impact

This year we launched our new impact strategy, an ambitious vision of supporting more young people to ensure that they have equitable access to skills and personal development so that they can succeed in the workplace, make the most of life's possibilities, and prosper in the place they call home. You can read more about our impact work, including our Future Generations Fund, on page 24. We were extremely proud to partner with Pride Cymru and to be the headline sponsor of the Cardiff Half Marathon. Both were heartwarming celebrations of Principality's place within the wider Welsh community and are building blocks for us to create a lasting legacy on society.

Net zero

Although we have a long way to go on our own net-zero journey, it's clear from listening to our Members that acting as a responsible, sustainable business rather than simply being perceived as one, is critically important to them, with the potential to differentiate the Principality brand in the marketplace.

There is a clear sequencing to some of our carbon reduction activity and therefore taking a considered approach is critical, simply investing more at this stage may not create the results we would want from that investment. A plan has been developed and I'm sure that we will start to build strong momentum in 2024 and beyond, which will see us deliver on our ambition to be net zero in Scopes 1 and 2 by 2030 and in Scope 3 by 2040. We are pleased to announce that we significantly reduced our full carbon footprint by 34% in 2023, a decrease of 2,700 tonnes CO_2e.

Business performance

2023 has been a successful year for your building society and demonstrates that our strategy of being more purposeful, focusing on the impact of what we do to help more people, is providing us with strong results. We have seen significant growth in the balance sheet of £1.2bn, with £60.3m profit before tax (£49.3m in 2022), and have a strong and stable business in terms of capital and liquidity with a CET1 of 21.8%.

Our performance means we can continue to invest in improving efficiency and effectiveness, in our colleagues and their development, and in technology to better meet Members' needs and ensure the long-term future of the organisation.

I extend my thanks to all our colleagues for their continued hard work and dedication and for contributing to our continued success. To you, our Members, I am also grateful for your continued loyalty, trust, and belief in our vision and strategy.

I would also like to say farewell to our outgoing Chair, Sally Jones-Evans, who will leave us in Q2 2024. Sally has played an instrumental role in reshaping the strategy of the Society, its success, and the outstanding customer service we continue to provide. We are grateful for everything Sally has done for our Members and colleagues during the nine years that she has been part of our Board of Directors and we wish her all the best for the future.

Outlook

The Society is well-placed to withstand the challenges that we will face across 2024. We'll be leaning into political as well as economic headwinds with a national election on the horizon, the cost of living still a significant concern and although the base rate is likely to have hit its peak at 5.25%, rates are expected to remain at elevated levels throughout 2024, well above the low interest rates we've experienced over the past decade. Despite record NIM this year, the current market trend of pricing savings as high, or higher, than prime mortgage rates, coupled with persistently high inflation, will reduce this figure. However, by staying true to our strategy to support both first-time buyers and regular savers in volatile economic conditions, remaining vigilant, and investing in building resilience, we remain a safe and secure business, able to deliver value for our Members, colleagues, and communities.

I am confident that, together, we will continue to navigate the challenges and seize the exciting opportunities that lie ahead, and I hope you enjoy reading more about our activities and achievements over the coming pages.

Julie-Ann Haines
Chief Executive Officer (CEO)
19 February 2024

Business Model and Strategy

for the year ended 31 December 2023

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 163 years.

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

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.

This underpins 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 two primary lines of business, mortgages 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. Almost 90% 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.
The difference between the income earned on these loans and the interest paid to savers, generates net interest income for the Society. This is used for a number of purposes including enhancing our product and services offering, ensuring the rates we offer are competitive in the market and reinvesting in our business for the benefit of future generations.

We do this whilst continuing our journey to become a more progressive building society, driving social innovation and creating sustainable impact through the sharing of our resources and shaping actions with everyone around us.

We're working to deliver net zero across our operations and give further focus to our work around investing and supporting future generations of young people, all whilst becoming an even more inclusive organisation - where everyone feels like they belong.

Our Strategy

Our strategy helps us to deliver on our purpose. It clearly sets out our focus around our core mortgage and savings business, driving sustainable and impactful growth through customer-focused products and services and delivering excellent customer experience. We aim to deliver this by:

- Improving customer experience and creating capacity to grow
- Developing our value proposition for all our customers
- Communicating clearly and with impact

This strategy 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:

Better Homes	A more accessible housing market	By 2030, we will support over 15,000 customers to buy their first home and commit a total of £400 million 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 resiliance, more than doubling the number today.
Secure Futures	Supporting future generations and tackling big issues at a local level	By 2030, we will have positively changed 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 significant 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 make customer hopes and aspirations possible by helping society work for everyone, fairer, more equal and thriving; relentlessly focusing on customer centricity will drive industry leading customer experience across all channels.

Transforming our Society

Society is changing and we must change with it. The systemic environmental, economic and social 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. Whilst we understand the world we live in is changing rapidly, with technology playing an increasingly significant role in people's lives, we remain committed to our branches on the high street. We recognise, however, that to remain relevant we need to continue to change, so we are improving accessibility to our business digitally, and investing in technology to improve customer and colleague experiences, both of which are critical to our future success. As we invest in, and improve, our digital capability, we remain dedicated to maintaining exceptional levels of customer satisfaction across all of our channels.

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.

2023 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 CO_2 emissions across our operations • Amount of funds distributed for social impact activity (£)

Better Homes

SKPI	2023	2022
Total number of homeowners	80,883	75,425
Total number of first time buyers	8,134	4,587
Total number of new homes funded	76	213
Total committed to RSL lending (£)	£42m	£69m
New homes funded which are EPC B or above[1]	86%	-

Secure Futures

SKPI	2023	2022
Total number of savers	417,505	407,046
Total number of customers saving regularly	73,554	63,873
Total number of young people accessing opportunities	53,320	28,867

Fairer Society

SKPI	2023	2022
Reduction in CO_2 emissions across our operations[2]	181	-
Amount of funds distributed for social impact activity	£1.3m	£0.7m

[1] *New SPKI measure for 2023 with target of 88%*
[2] *New SPKI measure for 2023 with target reduction by 75 tonnes*

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).

	2023	2022
Financial Performance Measures		
Net Interest Margin	1.52%	1.39%
Statutory Profit Before Tax	£60.3m	£49.3m
Underlying Profit Before Tax[1]	£60.3m	£43.5m
Common Equity Tier 1[2]	21.8%	26.5%
Management Expense[3]	0.99%	0.90%
Stakeholder Experience		
Employee Engagement (annual)[4]	87.0	86.0
Customer Experience[5]	83.9	81.6
Broker Experience (6 month rolling average)[6]	81.9	67.6

[1] *See page 13 for a reconciliation of underlying profit before tax*
[2] *The reduction in CET1 is due to a combination of book growth and the economic environment which has resulted in a 3.7% reduction, and an increase in the PMA applied to the existing IRB model which has seen CET1 drop by a further 1%*
[3] *See page 15 for a reconciliation of the movement in the management expense ratio*
[4] *Source: Based on the PeakOn survey. The result is the percentage of employees who engaged and completed the survey*
[5] *Source: Based on Maze survey customer data for the 12 months ended 31 December 2023*
[6] *Source: Based on Maze survey broker data for the 12 months ended 31 December 2023*

Financial Review

for the year ended 31 December 2023

Income statement overview

Continuing operations	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Net interest income	181.3	153.9	129.1	108.6	111.4
Other income	2.3	4.8	3.0	2.7	4.4
Fair value (losses)/gains	-	5.8	9.6	(4.1)	(0.2)
Operating expenses	(119.6)	(100.2)	(93.1)	(79.9)	(80.1)
Impairment provisions (charge)/release	(3.5)	(14.8)	15.4	(9.1)	4.1
Other provisions	(0.2)	(0.2)	-	1.7	-
Statutory profit before tax	**60.3**	**49.3**	**64.0**	**19.9**	**39.6**

Statutory profit before tax for 2023 has increased from the prior year to £60.3m (2022: £49.3m). This year has seen rising interest rates drive an increase of £27.4m in net interest income. Costs have increased by £19.4m. This is due to a £9.3m increase in staff costs, as a result of the Cost of Living pay review being brought forward in November 2022 and applying for the full year, strategic investment spend of £6.9m and, fixed asset impairment of £3.4m following the Society's annual land and buildings valuation review. Loan loss provisions have stabilised during the year with a charge of £3.4m compared to £14.8m in the previous year.

Underlying profit before tax, including impairment provisions, excludes fair value movements and reflects the true trading performance of the business, was £60.3m (2022: £43.5m).

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

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Statutory profit before tax	60.3	49.3	64.0	19.9	39.6
Adjusted for:					
Fair value gains	-	(5.8)	(9.6)	4.1	0.2
Additional pension charge for GMP equalisation[1]	-	-	-	0.1	-
Underlying profit before tax	60.3	43.5	54.4	24.1	39.8

[1] *Guaranteed Minimum Pension (GMP)*

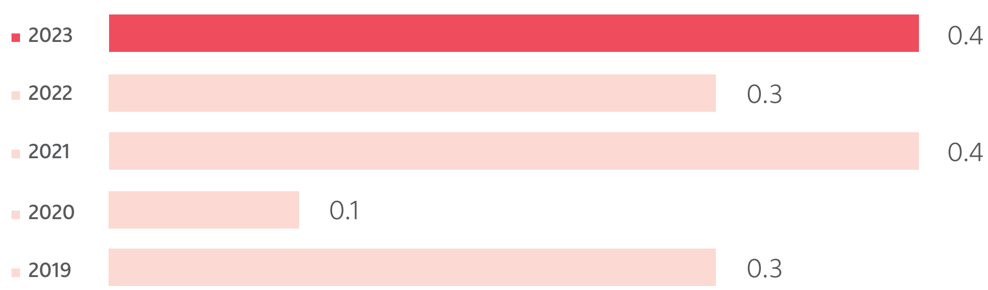
The purpose of the underlying profit before tax measure is to reflect management's view of the group's underlying performance, presented to aid comparability across reporting periods by adjusting for items which affect statutory measures but are deemed to be either non-recurring or uncontrollable in 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 2023, there was no fair value gain or loss.

Return on assets (ROA), calculated as statutory profit after tax (PAT) divided by average total assets (current year total assets plus prior year total assets divided by two), has increased compared with the prior year. This is driven by increased profits in 2023.

Since COVID in 2020, fluctuations in profit due to movements in loan loss provisions have resulted in volatility in ROA. As shown on page 14, the loan loss provision charge/(release) has resulted in material movements in PAT. The sharp drop in 2020 is due to the initial increase in provisions following the onset of the pandemic, this was reversed in 2021 as the economy began to recover and house prices increased. ROA then dipped again in 2022 as the sharp increase in inflation and interest rates resulted in significant affordability pressure on borrowers which drove provisions up.

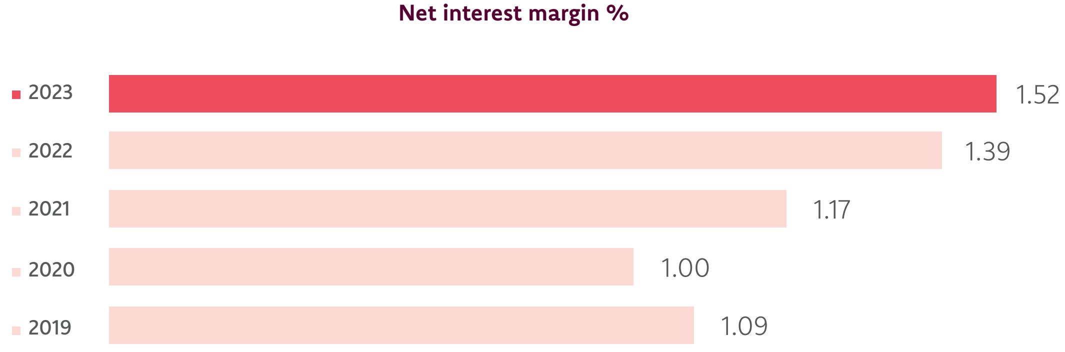
Return on assets %



Net interest margin

Our net interest margin for the year was 1.52% (2022: 1.39%). This increase is primarily due to base rate increasing from 3.50% to 5.25% during the year. Headline mortgage income is up by £102m compared to the previous year (2022: increase of £7m), as the average interest rate of the retail book has increased to 3.85% (2022: 2.68%). Interest receivable on mortgage swaps, which typically move directly in line with base rate, is up £123m compared to the prior year (2022: increase of £57m) with interest receivable on treasury assets up by £65m during the year (2022: increase of £21m) due to the rising rate environment. Interest payable to savings customers has increased by £164m during the year (2022: increase of £35m), interest payable on wholesale deposits is up by £81m (2022: increase of £26m) and interest paid on savings swaps is up by £17m (2022: increase of £8m).

Our lending continues to be primarily funded by Members' retail savings, with 90% (2022: 92%) 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.

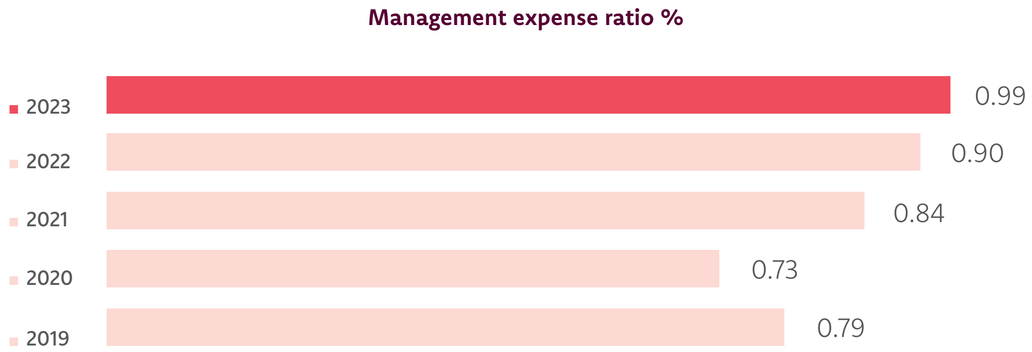


Expenses

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 £119.6m (2022: £100.2m). Overall staff costs increased by £9.3m as the annual pay review, which was brought forward into November 2022, applied for the full year, on top of recruitment in the year. Other admin costs, including increased strategic spend and IT related costs and maintenance, increased by £7.5m. Fixed asset impairment movement from the prior year is an increase of £1.8m.

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

	2023 £m	2022 £m
Retail financial services	116.0	96.6
Commercial lending	3.0	2.8
Secured personal lending	0.6	0.8
Total operating expenses	119.6	100.2
Management expense ratio	0.99%	0.90%
Cost income ratio	64.4%	62.7%

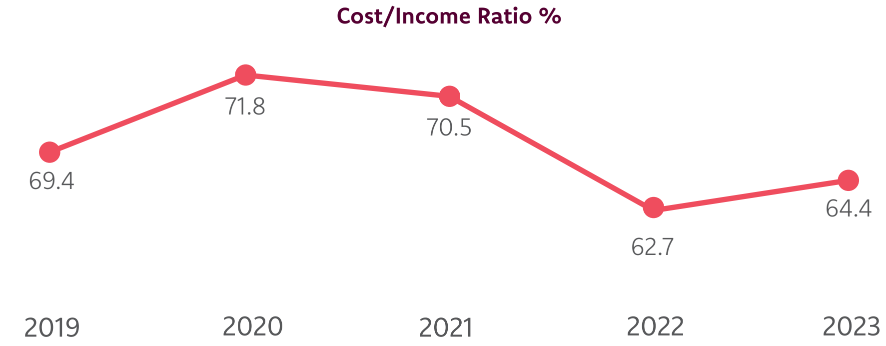


Between 2018 and 2020 the capitalisation of resource for the hybrid transformation programme as an intangible fixed asset contributed to the fall in the ratio. Since 2021, the ratio has increased year on year due to amortisation of the intangible asset and the reasons for the 2023 cost increases discussed above. Our ambition is to reduce these costs over time.

An alternative variation of MANEX is used internally to monitor operating expenses, which removes one-off in year costs. The table below provides a reconciliation of the standard MANEX ratio to the Society's underlying MANEX:

	2023 £m	2022 £m
Operating expenses (as per Expenses table above)	119.6	100.2
Specific in year strategic change and investment spend	(6.9)	-
Community commitments	(1.3)	(0.7)
Fixed asset impairment	(3.4)	(1.3)
Other non re-ocurring items	(3.6)	-
Total operating expenses	**104.4**	**98.2**
Underlying management expense ratio	0.88%	0.89%

The underlying management expense ratio within the table above, strips items of expenditure that are either one-off in nature or do not relate to the day-to-day running costs of the business. These items have bene removed to ensure there is an accurate measure of the ongoing cost to run the business excluding strategic and one-off spend. Other non re-occurring items comprise other payroll costs (£2.9m) and other staff costs (£0.7m). Underlying MANEX has reduced due to the increase in total assets. The cost income ratio compares costs as a proportion of total income. This has increased due to the uplifts in strategic spend and other one-off items during the year as noted above.



Impairment provisions for losses on loans and advances

	2023 £m	2022 £m
Retail mortgage lending	5.2	7.1
Commercial lending	(1.3)	6.4
Secured personal lending	(0.3)	0.8
Treasury assets	(0.1)	0.5
Total charge/(release)	3.5	14.8

Impairment charges totalled £3.5m in 2023 compared with a £14.8m charge in 2022.

The group continues to have a low level of arrears, reflecting our prudent lending criteria, credit quality and underwriting standards. The charge for the year reflects the best estimate based on the more conservative outlook for house prices in 2024 due to actual HPI falls in the year and an increase in the severity of our economic forecasts. 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 both the commercial lending and secured personal lending provisions reflect the improving base rate outlook and 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:

	2023 £m	2022 £m
Retail mortgage lending	20.4	15.4
Commercial lending	11.6	12.8
Secured personal lending	2.6	3.7
Total	**34.6**	**31.9**

Provisions for liabilities
Regulatory provisions are given in respect of various customer claims. At 31 December 2023, the group held a provision of £2.6m (2022: £2.8m). 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.

Further information on the level of provisions can be found in notes 20 and 29.

Taxation
The tax charge for the year was £13.9m (2022: £11.6m). The effective tax rate for the group was 23.1% (2022: 24%). On 1 April 2023, the corporation tax rate increased from 19% to 25%, resulting in a blended statutory tax rate of 23.5% for the year. The banking surcharge rate reduced to 3%, previously 8%, from April 2023 and is now applied to profits over £100m (previously over £25m), therefore a charge of £0.6m applied to the first three months.

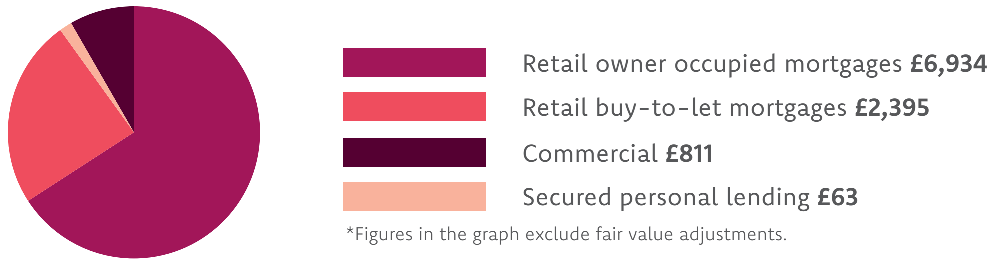
A reconciliation of the effective rate to the statutory rate is provided in note 13.

Statement of Financial Position
Total assets have increased by £1.3bn in the year to £12.5bn (31 December 2022: £11.2bn), as a result of growth in our retail lending book of £1.1bn, to £9.3bn (31 December 2022: £8.2bn). The retail mortgage portfolio has continued to grow as a result of our recent mortgage platform investment in, increasing our mortgage on-boarding capability and capacity to grow further. Our ambition for the year was to continue our growth trajectory, whilst creating a scalable organisation.

The Commercial Lending book increased to £811m (31 December 2022: £762m), mainly due to the £50m commitment issued to Pobl Group housing association, during the year.

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Liquid assets and balances with other credit institutions	2,021.8	2,004.2	1,887.8	1,807.9	1,569.6
Loans and advances to customers	10,115.6	8,795.0	8,883.3	9,204.9	9,033.1
Other assets	389.2	458.1	136.8	108.1	93.1
Total assets	**12,526.6**	**11,257.3**	**10,907.9**	**11,120.9**	**10,695.8**
Retail savings	9,084.6	8,113.6	7,943.7	8,187.5	7,588.5
Wholesale funding	2,575.1	2,361.2	2,262.3	2,200.1	2,378.1
Other liabilities	149.9	103.6	55.6	138.7	145.8
Total liabilities	**11,809.6**	**10,578.4**	**10,261.6**	**10,526.3**	**10,112.4**
Reserves	717.0	678.9	646.3	594.6	583.4
Total liabilities and equity	**12,526.6**	**11,257.3**	**10,907.9**	**11,120.9**	**10,695.8**

Loans and advances to customers by portfolio (£m)*

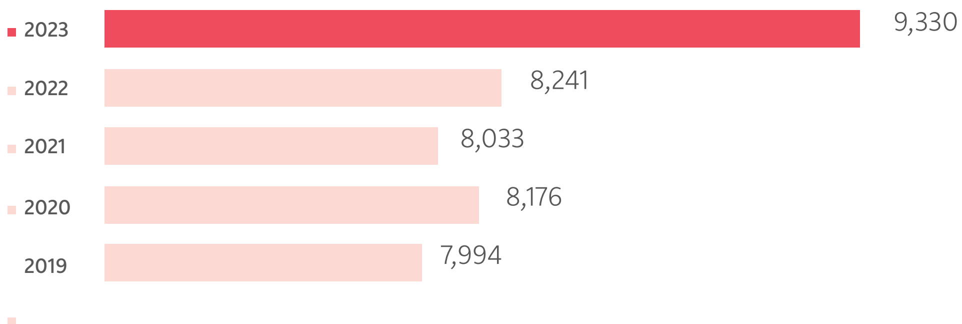


*Figures in the graph exclude fair value adjustments.

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 £1.3bn (2022: increase of £0.2bn) to £10.3bn (2022: £9.0bn) partly due to the increased capacity created by our investments in technology over the past five 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 £2.2bn (2022: £1.5bn). Net retail mortgage lending in the year, which is the increase in the mortgage book excluding accounting adjustments, increased by £1.1bn (2022: £0.2bn).

Net retail loans and advances to customers £m



The retail mortgage book remains the largest portfolio of the business at £9.3bn (2022: £8.2bn). This includes both lending to homeowners and a buy-to-let portfolio of £2.4bn (2022: £2.2bn). 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 £63m (2022: £80m), secured against residential property by a second charge. This business is in run off with balances reducing by £17m (2022: £28m reduction) in the year.

Our retail mortgage and secured personal lending portfolios reflect the prudent nature of our lending policies, with 80% (2022: 88%) of exposures, having a balance to indexed valuation of less than 75% and 93% (2022: 97%) less than 90%. The increase in the proportion of higher LTV loans is due to HPI falls in the year and the amount of new lending during the period. The exposures are well spread by geographical area within the UK, albeit with a larger share of lending in Wales, which by value makes up only 27% of lending (2022: 29%) in the retail mortgage and secured personal lending portfolios.

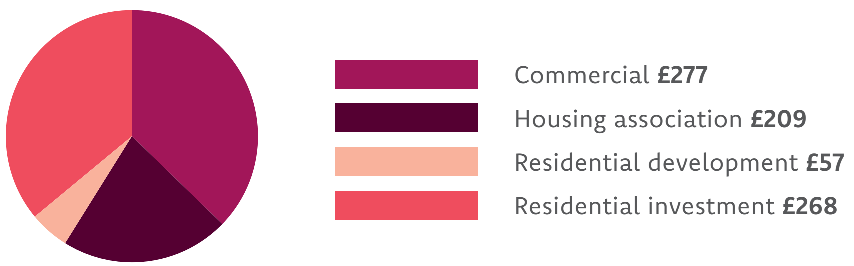
The strong credit quality of loans issued is reflected in the low value and volume of the arrears against first and second charge residential lending. The percentage of retail mortgage lending cases fully secured by a first charge currently with arrears of more than three months is 0.6% (2022: 0.5%) which compares favourably with the industry average of 1.0%*. There was a decrease in the number of properties taken into possession during the year to 11 (2022: 16), as a result of the broadening of the forbearance we can offer customers following the updated FCA guidance on supporting customers in financial difficulty.

ii. Commercial Lending

The Society provides loans secured on commercial property across England and Wales, with 51% (2022: 46%) of lending situated in Wales. The commercial lending portfolio is made up of lending against both residential property and registered social landlords of 66% (2022: 63%) and commercial property exposures representing 34% (2022: 37%) of balances.

The commercial lending portfolio had no exposures greater than three months in arrears at the year-end (2022: nil). The sharp rise in interest rates has seen some commercial lending customers fall into forbearance due to interest cover covenant (ICC) breaches although there is only one customer currently in arrears. 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 split (£m)



[*] UK Finance arrears and possession data at 9 November 2023.

Defined benefit pension scheme

The Society operates a defined benefit pension scheme, which is closed to new entrants and to further accrual. During the year, the scheme purchased a new annuity policy to wholly cover the liabilities associated with the scheme ("buy in") in exchange for the sale of the scheme assets alongside a cash contibution from the Society of £13.5m. Despite the fact that the pension scheme is now fully insured, the impact of Guaranteed Minimum Pension (GMP) equalisation was not covered by the annuity policy and as a result a small deficit of £0.6m remains (2022: £0.9m).

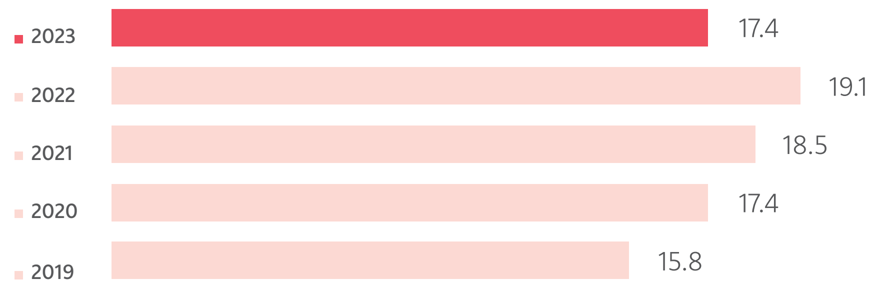
The scheme is subject to a triennial valuation by the scheme's independent actuary. The most recent valuation, with a reference date of 30 September 2022, was completed as planned during 2023. This triennial valuation formed the basis for the accounting position at 31 December 2023 and resulting actuarial 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.

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 17.4% (2022: 19.1%) as a proportion of shares, deposits, and loans (SDL). Our liquidity is made up of cash and 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 were less than the previous year due to a measured utilisation of high liquidity levels to fund mortgage growth.

Liquidity ratio %



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 83% (2022: 86%). Of the total liquid assets, none (2022: 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 203% at the year-end (2022: 246%), well above the regulatory requirement. The decrease is due to the opening high levels of liquidity being used to fund the mortgage book growth in the year. The NSFR is a longer-term stable funding metric, which measures the sustainability of the group's long-term funding. Our NSFR is currently 134%, which ensures we have sufficient stable funding to meet the new requirement.

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:

	2023 £m	2022 £m
Cash and balances with the Bank of England	1,374.9	1,566.9
Securities issued by the UK Government and Multilateral Development Banks	24.1	48.0
Securities issued by other institutions	281.0	107.8
Total Buffer Eligible Assets	**1,680.0**	**1,722.7**
Loans and advances to credit institutions and other debt securities	341.8	281.5
Total	**2,021.8**	**2,004.2**

Loans and advances to credit institutions are made up of collateral deposits and investments into covered bonds and RMBS issuances. The increase in the year is due to investments in debt securities, collateral deposits and covered bonds investments.

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 £9.1bn (2022: £8.1bn) represent 90% (2022: 92%) of all mortgage and loan balances. Retail savings balances have increased by £971m in the year (2022: £170m increase), as the savings book continued to grow.

In July 2023, the Society issued £300m Senior Non-Preferred notes, refinancing a maturing Senior Unsecured note issuance.

In September 2023, Friary No. 8 was issued which raised £550m of funding (including £50m of retained notes). The total value of external RMBS notes outstanding at the end of the year was £924m (2022: £527m).

During the year, the Society's long-term credit ratings were upgraded and the short-term credit rating was maintained. The Society's Moody's long-term rating was upgraded from Baa2 to Baa1 and the Fitch rating was upgraded from BBB+ to A-. The group's current credit ratings 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, 23.2% (2022: 22.0%) of the group's assets were encumbered, representing £2.6bn (2022: £2.1bn) of residential mortgage assets and £301m (2022: £274m) 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 2023, 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 riskweighting for each asset is calculated either by internal models or through standardised calculations, dependent on regulatory permissions for each portfolio of assets.

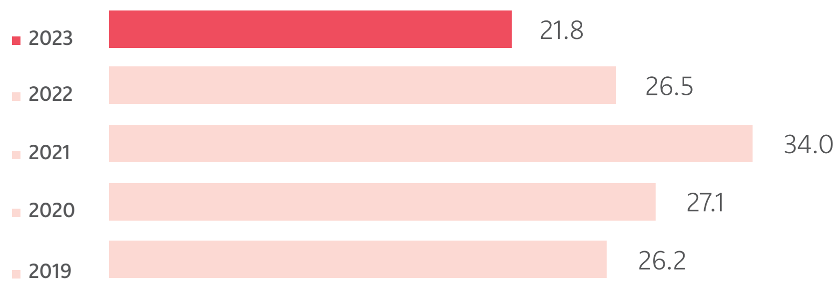
Our CET1 ratio has decreased to 21.8% in the year (2022: 26.5%). The decrease is due to a combination of book growth and the economic environment, which has resulted in a 4.7% reduction in CET1 and an increase in the PMA applied to the existing IRB model, which has seen CET1 drop by a further 1%. The PMA is a result of regulatory changes which came into effect on 1 January 2022. This reduction is offset by a 1% increase in CET1 due to profits increasing in the year.

In 2021, the CET 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 CET ratio has fallen due to an anticipated post model adjustment (PMA) applied, in 2022, relating to the retail Internal Ratings Based (IRB) model redevelopment. It has decreased again in 2023, as discussed above.

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 21.8% (2022: 26.5%).

CET1 %



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 5.9% (2022: 6.5%) due to increased mortgage book growth.

Impact beyond scale

for the year ended 31 December 2023

Our Impact

Our positive vision for society, the economy, and the environment is embedded in our strategic direction and underpinned by our pledge to share up to 3% profit before tax on social impact activities. We recognise that the seeds of tomorrow's success are sown in developing today's supportive environments, so we invest in individual potential and have supported over 50,000 young people this year through various partnerships and activities. We are also committed to building the collective strength and resilience of the communities we serve.

This year, we brought together subject matter experts from across the business to work as one Impact team, delivering against four key themes: Future Generations, Inclusion by Design, Hyperlocal Communities, and Sustainability by Design, and to focus on helping the business to create impact beyond scale.

Future Generations Generations

As of December 2023, the amount of funding we've provided to 97 youth and community groups across Wales over the past two years, passed the £1million mark. Our Future Generations Fund (FGF) is a beacon of hope and support in Wales, providing grants for projects aimed at reaching, empowering and equipping more young people to be able to shape their futures. The fund is influenced by principles aligned to the Wellbeing of Future Generations (Wales) Act, across three strategic outcomes: a prosperous Wales, a more equal Wales, and a Wales of cohesive communities. By supporting projects to encourage sustainable living and environmental stewardship, we're investing in the long-term health of communities and promoting actions to help address the impacts of climate change.

Colleague visits and interactions with these groups speak to the enduring value of our funding – not just in terms of the financial awards, but also helping colleagues develop an awareness of the problems that need to be solved in their local areas and understand how they can work with these groups to help them grow and reach more young people.

Financial Education

Our primary school programmes have included the delivery of in-person and online financial education teaching resources: Dylan's Den Teachers Hub, sponsorship of Young Enterprise Fiver Challenge and Xplore, helping 6000 pupils with money skills workshops. We continued to engage with the Careers Wales Valued Partner Programme, supporting regional Careers Fairs and working with 12 key partner schools aligned with our business clusters. We also worked with the London Institute of Banking and Finance, enabling a further 2268 students to gain recognised financial education qualifications in 2023.

We supported the Cardiff Capital Region / Venture Graduates Programme, and continue to play a part in the Wales MAPS/WG Financial Education Forum funding six places on the Future Generations Commissioner Leadership Academy.

We are also a member of FinTech Wales and have a voice on their advisory panel. We support their vision to make Wales the place to start up, scale up, and accelerate innovative FinTech businesses.

With some of our partnerships coming to a natural close, we're keen to explore new collaborations to enable us to deepen our community support. We're still seeing long-term fallout from the pandemic and this, combined with the current cost-of-living crisis, means there's a disproportionate and continuing deep impact on the lives and futures of many young people. So, we're on a mission to ensure they develop broader digital, workplace, and life skills, alongside financial education, to improve access to wider employment opportunities and achieve greater social mobility.

Charitable partnerships and volunteering
Over the last two years, we've raised over £500,000 for our partner charities, Tŷ Hafan and Hope House Tŷ Gobaith children's hospices, during which time our colleagues have volunteered tirelessly to support events, to friend raise and fundraise whilst our match-funding schemes have doubled contributions, amplifying the reach and impact of our charitable efforts.

Inclusion by Design

Championing diversity, inclusion, and wellbeing, we became the headline sponsor for both Pride Cymru and the Cardiff Half Marathon, two of the highest-profile events in the Welsh calendar. Pride Cymru is committed to campaigning for equality and acceptance of diversity and to creating opportunities for LGBT+ people around Wales to connect and support each other. The event in June brought together colleagues, friends, and families in a colourful and joyful celebration in the centre of Cardiff.

That celebratory spirit lived on in our sponsorship of the Cardiff Half Marathon, which has grown into one of Europe's largest and most prestigious half marathons and is Wales' largest mass participation and multi-charity fundraising event. We created a 'Rainbow Roundabout', a unique and safe performance space and cheer zone for LGBTQ+ spectators and allies.
A large group of Principality colleagues took part in the race raising money for our charity partners and causes close to their hearts, cheered on by friends and families and a host of volunteers along the way. We're delighted that these sponsorships have strengthened personal as well as business connections to the broader communities we serve and are proud to announce that we are continuing these partnerships in 2024.

As part of the sponsorship, and in association with Run 4 Wales, we also created a 'Healthy Habits' campaign to help people adopt financial, as well as physical and mental, healthy habits to build resilience in today's challenging financial climate. Media interest was generated by hopeful first-time buyers being offered the chance to win a first home deposit, with the lucky winner receiving £24,207 (10% of the current average house price in Wales – HPI June 2023) helping them take those first exciting steps towards owning their own home.

Showcasing diversity and inclusion achievements

Reinforcing our belief that a diverse workforce is a stronger workforce, we're proud to have achieved two 'Top 50' UK-wide company rankings for diversity and inclusion from Inclusive Companies and the National Centre for Diversity. As well as recognising our business-wide commitment to inclusion, these awards also reflected the success of our colleague-led networks, which are safe spaces where diverse voices and viewpoints are valued and supported.

Sustainability by Design

From sustainability as a separate strategy, to sustainability as a lens through which we view all our activity, our mission is to become carbon net zero across our operations, whilst also inspiring and supporting our customers, colleagues and communities to take action. We continue to act decisively to achieve our target of becoming net zero in Scopes 1 and 2 by 2030, and net zero in

Scope 3 by 2040. In addition, 90% of new home developments we fund through Commercial are B-rated or better for energy efficiency and we're continuing to find ways to support customers to make energy improvements to their homes.

Connecting social impact to business performance

Society is changing and we need to change with it. As a mutual, we remain committed to playing our part in addressing local and national challenges, understanding that our continued business success is inextricably linked to the prosperity of the communities we serve. By aligning our social impact goals with business objectives, we've fostered an environment in which colleagues feel connected and motivated, working more purposefully to drive social innovation. A more focused approach and collaborations with new partners will continue to build knowledge and skills, extend reach, and create impact beyond scale to deliver our vision for society.

We want people in Wales to thrive – living in Better Homes and having Secure Futures as a result of being part of a Fairer Society.

Climate-related Financial Disclosure Regulations

for the year ended 31 December 2023

A description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities

The Society's journey to link our corporate strategy to our Environmental, Social and Governance proposition (ESG) started in 2021. We are proud of the progress we have made and will take a data-led approach to becoming net zero in our business operations.

Governance of our commitments to act on climate change sits at Board level.

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

The Board approved the Society's Impact Strategy in November 2022. The Board Risk Committee (BRC) and Executive Risk Committee (ERC) are responsible for the oversight of the financial risks of climate change.

A description of how the company identifies, assesses, and manages climate-related risks and opportunities

The Society has rigorous and consistent risk management practices which are embedded across our Enterprise Risk Management Framework (ERMF) and are designed to identify, assess and mitigate risks to minimise their potential impact and/or likelihood should they materialise, to support the achievement of our business strategies.

The process of identifying new risks and opportunities by the first line is formally supported at least annually by Enterprise Risk Team (ERT) but risk owners will assess the risks in their risk registers on a quarterly basis and part of that process includes reviewing their existing register to identify any potential gaps and understand whether the existing controls are still effective in mitigating the risk. Where further action is required to mitigate the risk from crystallising, this is captured in the relevant risk, recorded on our Risk Management Software (Magique), and risk owners must comment on the action being undertaken to achieve this. Risk Owners must also record when a risk is being 'Tolerated', either due the cost of implementing controls outweighing the benefit and/or it is not within the Society's gift to change. Any 'Tolerated' risks with a residual score of '9' or higher must get Executive endorsement for the assessment.

The Enterprise Risk Management Framework (ERMF) sets outs its risks in levels (Principal Risks, Secondary Risks and Departmental-Level risks) and all risks in the framework are subject to a quarterly review/assessment process.

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, where relevant, using climate change as an optic to better understand any potential impact, and our assessment process ensures that management can review and understand whether the risk exposure is within or outside the agreed appetite.

Risk Owners in the first line of defence are responsible for identifying the risks in their business area(s) and this includes the identification of both climate-related risks and the potential impact of climate change on existing risks within the framework. Climate-related risks are managed in the same way as all other risks across the ERMF, in line with our Enterprise Risk Methodology. During 2023, a 'climate' flag was added to the Society's Risk Register and an initial review identified 14 high-level risks within the existing framework, which could be impacted by climate change. Risk Owners are expected to consider their impact of climate change during their quarterly review assessments of these risks.

Further reviews will be completed during 2024 to understand how climate change impacts other risks across the framework.

A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process:
Throughout the year, ERC and BRC have:

- Monitored the Society's approach to climate change risk management and provided oversight by reference to delivery against the plan to meet requirements of the PRA's Supervisory Statement 3/19
- Agreed a suite of Key Risk Indicators to monitor the financial risk of climate change and review the metrics reported

In December 2022, the Board received the results of a carbon footprint 'deep dive', performed by leading climate change consultancy, Climate Partner, and an associated net zero roadmap. In a clear demonstration of our commitment to tackling climate change by reducing our operational emissions, the Board agreed a set of clear priorities and targets for 2023.

Risk Owners in the first line of defence are responsible for identifying the risks in their business area(s) and this includes the identification of both Climate-related risks and the potential impact of Climate Change on existing risks within the framework. Climate-related risks are managed in the same way as all other risks across the ERMF, in line with the Methodology documented in our Enterprise Risk Management Policy. The methodology requires that all risks are reviewed and assessed on a quarterly basis by the relevant Risk Owner.

The assessment is based on a forward-looking view of the likelihood of an event occurring over a 12-month time horizon and the impact should the event occur, using a 5x5 matrix. The impact assessment takes into consideration a number of variables including financial loss, customer impact and regulatory sanction. Multiplying the likelihood and impact values provides an overall risk score. Risks are evaluated before management action has been implemented (inherent risk) and after appropriate internal controls have been implemented (residual risk). The residual risk score is then considered against the relevant Risk Appetite and given a conclusion of 'Satisfactory', 'Action Required' or 'Tolerate'. Risks assessed as outside of appetite are reviewed quarterly at the Operational Risk- and Executive Risk-Committees to understand the progress of activities in place to reduce the risk back to within appetite.

We encourage and promote a dynamic approach to the assessments of all risks across the Society's framework. As a minimum, formal assessments of all risks, including the fourteen referenced above, must be completed on a quarterly basis by the relevant Risk Owner, in-line with our methodology. These assessments are then reviewed and challenged, where appropriate, by the Enterprise Risk Team during quarterly Business Partner sessions with the relevant Risk Owner.

A description of the principal climate-related risks and opportunities arising in connection with the company's operations and the time periods by reference to which those risks and opportunities are assessed.
Although the Society would like to set a target for the decarbonisation of the mortgage book, we do not 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.

All risks (including any potential opportunities) in the Society's framework are subject to a quarterly review, and this is completed by the relevant Risk Owner in either the second or third month of the quarter, depending on their risk level (Department-level Risks will be reviewed in month 2 and Principal and Secondary Risks will be reviewed in month 3). The below risks have been outlined as being impacted by climate:

Credit risk: The risk that borrowers or counterparties do not meet their financial obligations as they fall due	• 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 • Physical damage to property caused by climate change e.g. flooding • Impact of increased household insurance premiums leading to uninsured and/or underinsured homes
Operational risk: The risk of loss arising from inadequate or failed internal processes, systems, human error or from external events	• 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 • 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 services • Reconsideration of third-party relationship due to their attitude to climate change risk
Conduct risk: The risk that the Society does not treat its customers fairly resulting in inappropriate or unfair outcomes	• Potential for customers to be treated unfairly because climate-related physical or transition risks impact their circumstances

Climate-related FDR

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	• 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
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	• 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
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	• Macroeconomic market movements impact value of balance sheet assets and liabilities as a result of interest rate movements
Solvency risk: The risk that the Society does not maintain sufficient capital resources in excess of minimum regulatory requirement	• 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

A description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy

The Society's Enterprise Risk Management Framework consists of 8 Principal Risks including Business, Conduct, Credit, Operational and Interest Rate and the potential climate-related impacts on these risks include reputational damage associated with a negative perception of the Society's response to the climate agenda, managing member expectations, market movements impacting the balance sheet assets and liabilities, unfair outcomes for customers because climate-related physical or transition risks impact their circumstances, physical damage to the Society's property portfolio and loss of systems and data. This list of potential impacts is not exhaustive and are just a sample of the impacts considered by Risk Owners in relation to our business model and strategy.

Principal Risk	Risk Detail	Potential Impact (Transition & Physical Risk)
Business	Risk arising from changes to the businessmodel to meet the long terms needs of members and other stakeholders and also the risk of the business model or strategy proving inappropriate due to macroeconomic, geographical, regulatory or other factors	• 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 • Potential increase in business costs due to changes in regulation, government policy and associated physical assets costs (repairs, insurance premiums etc.)
Conduct	The risk of 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	• Potential for customers to be treated unfairly and an increase in complaints and disputes because climate-related physical or transition risks impact customer circumstances
Credit	Risk that borrowers or counterparties do not meet their obligations as they become due	• 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 rating • Physical damage to property caused by climate change e.g. flooding • Impact of increased household insurance premiums leading to uninsured and/or underinsured homes.
Interest Rate	Risk that the value or income derived from the Society's assets and liabilities changes adversely as a result of changes in interest rates	• Macroeconomic market movements impact value of balance sheet assets and liabilities as a result of interest rate movements
Legal & Regulatory	Risk that the Society fails to comply with UK and European laws, regulations and codes of conduct and/or contractual arrangements with third parties are insufficient or ineffective to protect the Society from anticipated or unanticipated risk	
Liquidity & Funding	Risk that the Society does not maintain sufficient liquidity and funding (quality, quantity and duration) to meet financial obligations as they fall due	• 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

Operational	The risk of loss arising from inadequate/failed internal processes, systems, human error or from external events	• 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 • 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 services • Reconsideration of third-party relationship due to their attitude to climate change risk
Solvency	Risk that the Society fails to maintain or raise sufficient capital buffers to absorb losses through a full economic cycle and maintain the confidence of investors, the Board and the regulator	• 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.

An analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios

The Society has carried out scenario analysis, and we have 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 time and approximate the current immaterial 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 meets 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 readily 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 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

A description of the targets used by the company to manage climate-related risks and realise climate-related opportunities and of performance against those targets

The Society has set the following targets for the reduction of its operational emissions:

1. Net zero in Scopes 1 and 2 by 2030
2. Net zero in Scope 3 by 2040 (excl. the mortgage book), but with a significant reduction being achieved by 2030

Work is ongoing in a number of areas across the business to mobilise to achieve these targets and key activities include reducing paper customer communications and embedding sustainability into our supply chain. Although we would like to set a target for the decarbonisation of the mortgage book, we do not 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.

At present, we have not amended risk appetites or targets to reflect sector emission targets, but the sustainability of the properties we are looking to lend against or fund the development of is very much ingrained in the credit assessment process and decision where we need to be satisfied that the demand for these properties from either potential tenants or buyers is acceptable now, but also in the future.

Our commercial business seeks to incentivise property developers through our Green Fund which rewards them with a lower margin 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. We are targeting the commercial business on the EPC ratings of the properties we fund the development of. In 2023 the ambition was that 88% of all the residential properties we fund the development of will be EPC rated A or B and we are on course to meet that ambition.

A description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based

The Society is looking for a reduction in its overall Co2 use, which has been highlighted as a focus within the strategic key performance indicators.

A large part of the overall Co2 use is linked to the Society's mortgage book. To calculate the Co2 output from the mortgage book, we believe the EPC data currently represents the best available methodology for calculating carbon emissions generated from a property.

The Society is bound by Category 15 of Scope 3 emissions, which means the financed emissions from our retail mortgage portfolio. The calculation of Scope 3 financed emissions aligns to the PCAF (Partnership of Carbon Accounting Financials) standard, using estimated carbon emissions based on EPC ratings.

Risk Overview

for the year ended 31 December 2023

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 operate solely within the UK and take risks only where they can be fully understood, monitored and controlled.

We manage risks by:

- operating a single integrated business model underpinned by strong risk governance
- adopting a 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. These are fundamentally unchanged from those reported in the prior year, but in many respects their potential impact on the inherent risk profile of the business remains elevated as a consequence of the challenges and uncertainty arising from the cost of living crisis:

Business risk

The risk arising from changes to the business model and also the risk of the business model or strategy proving inappropriate due to macroeconomic, competitive, geographical, regulatory or other factors.

Credit risk

The risk that borrowers or counterparties do not meet their financial obligations as they fall due.

Liquidity and funding risk

The 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 to do so only at excessive cost.

Market risk

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

Operational risk

The risk of loss arising from inadequate or failed internal processes, systems, human error or from external events.

Solvency risk

The risk that the Society does not maintain sufficient capital resources in excess of minimum regulatory requirements.

Conduct risk

The risk that the Society does not treat its customers fairly resulting in inappropriate or unfair outcomes.

Legal and regulatory risk

The risk that the Society does not comply with legislation and regulation.

a) Business risk

We consider strategic risk, the risk to the delivery of the Society's Corporate Plan, to be the principal business risk. Whilst all business areas are responsible for managing their own risks, management of strategic risk is 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 is increasing as they focus on service delivery and non-investment banking activities, resulting in a squeeze on the Society's Net Interest Margin (NIM). We are focusing on efficiency and cost control through our Operational Excellence programme, but cost pressures will continue to arise from the pace and complexity of regulatory change, required levels of investment in technology and organic growth.

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 evolves 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 2023, the deteriorating geo-political environment continues to weigh on the UK economy through rising costs, weaker trade and subdued levels of producer and consumer confidence. The UK economy narrowly avoided falling into recession at the end of 2023 and a return to trend levels of economic growth is not expected in the near term.

With rises in consumer prices outstripping rises in incomes, coupled with increases in the Bank of England base rate, many of our Members are squeezed on housing affordability.

Against a background of increased uncertainty 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 the unusual circumstances in which some applicants have found themselves.

As pressures on household finances build, our affordability assessment continues to include an estimate of essential expenditure. An interest rate stress is applied to ensure that the proposed mortgage is affordable in the event of further increases in interest rates. A substantial proportion of our customers benefit from fixed rate products, which provide protection against interest rate increases whilst they are in their 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.

Despite the increased pressures that have been placed on mortgage affordability as a result of increases in the cost of living and rises in interest rates, our observed credit quality has remained broadly stable with arrears rates on commercial and residential mortgages remaining at historically low levels. Members who are facing financial difficulties as a result of increases

in their cost of living are provided with help and support based on consideration of their individual circumstances so that repossession of a property is normally only sought where all reasonable efforts to regularise matters have failed or the mortgage is considered unsustainable over the longer term.

(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 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 assess individually 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 the 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.

(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

Global inflationary pressures and related fiscal and monetary policy responses have resulted in continued market volatility throughout 2023, which has further potential to continue into the near term.

As the Bank of England attempts to control inflation through base rate increases, there remains a possibility that changes in customer behaviour, masked by a prolonged period of consistently low interest rates, could result in changing funding and liquidity requirements.

(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 undertaking an annual Internal Liquidity Adequacy Assessment Process (ILAAP) as part of the development of the Society's Corporate Plan. Stress tests consider a range of severe but plausible scenarios and their impact on the Society, particularly with respect to retail saving outflows. The Board approved the most recent ILAAP in June 2023.

The Society has a diverse funding base, with a strong track record of attracting and retaining retail funds through its range of retail product offerings, while maintaining a presence in the wholesale market, supported by external credit ratings. As part of its funding strategy, the Society issued £550m of Retail Mortgage Backed Securities in September 2023 (including £50m of retained notes), in addition to a £300m Senior Non-Preferred Bond issuance in July 2023, 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.

The Society's defined benefit pension scheme is also subject to market risk, which is managed by the Scheme's Trustees.

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

(i) 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 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.

(ii) Market background and uncertainties

The Bank of England's Monetary Policy Committee has consistently increased base rate throughout 2023 to address global inflationary pressures, increasing rates from 3.5% as at December 2022 to 5.25% as at December 2023.

(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 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) Operational risk

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

Risk category	Brief definition
Change management	The risk of non-delivery of strategic change programme objectives or disruption to business as usual activity resulting from the implementation of change.
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 services and operations are negatively impacted by a disruptive event.
Information and Cyber Security	The risk associated with cyber-crime resulting in the unauthorised access, use, disclosure, alteration or destruction of our information and assets.
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; a growing geo-political 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 that 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 utilised 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 with increasing consumer protection and reducing fraud.

Attracting and retaining colleagues remain key priorities as the recruitment market continues to present challenges across multiple functions. We recognise the challenges ahead and continue to invest in this area.

(ii) Risk mitigation
We manage our exposure to operational risk by assessing the nature of external incidents, information sharing with peer organisations and trade associations, reviewing information and research from industry bodies and by the review of internal risk events analysed by reference to the operational risk categories described above. In addition to any direct loss attributable to risks in these categories, the reputational impact of such an event may damage the Society leading to secondary impacts.

Our operational 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, and is based on both quantitative and qualitative considerations.

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. The Internal Capital Adequacy Assessment Process (ICAAP) considers an appropriate amount of capital to be held for operational failures.

f) Solvency risk
Capital is held to protect depositors, by ensuring that there will be sufficient assets to repay liabilities even in the event of unexpected losses. 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 available to support the growth of the business.

(i) Market background and uncertainties
The implementation of Basel III 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 is adopted and focus on climate-related financial risks increases.

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

(i) Risk mitigation
Solvency risk is subject to regular review 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 undertaking an annual Internal Capital Adequacy Assessment Process (ICAAP) as part of the development of the Society's Corporate Plan. Stress tests consider a range of severe but plausible scenarios and their impact on the Society, ensuring that the Society holds sufficient capital to withstand an equivalent stress. The assessment process 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 May 2023.

(iii) Capital requirements
In 2013, we obtained permission to use the Internal Ratings Based (IRB) approach for calculating 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. CRD IV set enhanced minimum capital requirements for firms and we expect 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 III Pillar 3 requirements, we publish further information about our exposures and risk management procedures and policies and align with Task Force on Climate-related Financial Disclosures [TCFD] principles. This will be published on our website (**principality.co.uk**).

g) Conduct risk
(i) Market background and uncertainties
Ensuring fair value and good customer outcomes across our channels and products remains a key priority and we are committed to treating Members and customers fairly. The Financial Conduct Authority's policy statement proposing a new 'Consumer Duty' came into force on 31 July 2023 and aims to raise standards across the financial services sector, requiring firms to demonstrate that their culture, activities and behaviours deliver good outcomes.

We have made great progress in implementing the principles, outcomes and rules associated with the Consumer Duty during 2023, and will continue this work during 2024 and beyond. Implementation of the Consumer Duty will continue to drive cultural and conduct change ensuring that the delivery of good outcomes is embedded across the entire customer journey.

In addition, we are engaged in the industry response to, and implementation of, other key initiatives:

Cash Savings Market Review – This review, undertaken by the Financial Conduct Authority, analyses the current state of competition in the cash savings market, setting out appropriate consumer outcomes and the actions needed to achieve them. The review was issued on the same day the Consumer Duty came into force demonstrating the regulators' commitment to the principle that firms must act to deliver good outcomes for retail customers.

Risk Overview

Cost of Living – The Financial Conduct Authority has consulted with the industry on 'strengthening protections for borrowers in financial difficulty' as it seeks to withdraw its 'Tailored Support Guidance', introduced during the coronavirus pandemic. The aim of this consultation is to provide a stronger framework for firms to better support customers facing payment difficulties with new rules likely to come into force in H1 2024.

Mortgage Charter – The UK's largest mortgage lenders and the Financial Conduct Authority have agreed with the Chancellor of the Exchequer a set of standards that they will adopt when helping their regulated residential mortgage borrowers who may be concerned about higher interest rates. We are a signatory to the Mortgage Charter and have agreed to the extensive range of measures that can be used to help those customers experiencing difficulties.

(ii) Risk mitigation

<table>
<tr><th>Conduct strategy</th><th>Culture</th><th>Colleague</th><th>Customer</th><th>Regulatory conduct</th></tr>
<tr><td>Risk appetite</td><td colspan="4">"Principality is focused on doing the right things, being straightforward and investing our efforts in helping people to prosper in their homes at every stage in life. As such, we have no appetite for knowingly delivering unfair customer outcomes. We recognise however that very occasionally things can go wrong. Where we have not delivered a fair outcome for our customers, we take ownership to put matters right, keeping our customers informed of what we are doing and acting on lessons learned."</td></tr>
<tr><td rowspan="3">Infrastructure</td><td colspan="2">Board Conduct Risk Appetites</td><td colspan="2">Third and Second Line Assurance</td></tr>
<tr><td colspan="2">First Line QA and Outcome Testing</td><td colspan="2">Annual Training and Assessments, SM and CR</td></tr>
<tr><td colspan="2">Policies, Procedures, Treatment Standards and PRA's</td><td colspan="2">FCA (6) Conduct Questions</td></tr>
<tr><td>Outcomes</td><td>An evolved values based Culture, diverse and inclusive, based on a robust conduct framework, supporting communities around us and a continuous improvement focus.</td><td>Empowered Colleagues, working in an evolved agile and flexible way, demonstrating Conduct Risk understanding and delivering regulatory and transformational change.</td><td>Customer-centric service, with fair outcomes; embracing vulnerable customers' needs and providing insight-led tailored products and propositions to support each stage of life.</td><td>Effective Regulatory Conduct controls supported by an operationally resilient business with robust and effective risk management, providing safety for colleagues and customers.</td></tr>
<tr><td rowspan="2">Focus areas and measures</td><td colspan="4">12-18 months focused priorities</td></tr>
<tr><td colspan="4">Conduct dashboard MI</td></tr>
</table>

The 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 also articulates the Board's risk appetite in relation to conduct risk and key conduct metrics, which align to our conduct risk appetite, are reported to relevant committees, including the Board. In addition, outcome testing enables an assessment of the extent to which we achieve our aim of consistently delivering good outcomes for Members and customers. Regular feedback from Members and customers is also obtained.

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 unfair customer outcomes.

The 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 eleven 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.

h) 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 customer focused 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 ensures that we are well placed to meet current and emerging requirements.

(ii) Risk mitigation

We have 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 by the Board to ensure appropriate compliance.

All principal risks have the potential to affect more than one 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 through a formal governance structure that includes measuring performance against key risk indicators.

Regular horizon scanning activity is undertaken to identify any new or emerging risks that could threaten the long-term viability of the business. We also consider the outputs of stress testing and conduct regular reviews of strategic risks that could have a material impact on our business model. The most significant emerging and evolving risks to our strategy are detailed in the table below, together with actions being taken to mitigate those risks:

Risk	Mitigating Actions
Macroeconomic and geopolitical environment Current uncertainty in the macroeconomic environment is being driven by a number of factors, namely the ongoing war in Ukraine, geopolitical tensions surrounding access to the Red Sea and upcoming political elections in the UK and USA. The fiscal and monetary policy response to higher inflation will place further pressure on mortgage affordability, which is likely to lead to a slow down or even reversal in house price inflation. When combined with a potential increase in unemployment, higher credit losses could materialise over the short to medium term. Changes in customer behaviour, masked by a prolonged period of consistently low interest rates also have the potential to change funding and liquidity requirements.	We prepare medium-term financial plans on an annual basis which incorporate scenarios that reflect the impact of changes in the economic environment. Key macroeconomic indicators are closely monitored, the purpose of which is to alert management to signs of increasing headwinds in the economy. In addition, we have modelled different financial plans to reflect the potential impacts of different recovery trajectories and the impacts on the core markets in which we operate. These include, but are not limited to, stress test scenarios published by the Bank of England
Competitive environment The nature of, and demand for, financial services has altered significantly over recent years. In particular, this has been characterised by the development of innovative digital products offered by new entrants, as well as more established institutions. Acceptance and utilisation of digital technology appears to have increased significantly following COVID, with changes likely to result in continued competition in our core markets. Competition for mortgages and savings has increased as a result of market dislocation, clearing banks have gained a competitive advantage due to lower costs, resulting in pricing challenges for the Society.	Our investment programme is primarily intended to ensure that our core offering remains appropriate and relevant to our target market. The successful delivery of our plans will help mitigate the risks arising as a consequence of increased competition. Focus at Board Level has increased in line with the perceived benefits and risks associated with delivery of our plans. The markets in which we operate are constantly monitored, to ensure the business can respond to changes in customer requirements.

Risk	Mitigating Actions
Cyber security The threat represented by cyber-attacks is expected to remain at an elevated level, taking into account the frequency and severity of reported attacks instigated against other financial services providers within both the UK and wider markets.	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 3rd party penetration testing.
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' green 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 our Task Force on Climate-related Financial Disclosures [TCFD] published on our website (principality.co.uk) It is acknowledged that our response will develop as more data and regulatory guidance becomes available and the Society will closely monitor industry developments. Management has considered the potential impact of climate change particularly in respect of the impact on expected credit losses. 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.

Risk	Mitigating Actions
Operational resilience The nature and pace of technological change represent a risk to the continued resilience of the financial services sector. In addition, the recent Consumer Duty legislation also represents challenges to the wider financial services sector to ensure customers receive appropriate service tailored to their individual needs. We are mindful of our ageing member population and continue to ensure we provide access to the services they require with our extensive branch network. Our ability to maintain and further develop operational resilience and operational risk management capabilities is vital to ensure we can continue to provide Members with a secure, stable and competitive service. The move to hybrid working, initially as a consequence of the pandemic has affected the recruitment market, particularly in the supply of specialist/technical skills needed to support our investment programme.	Our medium term plans incorporate appropriate levels of investment in systems capability and underlying resilience. The Board Risk Committee maintains regular oversight of programme delivery and in ensuring the ongoing effectiveness of business level operational risk management capability and associated controls. Recruitment procedures and our employee offering are under review to ensure we remain competitive and attractive to prospective candidates, monitored through timely management information.

Approval of the Strategic Report

This Strategic Report (on pages 4 to 47) has been approved by the Board of Directors and is signed on behalf of the Board by:

Iain Mansfield
Chief Financial Officer
19 February 2024

Governance

Corporate Governance Report

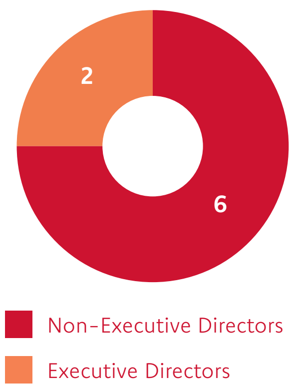
This section outlines how the Society is managed in the interests of its Members and highlights the role, constitution and governance of the Board and its Committees.

The Society's approach to corporate governance is based on the Principles and Provisions of the 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.

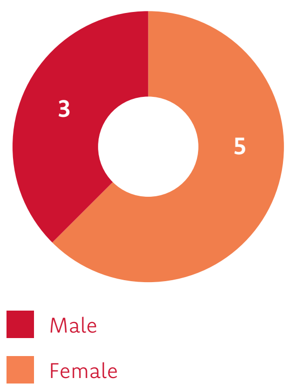
For this reason, and to meet the expectations of the Society's Members and other stakeholders, the Board chooses to comply with the UK Code, in so far as is possible and relevant to building societies. This report sets out how we have achieved this during 2023.

Board of Directors

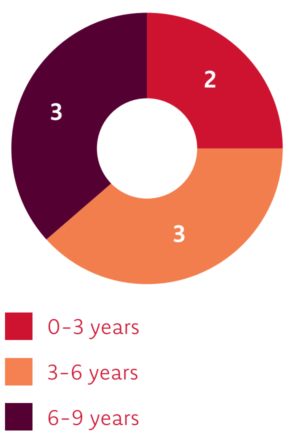
Board Composition



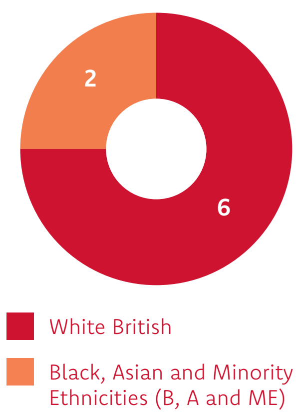
Gender Diversity



Tenure



Ethnicity Diversity



Committee Key: (In bold for Chair)

A Audit
G Governance and Nominations
NRC NED Remuneration
R Risk
RC Remuneration

Sally Jones-Evans
Chair, Non-Executive Director
G RC NRC
Joined the Board in February 2015, elected Chair in April 2021

Skills and experience
I spent 30 years in retail banking and general insurance during which I gained wide-ranging experience in leading people through change, mainly in areas directly serving customers. I believe that helps me to support the Executive Leadership team to shape the Society's ongoing change agenda.

Contribution to the Society's long-term sustainable success
I am responsible for leading the work of the Board, ensuring the Board operates effectively in setting the strategy, overseeing the performance, and setting the risk appetites of the Society. I am also responsible for ensuring robust succession plans are in place, that the Society maintains the highest standards of corporate governance and that we have an open and transparent culture.

Other roles
I sit on the Boards of Hafren Dyfrdwy Ltd (a subsidiary of Severn Trent PLC) where I also chair the Audit and Risk Committee, and serve as a Trustee Director of Tearfund, the humanitarian and overseas development charity.

Julie-Ann Haines
Chief Executive Officer (CEO)
NRC
Joined the Board in May 2016

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.

Contribution to the Society's long-term sustainable success
I am passionate about the Society, ensuring we build on our mutual ethos and values of being rooted in our communities, providing fantastic customer experience and in meeting your needs. My role is to lead the Executive team to ensure we continue to deliver the Society's strategy for the long-term interests of our Members and ensure that the organisation runs smoothly day-to-day, supporting colleagues and building an inclusive and engaging culture.

Other roles
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.

Jonathan Baum
Independent Non-Executive Director
A G **R**
Joined the Board in July 2021

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. I was a Non-Executive Director for TransUnion UK and Vanquis Bank.

Contribution to the Society's long-term sustainable success
My experience across retail, business, wealth and asset finance sectors and in risk leadership roles enables me to have oversight of current and emerging risks that will ensure that the Society continues to be successful and sustainable for its Members.

Other roles
Non-Executive Director of Lendable Ltd and FCE Bank Plc.

Ian Greenstreet
Independent Non-Executive Director
A G
Resigned from the Board December 2023

Skills and experience
I am a qualified accountant (ACA) and Investment Banker with over 35 years of financial services experience (banks, insurance companies, and fintech organisations). I am an experienced risk professional and worked as Chief Risk Officer at ABN Amro UK before undertaking several Board roles. I also co-founded and developed a successful disruptive fintech FX firm. I have global experience with rich European, African and Asia exposure.

Contribution to the Society's long-term sustainable success
My experience will enable me to help the Board fulfil its oversight responsibilities in respect of matters relating to the integrity of financial and narrative statements; systems of risk management and internal control.

Other roles
Strategic Advisor and Member of the Advisory Group - London Stock Exchange; CEO and Founder, Infinity Capital Partners Ltd; Board Director, NET1 UEPS Technologies Inc; Board Director, United Bank of Africa and Advisory Council and Strategic Advisor to the Chairman and UK Board, KPMG.

Claire Hafner
Independent Non-Executive Director
A G
R **RC**
Joined the Board in April 2018

Skills and experience
I am a qualified accountant (ACA) and have an MA in Languages and Economics. I trained and qualified at Ernst and 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.

Contribution to the Society's long-term sustainable success
My experience across the different sectors of financial services, payments, professional services, multimedia and telecoms enables me to contribute to the Society's change programme and to the Society's continuing success.

Iain Mansfield
Chief Financial Officer (CFO)
Joined the Board in December 2019

Skills and experience
I was appointed Chief Financial Officer in July 2022. My remit extends across Commercial, Nemo, Architecture, Strategy, Corporate Property and Estates. 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 a Chartered Accountant with more than 20 years' experience across retail banking and start-up and private equity-owned financial services businesses in the UK.

Contribution to the Society's long-term sustainable success
My role is to ensure we plan and manage the Society's capital, liquidity and funding in the long-term interests of our Members and the sustainability of the Society.

Shimi Shah
Independent Non-Executive Director
G RC
Joined the Board in May 2023

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.

Contribution to the Society's long-term sustainable success
I am highly experienced in mergers and acquisitions, fundraising, IPOs and exits. I have extensive board experience (listed companies through to SMEs and start-ups) and currently serve on three boards in a non-executive capacity. I am known globally as an innovation policy and incubator and corporate governance expert, and provide consulting services in this area to SMEs and government establishments across EMEA. I am also well-regarded in the field of board evaluations and assessments, and work with institutions, family offices, and funds to design, build, and leverage boards to becomes effective in their objectives.

Other roles
I am also 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.

Debra Williams
Non-Executive Director
A G RC
Joined the Board in September 2019

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 five years spent at the Britannia Building Society, as well as senior roles at Tesco Compare and Confused.com.

Contribution to the Society's long-term sustainable success
My experience in the Fintech/E-commerce arenas will enable me to make a positive contribution to the Society's ongoing digital transformation which will support the continued delivery of stand-out experience for our Members.

Other roles
Non-Executive Director of Co-Op Insurance, the Milford Haven Port Authority, Chair of GCRE Ltd and Director of Awen Consulting Services Ltd. Trustee of the Alacrity Foundation and a proud ambassador for Tŷ Hafan.

The Role of the Board
The Board is the governing body of the Society and its responsibilities fall under a number of broad functions, which include, setting the overall strategy and risk appetite, leading the development of the Society's culture, operational performance and oversight and setting the corporate governance framework. One of its primary duties is to promote the long-term success of the Society, whilst acting in the best interests of both current and future Members. In doing so, the Board also has regard to its wider stakeholders.

The Board is responsible for:

- Formulating the Society's strategy, business model and monitoring progress against the agreed strategy
- Ensuring the sustainability of the Society's business model
- Approving significant projects with spend over £5m
- Maintaining a sound system of control and setting the Society's appetite for risk
- Ensuring that there is an appropriate culture in place across the Society, which aligns with its strategy and values
- Fostering transparency and honesty and ensuring that good standards of behaviour permeate throughout all levels of the Society
- 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
- The proper conduct of all aspects of the Society's affairs
- Approving the Society's Remuneration Policy, upon the recommendation of the Remuneration Committee
- Ensuring that Board and Executive succession planning is in place and approving any key appointments

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
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 Statements • Quarterly Performance Review • Budget and Quarterly Reforecasts
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

Responsibility	Key Activity
People, Culture and Remuneration	• Annual Colleague Survey (Peakon) and Interim Colleague 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

Delegation of Authority

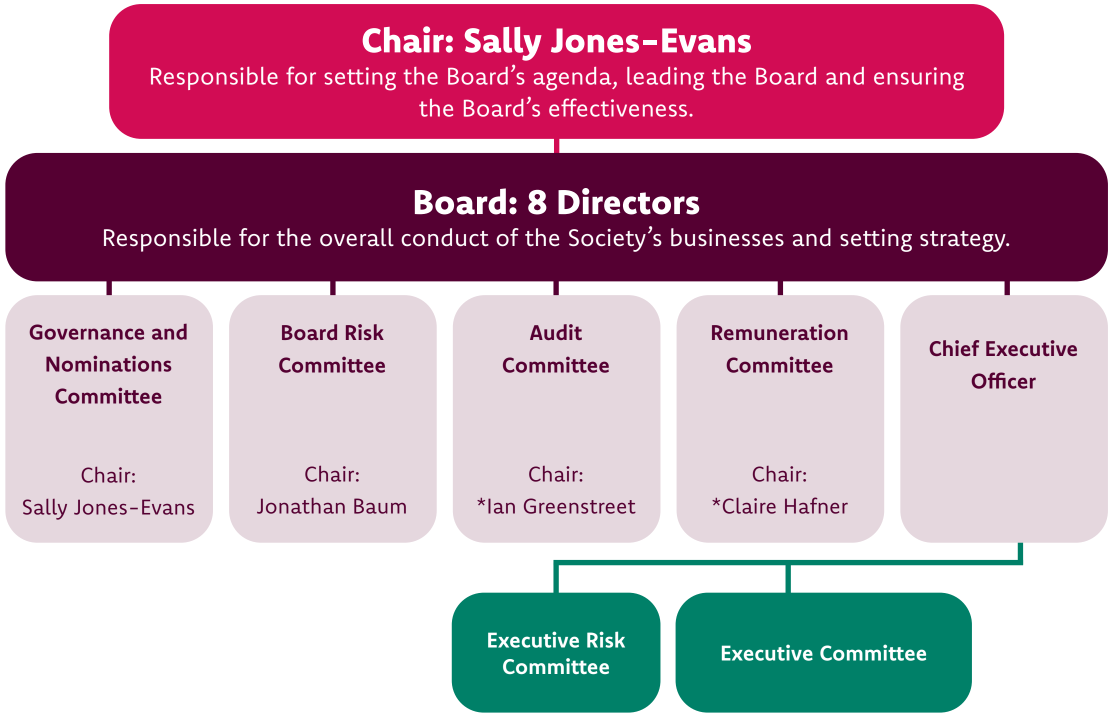
The Board recognises that ensuring a system of effective corporate governance is integral to the successful delivery of the Society's goals. In order to allow the Board to spend sufficient time on items of the most strategic importance, the Board delegates a number of oversight responsibilities to its 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: **principality.co.uk**. 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.

Board of Directors

Board Composition

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 2023, the Society's Board comprised the Chair, five 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.



*Ian Greenstreet stood down from the Board with effect from 31 December 2023. Ian will be succeeded as Chair of the Audit Committee by Claire Hafner with effect from 1 January 2024. Debra Williams will replace Claire as Chair of the Remuneration Committee.

The Society also has two Non-Executive Board Associates (NEBA), who attend the Board and provide support based on their specific skills along with general input and challenge to the work of the Board and the Executive. They have no formal voting rights nor do they have any fiduciary duties. This arrangement commenced on 1 June 2022 and both NEBAs will step down on 31 May 2024 in line with their contracted tenure.

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. More information on this topic is provided within the Governance and Nominations Committee report on pages 64 to 65.

Non-Executive Directors

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 requirement.

The skills review in 2023 demonstrated that our 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

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

Board Meetings

The Board and its committees have a regular cycle of meetings as set out below and hold ad-hoc meetings as required. Following learnings from the pandemic, the Board has continued to hold every other meeting as a virtual meeting. This has enabled the Board to meet more regularly and achieve cost efficiencies.

Time commitment

One of the key criteria 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.

Board and Committee Membership and attendance

	Board	Audit	Board Risk	Remuneration	Governance and Nominations
Sally Jones-Evans	12/12			8/8	6/6
Derek Howell (resigned)	1/2	1/2	0/1		1/2
Jonathan Baum	13/13	8/8	6/6	5/5	6/6
Claire Hafner	13/13	8/8	6/6	8/8	6/6
Ian Greenstreet (resigned)	12/13	7/8	4/5		4/6
Julie-Ann Haines	13/13				
Robert Michael Jones (resigned)	6/6	4/4	3/3		
Iain Mansfield	13/13				
Shimi Shah	9/9			3/3	4/4
Debra Williams	12/13	2/2		8/8	6/6

Changes to the Board in 2023

Derek Howell **(Non-Executive Director)** - Resigned as Non-Executive Director in March 2023
Shimi Shah **(Non-Executive Director)** - Appointed as Non-Executive Director in May 2023
Mike Jones **(Chief Risk Officer)** - Resigned as Executive Director in June 2023
Ian Greenstreet **(Non-Executive Director)** - Resigned as Non-Executive Director in December 2023

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 meetings which concluded that all five Non-Executive Directors continue to remain independent.

At the time of Sally Jones-Evan's appointment as Chair, the Board was satisfied that she met the independence criteria as outlined within the UK Code. The Chair's role requires a substantial time commitment to the affairs of the Society. Consequently, the Chair is not expected to remain independent following appointment.

In December 2023, the Board appointed Simon Moore as Chair-elect to succeed Sally Jones-Evans when she steps down as Chair in Q2 2024. Simon joined the Board in January 2024 and will stand for election at the AGM in April 2024. Sally Jones-Evans will have served on the Board for 9 years and 2 months by the time she steps down. The Board approved Sally's extension beyond the 9-year term in order to allow a smooth transfer to the succeeding Chair.

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 Executive Directors, or for which such contact is inappropriate. As the Senior Independent Director, Jonathan led the recruitment process for the Chair elect Simon Moore.

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 standard
- 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 five Members of the Executive Leadership Team.

Appointments to the Board

Further details about the Non-Executive recruitment process can be found in the Report of the Governance and Nominations Committee on pages 64 to 65.

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 2023 AGM.

Culture

The Board is responsible for leading the development of the Society's culture. During 2023, EY was engaged to review, and consider in conjunction with senior leaders, what future culture is required to effectively deliver our strategy. 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.

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 Colleague Forum and the Annual General Meeting, the 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 HR, Compliance and Conduct and Internal Audit teams.

Board information

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 assess and monitor the Society's progress.

Independent Professional Advice

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.

Board Induction and Training Programme

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 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 2023 the following areas were addressed:

- Change management
- Consumer Duty
- Retail lending
- Commercial lending Deep Dive
- NIM, Benchmarking and Balance Sheet Design
- Bereavement process

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 assessing 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 his 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 2023 and the Chair continues to be satisfied 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 Effectiveness Review

The collective effectiveness of the Board is subject to an external evaluation every three years with the last external review performed by Nasdaq in November 2021 who specialise in performing board evaluations. The latest review conducted in November 2023 was an internal review but hosted on the Nasdaq system to allow anonymous responses. The principal conclusion arising from review was that the Board continues to fulfil its governance role strongly. The Board felt that there was a culture of high support and high challenge across Board and Executive team with strong levels of trust.

The themes arising from the review which will result in action being taken to further strengthen Board governance include:

- Ensuring a smooth transition to a new Chair
- Ensuring that the Board are focusing their time on the Matters Reserved to it
- Providing greater clarity on expectations for the NEDs outside of formal Board and committee meetings

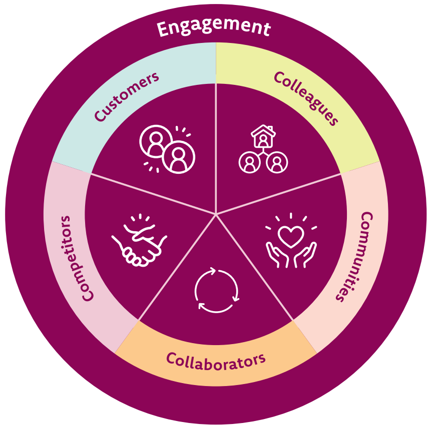
Progress with work to implement the actions arising from the Board Effectiveness Evaluation has been regularly monitored by the Board and the Governance and Nominations Committee.

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 employees 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

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. In 2023 the Board reviewed its engagement with key stakeholders to ensure that their voices continue to be part of all our Board discussions. A summary is shown below of the key stakeholder relationships. In 2023, the Board added ESG rating agencies and Living Wage Foundation to its key stakeholder relationships.



Members, Customers and Prospects
Retain our existing customers and attract a new younger demographic, responding to their needs and expectations of us as a sustainable, inclusive, ethical and accessible organisation

Colleagues, Contractors, Graduates
Engage and retain talented employees, meeting expectations and providing them with meaningful opportunities to have an impact through their work

Communities
Work with our communities to understand their problems and how we can support, improving relationships and our representation as an inclusive organisation

Building Socs, Banks, FinTechs and other
Monitor competitor landscape for threats and opportunities. Maintain relationships with key individuals

Governments (UK, Welsh)
Leverage our position to inform and influence policy

Partners and suppliers
Ensure those we work with share our impact led, sustainable and ethical standards

Trade and Member bodies
Collaborate with Trade and Member bodies to align activity and amplify impact

Regulators (PRA, BoE, FCA, ICO, FOS)
Monitor increasing regulatory standards to ensure we continue to meet reporting requirments

Investors
Report our impact in an authentic way to engage investors and meet growing expectations

Media
Ensure we effectively communicate our impactful activity through the various media outlets

The Society is part of both a local and global community and our operations impact a range of stakeholders. The Society adheres to all regulatory requirements and reports our emissions under the Streamlined Energy and Carbon (SECR) Framework. The Chief Risk Officer is the Senior Manager responsible for managing the financial risks of climate change. The Society also has a growing colleague Planet Friendly Network, sponsored by the CRO who provide advice and practical support not only for other colleagues but also to our local communities. In addition, our investors are keen to ensure they support responsible organisations and we work closely with them to ensure we meet their needs.

Debra Williams attends meetings of our Colleague Forum which is made up of representatives from across the Society and reports back to the Board on discussions taking place in that forum. During the year, that forum has focused its attention on transforming our workplace with hybrid working and the cost of living challenge.

The Society is committed to fostering and maintaining good communications with Members. The Society has an online community of Members called Member Pulse. This will enhance 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.

Annual General Meeting (AGM)
As a mutually owned organisation, the Board is answerable and accountable to the Society's Members. The Board is committed to and proud of the Society's mutual status and, as detailed above, proactively works to balance Member interests with those of other stakeholder groups.

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 2023 were duly elected or re-elected. All Directors, with the exception of Ian Greenstreet, will again stand for re-election at the 2024 AGM. Simon Moore joined the Board in January 2024 and will stand for election at the 2024 AGM. Simon has joined as a Non-Executive Director with the intention to become Chair of the Society following the AGM. Submission of the relevant approval forms have been lodged with the regulator.

Following the success of the 2023 AGM, the 2024 AGM is planned to be a hybrid event where Members can either access a livestream 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. This supports the 'hyper-local' approach in our strategy Framing Our Future and we hope to see increased Member involvement and voting. More details on the branches involved can be found on our Notice of AGM.

The AGM will take place at 11am on Friday 19 April 2024 at The Marriott Hotel, Cardiff.

Sally Jones-Evans
Chair
19 February 2024

Governance and Nominations Committee Report

for the year ended 31 December 2023

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 2023 comprised all of the Non-Executive Directors. The Committee met on 6 occasions during the year. The Committee regularly invites the Chief Executive Officer, the Secretary 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 Green Park (who have no other relationships with the Society) to support the process which led to the appointment of Shimi Shah as a new Non-Executive Director and member of the Society's Board. 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.

The Committee considered the resignation of Mike Jones, former Chief Risk Officer and monitored the work undertaken to fill this role, deciding that the new role would not be an Executive Director of the Board. It was also involved in advising on the appointments of the new Chief Risk Officer, Chief Internal Auditor and Chief Operating Officer.

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 2022 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 1 January 2021 to 31 December 2023:

Ratio as at 31 December 2021	Ratio as at 31 December 2022	Ratio as at 31 December 2023
30%	39%	39%

At 31 December 2023, 62.5% (2022: 44.5%) 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.

Board Risk Committee Report

for the year ended 31 December 2023

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 2023 the Committee comprised three independent Non-Executive Directors, Jonathan Baum (Chair), Claire Hafner and Ian Greenstreet. Shimi Shah joined the Committee in January 2024. 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

Day-to-day risk management
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.

Second line of defence

Risk oversight and compliance
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.

Third line of defence

Audit
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, appetites and tolerances, designed to monitor the Society's exposure to key prudential and conduct related risks. These are set in a hierarchy that links the Board's tolerance for risk to its strategic goals, medium-term plans and 'business as usual' activities.

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 prudential and conduct 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 Head of Enterprise Risk and is responsible for monitoring and reviewing exposure to operational and financial crime risks arising from the Society's day-to-day activities
- **Compliance and Conduct Risk Committee (CCRC)** is chaired by the Head of Compliance and Conduct Risk and is responsible for monitoring and reviewing exposure to conduct 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 • Development of Operational Resilience Framework • Review of approach for Assessment of Climate Change Risks • Oversight of Consumer Duty Implementation
Policy	• Annual review and approval of Treasury Policy Statement and Retail and Commercial Lending Policies • Annual approval of Compliance and Conduct Risk Management Policy and Conduct Monitoring Plan • Approval of Cyber Risk Penetration Testing Programme
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 Cyber Risk Management and results of Penetration Testing Programme • Review of risk exposure relative to appetite and tolerance measures
Risk monitoring	• Review of CRO's report and Key Risk heat map • Horizon scanning • Oversight of Executive Risk Committee and subsidiary Risk Management Committees • Review of Compliance and Conduct Risk monitoring activity and relevant Internal Audit Reports

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 2023

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 2023 comprised four independent non-executive directors, Derek Howell (Chair until 31 March 2023) who was replaced by Ian Greenstreet from 1 April 2023, Claire Hafner and Jonathan Baum. Debra Williams joined the Committee with effect 1 September 2023. Ian Greenstreet resigned with effect 31 December 2023 and Claire Hafner became Chair of the Committee with effect 1 January 2024. The Committee met on 8 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.

Activity during the year
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 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 current cost of living crisis and high interest rate environment, on the performance of the Society's loan books and consequent impact on the IFRS9 impairment provision
- **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. Measurement of the plan asset value of the buy-in policy was undertaken in 2023 and this swap of one type of plan asset for another would typically give rise to a gain or loss. Such a gain or loss represents a change in the fair value of plan assets held by the pension plan and is recorded in Other Comprehensive Income (OCI) as an actuarial gain or loss

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 that 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's team 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. However, work undertaken by Deloitte IT specialists has identified deficiencies in respect of user access review and privilege user access. Despite these deficiencies the Committee remains confident that the overall control environment remains sufficiently robust.

In respect of the user access issues identified during this period, the Committee will ensure that a robust remediation plan is implemented during 2024.

The Committee has held six private meetings with Deloitte during the year.

The Audit Committee is responsible for considering on behalf of the Board whether the Annual Report, 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 (ARandA), 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 ARandA 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 ARandA, 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 ARandA 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 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 £698k (excl. VAT). Non-audit fees, mainly in relation to further assurance services, were £68k (excl. 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 2023

On behalf of the Remuneration Committee, I am pleased to share the Director's Remuneration Report for the year ended 31 December 2023 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 Director's 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 2023 and sets out how we plan to implement the policy in 2024.

Committee activity in 2023

In addition to standard items in line with the Terms of Reference, the Remuneration Committee made some additional decisions during the 2023 financial year which are outlined below.

- Executive team changes – Robert Michael Jones retired from the role of Chief Risk Officer on 30 June 2023. The position of Chief Risk Officer is not currently considered an Executive Director role. The Remuneration aspects of these changes were considered by the Committee.
- Variable pay decisions – In early 2023, we reviewed our variable pay structure and design for Senior Leaders, including Executive Directors, to ensure this remained aligned to our strategic objectives. We have also agreed to introduce two new variable pay schemes in 2024 for the wider workforce. The purpose and design of these have been a key focus of discussion in H2 2023.
- Senior Leadership performance – for 2023 we introduced an individual performance element to our Executive Directors and Senior Leadership variable pay scheme to promote the right individual leadership behaviours in line with culture and values, and be able to recognise strong individual performance. This design will continue to be applied going forward.
- Culture and Reward – The Society is in the process of refreshing its culture and as part of this, reviewing our approach to Reward and recognition through Performance Management for colleagues as a whole.
- Pay reviews – Our all colleague pay review for 2023 was brought forward to November 2022. For 2023 and 2024 it was agreed the Society would continue to pay minimum salaries at a rate above that published by the Real Living Wage Foundation and our approach to pay review continues to provide most support to our lowest paid colleagues. Pay for Executive Directors in 2024 followed our approach to colleagues' pay where possible, with additional market rate increases being applied where

pay was at risk of falling significantly behind market.

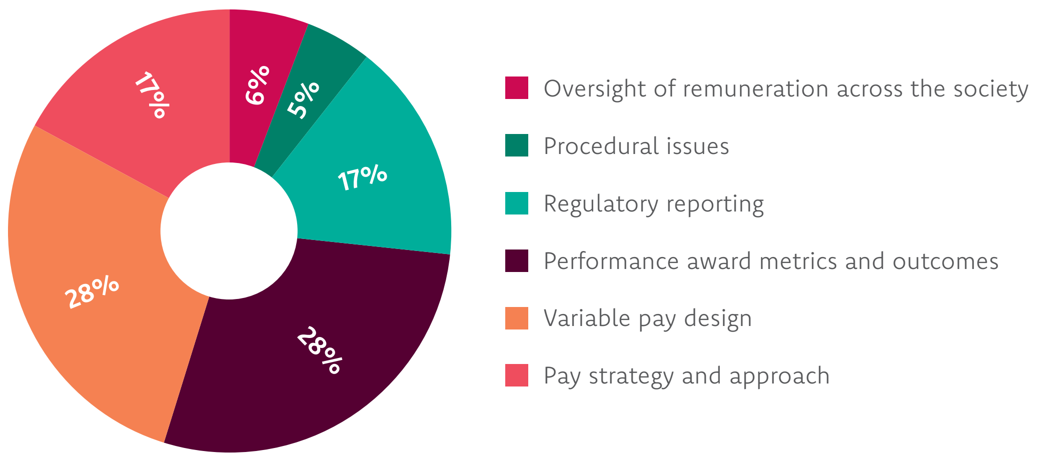
- Variable pay performance - Following strong Society performance, the Rewarding Excellence Award (REA) for all colleagues and the Leading Excellence Award (LEA) for Executive Directors and Senior Leadership will pay out between target and stretch.

Conclusion

For 2023, we confirm we operated in line with the Directors' Remuneration Policy, detailed within this report. The Committee has not exercised any discretion in 2023. Jonathan Baum stepped down as a member of the Committee in September 2023 and we would like to take this opportunity to thank Jonathan for his contribution during his tenure on the Remuneration Committee. In addition, Claire Hafner will step down as Chair of this Committee to take on the responsibilities of Chair of the Audit Committee with effect from 1 January 2024. Debra Williams has taken on the responsibility of Chair of the Remuneration Committee. We wish Debra all the best in this role.

This report is approved by the Remuneration Committee.

Proportion of time spent by the Remuneration Committee



The Committee comprises three Members, all of which are independent Non-Executive Directors. The Chair of the Board also serves on the Committee. For 2023, Membership comprised of the following:

- Claire Hafner – Chair of the Remuneration Committee and Non-Executive Director (Chair until 31 December 2023)
- Debra Williams – Non-Executive Director (chair as of 1 January 2024)
- Jonathan Baum – Non-Executive Director (until September 2023)
- Shimi Shah – Non-Executive Director (appointed May 2023)
- Sally Jones-Evans - Chair of the Board and 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.

Only Members of the Committee have the right to attend Committee meetings. The Chief Executive Officer, Chief People Officer and Head of Reward and Colleague Engagement 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. The total fees paid for advice to the Committee during 2023 totalled £36,000 (inclusive of VAT). PwC are 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 the 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 principles of the Remuneration Code and 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 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 and Senior Leadership team, 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.

The Remuneration Committee is satisfied that the Directors' Remuneration Policy operated as intended throughout 2023.

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 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. While the Corporate Governance 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, we can be confident that 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. Attendance of the monthly Colleague Forum meetings by one of the Non-Executive Directors to ensure colleagues have a voice at the Remuneration Committee meetings. 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 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) 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, 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 if it is discovered that the award should not be/have been paid. Malus and clawback triggers are outlined in our variable pay scheme rules and within this Policy document. 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.

Remuneration Committee Report

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. The LEA has an individual gateway, such that it is not payable if the individual's performance does not meet requirements. Receipt of the REA is subject to minimum performance being met, such that any colleague who receives a rating of 'Unsatisfactory' or is 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.

Policy on remuneration of Executive Directors

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

Element	Base Salary
Link to strategy	To attract and retain Executives 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 and business performance, market conditions, and the level of salary increase applied to other colleagues across the Society. The base salary of newly appointed Executives 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. Other increases may be implemented in cases such as new responsibilities, development and progress in role.
Performance conditions and assessment	N/A although individual performance is considered when planning base pay increases.

Element	Variable pay – Rewarding Excellence Award (REA)
Link to strategy	To support attraction, motivation, engagement, and retention of our colleagues. 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. Targets are reviewed and set each year 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.
Operation	All colleagues at the Society are eligible for this scheme, including the Chief Risk Officer and Chief Internal Auditor, who have been added as eligible employees from 2023. 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. Each year a number of key business measures are identified and threshold, target and stretch performance is approved by the Remuneration Committee. The Remuneration Committee can apply malus and clawback to an award made to an Executive Director, Senior Leader and MRT if it is discovered that the award should not be paid. Malus and clawback are outlined in our variable pay scheme rules. 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.
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	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.

Remuneration Committee Report

Element	Variable pay – Leading Excellence Award (LEA)
Link to strategy	Focus on strategic and enterprise wide measures which look at longer term performance and leadership of the Society. Drives the shared ownership of objectives. Performance conditions are chosen to focus on strategic and enterprise wide measures which look at longer term performance and leadership of the Society. Targets are reviewed and set each year 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.
Operation	The LEA is an annual incentive scheme for Executive Directors and Senior Leaders (including the Chief Risk Officer and Chief Internal Auditor, who have been added as eligible participants from 2023), with an element of deferred payment. 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. Each year a number of key business measures are identified and threshold, target and stretch performance is approved by the Remuneration Committee. 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. 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.
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 Potential payments for Senior Leaders: • Nil for threshold performance • 9% of salary for achieving target • 18% of salary for attaining highly stretching targets
Performance conditions and assessment	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.

Element	Pension
Link to strategy	To attract and retain Executives 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 8% of base salary. During 2022 and 2023 there was one Executive Director with a legacy arrangement who was entitled to receive a pension contribution of 15% of base salary. This individual retired in 2023.
Maximum potential value	Pension contribution of 8% of base salary or equivalent cash allowance. This will increase to 9% in 2024 for all colleagues.
Performance conditions and assessment	N/A

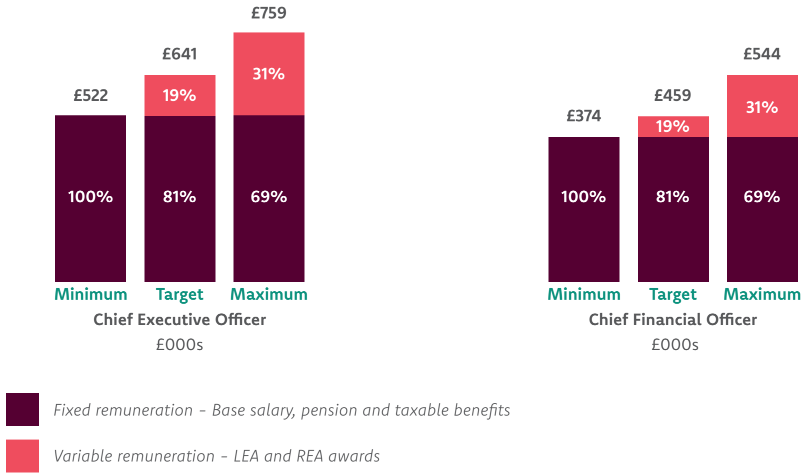
Element	Benefits
Link to strategy	To attract and retain Executives who have appropriate capabilities, skills, and experience to deliver the purpose and strategy of the organisation.
Operation	Includes family private medical insurance, critical illness cover, life assurance and annual health checks. New appointments are entitled to the above benefits. Some Executive Directors are entitled to legacy car allowance (this has been phased out for new appointments since 2020). During 2023 only one individual received a car allowance. This individual retired in 2023.
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	Executive Directors are entitled to fully funded family medical insurance. All other colleagues are entitled to personal private medical insurance after one year of service. Health checks are only available to Executive Directors.

Remuneration Committee Report

Performance scenario illustrations

The below graph shows the remuneration that each of the Executive Directors could earn for 2024 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 2024.

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 cash bonuses paid for a three-year period (or such longer period as may be required by relevant regulations) in the event of the following:

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

Policy on remuneration of Non-Executive Directors

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

Element	Fees
Link to strategy	There are set fees for all Non-Executive Directors.
Operation and deferral	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 An additional Directors' fee is then paid to the Non-Executive Directors who act as Chairs of the various Committees
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.

The policy when setting fees for the appointment of new Non-Executive Directors is to apply the same policy which applies to current Non-Executive Directors.

Remuneration Committee Report

Remuneration Committee Report

Approach to recruitment remuneration

The remuneration arrangements for appointees will be in line with the policy tables above.

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 Chief Executive Officer) 18/05/2016 (Appointed as Executive Director)
Chief Financial Officer – Iain Mansfield	15/07/2022 (Appointed as Chief Financial Officer) 31/12/2019 (Appointed as Executive Director)
Chief Risk Officer – Robert Michael Jones	30/06/2023 (Resignation as Executive Director and CRO) 14/09/2020 (Reappointed as CRO) 01/12/2019 (Appointed as Interim CEO) 01/02/2013 (Appointed as Executive Director and CRO)

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 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 individual who has left or is leaving the Society either as a result of redundancy, or due to the completion of a fixed term contract, where all contractual terms have been fulfilled, and the contract has come to an end as per the agreed fixed term.

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, the Society has a designated Non-Executive Director who attends the monthly Colleague Forum meetings. 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.

Annual Report on remuneration

This section of the report sets out remuneration awarded to Executive Directors and Non-Executive Directors for 2023. 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 2023 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' 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	2023	397	4	32	433	159	592
	2022	360	4	29	393	108	501
Chief Financial Officer Iain Mansfield	2023	314	3	25	342	115	457
	2022	269	8	31	308	78	386
Chief Risk Officer Robert Michael Jones*	2023	155	6	23	184	N/A	184
	2022	266	13	40	319	N/A	319

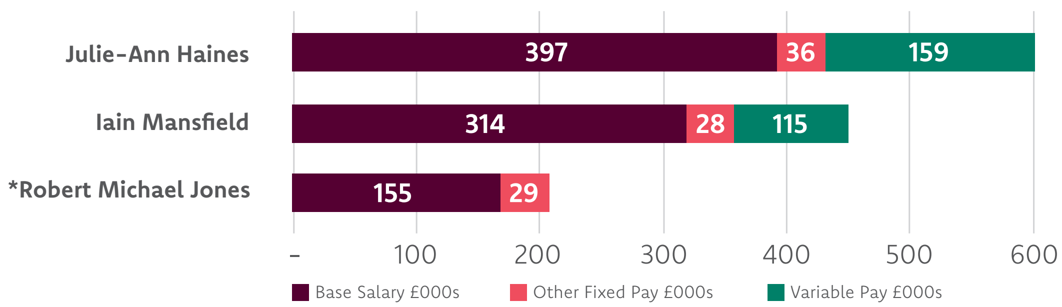
**Robert Michael Jones resigned from the Society on 30 June 2023. The 2023 remuneration reported here represents his remuneration for the period he was employed in the year i.e. 6-months. Robert Michael Jones' successor is not considered an Executive Director and as such, the new Chief Risk Officer's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

Remuneration Committee Report

For February 2023, it was agreed that Executive Director increases would be treated in line with the broader approach applied to the wider workforce. Taking into account market pay levels, the Committee decided to apply a market rate increase to the Chief Executive Officer's base salary, which included a 5% increase as per the approach to other Senior Leaders pay. No changes were made to Chief Executive Officer benefits for 2023.

Our Chief Financial Officer received a 5% salary increase in line with the wider workforce increases. No rebasing of salary was performed, as it was determined his salary was in line with market data received. Iain Mansfield's 2022 earnings were split between his role as Chief Operating Officer and Chief Financial Officer, and reflected the consolidation of his legacy benefits and an increase to pay to reflect his new role and market conditions. Additionally, an amount of back pay was paid to Iain in early 2022 to reflect a change to his salary in 2021.

Robert Michael Jones did not receive a pay increase as he was under notice of resignation at the beginning of the year and retired from the Society on 30 June 2023. The remuneration information included in this report for Robert Michael Jones is therefore representative of 6 months' remuneration from 1 January 2023 to 30 June 2023. No changes were made to Chief Risk Officer benefits for 2023.



** The Chief Risk Officer retired from the Society on 30 June 2023. This graph illustrates the actual remuneration paid to the Chief Risk Officer in 2023.*

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 2023 are detailed in the sections opposite.

Rewarding Excellence Award

All eligible colleagues, including Executive Directors, will receive an REA award for 2023 of 11.25% of base salary.

Performance measure	Weighting	Threshold performance	Target performance	Stretch performance	Performance result	Performance outturn
Financial Performance ManEx	30%	0.92%	0.89%	0.87%	0.88%	2.85%
Customer Service Maze Net Promoter Score	30%	76.0	81.0	83.0	83.9	3.60%
Key Strategic Measure Net Retail Mortgage Growth[1]	30%	£415m	£437m	£503m	£1,089m	3.60%
Carbon footprint CO^2 Reduction[2]	10%	40 tCO2e	75 tCO2e	90 tCO2e	180.55 tCO2e	1.20%

[1] Net retail mortgage growth is the annual growth in retail mortgage lending, including effective interest rate, interest in transit and loan provisions

[2] CO^2 Reduction is a new measure for 2023 and 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 2023 will be 28.50% of base salary for the Chief Executive Officer and 25.33% of base salary for the Chief Financial Officer. The outturn will depend on individual achievement against the Leadership Promises measures.

The below table shows the award for Executive Directors.

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%	5 measures (out of 10) at or above target	7 measures (out of 10) at or above target	9 measures (out of 10) at or above target	7 out of 10 measures achieved	6.33%
Enterprise objectives Achievement of short-term priority enterprise objectives[2]	33.33%	4 measures (out of 8) at or above target	6 measures (out of 8) at or above target	8 measures (out of 8) at or above target	8 out of 8 measures achieved	12.67%
Leadership promises Individual assessment[3]	33.33%	Improvement Needed	Achieves	Outstanding	No individuals below eligibility threshold	CEO - 9.50%, CFO - 6.33%

[1] Our core SKPIs will drive a continued focus on delivering our longer term Society outcomes. The targets are based on a total of 10 SKPIs. Further details on SKPIs can be found in the Strategic Report section of the Annual Report.
[2] During 2023 we have focussed on 8 short-term Enterprise Objectives which each have a defined success measure(s) and focus on in year priorities to deliver our longer term goals. For 2023, examples included, increasing mortgage onboarding capacity and simplifying our business to become more efficient and effective.
[3] The outturn for this measure is based on individual performance against the measures which determines outturn level. The Chief Executive Officer achieved an Exceed rating resulting in an outturn of 9.50%. The Chief Financial Officer received an Achieve rating resulting in an outturn of 6.33%.

The impact of deferral

For Executive Directors, 60% of the award for 2023 performance is payable in March 2024, 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	2023	2024	2025	2026
2023 performance period	-	60%	20%	20%
2022 performance period	60%	20%	20%	-
2021 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 2023 that had not already been disclosed in previous reports.

Payments for loss of office

There were no payments for loss of office in 2023.

Retirement arrangements for Chief Risk Officer

Robert Michael Jones retired from the Society following the end of his notice period. No further payments have been made to Robert Michael Jones following his leaving date of 30 June 2023.

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 year.

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
2023	Julie-Ann Haines	592	80%
2022	Julie-Ann Haines	501	60%
2021	Julie-Ann Haines	508	72%

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 below shows that the Chief Executive Officer's pay is 14 times that of the median colleague pay and has therefore remained consistent with 2022 and 2021.

Year	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	20:1	14:1	10:1
2022	19:1	14:1	10:1
2021	20:1	14:1	10:1

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2023 are:

	25th percentile	Median	75th percentile
Total remuneration	£30,040	£41,115	£58,559
Salary	£24,519	£33,846	£48,026

Notes to the Chief Executive Officer pay ratio:

- Employee data includes full time equivalent total remuneration for all UK employees as at 31 December 2023, following the November 2022 pay review for employees and February 2023 pay review for Executive Directors. Variable pay is based on actual outcomes for the 2023 year as noted above.
- For each employee, remuneration was calculated based on all components of pay including base salary, variable pay, benefits, and pension payments.
- Our approach has not changed since the prior year. We recognise that this approach is not entirely in line with defined methodology, but we believe this approach gives a meaningful comparison that meets the spirit of the Chief Executive Officer pay ratio reporting regulations, and so we have continued to use the same methodology on the grounds of consistency and simplicity.
- 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.

Remuneration Committee Report

Non-Executive Director's Remuneration

The following table provides the audited information showing a single total figure of remuneration for the 2023 financial year for each of the Non-Executive Directors and compares this figure to the prior year. Fees contain a base fee element and an additional element for chairing a Committee to reflect the additional level of responsibility.

Non-Executive Director and Non-Executive Board Associate 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. This has resulted in a 5% increase to fees plus a further increase to our Chair's fee to £135,000, applicable from 1 February 2023.

Additionally, whilst they are not Non-Executive Directors, our Non-Executive Board Associates receive annual fees of £31,500 for their contribution.

Audited information Non-Executive Directors	Fees	
	2023 £000	2022 £000
Sally Jones-Evans – Chair of the Board of Directors	134	121
Claire Hafner – Chair of the Remuneration Committee	68	65
Debra Williams – Non-Executive Director	55	53
Jonathan Baum – Chair of the Board Risk Committee (from April 2022) and Senior Independent Director	75	61
Ian Greenstreet – Chair of the Audit Committee (from April 2023 until December 2023)	71	–
Shimi Shah – Non-Executive Director (from May 2023)	37	–
Derek Howell – Chair of the Audit Committee and Senior Independent Director (until March 2023)	19	73
Nigel Annett CBE – Chair of the Technology Committee (until October 2022)	–	49
David Rigney – Chair of the Board Risk Committee (until March 2022)	–	17
Total	459	439

Annual percentage change in remuneration of Directors and employees

The following table shows the percentage change in remuneration of each of the Directors from 2022 to 2023 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 2023. Executive Directors are based on actuals across the year.

The increase to Iain Mansfield's salary shows as larger than the actual 5% increase applied in 2023 due to his salary increase part way through 2022 as a result of changing from Chief Operating Officer to Chief Financial Officer. In addition, his benefits are showing a negative variance due to legacy benefits being removed at the point of this role change.

Non-Executive Director fees increased by 5% in the year in line with other senior leaders, with the exception of the Chair whose fees increased by 12%.

The change in all employee average salary is low in 2023 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. This has then flowed through to benefits and pension provision, and variable pay calculations.

Additionally, the performance of our variable pay schemes were stronger in 2023 than in 2022.

	% change in remuneration year-on-year		
	Salary/Fees 2022-23	Benefits 2022-23	Variable Pay 2022-23
Executive Directors			REA and LEA
Julie-Ann Haines	10%	9%	46%
Iain Mansfield	17%	-28%	47%
Non-Executive Directors			
Chair	12%	–	–
All Non-Executive Directors	5%	–	–
All employees			REA only
Change in average salary	2%	3%	11.77%

Relative importance of spend on pay

The following table sets out the changes in underlying Profit Before Tax for 2023 and 2022 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 the increase in headcount, as well as the increase to salaries following November 2022 pay review.

	2023 £m	2022 £m	Percentage change %
Total assets	12,527	11,257	11%
Employee remuneration costs	61.5	52.2	18%
Underlying profit before tax	60.3	43.5	39%
Headcount (number of full-time equivalent employees)	1,250	1,198	4%

Remuneration Committee Report

Material Risk Takers

MRTs are defined as those 'whose professional activities have a material impact on an institution'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 2023 are included in the Pillar 3 document which is available on our website.

Looking ahead to 2024

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 2024, it was agreed that Executive Directors' base salaries would be reviewed 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. Our Chief Executive Officer base salary has been increased by 19%, with pay of peers in similar sized building societies being our primary reference point.

For our Chief Financial Officer, an increase of 8% was applied to salary in line with the wider workforce. The new salaries for these two roles are as follows:

Chief Executive Officer: £475,000
Chief Financial Officer: £340,000

Pension benefits provided to Executive Directors for 2024 will be updated in line with our improvement to pension matching for the wider workforce, meaning any colleague contributing at 9% or above will now be matched by the Society at 9% from May 2024. With the retirement of Robert Michael Jones, there are no further legacy benefit schemes being paid.

The variable pay schemes for Executive Directors for 2024 will continue to be the LEA and REA schemes with no change to target or maximum potential values.

Non-Executive Director and Non-Executive Board Associate fees have been treated the same way as the wider workforce in terms of consideration of market competitiveness. Where appropriate, the same level of increase has been applied, resulting in a 4% increase to fees.

On top of this, it is our view that the Senior Independent Director fee has fallen behind the market and as such, an additional increase will be applied to bring this to £10,000. This is reflective of the additional responsibilities the role holds.

It has been agreed that for 2024, fees for Chairing a Committee will 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.

Finally, following a market review of Chair fees, it was agreed in September 2023 to increase the Chair fee to £160,000 as part of our recruitment process to hire a new Chair.

Statement of Member Voting

The Society is committed to open and honest dialogue with our Members and takes an active interest in voting outcomes. The voting results for the 2022 Director's Remuneration Report are set out below.

Votes for	Votes against
16,843	225
% in favour	**% against**
98.68	1.32

*198 votes were withheld

Approval

This report is approved by the Remuneration Committee.

Directors' Report

for the year ended 31 December 2023

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 2023. 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 at pages 70 to 74.

Directors

The names of the Directors at the date of this report, together with brief biographical details, are listed on pages 50 to 52. Details of changes affecting the composition of the Board are set out in the Corporate Governance Report on pages 58 to 63. 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 22 April 2023, 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 108, 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; and
- 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.

Director' 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 50 to 53, have taken all steps that he or she 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 2026. 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 2024 – 2026 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 31%, unemployment reaching 8% and the Bank Base Rate sharply falling to 1%, 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 46.

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 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 its colleagues can be found in the Impact section on pages 24 to 26.

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

b. 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.

c. Average number of employees
The average number of employees is disclosed in note 10.

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

e. Pre-tax profit or loss
Profit before taxation is set out in the Consolidated Income Statement.

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

g. Public subsidies received
No public subsidies were received in 2023.

Charitable and political donations

In 2023, the Society made donations to charities of £1.3m (2022: £0.7m). No political donations were made by the Society in the current or prior year.

Creditor payment policy

The Society's 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 4 days at 31 December 2023 (2022: 2 days).

Whistleblowing policy

The Society's 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 2023 meeting alongside receiving the annual Board Whistleblowing Champions Report.

On behalf of the Board of Directors:

Sally Jones-Evans
Chair
19 February 2024

Financial Statements

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

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 2023 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; and
- the related notes 1 to 34.

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 £5.7m (2022: £3.4m) which was determined on the basis of 0.8% (2022: 0.5%) of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed by the Group audit engagement team. Our audit scoping provides coverage of 97% of the Group's revenue, 99% profit before tax and 100% of net assets.
Significant changes in our approach	In the current year, we have increased the percentage applied to net assets when determining materiality after considering internal and external factors, including the reduction in uncertainties relating to the macroeconomic environment and the stability of the modelling approach within the ECL provisioning. Due to IT control deficiencies identified, we did not adopt a control reliance strategy in performing audit procedures over key lending and saving balances. As part of our response, we reduced our performance materiality to 65% (2022: 70%) of materiality. There were no other significant changes in our approach.

Conclusions relating to going concern, principal risks and viability statement

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:

- We have reviewed and assessed Director's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- We have assessed the information supporting the liquidity and capital forecasts, including stress testing and reverse stress testing performed by management;
- With the involvement of prudential regulation specialists, we have reviewed and assessed the Group and Society's compliance with regulation including capital and liquidity requirements;
- We have tested the historical accuracy of forecasts prepared by management, by comparing historical forecasting to actual results;
- We have held a meeting with PRA and reviewed the latest regulator correspondence to verify the Society's compliance with capital and liquidity regulatory requirements; and
- We have assessed 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 twelve months from when the financial statements are authorised for issue.

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

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

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 (ECL)	
Key audit matter description	IFRS 9 is a complex accounting standard which has required considerable judgement, interpretation and modelling complexity to estimate ECL provisions. The models developed estimate the expected loss provisions against loans to customers within the following loan books: • Residential mortgages; • Commercial mortgages; and • Secured personal lending. The Group held £34.6m of impairment provisions (2022: £31.9m) against total loans and advances to customers of £10,937.6m (2022: £9,653.4m). We have considered the most significant areas of judgement within the Group's provisioning methodologies to be the Society's assessment of: • Macroeconomic scenarios and associated weightings applied: ECLs are required to be calculated on a forward-looking basis under IFRS 9. In determining both the economic scenarios, as well as the probability-weighting of each scenario to be incorporated into the ECL model, significant judgement is applied;

Independent Auditor's Report

Key audit matter description (continued)

- The Society's assessment of the cost of living crisis impact on ECL: in response to the persistent cost of living crisis in the UK on consumers and businesses, the Society has continued to recognise a number of Post Model Adjustments (PMAs) to capture the risk of the cost of living crisis and any associated impact on the ability of certain customers to repay their mortgages. The identification and assessment of these PMAs is subject to significant judgement.

Given the material effect of the significant judgements 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 19. Directors' associated accounting policies are detailed on pages 119-128 with detail about judgements in applying accounting policies and critical accounting estimates on pages 129-130. Directors' considerations of the effect of the future economic environment are disclosed on pages 151-152. The Audit Committee's consideration of the matter is described on page 71.

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.

This included evaluating the review process and approval of macro-economic scenarios and incorporated assumptions in the PMA.

Our audit procedures to address the risks identified within the loan impairment process included the following procedures.

Assessment of assumptions
Macroeconomic scenarios and associated weightings applied

- With support of our internal credit modelling specialists, we enhanced our risk assessment procedures using an internal challenger model that determines independent MES weightings.
- With involvement of our internal economic modelling specialists, we assessed the macroeconomic scenario forecasts that were incorporated into the ECL model. The Society's forecasts and probability-weightings were benchmarked against external sources to assess their reasonableness, considering the forecasts in light of the cost-of-living crisis and any contradictory information.

The Society's assessment of the cost of living crisis impact on ECL

- We assessed the appropriateness of the Directors' assessment of the continued impact of the cost-of-living crisis by assessing whether the PMAs applied adequately address the risk and independently recalculated those which were included.

How the scope of our audit responded to the key audit matter (continued)

As part of wider procedures over the expected credit losses, we assessed the appropriateness of other model inputs including exposure at default, probability of default and loss given default with reference to the most recently observable data where available and the impact of the cost-of-living crisis. We have also performed stand back procedures to assess the appropriateness of the overall ECL position.

Assessment of the ECL model

As part of wider procedures over the expected credit losses, we have:

- Assessed whether changes had been made to the Society's processes in relation to the ECL models and scripts used in provisioning before placing reliance on prior year model documentation and script reviews by our internal credit modelling specialists.
- Involved our internal credit modelling specialists to assess whether the prior period conclusions over the Retail ECL model remain appropriate.

Assessment of data used in the ECL model
As part of our wider procedures over the expected credit losses:

- We tested the significant data elements that supported each material judgement for completeness and accuracy. This included data underpinning the macroeconomic scenarios and cost of living PMAs.

We assessed the appropriateness of data used in the model in light of the developments in the current economic environment.

Key observations

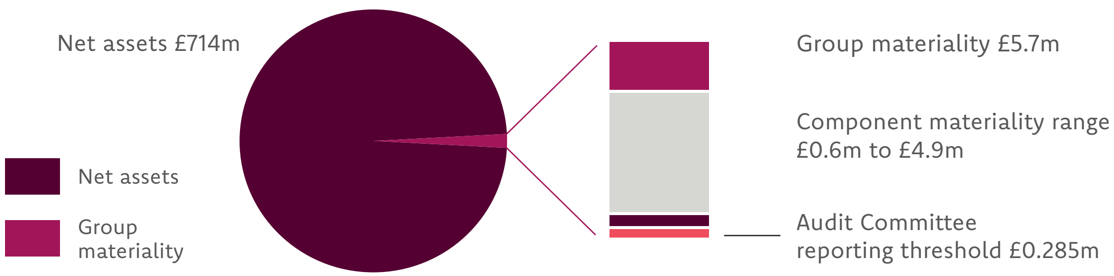
Based on our audit procedures above, we concluded that the Society's provision is reasonably stated, and is supported by a methodology that is appropriately applied.

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	£5.7m (2022: £3.4m)	£4.9m (2022: £2.6m)
Basis for determining materiality	0.8% of net assets (2022: 0.5% net assets)	0.8% of net assets (2022: 0.5% 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. We have increased the factor applied to net assets to 0.8% after considering internal and external factors, including the reduction in uncertainties relating to the macroeconomic environment and the stability of the modelling approach within the ECL provisioning.	



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% (2022: 70%) of group materiality	65% (2022: 70%) of Society materiality
Basis and rationale for determining performance materiality	Due to IT control deficiencies identified, we were unable to adopt a control reliance strategy in performing audit procedures over key lending and saving balances. As part of our response, we reduced our performance materiality to 65% (2022: 70%) 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 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 £285k (2022: £170k), 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. Audit work to respond to the risks of material misstatement was performed by the Group audit engagement team. Our audit scoping provides full scope and coverage of 100% (2022: 100%) of the Group's net assets and a 97% (2022: 98%) coverage on revenue and 99% (2022: 89%) coverage on profit before tax. Four (2022: four) components were concluded as significant in the current period. A further one component (2022: one) was subject to specified audit procedures and the remaining non-significant components were subject to analytical reviews. At the Group level, we also tested the consolidation process.

Our audit of these components was executed at levels of materiality applicable to each individual component which were lower than Group materiality and ranged from £0.6m to £4.9m (2022: £0.7m to £2.6m).

Our consideration of the control environment

We planned a controls reliance auditing strategy over the residential first charge, commercial lending and savings cycles. Due to issues identified by our IT specialists in respect of user access review and privilege user access we modified our audit approach to a fully substantive approach and not placing reliance on IT controls. This increased the extent of our substantive audit procedures over these balances and in some areas, also altered the nature of our substantive procedures.

The Audit Committee has performed their own assessment of the internal control environment as set out on page 72.

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

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 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:
  1. Identifying, evaluating and complying with laws and regulations and whether they were aware of any material instances of non-compliance;
  2. Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  3. 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 instrument, 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 appropriateness and completeness of management's assessment of the impact of current macroeconomic environment on ECL . 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 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 matters prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 99 of the financial statements for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 95-99;
- The Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 95 to 99;
- The Directors' statement on fair, balanced and understandable set out on pages 95-96;
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 97 to 98;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 34; and
- The section describing the work of the Audit Committee set out on page 70.

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

Audit tenure

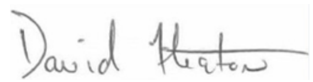
Following the recommendation of the Audit Committee, we were appointed at the Annual General Meeting by the Members of the Society on 27 April 2007 to audit the financial statements for the year ending 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 December 2007 to 31 December 2023.

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
19 February 2024

Financial Statements

Consolidated income statement *for the year ended 31 December 2023*

	Notes	2023 £m	2022 £m
Interest receivable and similar income	4	574.1	284.6
Interest payable and similar charges	5	(392.8)	(130.7)
Net interest income		181.3	153.9
Fees and commission receivable	6	3.5	3.9
Fees and commission payable		(2.7)	(2.2)
Net fee and commission income		0.8	1.7
Other operating income		1.5	3.1
Other fair value gains	8	–	5.8
Net operating income		**183.6**	**164.5**
Administrative expenses	9	(105.2)	(88.4)
Depreciation and amortisation	22 and 23	(11.1)	(10.5)
Other impairment losses	22 and 23	(3.3)	(1.3)
Operating expenses		(119.6)	(100.2)
Impairment provision charge on loans and advances	19	(3.5)	(14.8)
Provision for liabilities	20	(0.2)	(0.2)
Operating profit and profit before taxation		**60.3**	**49.3**
Taxation expense	13	(13.9)	(11.6)
Profit for the year		**46.4**	**37.7**

Consolidated statement of other comprehensive income

	Notes	2023 £m	2022 £m
Profit for the year		46.4	37.7
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on retirement benefit obligations	12	(13.4)	(4.2)
Tax charge/(credit) on retirement benefit obligations	13	3.2	1.0
Items that may be reclassified subsequently to profit and loss:			
Loss on fair value through other comprehensive income		2.6	(2.8)
Tax charge on fair value through other comprehensive income	13	(0.6)	0.7
Total comprehensive income for the year		**38.2**	**32.4**

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 119 to 180 form part of these accounts.

Income statement of the Society *for the year ended 31 December 2023*

	Notes	2023 £m	2022 £m
Interest receivable and similar income	4	565.7	277.4
Interest payable and similar charges	5	(390.4)	(130.7)
Net interest income		175.3	146.7
Fees and commission receivable	6	3.5	3.9
Fees and commission payable		(2.8)	(2.2)
Net fee and commission income		0.7	1.7
Other operating income		1.4	3.1
Income from investments	7	21.3	47.0
Other fair value losses	8	–	(23.9)
Net operating income		**198.7**	**174.6**
Administrative expenses	9	(104.5)	(87.6)
Depreciation and amortisation	22 and 23	(11.1)	(10.5)
Other impairment losses	22 and 23	(3.3)	(1.3)
Operating expenses		(118.9)	(99.4)
Impairment provision charge on loans and advances	19	(3.7)	(13.8)
Provision for liabilities	20	(0.1)	0.1
Operating profit and profit before taxation		**76.0**	**61.5**
Taxation expense	13	(12.5)	(10.7)
Profit for the year		**63.5**	**50.8**

Statement of other comprehensive income of the Society

	Notes	2023 £m	2022 £m
Profit for the year		63.5	50.8
Items that will not be reclassified subsequently to profit and loss:			
Actuarial loss on retirement benefit obligations	12	(13.4)	(4.2)
Tax charge credit on retirement benefit obligations	13	3.2	1.0
Items that may be reclassified subsequently to profit and loss:			
Gain/(loss) on fair value through other comprehensive income		2.6	(2.8)
Tax (credit)/charge on fair value through other comprehensive income	13	(0.6)	0.7
Total comprehensive income for the year		**55.3**	**45.5**

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 119 to 180 form part of these accounts.

Consolidated statement of financial position *as at 31 December 2023*

	Notes	2023 £m	2022 £m
Assets			
Cash in hand and balances with the Bank of England		1,374.9	1,566.9
Loans and advances to credit institutions	14	329.4	277.1
Debt securities	15	317.5	160.2
		2,021.8	2,004.2
Derivative financial instruments	16	308.9	369.0
Loans and advances to customers:			
Loans fully secured on residential property		9,832.0	8,495.7
Other loans		283.6	299.3
	17	10,115.6	8,795.0
Intangible fixed assets	22	19.1	23.5
Property, plant and equipment	23	29.8	36.3
Investment properties	23	5.6	5.8
Current tax assets		5.6	6.3
Deferred tax assets	28	5.3	2.9
Other assets		1.3	0.5
Prepayments and accrued income		13.6	13.8
Total assets		**12,526.6**	**11,257.3**
Liabilities			
Shares	24	9,084.6	8,113.6
Deposits and debt securities:			
Amounts owed to credit institutions	25	1,315.0	1,639.0
Amounts owed to other customers		183.6	255.0
Debt securities in issue	26	1,076.5	467.2
		2,575.1	2,361.2
Derivative financial instruments	16	110.1	63.6
Other liabilities	27	12.9	13.7
Provision for liabilities	20	2.6	2.8
Accruals and deferred income		12.9	10.9
Deferred tax liabilities	28	10.8	11.8
Retirement benefit obligations	12	0.6	0.9
Total liabilities		11,809.6	10,578.5
General reserve		716.3	680.1
Other reserves		0.7	(1.3)
Total equity and liabilities		**12,526.6**	**11,257.3**

The accounting policies and notes on pages 119 to 179 form part of these accounts. These accounts were approved by the Board and authorised for issue on 19 February 2024.
Signed on behalf of the Board:

Sally Jones Evans
Chair

Julie-Ann Haines
Chief Executive Officer

Iain Mansfield
Chief Financial Officer

Statement of financial position of the Society *as at 31 December 2023*

	Notes	2023 £m	2022 £m
Assets			
Cash in hand and balances with the Bank of England		1,374.9	1,566.9
Loans and advances to credit institutions	14	219.4	180.4
Debt securities	15	317.5	160.2
		1,911.8	1,907.5
Derivative financial instruments	16	265.0	333.4
Loans and advances to customers:			
Loans fully secured on residential property		9,769.1	8,415.7
Other loans		283.6	299.2
	17	10,052.7	8,714.9
Subsidiary asset	21	0.1	0.1
Intangible fixed assets	22	19.1	23.5
Property, plant and equipment	23	29.3	35.8
Investment properties	23	5.6	5.8
Current tax assets		5.6	6.2
Deferred tax assets	28	5.2	2.8
Other assets		1.3	0.5
Prepayments and accrued income		13.6	13.7
Total assets		**12,309.3**	**11,044.2**
Liabilities			
Shares	24	9,084.6	8,113.6
Deposits and debt securities:			
Amounts owed to credit institutions	25	1,940.8	1,716.3
Amounts owed to other customers		183.7	255.0
Debt securities in issue	26	330.1	289.8
		2,454.6	2,261.1
Subsidiary liability	21	1.3	1.7
Derivative financial instruments	16	110.1	63.6
Other liabilities	27	13.1	13.7
Provision for liabilities	20	0.7	0.6
Accruals and deferred income		11.0	10.0
Deferred tax liabilities	28	10.7	11.7
Retirement benefit obligations	12	0.6	0.9
Total liabilities		11,686.7	10,476.9
General reserve		621.9	568.6
Other reserves		0.7	(1.3)
Total equity and liabilities		**12,309.3**	**11,044.2**

The accounting policies and notes on pages 119 to 179 form part of these accounts. These accounts were approved by the Board and authorised for issue on 17 February 2023.
Signed on behalf of the Board:

Sally Jones Evans
Chair

Julie-Ann Haines
Chief Executive Officer

Iain Mansfield
Chief Financial Officer

Financial Statements

Statement of changes in Members' interests *for the year ended 31 December 2023*

	2023			2022		
	General Reserve £m	Fair Value through OC Reserve £m	Total equity attributable to Members £m	General Reserve £m	Fair Value through OC Reserve £m	Total equity attributable to Members £m
Group						
At 1 January	680.1	(1.3)	678.8	645.5	0.8	646.3
Comprehensive income for the year	36.2	2.0	38.2	34.6	(2.1)	32.5
At 31 December	**716.3**	**0.7**	**717.0**	**680.1**	**(1.3)**	**678.8**
Society						
At 1 January	568.6	(1.3)	567.3	520.9	0.8	521.7
Comprehensive income for the year	53.3	2.0	55.3	47.7	(2.1)	45.6
At 31 December	**621.9**	**0.7**	**622.6**	**568.6**	**(1.3)**	**567.3**

The group's capital at 31 December 2023 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 *for the year ended 31 December 2023*

	2023 £m	2022 £m Re-stated*
Net cash flows from operating activities (see below)	(430.9)	11.0
Cash flows from investing activities		
Purchase of intangible assets	(0.2)	(1.5)
Purchase of property, plant and equipment	(2.7)	(6.3)
Purchase of investment securities	(184.7)	(107.6)
Proceeds from sale and maturity of investment securities	31.5	20.9
Net cash flows from investing activities	**(156.1)**	**(94.5)**
Cash flows from financing activities		
Interest paid on debt securities in issue	(14.4)	(12.0)
Proceeds from issuance of debt securities in issue	500.0	350.4[1]
Redemption of debt securities in issue	(39.3)	(220.3)
Repayment of lease liabilities	(1.1)	(1.0)
Net cash flows from financing activities	**445.2**	**117.1**
(Decrease) / increase in cash and cash equivalents	(141.8)	33.6
Cash and cash equivalents at the beginning of year	1,810.4	1,776.8
Cash and cash equivalents at the end of year	**1,668.6**	**1,810.4**
Represented by:		
Cash and balances with the Bank of England[2]	1,339.2	1,533.3
Loans and advances to credit institutions repayable on demand	329.4	277.1
	1,668.6	**1,810.4**
Cash flows from operating activities		
Profit before taxation	60.3	49.3
Adjusted for:		
Depreciation and amortisation	11.1	10.5
Charge on defined benefit scheme	(0.2)	(0.1)
Impairment on loans and advances to customers	3.5	14.8
Impairment on fixed assets	3.4	0.4
Change in fair values	(149.0)	239.5
(Charge)/release of other provisions	(0.2)	0.1
Interest on debt securities in issue	36.3	16.1
Non-cash items included in profit before tax	(2.2)	(0.1)
Changes in net operating assets		
Loans and advances to customers	(1,123.8)	(180.2)
Other operating assets	(0.8)	(4.7)
Derivative financial instruments	106.7	(277.4)
Shares	949.4	175.2
Deposits	(299.7)	(24.8)
Other operating liabilities	1.7	3.6
Contributions paid into defined benefit scheme	(13.5)	-
Taxation paid	(13.9)	(11.2)
Net cash flows from operating activities	**(430.9)**	**11.0**

[1] Re-stated prior year 'Proceeds from issuance of debt securities in issue' due to reclassification of the RMBS notes totalling £139.2m retained by the Society to be included within 'Deposits' and the removal of the cash ratio deposit held with the BOE of £33.6m from cash and cash equivalents.

[2] The £35.6m difference to the statement of financial position relates to the cash ratio deposit held with the BOE of £35.6m (2022:£33.6m)

Financial Statements

Financial Statements

Statement of cash flows of the Society *for the year ended 31 December 2023*

	2023 £m	2022 £m
Net cash flows from operating activities (see below)	(14.1)	64.5
Cash flows from investing activities		
Purchase of intangible assets	(0.2)	(1.5)
Purchase of property, plant and equipment	(2.7)	(6.3)
Purchase of investment securities	(184.7)	(107.5)
Proceeds from sale and maturity of investment securities	31.5	20.9
Dividend from subsidiary	21.3	47.0
Net cash flows from investing activities	**(134.8)**	**(47.4)**
Cash flows from financing activities		
Interest paid on debt securities in issue	(5.0)	(7.1)
Repayment of lease liabilities	(1.1)	(1.0)
Net cash flows from financing activities	**(6.1)**	**(8.1)**
(Decrease) increase in cash and cash equivalents	(155.0)	9.0
Cash and cash equivalents at the beginning of year	1,713.6	1,704.6
Cash and cash equivalents at the end of year	**1,558.6**	**1,713.6**[1]
Represented by:		
Cash and balances with the Bank of England[2]	1,339.2	1,533.2
Loans and advances to credit institutions repayable on demand	219.4	180.4
	1,558.6	**1,713.6**
Cash flows from operating activities		
Profit before taxation	76.0	61.5
Adjusted for:		
Depreciation and amortisation	11.1	10.5
Charge on defined benefit scheme	(0.2)	(0.1)
Impairment on loans and advances to customers	3.7	13.8
Impairment on fixed assets	3.4	0.4
Change in fair values	(149.0)	239.5
Release of other provisions	0.1	(0.1)
Interest on debt securities in issue	16.4	7.1
Subsidiary dividend	(21.3)	(47.0)[1]
Non-cash items included in profit before tax	(2.0)	0.4[1]
Changes in net operating assets		
Loans and advances to customers	(1,141.2)	(207.5)
Increase in loans from subsidiary companies	(0.3)	(14.3)
Other operating assets	(0.7)	(5.7)
Derivative financial instruments	115.0	(243.5)
Shares	949.4	175.2
Deposits	151.0	80.3
Other operating liabilities	0.8	3.2
Contributions paid into defined benefit scheme	(13.5)	-
Taxation paid	(12.8)	(9.2)
Net cash flows from operating activities	**(14.1)**	**64.5**

1 Re-stated prior year 'Non-cash items included in profit before tax' due to dividend received from subsidiary being included separately and the removal of the cash ratio deposit held with the BOE of £33.6m from cash and cash equivalents.
2 The £35.6m difference to the statement of financial position relates to the cash ratio deposit held with the BOE of £35.6m (2022:£33.6m).

Notes to the accounts

for the year ended 31 December 2023

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 2023.

Adoption of other amendments to existing standards and annual improvements applicable in 2023 did not have any impact on the group's accounting policies and did not require retrospective adjustments.

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 – Consolidated Financial Statements.

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 one of the three following measurement categories:

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

Financial Statements

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 one of the following criteria:

1. Forbearance activity;
2. PD grade deterioration over a predetermined threshold relative to the starting point; and
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 one 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; and
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.

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.

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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, 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 tested throughout the life of the hedge relationship. 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 in a range of 80% to 125%.

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 for prospective and retrospective hedge effectiveness on a monthly basis. 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.

Financial Statements

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 or 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 subject to impairment testing 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 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. There are still transactions to be completed over the course of 2024 which will result in additional costs and premium expected to be in the region of £1.5m in respect of GMP equalisation and estimated advisor costs of £1.0m.

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) Critical judgements and sources of key estimation uncertainty

Significant increase in credit risk

As described in note 1 on page 122, 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	4.1	0.0	2.7
Stage 2 to stage 1	(0.9)	(0.0)	(0.4)

Post model adjustment - 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 3,493 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 £3.0m (Dec 2022: £2.9m) 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 £2.1m. In December 2022, the uplift was based on average stage 2 arrears ECL and the refinance period applied was 12 months with 887 customers identified.

Post model adjustment – cost of living

Whilst inflation has reduced from the record highs observed in 2022, the cost of living pressures as a result remain and are expected to continue into 2024. There is a risk that this will result in increased levels of arrears and defaults that are not 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 2,653 (Dec 2022: 3,801) customers may be adversely impacted by key affordability metrics including food and fuel inflation. The reduction in the volume of accounts relates to the reduction in the energy price cap. In order to capture the risk in relation to this group, a PMA of £1.3m (Dec 2022: £1.5m) 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 £4m, increasing to four indicators will reduce the PMA by £1m.

Removal of Industry Weightings Alignment

The December 2022 provisions included a PMA of £2.5m applied across all three portfolios based on the impact of recalculating modelled provisions using industry average weightings. This was applied to address an element of optimism within the weightings used in 2022 compared to peers. Based on the 2023 governance and review of economic data used within the IFRS 9 models, including a peer benchmarking exercise, the current forecasts and weightings are considered to contain sufficient severity and benchmark well against external market data and peers, meaning a similar PMA is not needed in 2023.

b) Significant accounting estimates

Impairment provision on loans and advances

The significant accounting estimates 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.

Retirement benefit obligations
The group has to make significant estimations in relation to the assumptions on the mortality and inflation when valuing its pension liability and the cost of benefits provided. Changes in these assumptions would change the reported liability, service cost and expected return on value of annuity policy. Further information is included in note 12.

Climate Change
Management has considered the potential impact of climate change particularly in respect of the impact on expected credit losses. 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.

	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**

	2022			
	Retail financial services £m	Commercial lending £m	Secured personal lending £m	Total £m
Net interest income	128.8	17.8	7.3	153.9
Other income and charges	3.3	1.5	–	4.8
Fair value gain	5.8	–	–	5.8
Net operating income	**137.9**	**19.3**	**7.3**	**164.5**
Operating expenses	(96.6)	(2.8)	(0.8)	(100.2)
Impairment provision for losses on loans and advances	(7.7)	(6.3)	(0.8)	(14.8)
Provision for liabilities	0.1	–	(0.3)	(0.2)
Operating profit and profit before taxation	**33.7**	**10.2**	**5.4**	**49.3**
Taxation expense				(11.6)
Profit after taxation				**37.7**

The group operates entirely within the UK, and therefore a geographical segment analysis is not presented.

	Group	
	2023 £m	2022 £m
Total assets by business segments		
Retail financial services	11,668.8	10,436.5
Commercial lending	793.4	738.8
Secured personal lending	64.4	82.0
Total assets	**12,526.6**	**11,257.3**
Total liabilities and equity by business segment		
Retail financial services and Commercial lending	12,462.2	11,175.3
Secured personal lending	64.4	82.0
Total liabilities and equity	**12,526.6**	**11,257.3**

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.

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4. Interest receivable and similar income

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
On loans fully secured on residential property	312.0	219.8	306.1	212.5
On other loans	20.6	10.6	20.6	10.6
On debt securities	11.9	2.1	11.9	2.1
On other liquid assets	76.3	21.6	73.8	21.6
On derivative financial instruments	153.3	30.5	153.3	30.6
	574.1	**284.6**	**565.7**	**277.4**

5. Interest payable and similar charges

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
On shares held by individuals	253.9	89.6	253.9	89.6
On deposits and debt securities	118.0	36.7	83.3	31.6
On lease liabilities	0.2	0.3	0.2	0.2
On derivative financial instruments	20.7	4.1	53.0	9.3
	392.8	**130.7**	**390.4**	**130.7**

6. Fees and commission receivable

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Insurance & related financial service products	0.8	0.7	0.8	0.7
Mortgage related administration fees	2.7	3.2	2.7	3.2
	3.5	**3.9**	**3.5**	**3.9**

7. Dividends

Income from investments of £21.3m (2022: £47.0m) relates to a dividend paid, at £213 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	
	2023 £m	2022 £m	2023 £m	2022 £m
(Losses)/gains on derivatives in hedging relationships	(142.1)	245.1	(142.1)	245.1
(Losses)/gains on derivatives not in hedging relationship	(6.5)	0.2	(6.5)	(29.5)
(Losses)/gains on derivatives	**(148.6)**	**245.3**	**(148.6)**	**215.6**
Gains/(losses) on economic hedged items	12.2	(6.0)	12.2	(6.0)
Gains/(losses) on hedged items attributable to the hedged risk	136.4	(233.5)	136.4	(233.5)
Gains/(losses) on hedged items	**148.6**	**(239.5)**	**148.6**	**(239.5)**
	–	**5.8**	**–**	**(23.9)**

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.

9. Administrative expenses

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Wages and salaries	53.9	45.5	53.9	45.5
Social security costs	4.7	4.1	4.7	4.1
Other pension costs	2.9	2.6	2.9	2.6
	61.5	**52.2**	**61.5**	**52.2**
Other administrative expenses	43.7	36.2	43.0	35.4
	105.2	**88.4**	**104.5**	**87.6**

Auditor's remuneration is stated exclusive of value-added tax.

	Group		Society	
	2023 £000	2022 £000	2023 £000	2022 £000
Other administrative expenses include:				
Auditor's remuneration				
For audit of the Society's Annual Accounts	749.8	610.2	749.8	610.2
For audit of the Society's subsidiaries	87.3	106.4	–	–
Total	837.1	716.6	749.8	610.2
For other services				
Further assurance services (interim review and treasury related assurance services)	81.4	78.5	81.4	78.5
Total other services	81.4	78.5	81.4	78.5

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10. Employees

The average number employed including Executive Directors was:

	Full-time		Part-time	
	2023 Number	2022 Number	2023 Number	2022 Number
Society's head office	767	714	129	124
Society branches	189	183	143	136
Employed by the group	**956**	**897**	**272**	**260**

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 £1.7m (2022: £1.6m).

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 legal case between Virgin Media Ltd v. NTL Pension Trustees II Ltd. As at 31 December 2023 the implications of this case on the Societies defined benefit pension scheme, in respect of the likelihood and the quantification of the impact, are unknown.

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 2023 was £3.1m (2022: £2.8m). 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 and General Assurance Society Limited (LGAS). The buy-in involved the purchase of a bulk annuity policy by the scheme under which Legal and 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. The annuity policy excludes the impact of GMP equalisation, additional contributions of £1.5m are expected to be made by the Society during 2024 and 2025 in respect of GMP equalisation.

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 Legal and General Investment Management (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 £50.4m (2022: £37.0m).

The major assumptions used for the purpose of the actuarial valuation were as follows:

	At 31 December				
	2023 %	2022 %	2021 %	2020 %	2019 %
Rate of increase of pensions in payment:					
CPI 3%	2.05	2.00	2.40	2.10	1.95
CPI 5%	2.55	2.60	2.80	2.40	2.15
CPI 3% Fixed	-	-	-	3.00	-
Discount rate	4.50	4.70	1.80	1.30	2.00
Inflation assumption (RPI)	3.10	3.20	3.35	2.95	3.00
Inflation assumption (CPI)	2.60	2.65	2.80	2.40	2.15

The assumptions used for the valuation at 31 December 2023 take into account the estimated impact of the RPI reforms from 2030 and will be reviewed at least annually as more information becomes available.

12. Retirement benefit obligations (continued)

The assumptions on mortality are determined by the following tables:

	2023	2022
Retired and non-retired Members	100% S3NA CMI 2022	100% S3NA CMI 2021
The assumptions are illustrated by the following years of life expectancy at age 60:		
Retired Members		
Males currently aged 60	25.8	26.5
Females currently aged 60	28.7	29.3
Non-retired Members		
Males currently aged 40	26.9	27.9
Females currently aged 40	29.9	30.8

The retirement benefit obligation relating to the scheme recognised in the statement of financial position is made up as follows:

	At 31 December				
	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Target return funds	-	-	-	-	-
Multi asset	-	18.2	46.7	40.2	36.5
LDI	-	12.7	9.6	11.7	8.5
Annuities	55.6	17.6	24.7	26.0	25.5
Bonds and cash	0.2	1.1	3.7	4.8	3.8
Total fair value of plan assets	**55.8**	**49.6**	**84.7**	**82.7**	**74.3**
Present value of funded obligations	(55.9)	(50.0)	(81.0)	(84.9)	(73.8)
Present value of unfunded obligations	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Net (deficit)/surplus recognised in the statement of financial position	**(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 £3.1m during the year (2022: £32.2m loss).

The amounts recognised in the income statement are as follows:

	Group and Society	
	2023 £m	2022 £m
Analysis of the amounts recognised in the income statement		
Interest on pension scheme assets	(2.5)	(1.5)
Interest on pension scheme liabilities	2.3	1.4
Net interest expense	**(0.2)**	**(0.1)**
Past service cost	-	-
Total amount recognised in the income statement	**(0.2)**	**(0.1)**
Analysis of amount recognised in statement of other comprehensive income		
Gain on scheme assets in excess of interest	(7.2)	(33.8)
Experience losses on liabilities	(6.0)	(3.0)
Gains from changes to demographic assumptions	0.9	0.7
Gains from changes to financial assumptions	(1.1)	31.9
Total remeasurement	**(13.4)**	**(4.2)**
Analysis of the movement in the statement of financial position deficit		
Deficit in scheme at beginning of year	(0.9)	3.2
Movement in year:		
Net interest expense	0.2	0.1
Remeasurements	(13.4)	(4.2)
Contributions paid and accrued	13.5	-
Past service cost	-	-
(Deficit)/surplus in scheme at end of year	**(0.6)**	**(0.9)**
Analysis of the movement in the fair value of pension scheme assets		
Fair value of assets at the beginning of the year	49.6	84.8
Interest on assets	2.5	1.5
Society contributions	13.5	-
Benefits paid	(2.6)	(3.0)
Return on plan assets less interest	(45.0)	(26.6)
Change in fair value of the annuity policy	37.8	(7.1)
Fair value of assets at the end of the year	**55.8**	**49.6**
Analysis of the movement in the present value of the pension scheme liabilities		
Present value of liabilities at the beginning of the year	50.5	81.5
Interest expense	2.3	1.5
Remeasurement losses/(gains):		
Actuarial gains and losses arising from changes in demographic assumptions	(0.9)	(0.7)
Actuarial gains and losses arising from changes in financial assumptions	1.1	(31.9)
Actuarial gains and losses arising from experience adjustments	6.0	3.0
Benefits paid	(2.6)	(2.9)
Past service cost	-	-
Present value of liabilities at the end of the year	**56.4**	**50.5**

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12. Retirement benefit obligations (continued)

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 values. The weighted average duration of the liabilities is 18 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	(1.7)	1.7
Inflation	1.4	(1.4)
Life expectancy (+1 year/-1 year)	1.8	(1.8)

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	
	2023 £m	2022 £m	2023 £m	2022 £m
Current tax				
UK corporation tax charge for the year	15.8	4.0	14.5	3.1
Adjustments in respect of prior years	(0.2)	(0.1)	(0.3)	(0.1)
	15.6	3.9	14.2	3.0
Deferred tax				
Deferred tax (credit)/charge for year	(1.2)	8.1	(1.2)	8.1
Adjustments in respect of prior years	(0.5)	(0.4)	(0.5)	(0.4)
	(1.7)	7.7	(1.7)	7.7
Taxation expense	**13.9**	**11.6**	**12.5**	**10.7**

On 1st April 2023, the corporation tax rate increased from 19% to 25%, this is reflected in the blended tax rate of 23.5% applied in the table below. The banking surcharge rate reduced to 3% and is now 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	
	2023 £m	2022 £m	2023 £m	2022 £m
Profit before taxation	60.3	49.3	76.0	61.5
Profit multiplied by the statutory rate of corporation tax at 23.5% (2022: 19.0%)	14.2	9.4	17.9	11.7
Effects of:				
Impact of banking surcharge at 8.0%*	0.6	-	0.6	-
Impact of rate change	(0.2)	1.7	-	1.7
Expenses not deductible for tax purposes/ (income not taxable)	-	0.9	(5.1)	(7.9)
Adjustments to prior years	(0.7)	(0.4)	(0.7)	(0.5)
Timing differences	-	-	(0.2)	5.7
Taxation on profit from ordinary activities	**13.9**	**11.6**	**12.5**	**10.7**

** Banking surcharge at 8% for Q1-23. Reduced to 3% from 1st April 2023.*

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	
	2023 £m	2022 £m	2023 £m	2022 £m
Current tax				
Relating to retirement benefit obligations	(0.8)	-	(0.8)	-
	(0.8)	-	(0.8)	-
Deferred tax				
Relating to retirement benefit obligations	(2.4)	(1.0)	(2.4)	(1.0)
Gain on fair value through other comprehensive income	0.6	(0.7)	0.6	(0.7)
	(1.8)	(1.7)	(1.8)	(1.7)
Total charged to other comprehensive income	**(2.6)**	**(1.7)**	**(2.6)**	**(1.7)**

14. Loans and advances to credit institutions

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Loans and advances to credit institutions	329.4	277.1	219.4	180.4

Included in the above amount for the group is £191.0m of collateral given under Credit Support Annex (CSA) agreements (2022: £177.5m).

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15. Debt securities

	Group and Society	
	2023 £m	2022 £m
Issued by other borrowers and unlisted	293.4	112.1
Issued by Supranational entities	24.1	48.1
	317.5	160.2

Debt securities are held at fair value through other comprehensive income.

The movement in debt securities is summarised as follows:

	Group and Society	
	2023 £m	2022 £m
At 1 January	160.2	76.3
Additions	184.8	101.5
Disposals and maturities	(31.5)	(14.8)
Gains/(losses) from changes in fair value	2.6	(2.8)
Increase in accrued interest	1.4	-
At 31 December	**317.5**	**160.2**

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	
	2023 £m	2022 £m	2023 £m	2022 £m
Derivative assets:				
Interest rate swaps	6,703.5	6,122.4	308.9	369.0
Total recognised derivative assets	**6,703.5**	**6,122.4**	**308.9**	**369.0**
Derivative liabilities:				
Interest rate swaps	4,420.2	1,589.9	110.1	63.6
Total recognised derivative liabilities	**4,420.2**	**1,589.9**	**110.1**	**63.6**

	Society			
	Contract/notional amount		Fair Value	
	2023 £m	2022 £m	2023 £m	2022 £m
Derivative assets:				
Interest rate swaps	5,498.6	5,289.1	265.0	333.4
Total recognised derivative assets	**5,498.6**	**5,289.1**	**265.0**	**333.4**
Derivative liabilities:				
Interest rate swaps	4,420.2	2,423.3	110.1	63.6
Total recognised derivative liabilities	**4,420.2**	**2,423.3**	**110.1**	**63.6**

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 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	
	2023 £m	2022 £m	2023 £m	2022 £m
Derivatives				
Total derivatives in economic hedge relationships				
Interest rate swaps	2,710.2	260.0	1,505.3	1,093.3
Total derivatives used as fair value hedges				
Interest rate swaps	8,413.5	6,619.1	8,413.5	6,619.1
Derivative assets in economic hedge relationships				
Interest rate swaps	1,244.9	143.0	40.0	143.0
Derivative assets used as fair value hedges				
Interest rate swaps	5,458.6	5,146.1	5,458.6	5,146.1
Derivative liabilities in economic hedge relationships				
Interest rate swaps	1,465.3	117.0	1,465.3	117.0
Derivative liabilities used as fair value hedges				
Interest rate swaps	2,955.0	1,472.9	2,955.0	2,306.3

16. Derivative financial instruments (continued)

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	
	2023 £m	2022 £m	2023 £m	2022 £m
Fair value hedges				
Micro hedges				
Commercial loans	192.9	112.0	192.9	112.0
Wholesale	300.0	300.0	300.0	300.0
FV adjustment on hedged item (asset)	(5.3)	24.0	(5.3)	24.0
FV adjustment on hedged item (liability)	29.7	(8.9)	29.7	(8.9)
Macro hedges				
Residential and commercial loans	5,826.6	5,167.3	5,826.6	5,167.3
Retail savings	2,080.1	952.3	2,080.1	952.3
FV adjustment on hedged item (asset)	(200.9)	221.6	(200.9)	221.6
FV adjustment on hedged item (liability)	40.2	(3.2)	40.2	(3.2)
Other underlying adjustments				
Amortisation/unwinds	(12.2)	6.0	(12.2)	6.0

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Hedging strategy outcome				
Micro hedge – asset				
Commercial loans – hedged items	(5.3)	24.0	(5.3)	24.0
Commercial loans – hedged instruments	6.4	(26.7)	6.4	(26.7)
Micro hedge – liability				
Wholesale – hedged items	29.7	(8.9)	29.7	(8.9)
Wholesale – hedged instruments	(29.8)	8.8	(29.8)	8.8
Macro hedge – asset				
Residential and commercial loans – hedged items	(200.9)	221.6	(200.9)	221.6
Residential and commercial loans – hedged instruments	184.5	(235.4)	184.5	(235.4)
Macro hedge – liability				
Retail savings – hedged items	40.2	(3.2)	40.2	(3.2)
Retail savings – hedged instruments	(19.0)	8.3	(19.0)	8.3
Economic hedge items				
Amortisation/unwinds	(12.2)	6.0	(12.2)	6.0
Economic hedge instruments				
Dedesignation	–	–	–	–
Economic hedges – awaiting designation	6.5	0.4	6.5	0.4
Economic hedges- securitisation	–	–	0.1	29.8

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 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 hedge						
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**

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16. Derivative financial instruments (continued)

Group As at 31 December 2022	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	–	2.8	9.7	39.8	156.7	209.0
PIBS and EMTN interest rate swaps	–	–	300.0	–	–	300.0
Macro hedge						
Retail mortgages interest rate swaps	70.0	160.0	1,306.0	3,431.0	123.0	5,090.0
Commercial interest rate swaps	–	–	6.0	15.8	43.3	65.1
Savings interest rate swaps	25.0	25.0	655.0	250.0	–	955.0
Economic hedge						
Retail mortgages interest rate swaps	–	–	–	105.0	33.0	138.0
Commercial interest rate swaps	–	–	–	–	7.0	7.0
Savings interest rate swaps	–	–	20.0	95.0	–	115.0
	95.0	**187.8**	**2,296.7**	**3,936.6**	**363.0**	**6,879.1**

Society As at 31 December 2022	Less than 1 month £m	Between 1 months 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	–	2.8	9.7	39.8	156.7	209.0
PIBS and EMTN interest rate swaps	–	–	300.0	–	–	300.0
Macro hedge						
Retail mortgages interest rate swaps	70.0	160.0	1,306.0	3,431.0	123.0	5,090.0
Commercial interest rate swaps	–	–	6.0	15.8	43.3	65.1
Savings interest rate swaps	25.0	25.0	655.0	250.0	–	955.0
Economic hedge						
Retail mortgages interest rate swaps	–	–	–	105.0	33.0	138.0
Commercial interest rate swaps	–	–	–	–	7.0	7.0
Savings interest rate swaps	–	–	20.0	95.0	–	115.0
Securitisation interest rate swaps	–	–	–	833.3	–	833.3
	95.0	**187.8**	**2,296.7**	**4,769.9**	**363.0**	**7,712.4**

17. Loans and advances to customers

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Fully secured on residential property	9,939.5	8,803.4	9,874.7	8,721.0
Fully secured on land	283.6	299.2	283.6	299.2
	10,223.1	**9,102.6**	**10,158.3**	**9,020.2**
Provision for impairment losses	(34.7)	(31.9)	(32.0)	(28.2)
Effective Interest Rate adjustments	15.4	12.7	14.6	11.4
Fair value adjustment for hedged risk	(88.2)	(288.4)	(88.2)	(288.5)
	10,115.6	**8,795.0**	**10,052.7**	**8,714.9**

Retail financial services and secured personal lending

The split of loans between stages 1, 2 and 3 is as follows:

Stage	31 December 2023 %	31 December 2022 %
1	82	81
2	17	18
3	1	1

The split of the loans within stage 2 by staging reason is as follows:

Staging reason	31 December 2023 %	31 December 2022 %
PD grade deterioration	95	97
30-60 days past due	5	3
Forbearance	–	–

Commercial

The split of loans between stages 1, 2 and 3 is as follows:

Stage	31 December 2023 %	31 December 2022 %
1	85	89
2	13	10
3	2	1

The split of the loans within stage 2 by staging reason is as follows:

Staging reason	31 December 2023 %	31 December 2022 %
Risk grade deterioration	37	47
30-60 days past due	4	–
Forbearance	59	53

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 2023, the encumbrance ratio was 23.2% (31 December 2022: 22.0%). All other assets are defined as unencumbered.

An analysis of the group's encumbered and unencumbered on-balance sheet assets as at 31 December 2023 and 2022 is set out below.

	2023		2022	
	Encumbered £m	Unencumbered £m	Encumbered £m	Unencumbered £m
Cash in hand and balances at the Bank of England	-	1,374.9	-	1,566.9
Loans and advances to credit institutions	301.0	28.4	273.9	3.2
Debt securities	-	317.5	-	160.2
Derivative financial instruments	-	308.9	-	369.0
Loans and advances to customers	2,600.0	7,515.6	2,109.2	6,685.8
Consolidated other assets	-	80.3	-	89.1
Total	**2,901.0**	**9,625.6**	**2,383.1**	**8,874.2**

19. Provision for impairment losses

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)**

Group 2022	Retail £m	Commercial lending £m	Secured personal lending £m	Total £m
New loans	2.7	2.7	-	5.4
Settled loans	(1.1)	(1.6)	(0.3)	(3.0)
Changes in model assumptions	2.1	-	-	2.1
Changes in credit quality	3.9	5.3	0.9	10.1
Balance sheet impact	**(7.6)**	**(6.4)**	**(0.6)**	**(14.6)**
(Utilisation)/recoveries	**(0.1)**	**-**	**(0.1)**	**(0.2)**
Income statement impact	**(7.7)**	**(6.4)**	**(0.7)**	**(14.8)**

Provision for impairment losses at 31 December 2023 include £34.7m for loan loss provisioning impairment (2022: £31.9m) and £1.4m on other debt instruments (2022: £1.6m). Total ECL coverage as at 31 December 2023 was 0.23% (2022: 0.22%) in respect of retail financial services and secured personal lending and 1.23% in respect of commercial lending (2022: 1.36%). Changes in model assumptions for 2023 relate to a refinement in the calculation of the refinance PMA discussed in note 2, as well as an update to the Forced Sale Discount (FSD) applied to the base and upside scenarios within the retail model (£0.5m decrease to Dec-22 ECL).

Also included within provision for impairment losses is £0.8m (2022: £1.3m) in respect of provisions against off-balance sheet exposures, namely retail mortgage offers and loan commitments contracted but not paid across the retail and commercial loan books.

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 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**

19. Provision for impairment losses (continued)

Group 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2022	8,063.2	1,189.0	67.0	9,319.2
Transfers:				
Stage 1 transfers	(481.2)	–	–	(481.2)
Stage 2 transfers	–	470.3	–	470.3
Stage 3 transfers	–	–	10.9	10.9
New loans	2,018.0	190.3	0.4	2,208.7
Settled loans	(1,324.0)	(154.7)	(11.6)	(1,490.3)
Repayments	(264.0)	(36.6)	(1.6)	(302.2)
Gross loan balance at 31 December 2022	**8,012.0**	**1,658.3**	**65.1**	**9,735.4**

Society 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2022	8,006.2	1,151.2	53.0	9,210.4
Transfers:				
Stage 1 transfers	(475.6)	–	–	(475.6)
Stage 2 transfers	–	463.5	–	463.5
Stage 3 transfers	–	–	12.1	12.1
New loans	2,018.0	190.3	0.4	2,208.7
Settled loans	(1,314.3)	(149.5)	(9.8)	(1,473.6)
Repayments	(257.8)	(33.5)	(0.8)	(292.1)
Gross loan balance at 31 December 2022	**7,976.5**	**1,622.0**	**54.9**	**9,653.4**

The following tables analyse the movements in loan loss provisions during the year by stage.

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**

Group 2022	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2022	3.1	8.9	5.8	17.8
Transfers:				
Stage 1 transfers	(3.6)	–	–	(3.6)
Stage 2 transfers	–	2.5	–	2.5
Stage 3 transfers	–	–	1.2	1.2
New loans	3.5	2.0	–	5.5
Settled loans	(0.5)	(1.7)	(0.9)	(3.1)
Changes in credit quality	9.4	0.1	–	9.5
Changes in model assumptions	2.6	(0.5)	–	2.1
Loss allowance at 31 December 2022	**14.5**	**11.3**	**6.1**	**31.9**

Society 2022	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2022	3.1	8.3	3.3	14.7
Transfers:				
Stage 1 transfers	(3.3)	–	–	(3.3)
Stage 2 transfers	–	2.4	–	2.4
Stage 3 transfers	–	–	1.0	1.0
New loans	3.5	2.0	–	5.5
Settled loans	(0.5)	(1.6)	(0.6)	(2.7)
Changes in credit quality	9.1	(0.2)	(0.2)	8.7
Changes in model assumptions	2.5	(0.6)	–	1.9
Loss allowance at 31 December 2022	**14.4**	**10.3**	**3.5**	**28.2**

19. Provision for impairment losses (continued)

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 2023.

Retail and Secured personal lending	2023		2022	
	Sum of ECL £m	Coverage %	Sum of ECL £m	Coverage %
0.00% - 0.11%	1.4	0.05	1.7	0.07
0.11% - 0.17%	1.0	0.05	1.0	0.05
0.17% - 0.25%	1.0	0.07	1.3	0.08
0.25% - 0.41%	1.4	0.10	1.3	0.11
0.41% - 0.60%	1.3	0.14	1.2	0.18
0.60% - 0.88%	1.7	0.27	1.1	0.31
0.88% - 1.49%	2.4	0.55	1.7	0.56
1.49% - 2.96%	2.2	1.01	1.8	1.10
2.96% - 6.84%	1.6	1.75	1.0	1.89
6.84%+	8.9	5.51	7.0	5.57
Total	**23.0**		**19.1**	

Commercial lending	2023		2022	
	Sum of ECL £m	Coverage %	Sum of ECL £m	Coverage %
PD:				
0.28%	0.1	0.1	0.3	0.2
0.56%	0.9	0.4	1.6	0.6
1.13%	2.0	0.6	4.5	1.2
2.25%	2.4	1.5	3.9	2.8
4.50%	1.6	3.9	0.5	4.0
9.00%	0.6	10.2	0.2	4.0
18.00%	0.9	15.7	0.3	8.1
36.00%	0.4	14.3	-	-
100.00%	2.7	17.6	1.5	22.7
Total	**11.6**		**12.8**	

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 2024 to December 2028, the figures are as at 31 December for each year:

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		**2.7**	**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**

The equivalent scenarios and weightings for the period ending 31 December 2022 were as follows:

GDP Growth %	Scenario	Weighting at 31 December 2022 %	2023	2024	2025	2026	2027
	Base	50	2.8	3.4	2.5	2.3	2.2
	Upside	20	5.3	3.1	2.1	2.3	2.4
	Downside	23	3.2	2.1	(1.2)	3.6	2.9
	Severe downside	7	(10.9)	(0.3)	4.1	2.8	1.7
	Weighted average		**2.4**	**2.8**	**1.6**	**2.6**	**2.4**

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19. Provision for impairment losses (continued)

Unemployment (Absolute)	Scenario	Weighting at 31 December 2022 %	2023	2024	2025	2026	2027
	Base	50	4.3	4.5	4.5	4.6	4.6
	Upside	20	3.9	3.6	3.7	4.0	4.2
	Downside	23	5.6	7.0	7.0	6.9	6.6
	Severe downside	7	7.4	8.3	8.2	7.9	7.2
	Weighted average		**4.7**	**5.1**	**5.2**	**5.2**	**5.2**

HPI %	Scenario	Weighting at 31 December 2022 %	2023	2024	2025	2026	2027
	Base	50	(4.4)	2.3	4.8	2.9	0.8
	Upside	20	9.0	5.4	2.1	(1.2)	(2.1)
	Downside	23	(14.5)	(12.0)	1.9	5.5	2.6
	Severe downside	7	(20.7)	(10.9)	4.4	4.3	3.4
	Weighted average		**(5.2)**	**(0.7)**	**3.6**	**2.4**	**0.6**

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. 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	5.0	37.3	32.2
Secured personal lending	1.4	3.8	2.4
Commercial lending	6.1	8.3	2.2

20. Provision for liabilities

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
At 1st January	2.8	2.7	0.6	0.7
Utilisation	(0.2)	-	-	-
(Addition)/release during the year	-	0.1	0.1	(0.1)
At 31 December	**2.6**	**2.8**	**0.7**	**0.6**

At 31 December 2023, the group held a provision of £2.6m (2022: £2.8m) 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; 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 behaviour analysed in order ensure the provision remains appropriate.

21. Investments in subsidiary undertakings

	Society	
	2023 £m	2022 £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 2023	0.1	-
Loan repayment	-	-
At 31 December 2023	**0.1**	**-**

	Society	
	2023 £m	2022 £m
Surplus cash received from subsidiaries	1.3	1.7
	1.3	**1.7**

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21. Investments in subsidiary undertakings (continued)

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.5 PLC, Friary No.6 PLC, Friary No.7 PLC and Friary No.8 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 2023.

The Society continues to participate in the Ely Bridge development, a scheme which aims to deliver an 800 house development 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 holds no beneficial interest in the company but has agreed to contribute £1 to the assets of the company in the event of it being wound up.

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.

- Energy Assess Wales Limited
- Home Information Pack Wales Limited
- Principality Limited
- Principality Asset Management Limited
- Principality Bank Limited
- Principality Direct Limited
- Principality Estate Agency Limited
- Principality Financial Management Limited
- Principality Group Limited
- Principality Homes Limited
- Principality (IFA Services) Limited
- Principalty Independent Financial Advisors Limited
- Principality Life Assurance Services Limited
- Principality (Life and Pensions) Limited
- Principality Mortgage Corporation Limited
- Principality Personal Loans Limited
- Principality Property Development Services Limited
- Principality Property Sales Limited
- Principality Property Services Limited
- Principality Property Solutions Limited
- Principality Surveyors Home Condition Report Limited
- Principality Surveyors Limited
- Principality Syndicated Loans Limited
- The Principality Home Information Pack Limited

22. Intangible assets

	Group and Society	
	2023 £m	**2022 £m**
Cost:		
At 1 January	41.6	40.1
Additions	0.2	1.5
At 31 December	**41.8**	**41.6**
Amortisation:		
At 1 January	18.1	14.1
Charge for the year	4.6	4.0
At 31 December	**22.7**	**18.1**
Net book value:		
At 31 December	**19.1**	**23.5**

Computer software capitalised during the year relates to the group's transformation programme and associated technology investment. 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 2023 (2022: £8.3m).

23. Property, plant and equipment

2023	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 2023	8.6	8.7	57.5	56.4	49.0	49.0	115.1	114.1
Additions	0.4	0.4	1.2	1.2	1.5	1.5	3.1	3.1
Disposals	–	–	–	–	–	–	–	–
At 31 December 2023	**9.0**	**9.1**	**58.7**	**57.6**	**50.5**	**50.5**	**118.2**	**117.2**
Depreciation:								
At 1 January 2023	4.0	4.0	38.9	38.4	36.2	36.2	79.1	78.6
Charge for the year	1.0	1.0	1.6	1.6	3.9	3.9	6.5	6.5
Impairment in the year	–	–	3.4	3.4	–	–	3.4	3.4
Disposals	–	–	–	–	–	–	–	–
At 31 December 2023	**5.0**	**5.0**	**43.9**	**43.4**	**40.1**	**40.1**	**89.0**	**88.5**
Net book value:								
At 31 December 2023	**4.0**	**4.1**	**14.8**	**14.2**	**10.4**	**10.4**	**29.2**	**28.7**
At 31 December 2022	4.6	4.6	18.8	18.2	12.8	12.8	36.3	35.8

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23. Property, plant and equipment (continued)

2022	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 2022	8.4	8.4	59.1	58.0	43.1	43.1	110.6	109.5
Additions	0.2	0.1	0.1	0.1	7.1	7.1	7.4	7.3
Disposals	–	–	(1.7)	(1.7)	(1.2)	(1.2)	(2.9)	(2.9)
At 31 December 2022	**8.6**	**8.5**	**57.5**	**56.4**	**49.0**	**49.0**	**115.1**	**113.9**
Depreciation:								
At 1 January 2022	3.0	3.0	37.8	37.3	33.2	33.2	74.0	73.5
Charge for the year	1.0	0.9	1.2	1.2	3.9	3.9	6.1	6.0
Impairment in the year	–	–	0.4	0.4	–	–	0.4	0.4
Disposals	–	–	(0.7)	(0.7)	(0.9)	(0.9)	(1.6)	(1.6)
At 31 December 2022	**4.0**	**3.9**	**38.7**	**38.2**	**36.2**	**36.2**	**78.8**	**78.1**
Net book value:								
At 31 December 2022	**4.6**	**4.6**	**18.8**	**18.2**	**12.8**	**12.8**	**36.3**	**35.8**
At 31 December 2021	5.4	5.4	21.3	20.7	9.9	9.9	36.6	36.0

Investment properties	Group and Society	
	2023 £m	2022 £m
Cost:		
At 1 January	13.0	13.0
Additions	0.3	0.1
Disposals	(0.3)	(0.1)
At 31 December	**13.0**	**13.0**
Depreciation:		
At 1 January	7.2	6.7
Charge for the year	0.4	0.4
Disposals	0.1	–
Impairment in the year	(0.3)	0.1
At 31 December	**7.4**	**7.2**
Net book value:		
At 31 December	**5.6**	**5.8**

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Included within land and buildings additions is £1.5m (2022: £1.7m) 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. A £3.4m impairment has been recognised within the retail branch network property portfolio (2022: £0.5m).

The fair value of investment properties as at 31 December 2023 is £12.0m (2022: £13.1m).

24. Shares

	Group and Society	
	2023 £m	2022 £m
Held by individuals	9,067.1	8,117.4
Other shares	2.4	2.7
Fair value adjustment for hedged risk	15.1	(6.5)
	9,084.6	**8,113.6**

25. Amounts owed to credit institutions

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Amounts owed to credit institutions	1,315.0	1,639.0	1,940.8	1,716.3

Included in the above amounts is £198.4m of collateral held under Credit Support Annex (CSA) agreements (2022: £305.8m).

26. Debt securities in issue

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Senior unsecured debt	330.1	289.7	330.1	289.8
Residential mortgage backed securities	746.4	177.5	–	–
	1,076.5	**467.2**	**330.1**	**289.8**

27. Other liabilities

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Other taxation and social security	1.4	1.3	1.4	1.3
Lease liabilities	4.4	4.9	4.4	4.9
Other creditors	7.1	7.5	7.3	7.5
	12.9	**13.7**	**13.1**	**13.7**

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27. Other liabilities (continued)

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
More than 5 years	1.8	-	-	1.8
Total	**5.5**	**0.1**	**0.1**	**5.7**

The undiscounted maturity profile of lease payments at 31 December 2022 is shown below:

2022 Group	Property £m	Cars £m	IT Lease £m	Total £m
Year 1	0.9	0.1	0.1	1.1
Year 2	0.8	0.1	-	0.9
Year 3	0.8	-	-	0.8
Year 4	0.7	-	-	0.7
Year 5	0.6	-	-	0.6
More than 5 years	2.2	-	-	2.2
Total	**6.0**	**0.2**	**0.1**	**6.3**

28. Deferred tax

The movement in net deferred tax is as follows:

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
At 1 January	(8.9)	(3.1)	(8.9)	(3.1)
Income statement credit/(charge)	1.6	(7.5)	1.6	(7.5)
Statement of other comprehensive income charge	1.8	1.7	1.8	1.7
At 31 December	**(5.5)**	**(8.9)**	**(5.5)**	**(8.9)**

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

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Deferred tax assets:				
Accelerated tax depreciation	2.2	1.6	2.1	1.5
Other temporary differences	3.1	1.3	3.1	1.3
	5.3	**2.9**	**5.2**	**2.8**
Deferred tax liabilities:				
Other temporary differences	(10.8)	(11.8)	(10.7)	(11.7)
	(10.8)	**(11.8)**	**(10.7)**	**(11.7)**

The deferred tax credit/(charge) in the income statement comprises the following temporary differences:

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Accelerated tax depreciation	0.6	(0.1)	0.6	(0.1)
Fair value volatility on financial instruments in securitisation entities	-	(7.4)	-	(7.4)
Other movements	1.0	-	1.0	-
	1.6	**(7.5)**	**1.6**	**(7.5)**

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 loss of £0.1m (2022: £1.0m gain) arising from the actuarial gain on retirement benefit obligations.

29. Financial commitments and contingent liabilities

a) Other provisions for liabilities and charges

At 31 December 2023, the group holds a provision of £2.8m (2022: £2.7m), which 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 behaviour analysed in order ensure the provision remains appropriate

b) Income receivable under non-cancellable operating leases:

Property rental income earned during the year was £0.9m (2022: £0.6m). At the statement of financial position date, the Society had contracted with tenants for the following future minimum lease payments:

	Group and Society	
	2023 £m	2022 £m
Receivable within one year	0.9	0.7
Receivable between two and five years	4.0	3.1
Receivable after five years	5.3	4.4
	10.2	**8.2**

On 28 January 2011, a 25-year lease of floors one to four of Principality Buildings was granted to Travelodge Hotels Limited.

29. Financial commitments and contingent liabilities (continued)

c) Capital commitments:

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Capital expenditure contracted for but not provided for	4.8	5.0	4.8	5.0

d) Loan commitments:

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
Loan commitments contracted but not paid	127.2	178.0	127.2	178.0

30. 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 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	1,313.1	-	1.9	1,315.0
Amounts owed to other customers	183.6	-	-	183.6
Debt securities in issue	746.4	-	330.1	1,076.5
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
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				36.1
General reserve and other reserves				622.6
Total Society reserves and liabilities				**12,309.3**

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30. Financial instruments (continued)

Group As at 31 December 2022	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	1,566.9	-	-	1,566.9
Loans and advances to credit institutions	277.1	-	-	277.1
Debt securities	-	160.2	-	160.2
Derivative financial instruments	-	-	369.0	369.0
Loans and advances to customers	8,795.0	-	-	8,795.0
Total financial assets	**10,639.0**	**160.2**	**369.0**	**11,168.2**
Total non-financial assets				89.1
Total group assets				**11,257.3**
Group liabilities:				
Shares	8,113.6	-	-	8,113.6
Amounts owed to credit institutions	1,637.1	-	1.9	1,639.0
Amounts owed to other customers	255.0	-	-	255.0
Debt securities in issue	478.0	-	(10.8)	467.2
Derivative financial instruments	-	-	63.6	63.6
Total financial liabilities	**10,483.7**	**-**	**54.7**	**10,538.4**
Total non-financial liabilities				40.1
General reserve and other reserves				678.8
Total group reserves and liabilities				**11,257.3**

Society As at 31 December 2022	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	1,566.9	-	-	1,566.9
Loans and advances to credit institutions	180.4	-	-	180.4
Debt securities	-	160.2	-	160.2
Derivative financial instruments	-	-	333.4	333.4
Loans and advances to customers	8,714.9	-	-	8,714.9
Loans and investments in subsidiaries	0.1	-	-	0.1
Total financial assets	**10,462.3**	**160.2**	**333.4**	**10,955.9**
Total non-financial assets				88.3
Total Society assets				**11,044.2**
Society liabilities:				
Shares	8,113.6	-	-	8,113.6
Amounts owed to credit institutions	1,714.5	-	1.9	1,716.3
Amounts owed to other customers	255.0	-	-	255.0
Debt securities in issue	300.5	-	(10.8)	289.8
Derivative financial instruments	-	-	63.6	63.6
Loans from subsidiaries	1.7	-	-	1.7
Total financial liabilities	**10,385.3**	**-**	**54.7**	**10,440.0**
Total non-financial liabilities				36.9
General reserve and other reserves				567.3
Total Society reserves and liabilities				**11,044.2**

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30. Financial instruments (continued)

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	2023		2022	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Group assets:					
Cash in hand and balances with Bank of England	i.	1,374.9	1,374.9	1,566.9	1,566.9
Loans and advances to credit institutions	ii.	329.4	329.4	277.1	284.6
Debt securities	iii.	317.5	317.5	160.2	160.2
Derivative financial instruments	iv.	308.9	308.9	369.0	369.0
Loans and advances to customers	v.	10,115.6	10,063.6	8,795.0	8,838.4
		12,446.3	12,394.3	11,168.2	11,219.1
Group liabilities:					
Shares	vii.	9,084.6	9,131.0	8,113.6	8,173.4
Amounts owed to credit institutions	viii.	1,315.0	1,315.0	1,639.0	1,638.9
Amounts owed to other customers	viii.	183.6	183.6	255.0	255.0
Debt securities in issue	ix.	1,076.5	1,105.1	467.2	459.4
Derivative financial instruments	iv.	110.1	110.1	63.6	63.6
		11,769.8	11,844.8	10,538.4	10,590.3

	Note	2023		2022	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Society assets:					
Cash in hand and balances with Bank of England	i.	1,374.9	1,374.9	1,566.9	1,566.9
Loans and advances to credit institutions	ii.	219.4	219.4	180.4	180.4
Debt securities	iii.	317.5	317.5	160.2	160.2
Derivative financial instruments	iv.	265.0	265.0	333.4	333.4
Loans and advances to customers	v.	10,052.7	10,001.5	8,714.9	8,760.6
Loans to and investments in subsidiaries	vi.	0.1	0.1	0.1	0.1
		12,229.6	12,178.4	10,955.9	11,001.6
Society liabilities:					
Shares	vii.	9,084.6	9,131.0	8,113.6	8,173.4
Amounts owed to credit institutions	viii.	1,940.8	1,940.8	1,716.3	1,716.3
Amounts owed to other customers	viii.	183.7	183.7	255.0	255.0
Debt securities in issue	ix.	330.1	355.0	289.8	281.2
Derivative financial instruments	iv.	110.1	110.1	63.6	63.6
Loans from subsidiaries	x.	1.3	1.3	1.7	1.7
		11,650.6	11,721.9	10,440.0	10,491.2

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and 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.

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30. Financial instruments (continued)

	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**

	Group			
	2022 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit or loss:				
Derivative financial instruments	369.0	–	333.4	35.6
Financial assets at fair value through other comprehensive income:				
Debt securities	160.2	160.2	–	–
Total	**529.2**	**160.2**	**333.4**	**35.6**
Financial liabilities at fair value through profit or loss:				
Amounts owed to credit institutions	1.9	–	1.9	–
Debt securities in issue	(10.8)	(10.8)	–	–
Derivative financial instruments	63.6	–	27.9	35.7
Total	**54.7**	**(10.8)**	**29.8**	**35.7**

	Society			
	2022 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit or loss:				
Derivative financial instruments	333.4	–	333.4	–
Financial assets at fair value through other comprehensive income:				
Debt securities	160.2	160.2	–	–
Total	**493.6**	**160.2**	**333.4**	**–**
Financial liabilities at fair value through profit or loss:				
Amounts owed to credit institutions	1.9	–	1.9	–
Debt securities in issue	(10.8)	(10.8)	–	–
Derivative financial instruments	63.6	–	27.9	35.7
Total	**54.7**	**(10.8)**	**29.8**	**35.7**

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.

31. Credit risk

The credit risk to which the group is exposed is described in the Risk Overview on pages 36 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).

31. Credit risk (continued)

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	
	2023 £m	2022 £m	2023 £m	2022 £m
In respect of loans and advances to customers:				
Secured by a first charge on residential property	9,874.7	8,720.9	9,874.7	8,720.9
Secured by a first charge on land	283.6	299.3	283.6	299.2
Secured by a second charge on residential property	64.8	82.5	-	-
	10,223.1	9,102.7	10,158.3	9,020.1
Provision for impairment losses	(34.7)	(31.9)	(32.0)	(28.2)
Effective Interest Rate adjustments	15.4	12.7	14.6	11.4
Fair value adjustments	(88.2)	(288.5)	(88.2)	(288.4)
	10,115.6	**8,795.0**	**10,052.7**	**8,714.9**

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	
	2023 £m	2022 £m	2023 £m	2022 £m
Retail financial services	9,330.3	8,241.4	9,330.3	8,241.3
Commercial lending	810.6	762.0	810.6	762.0
Secured personal lending	62.9	80.0	-	-
Fair value adjustments	(88.2)	(288.4)	(88.2)	(288.4)
	10,115.6	**8,795.0**	**10,052.7**	**8,714.9**

i) Retail financial services and secured personal lending 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	
	2023 %	2022 %	2023 %	2022 %
In Wales	31.3	33.1	27.2	29.4
Outside Wales	68.7	66.9	72.8	70.6
	100.0	**100.0**	**100.0**	**100.0**

The group holds a high quality buy-to-let portfolio with an amortised cost of £2,395.2m (2022: £2,244.9m). At the end of the year, 81% of buy-to-let mortgages (2022: 79%) were on interest only products and 19% (2022: 20%) were repayable by capital and interest repayments. No mortgages were a combination of interest only and capital and interest (2022: 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 56.0% (2022: 51.5%). Index-linked BTV banding is shown below:

	Group		Society	
	2023 %	2022 %	2023 %	2022 %
Less than 50%	41.7	47.3	41.7	47.3
More than 50% but less than 75%	38.0	40.8	37.9	40.7
More than 75% but less than 90%	12.9	8.6	13.0	8.7
More than 90%	7.4	3.3	7.4	3.3
	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 three months is 0.56% (2022: 0.53%) which compares favourably with the industry average of 1.00% (UK Finance arrears and possession data at 9 November 2023). Residential lending cases fully secured by a first charge which were six months or more in arrears had arrears balances of £1.7m (31 December 2022: £1.2m) with 249 cases (31 December 2022: 208).

The percentage of secured personal loans currently in arrears of two months or more by number is 8.35% (2022: 10.23%), which by value is 12.77% (2022: 11.88%). These increases are due to the run off of the book, the arrears proportion makes up a higher proportion of total loans.

The table below provides further information on the first and second charge retail loans secured on residential property by payment due status:

	Group			
	2023		2022	
	£m	%	£m	%
Current	9,310.2	99.1	8,253.1	99.1
Past due up to 3 months	37.5	0.4	29.9	0.4
Past due 3 months up to 6 months	18.9	0.2	17.0	0.2
Past due 6 months up to 12 months	17.3	0.2	13.2	0.2
Past due over 12 months	9.4	0.1	8.1	0.1
Possessions	0.3	-	0.3	-
	9,393.6	**100.0**	**8,321.6**	**100.0**

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31. Credit risk (continued)

	Society			
	2023		2022	
	£m	%	£m	%
Current	9,255.6	99.1	8,183.3	99.3
Past due up to 3 months	34.4	0.4	25.9	0.3
Past due 3 months up to 6 months	18.1	0.2	16.0	0.2
Past due 6 months up to 12 months	15.1	0.2	10.7	0.1
Past due over 12 months	7.2	0.1	5.6	0.1
Possessions	0.3	-	0.3	-
	9,330.7	100.0	8,241.8	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 £20,887.7m (2022: £21,740.1m).

The group holds collateral against loans and advances to residential customers in the form of mortgage interests over property. £0.1m (2022: £0.6m) 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:

	2023 £m	2022 £m
Retail financial services	20.4	15.4
Secured personal loans	2.6	3.7
	23.0	19.1

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. Other relates 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. 11 properties were taken into possession during 2023 (2022: 16) with balances of £0.8m (2022: £1.3m).

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.

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

2022	Revised payment schedule £m	Transfer to interest-only £m	Term extensions £m	Capitalisation of Arrears £m	Other £m	Total £m
Current	5.4	5.9	-	-	9.0	20.3
Past due up to 3 months	5.8	0.5	-	0.1	1.2	7.6
Past due 3 months up to 6 months	5.0	-	-	-	0.2	5.2
Past due 6 months up to 12 months	3.1	-	-	0.2	0.1	3.4
Past due over 12 months	1.6	-	-	-	0.2	1.8
	20.9	6.4	-	0.3	10.7	38.3

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 property.

Further detail of the group's risk management strategy in relation to commercial lending is described in the Risk Overview on page 37.

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.

31. Credit risk (continued)

Risk concentrations

The group's commercial loan portfolio, excluding impairment provisions and fair value adjustments, comprises the following:

	Group and Society			
	2023		2022	
	£m	%	£m	%
Loans to Registered Social Landlords secured on residential property	210.7	25.6	166.3	21.4
Other loans secured on residential property	329.4	40.1	318.8	41.1
Loans secured on commercial property	281.7	34.3	290.6	37.5
	821.8	100.0	775.7	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			
	2023		2022	
	£m	%	£m	%
Office	93.9	33.3	101.2	34.8
Retail	112.9	40.1	113.0	38.9
Industrial	60.1	21.3	61.9	21.3
Leisure	12.1	4.3	2.7	0.9
Land	2.7	1.0	-	-
Other	-	-	11.8	4.1
	281.7	100.0	290.6	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:

Region	Group and Society			
	2023		2022	
	£m	%	£m	%
Wales	419.3	51.0	357.8	46.1
Greater London	225.3	27.4	231.8	29.9
South East/East of England	57.6	7.0	52.9	6.8
Midlands	21.1	2.6	20.2	2.6
South West/South of England	60.9	7.4	75.3	9.7
North West/North of England	17.1	2.1	13.0	1.7
Mixed/other	20.5	2.5	24.7	3.2
	821.8	100.0	775.7	100.0

The average loan to value (LTV) in respect of the group's commercial loans is estimated to be 56.1% (2022: 53.7%). 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.

£42.4m of exposures have an LTV of greater than 100% (2022: £12.8m). This increase has been primarily driven due to the challenging base rate environment. Of these, £17.0m are already classified as impaired (2022: £6.5m).

The largest exposure to one counterparty is £55.9m (2022: £26.0m) or 6.8% (2022: 3.4%) of gross balances. This increase is due to the £50m commitment issued to the housing association, Pobl Group, during the year.

Performance

The commercial lending risk procedure for loans and advances to customers is described in the Risk Overview on page 37.

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			
	2023		2022	
	£m	%	£m	%
Exposures not classified as higher risk	779.4	94.8	762.9	98.4
Watch-list	25.4	3.1	6.3	0.8
Impaired or past due up to 3 months	17.0	2.1	6.5	0.8
	821.8	100.0	775.7	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	210.7	-	-	-	-	-	210.7	25.6
Commercial Investment (including Owner Occupier)	-	7.6	213.0	41.2	5.1	3.7	270.6	32.9
Residential Investment	-	32.6	202.2	27.5	4.3	3.6	270.2	32.9
Commercial Development	-	-	7.7	-	-	3.4	11.1	1.4
Residential Development	-	-	53.8	1.8	-	3.6	59.2	7.2
	210.7	40.2	476.7	70.5	9.4	14.3	821.8	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.

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31. Credit risk (continued)

The table below provides further information on commercial loans and advances by defaulted and delinquency status:

	Group and Society			
	2023		2022	
	£m	%	£m	%
Unimpaired				
Current	807.5	98.3	769.2	99.1
Past due 1 to 3 months	-	-	-	-
Impaired				
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Defaulted but not past due	10.8	1.3	3.6	0.5
Law of Property Act (LPA) Receivers appointed	3.5	0.4	2.9	0.4
	821.8	**100.0**	**775.7**	**100.0**

There are no commercial cases (2022: 1) three months or more in arrears. Total arrears of one month or more are £0.2m (2022: nil).

The total collateral held against commercial loans is estimated to be £1,730m (2022: £1,686m). 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:

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**
2022	**Group and Society**		
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**
Commercial lending provisions	8.6	2.7	1.5
Total provisions	**8.6**	**2.7**	**1.5**

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, reduction in interest rate 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 2023, 54 (2022: 56) accounts with balances totalling £75.4m (2022: £126.4m) in value were granted forbearance concessions. The total exposure in forbearance at December 2023 stands at balances of £142.7m and 86 accounts (2022: £135.1m, 61 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	
	2023 £m	2022 £m	2023 £m	2022 £m
UK Government securities	-	-	-	-
UK Supranational securities	24.1	48.1	24.1	48.1
UK Financial institutions	588.2	308.2	478.1	211.5
	612.3	**356.3**	**502.2**	**259.6**

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 £198.4m (2022: £305.8m) is held over derivative financial instruments.

The following table shows the exposures broken down by Fitch ratings:

	Group		Society	
	20223 £m	2022 £m	2023 £m	2022 £m
AAA to AA-	367.5	101.0	367.5	101.0
A+ to A-	244.8	255.3	134.7	158.6
BBB+ to BBB-	-	-	-	-
	612.3	**356.3**	**502.2**	**259.6**

The geographical distribution of these exposures is as follows:

	Group		Society	
	2023 £m	2022 £m	2023 £m	2022 £m
UK	588.2	308.2	478.1	211.5
Multilateral development banks	24.1	48.1	24.1	48.1
	612.3	**356.3**	**502.2**	**259.6**

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.

32. Liquidity risk

The following tables analyse the gross contractual principal cash flows payable under financial liabilities.

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	205.1	355.7	587.3	165.1	-	1,313.2
Other customers	-	139.8	43.7	-	-	183.5
Debt securities in issue	-	32.8	121.9	902.9	-	1,057.6
	207.7	**5,536.3**	**2,998.4**	**2,881.5**	**-**	**11,623.9**
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	675.6	682.7	-	1,939.0
Other customers	-	139.8	43.7	-	-	183.5
Debt securities in issue	-	-	12.2	299.1	-	311.3
	201.0	**5,530.1**	**2,976.9**	**2,795.3**	**-**	**11,503.3**
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**

2022	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	-	4,840.8	1,590.6	1,688.6	-	8,120.0
Amounts owed to credit institutions	311.2	31.8	966.3	327.9	-	1,637.2
Other customers	-	202.6	51.5	-	-	254.1
Debt securities in issue	-	7.4	323.5	147.1	-	478.0
	311.2	**5,082.6**	**2,931.9**	**2,163.6**	**-**	**10,489.3**
Society:						
Non-derivative liabilities						
Shares	-	4,840.8	1,590.6	1,688.6	-	8,120.0
Amounts owed to credit institutions	305.7	37.8	971.9	399.1	-	1,714.5
Other customers	-	202.6	51.5	-	-	254.1
Debt securities in issue	-	-	300.5	-	-	300.5
	305.7	**5,081.2**	**2,914.5**	**2,087.7**	**-**	**10,389.1**
Group:						
Derivative liabilities						
Interest rate swaps	-	0.6	16.6	43.4	2.1	62.7
	-	**0.6**	**16.6**	**43.4**	**2.1**	**62.7**
Society:						
Derivative liabilities						
Interest rate swaps	-	0.6	16.1	44.8	2.1	63.6
	-	**0.6**	**16.1**	**44.8**	**2.1**	**63.6**

33. 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 the Finance Committee and the Board Risk Committee.

As at 31 December 2023, the Economic Value of the Group's balance sheet would have decreased by £12.7m in the case of a short rate down. A short rate down scenario is where rates fall in the short term (less than 2 years), while rates in the medium to longer term increase.

Currency risk
The group has no material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

34. 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 no outstanding balances in respect of secured advances made prior to, or during the year, to Directors at the end of the financial year (2022: 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 19 April 2024.

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 £0.2m (2022: £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 2023 £m	Surplus cash paid to Society 2022 £m
Nemo Personal Finance Limited	1.3	1.7
	1.3	1.7

Annual Business Statement

for the year ended 31 December 2023

1. Statutory percentages

	At 31 December 2023 %	At 31 December 2022 %	Statutory limit %
The lending limit	3.1	3.3	25.0
The funding limit	22.1	19.1	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

	2023 %	2022 %
As a percentage of shares and borrowings:		
Gross capital	6.2	6.9
Free capital	5.7	6.3
Liquid assets	17.3	20.5
As a percentage of mean total assets:		
Profit for the year as a percentage of statutory mean total assets	0.39	0.34
Management expenses as a percentage of statutory mean total assets	0.99	0.90

- Gross capital - the aggregate of general reserve, available for sale reserve, subscribed capital and subordinated liabilities.
- Free capital - gross capital plus collective impairment provisions 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 50 to 54.

Details of Directors' service contracts are included in the report of the Remuneration Committee on page 86.

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.

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