

Annual Report and Accounts 2025

2025 highlights

for the year ended 31 December 2025



8,277
First time
buyers helped

2024: 8,120



70.8
Customer
experience score

2024: 71.7



18.7%
Common Equity
Tier 1 ratio

2024: 19.8%



78%
Employee
engagement

2024: 81%



£60 million
Statutory profit
before tax

2024: £49.2m



96.6%
Mortgages funded
by savers

2024: 95.7%



£70 million
committed to Housing
Associations

2024: £51m



36,183
Supported young
people via F.E.I.*

2024: 50,217



£1.5 million
Community
commitments

2024: £1.5m

* Financial Education Initiatives

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

Welcome

4 Strategic Report

41 Governance

90 Financial Statements

165 Other Information

Strategic Report

Chair's Review of the Year	05
Chief Executive's Review of the Year	07
Business Model and Strategy	10
Financial Review	14
Impact Beyond Scale	23
Climate-related Financial Disclosures	24
Risk Overview	34

Governance

Corporate Governance Report	42
Governance and Nominations Committee Report	58
Board Risk Committee Report	60
Audit Committee Report	64
Remuneration Committee Report	68
Directors' Report	86

Financial Statements

Independent Auditor's Report	91
Consolidated income statement	99
Consolidated statement of other comprehensive income	99
Income statement of the Society	100
Statement of other comprehensive income of the Society	100
Consolidated statement of financial position	101
Statement of financial position of the Society	102
Statement of changes in Members' interests	103
Consolidated statement of cash flows	104
Statement of cash flows of the Society	105
Notes to the accounts	106

Other Information

Annual Business Statement	165
Glossary	166

Strategic Report

Chair's Review of the Year

for the year ended 31 December 2025

Welcome to our Annual Report and Accounts

It is my pleasure to write to you once again as Chair of your Society, and to introduce Principality Building Society's Annual Report and Accounts for 2025.

Thank you for your continued trust and support. Everything we do is guided by the belief that a modern mutual should deliver value with purpose, support our communities with integrity and act boldly.

This past year we have weathered economic headwinds which have continued to bring challenges to our communities across the country – the Bank of England base rate has fallen but remains elevated, with inflation still persistent – making it challenging for those looking to take the first steps onto the property ladder. While on the surface the higher base rate means good news for savers, the hit to income caused by inflation means it was a harder year to save for life's uncertainties.

Your Society recognises these challenges, and our purpose remains steadfast: to build a society of savers, where everyone has a place to call home.

Turning the page to the next chapter

As Members will know, after 18 years with the Society and five years as Chief Executive Officer (CEO), Julie-Ann Haines announced that she would be stepping down from the role and taking up a new position in the summer of 2026. Julie-Ann has achieved much for your Society over those many years, and I know she will be equally successful with what comes next for her. I would like to extend my sincere thanks to Julie-Ann for her dedication and stewardship which have been invaluable to Principality and our Members.

The world around us does not stand still, and so neither must we. The Society was delighted to announce the appointment of Iain Mansfield as



Pictured: Simon Moore, Chair

our CEO in October, ahead of his commencement of the role in November. His experience, energy and commitment to the Society is exactly what the business needs to take us through the next chapter of our history.

He has committed a huge amount of his professional career to Wales, and the past 11 of those years to our Society, in leadership roles including Chief Operating Officer (COO), Chief Financial Officer (CFO) and serving on the Board since 2019. We are thrilled with his appointment and to have home-grown Welsh talent leading the business.

This handover marks a natural moment of transition as we look ahead with clarity and purpose, evolving our business to enhance digital and online journeys, as well as retain our face to face services for you, our Members.

Evolution and change

Nationally, the role of mutuals continues to gain recognition through the value they provide to the Members and communities they serve. Research from the Building Societies Association indicates that, last year, building society members received

£4 billion more in additional value than they would have received from banks¹.

We were proud to support the Cash ISA movement last year, which saw a wide range of stakeholders including Building Societies, Credit Unions and other providers joining together to call on the UK Government to save Cash ISAs and maintain the £20,000 limit. While the outcome was not the full protection of the subscription limit, we recognise that the Chancellor took time to consider changes to the Cash ISA regime, by protecting the £20,000 limit for over 65s, and reducing it to £12,000 for those under the age bracket, well above the speculated cut to £4,000, an option heavily opposed by the sector.

With that, and as we celebrate 250 years of the building society sector, I'm proud of the fact we still champion the values that first inspired our movement. With the Building Societies Association recently electing a new Chair, alongside a new Chief Executive Officer, and the UK Government's commitment to double the size of the mutual sector, growth has a renewed momentum and focus.

Locally, the upcoming Senedd Election is anticipated to deliver significant change. Irrespective of the precise make-up and priorities of the next Welsh Government, we will continue to proudly emphasise the role that purpose-led organisations such as Principality can play in shaping long-term growth and success.

At Principality, we recognise that we must balance this tradition with innovation. We've strengthened our long-term focus and accelerated modernisation across the Society, for the benefit of our Members and for Wales. I'm pleased to report that this year we generated £88m² of value for you, our Members, reinvesting profits to deliver benefits for savers, borrowers and the communities we proudly serve.

Profit Powers Our Purpose

Our performance this year reflects the strength of our mutual model: profit in Principality is not an end in itself, but a means of powering purpose.

It enables us to invest in the services and compelling rates our Members rely on, to innovate our business responsibly, and to support people and places across Wales and the wider UK. While we continue to enhance our brand awareness beyond Wales, our commitment remains firmly rooted at home - ensuring the value we create is reinvested back into Welsh communities, where it can make the greatest difference.

Our profit enables us to deliver impact beyond our scale, with £1.5m committed to our Social Impact initiatives this year. At the heart of our purpose, there is a commitment to improving the lives of people in the communities we serve.

This year, we proudly celebrated the 5th round of our Future Generations Fund. Building on the success of previous years - during which we have contributed £2m to 128 charities and community groups across Wales - we continue to prioritise organisations and projects that provide invaluable training and support to underserved and vulnerable people.

To ensure we work to protect and enhance our profitability, our ambition to grow the Commercial business remains strong. Even while navigating a higher base-rate environment, we've stayed active and are very much open for business across all the sectors in which we operate.

Looking to the future, we remain solution-focused on matters of the housing market, with social housing being integral to our strategy.

Looking Ahead

Principality is entering a new chapter - one defined by being bold in our decision making and modernisation while retaining a firm focus on mutuality.

As we grow our presence across the UK, our Welsh roots remain at the heart of who we are. Our strategy for the decade ahead focuses on embracing change, delivering value for Members, and driving strong commercial performance to enable sustained investment for future generations.

Thank you for your continued trust. Together, we are building for a modern mutual that delivers for Members and communities we proudly serve.



Simon Moore
Chair

19 February 2026

¹ Building Societies annual reports 2024/25

² Total value of benefit to Principality BS customers from November 2024 - October 2025, based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year.

Chief Executive's Review of the Year

for the year ended 31 December 2025

A new chapter for Wales' largest society

I am delighted to be writing to you, our Members, as Chief Executive Officer (CEO) of Wales' largest building society for the first time. Having served this business for the last 11 years of my career, I'm immensely proud to be leading the best business in Wales.

It's the start of a genuinely transformational period, one where we will take the bold next steps to reimagine how we deliver for you today while securing our future for the next generation of Members.

I feel energised and excited by the opportunity and possibility your Society offers as we step into its next chapter. My strategic vision is to transform Principality into a mutual focused on commercial performance, pace and execution, with a strong digital offering that complements our unique branch presence.

Under my leadership, we are sharpening our commercial focus while staying true to our mutual roots – balancing delivering our purpose with the need to drive profit and enabling a decade of investment to support future generations of Members.

This means there's a lot your Society will do differently over time, to move us boldly into our next chapter – from building an app that makes it easier to manage your accounts with us online, to introducing new and exciting products that meet your savings and lending needs.

We'll do this while making the strategic investments we need to, keeping us relevant for the future and making better returns for Members, ultimately allowing us to invest more in what matters.

It's crucial that we have the right team in place with the best experience to take us forward –



Pictured: Iain Mansfield, Chief Executive Officer

that's why I've been building the best possible team to lead the business. One of those key appointments being our Chief Technology Officer (CTO), Patrick Connolly, a new role for the business that will strengthen our digital offering.

2025 has been a year of progress for your Society. A year where we moved the organisation forward in meaningful ways, while delivering real value for our savers and our borrowers – helping people to save and to buy their own homes.

Our financial results

The pace of societal change is rapid, with advancements in technology reshaping financial services markets and customer expectations. At the same time, Members and businesses face a volatile external environment – with the Bank of England base rate remaining elevated, persistent inflation, and the emergence of start-ups and disruptor banks applying pressure on rates.

Despite this backdrop, your Society has delivered strong financial results with profit before tax of £60.0m (2024: £49.2m) as we stay focused on creating value for our Members.

At the same time, we have continued the work to streamline and simplify our business, and as a result our Management Expense Ratio (ManEx), the cost of running the business, has fallen to 0.84% (2024: 0.94%).

Across our savings and lending businesses, there is positive news to report.

We are diversifying our funding portfolio, which is why, in the second half of 2025, we were pleased to announce the establishment of our covered bond programme, strengthening your Society's financial resilience, funding stability and access to capital markets – providing us diversity of funding and optionality, in line with our competitors.

We've also grown our savings balances by £0.8bn to £11.6bn in 2025 (2024: £10.8bn), as we strive to retain Member value through our retail network while keeping a sharp focus on driving forward our digital savings channels.

As a responsible business, we have prioritised returns over growth, while also utilising excess liquidity, effectively converting cash into mortgages – which is why our total assets now sit at £13.9bn (2024: £14.1bn). Our prudent lending practices mean that in the face of competitive savings and lending markets, we have still seen sustainable growth in our mortgage book of £0.6bn, taking our residential lending to £11.1bn in 2025 (2024: £10.5bn), and our cumulative growth over the last three years to £2.8bn.

This growth largely offsets the 1% reduction in the Bank of England base rate across the year to 3.75% at December 2025 (2024: 4.75%) which resulted in a drop in interest receivable – meaning that the Society's Net Interest Margin (NIM) has held steady at 1.21% (2024: 1.22%).

I'm pleased to share that we maintained a strong capital and liquidity position during the year, with a capital ratio of 18.7% (2024: 19.8%) and liquidity ratio of 13.6% (2024: 18.9%), providing a solid foundation for continued growth and investment in the Society, ensuring we are able to meet the needs of our Members now, and in the future.

Lending business – where home matters

Helping people own their own homes remains at the heart of who we are, and a key pillar of our strategy and driver of the growth of our mortgage book to 88,941 Members in 2025 (2024: 87,558).

In the face of affordability easing, buyer demand has remained resilient. With a strong demand for our 95% LTV products, combined with our

inclusive lending criteria, we helped 8,277 people take their first step onto the property ladder (2024: 8,120).

We continue to invest year-on-year in enhancing the intermediary experience, making it easier for brokers to do business with us in our recognition as Best Building Society for Customer Service 2024 at the What Mortgage Awards, an award we have received for the 8th consecutive year.

Principality Commercial

Our lending goes further, with our commercial division helping to create new homes in areas that need them, funding both social and private homes and boosting affordable housing provision. With aspirations to reach £1bn in 2026, the lending book for the commercial business grew by 9.3% since the start of 2025 to £867m (2024: £793m), with £70m lent to Housing Associations (2024: £51m).

Building on our success in Wales, I'm delighted that the commercial business took its first meaningful steps into the English housing association market, through a lending agreement with Rochdale Boroughwide Housing Limited. The £20m of funding provided by Principality will go towards maintaining and improving the housing association's existing stock of social and affordable homes in the east Greater Manchester area.

The commercial business remains a key strategic priority, as we continue to strengthen our work with Welsh Government and local authorities in Wales, to help more people buy their own home, revitalise town centres and provide funding to the majority of housing associations in Wales¹. While challenging market conditions and affordability pressure mean the total number of homes funded in 2025 is lower than last year (2025: 60; 2024: 247), the combination of strategic focus and the reduction in base rate in December has strengthened the forward pipeline significantly.


Savings business – helping more people to save

2025 has been another strong year for our savings business, with more people choosing to save with Principality, and doing so regularly, than ever before with 94,521 Members during 2025 (2024: 81,871).

Our savings growth matters, because as a mutual, our mortgages are funded by our Members' savings. Without our savers or you, our Members, we quite simply wouldn't be able to lend. Delivering fair value to you, our Members, is what sets us apart from traditional banks, who focus on returns for shareholders.

As the UK's 6th largest building society, it's important that we lend our voice to campaigns that shape the savings market, which is why we were proud to join forces with the Building Societies' Association and other mutuals and co-operatives to call on Government to protect Cash ISAs limit. Ultimately, the limit was reduced to £12,000 for under 65's, which is well above the rumoured cut originally planned. This means the voice of mutuals, and so the voice of our almost half a million Members, was heard at the highest level of Government.

It's the Member difference that sets us apart. I'm proud that Principality consistently provides competitive savings rates that reward your loyalty.

 **£88m value returned to Members through above market average savings rates²**

Starting on the journey to save should be as straightforward as possible and is a priority for the business – whether online or in person at one of our 54 branch or 15 agency locations.

With this in mind, I'm pleased to report that work has started on delivery of the first phase of our new mobile app, following the launch of our new website in 2024.

Alongside our digital journeys, I was delighted to reinforce our commitment to our branch network until at least 2030³ as I started the role of CEO in November. As traditional banks withdraw, Principality remains embedded in the communities we serve. That's why we relocated our historic Swansea city branch to a more central location this year, recognising the importance of choice to Members who live locally.

Whether through our recently launched website, eventually our new app, or in one of our branches, we are committed to delivering high quality products to market and offering choice to our customers, a strength widely recognised as we were named Best Building Society Savings Provider at the prestigious Moneyfacts Awards 2025.

Making a difference in the communities we serve
As the financial services provider with the largest branch footprint in Wales, we know our impact makes a real, meaningful difference. I was pleased to see the 5th round of our Future Generations Fund launched, which saw £500,000 distributed to projects in local communities.

2025 also saw the launch of our partnership with the children's charity Barnardo's Cymru. Through

the generosity of colleagues and Members, over £237,000 has been raised, directly supporting vulnerable children in communities across the country. This contribution brings our total charitable fundraising to more than £2m since 2014 as we continue to invest in our communities.

At Principality, inclusion and diversity are not standalone initiatives, they are baked into our DNA. That's why, while our percentage of women in leadership is slightly down from 2024 (44% in 2025, 46% in 2024), we are still comfortably above our target of 40%.

Looking ahead

This is a pivotal moment in time for your Society, as we navigate a period of subdued economic growth, balancing the needs of savers and borrowers as we face into the Bank of England projected rate declines, while also recognising the need to invest and evolve the business for the longer term.

We must be bold in our decision making and innovate for the future, for generations to come.

This means reimagining how we deliver for Members now, as a trusted, digital, Society with excellent customer service that is easy to do business with, while also using our convening power in the sector to drive impact beyond our scale.

We are a mutual with the scale, ambition and a sharp commercial focus that will enable investment that continues to drive results and ensure we remain relevant for you, our Members today and tomorrow.

Thank you for your continued support of your Society.



Iain Mansfield
Chief Executive Officer

19 February 2026

¹ Principality Commercial provides funding to 18 of 33 housing associations in Wales
² Total value of benefit to Principality BS customers from November 2024 – October 2025, based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year.
³ We will only close a branch when operationally we absolutely need to, for example a lease expiry enforced by a landlord, or if we have multiple branches in one location.

Business Model and Strategy

for the year ended 31 December 2025

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.

We believe that home is the heart of life, where plans, decisions and memories are made.

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

Our Business Model

As a modern mutual, our business model is powered by our purpose.

We've always operated ethically, responsibly and socially and now we must evolve to do it more sustainably and innovatively – building on our already strong commercial fundamentals to achieve transformative impact and continue to build and grow.

We operate across three primary lines of business, retail mortgages, commercial lending and savings.

Our distribution channels allow us to reach customers through branches, our broker network, over the phone and increasingly – digitally.

We're owned by and run for the benefit of our half a million Members – our savers and borrowers. Over 96% of our funds are raised from Members' savings, enabling us to provide loans to a broad range of customers, from first-time buyers through to housing associations and regional housing developers.

We do this whilst continuing to deliver our mutual ethos, supporting social impact and creating new business capability to sustain your Society into the future.

As a commercial business, making profit and building capital are fundamental to our success and provides us with better options.

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

Our Strategy

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

Better Homes	Secure Futures	Fairer Society
A more accessible housing market	Supporting future generations & tackling big issues at a local level	Empowered colleagues making things possible for our customers
More savers, saving more regularly	A journey to net zero	Hopes and aspirations made possible for customers

Transforming our Society

The pace of societal change is rapid, with advancements in technology reshaping financial services markets all around the world and customer expectations increasing faster than anyone could have imagined. Principality is not immune to any of this. Through all this change, we have to continuously adapt in order to stay relevant and successful - to retain our current Members, acquire prospective new Members and strengthen the sustainability of our business.

Our geographic heritage across Wales and our heartland remains vitally important for us, but as digital banking has a greater impact on everyday life for the majority, geographic boundaries become less relevant and we need to be comfortable ‘spreading our wings’ further afield.

Our goal is to transform Principality into a mutual focused on delivering strong commercial performance for our stakeholders, enabling a decade of investment to support future generations of Members. To enable this, we are facing into our legacy technology and building new digital capability which will support our growth ambition outside of Wales, modernising the way we operate our business and delivering even better experiences for our Members and colleagues.

We’re building a simpler, more commercial and strategically focused business.

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. Colleague representation of minority ethnicities is a new SKPI as of 2025.

2025 Strategic Key Performance Indicators

Better Homes	Secure Futures	Fairer Society
<ul style="list-style-type: none"> Total number of homeowners Total number of first time buyers Total number of new homes funded Total committed to housing association lending (£) 	<ul style="list-style-type: none"> Total number of savers Total number of customers saving regularly Total number of young people accessing opportunities 	<ul style="list-style-type: none"> Reduction in CO₂ emissions across our operations (tCO₂e) Amount of funds distributed for social impact activity (£) Percentage of women in leadership roles Colleague representation of minority ethnicities

Better Homes

SKPI	2025	2024
Total number of homeowners	88,941	87,558
Total number of first time buyers	8,277	8,120
Total number of new homes funded	60	247
Total committed to housing association lending	£70m	£51m

Secure Futures

SKPI	2025	2024
Total number of savers	453,381	453,082
Total number of customers saving regularly ¹	94,521	81,871
Total number of young people accessing opportunities ²	36,183	50,217

Fairer Society

SKPI	2025	2024
(Increase)/reduction in CO ₂ emissions across our operations	(201)	(42)
Amount of funds distributed for social impact activity	£1.5m	£1.5m
Percentage of women in leadership roles	44%	46%
Colleague representation of minority ethnicities	2.7%	3.4%

¹ Customers with a positive movement in their balance any 4 months in the previous 6 months

² Total number of young people accessing opportunities provided by the Society, including financial education, work experience and opportunities created from the Future Generations Fund partnership.

The Strategic Key Performance Indicators, apart from statutory profit before tax, are alternative performance measures (APMs) which are internally used to inform key management decisions. Return on Assets and Return on Capital are new APMs as of 2025. Further information on these APMs can be found in this Strategic Report (definitions are included within the glossary).

	2025	2024
Financial Performance Measures		
Statutory Profit Before Tax	£60.0m	£49.2m
Underlying Profit Before Tax ¹	£60.5m	£40.3m
Net Interest Margin ²	1.21%	1.22%
Management Expense ³	0.84%	0.94%
Return on Assets ⁴	0.32%	0.25%
Return on Capital ⁵	5.7%	4.9%
Common Equity Tier 1	18.7%	19.8%
Stakeholder Experience		
Employee Engagement ⁶	78.0	81.0
Customer Experience ⁷	70.8	71.7
Broker Experience ⁸	84.1	86.6

¹ See page 14 for a reconciliation of underlying profit before tax

² Net interest margin is calculated as net interest income divided by average total assets. See page 15 for further details.

³ See page 15 for a reconciliation of the movement in the management expense ratio.

⁴ Return on assets is calculated as statutory profit after tax divided by average total assets. See page 17 for further details.

⁵ Return on capital is calculated as statutory profit after tax divided by total reserves. See page 17 for further details.

⁶ Source: Based on the Peakon colleague survey. The result refers to the degree to which our employees feel connected to their work, their colleagues, and the wider business.

⁷ Source: Based on Qualtrics survey customer data for the 12 months ended 31 December 2025.

⁸ Source: Based on Qualtrics survey broker data for the 12 months ended 31 December 2025.

Financial Review

for the year ended 31 December 2025

Income Statement overview

Continuing operations	2025 £m	2024 £m
Net interest income	169.7	162.0
Other income	2.2	2.2
Fair value (losses)/gains	(0.5)	8.9
Net operating income	171.4	173.1
Administrative expenses	(109.6)	(113.8)
Depreciation and amortisation	(8.0)	(10.8)
Statutory profit before tax and provisions	53.8	48.5
Impairment provisions release	6.7	3.6
Other provisions charge	(0.5)	(2.9)
Statutory profit before tax	60.0	49.2
Underlying profit before tax	60.5	40.3

Statutory profit before tax for 2025 is £60.0m (2024: £49.2m), with underlying profit before tax of £60.5m (2024: £40.3m). Both measures reflect further strong performance of the Group, with increased profits than prior year due to a £7.7m increase in net interest income driven by lower average cost of funding across the savings and wholesale funding portfolios, as well as the £0.5bn net retail mortgage growth achieved during the year.

In addition, operating expenses have fallen following the changes to the Group's operating model in 2025 and the investment over the prior years to ensure the Group remains fit for the future.

Loan loss provisions have reduced during the year resulting in a release of £6.7m (2024: release of £3.6m) driven by more optimistic macroeconomic and repossession rate assumptions, while there has been a charge of £0.5m (2024: charge of £2.9m) within other provisions.

Reconciliation between statutory profit before tax and underlying profit before tax

	2025 £m	2024 £m
Statutory profit before tax	60.0	49.2
<i>Adjusted for:</i>		
Fair value losses/(gains)	0.5	(8.9)
Underlying profit before tax	60.5	40.3

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

The only difference between statutory and underlying profit before tax is fair value movement, which represents the change in value of certain assets and liabilities to reflect underlying market rates. In 2025, there was a fair value loss of £0.5m (2024: fair value gain of £8.9m).

Net Interest Income and Net Interest Margin

Net interest income has increased by £7.7m (2024: decrease of £19.3m), reflecting growth in loans and receivables, partially offset by the impact of the cuts in the Bank of England's Base Rate from 4.75% to 3.75% over the period.

Our net interest margin for the year was 1.21% (2024: 1.22%), with the increase in net interest income offset by the rise in average total assets. Our lending continues to be primarily funded by Members' retail savings, with 96.6% (2024: 95.7%) of loans and advances to customers funded in this way.

Operating Expenses

We recognise that operating efficiently is a significant factor in achieving optimal Member value, and as such cost management remains a key area of focus. Expenses decreased in the year to £117.7m (2024: £124.6m), and also decreased as a percentage of mean assets, as shown by the reduction in the ManEx ratio below. The reduction in operating expenses is primarily caused by lower restructuring costs in the current year as well as ongoing management of the running costs of the Group.

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

	2025 £m	2024 £m
Retail financial services	113.9	120.8
Commercial lending	3.0	3.0
Secured personal lending	0.8	0.8
Total operating expenses	117.7	124.6
Management expense ratio	0.84%	0.94%
Cost income ratio	65.0%	70.8%

The cost income ratio compares costs as a proportion of total income. This has decreased due to the £6.8m reduction in operating expenses and the increase in net income of £9.3m.

Adjusted ManEx

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

	2025 £m	2024 £m
Total operating expenses	117.6	124.6
Specific in-year strategic change and investment expenditure	(4.9)	(9.1)
Fixed asset impairment	2.8	-
Exceptional non-recurring items	(4.3)	(1.6)
Underlying operating expenses	111.2	113.9
Community commitments	(1.5)	(1.5)
Other items adjusted for remuneration purposes	(4.1)	(5.2)
Adjusted operating expenses	105.6	107.2
Statutory Management Expense ratio	0.84%	0.94%
Adjusted Management Expense ratio	0.74%	0.80%

Operating expenses are adjusted by removing strategic change and investment spend, and other exceptional one-off items, as neither costs relate to the day to day running costs of the Group and therefore removing them provides an accurate measure of the ongoing cost to run the business. Strategic change and investment spend includes discretionary expenditure under a number of change programmes, and includes significant investment in continuous improvement and capability uplift projects. Fixed asset impairment refers to the reversal of impairment previously recognised against the Group's head office. Exceptional one-off items predominately relates to restructuring costs.

Expenses are further adjusted to remove community commitments and other items that are outside of the control of colleagues, and therefore removed for remuneration purposes after the agreement of the Remuneration Committee. Community commitments refer to the expenditure relating to our aim of donating up to 3% of our annual profit before tax to social purposes. The majority of items adjusted for remuneration purposes relates to removing the expenses relating to the Society's colleague bonus schemes from adjusted operating expenses. Both statutory and adjusted ManEx have reduced due to management of the running costs of the Group.

Impairment provisions for losses on loans and advances

	2025 £m	2024 £m
Retail mortgage lending	(3.0)	(1.9)
Commercial lending	(2.6)	(1.1)
Secured personal lending	(0.4)	(0.7)
Treasury assets	(0.7)	0.1
Total release	(6.7)	(3.6)

Impairment release totalled £6.7m in 2025 compared with a £3.6m release in 2024.

Impairment provisions for losses on loans and advances (continued)

The Group continues to have a low level of arrears, reflecting our prudent lending criteria, credit quality and underwriting standards. This is reflected in the release for the year in the retail impairment provision, which is driven by a reduction in the assumed repossession rates used within the retail model alongside an increase in the average property value of the retail book of 1.2% during 2025.

The release in the commercial impairment provision is primarily driven by macroeconomic forecasts, particularly the improving base rate outlook, while the fall in secured personal lending impairment provisions reflect the continued run off of the secured personal lending portfolio.

The performance of the loan portfolios and the wider external environment have been taken into consideration in determining the level of provision to be held, and the Group is well positioned to deal with the future economic uncertainty that exists.

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

	2025 £m	2024 £m
Retail mortgage lending	15.5	18.5
Commercial lending	8.2	10.6
Secured personal lending	0.9	1.5
Treasury assets	0.7	1.4
Total operating expenses	25.3	32.0

Provisions for liabilities

Provisions are recognised in respect of various customer claims. At 31 December 2025, the Group held a provision of £2.9m (2024: £5.1m). This reflects our 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.

The reduction in provisions for liabilities is primarily due to the utilisation of a £2.7m provision recognised for restructure costs recognised in 2024.

Taxation

The tax charge for the year was £14.8m (2024: £12.6m). The effective tax rate for the Group was 24.7% (2024: 25.6%). The corporation tax rate for 2025 was 25%, the same as the prior year.

Return on Assets

Return on assets, calculated as statutory profit after tax divided by average total assets, has increased by 4 basis points compared with the prior year to 0.32% (2024: 0.28%). This is a result of an increase of £9.9m in profit after tax (equating to a 33% increase) exceeding the growth in average total assets of £0.7bn (5% increase).

Return on Capital

Return on capital, calculated as statutory profit after tax divided by total reserves, has increased by 79 basis points compared with the prior year to 5.7% (2024: 4.9%). The increase is driven by the £9.9m increase in profit after tax noted above. An alternative measure is return on regulatory capital, calculated using reserves after prudential adjustments, which is 6.0% (2024: 5.1%). The reconciliation of regulatory capital is given within the Capital section.

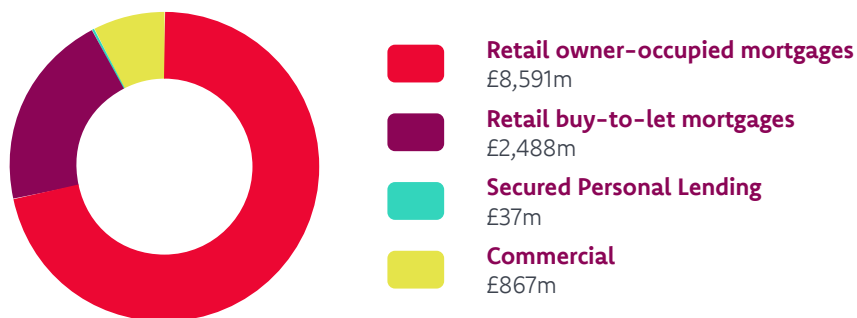
Statement of Financial Position overview

Total assets have decreased by £0.2bn in the year to £13.9bn (31 December 2024: £14.1bn), primarily due to a £1.3bn reduction in cash and balances with the Bank of England, driven by the repayment of Bank of England loans taken out during the pandemic and the efficient use of excess liquidity to fund mortgage growth.

The retail mortgage portfolio has continued to grow as a result of our investment in technology in prior years to increase our mortgage on-boarding capability, with the portfolio growing by £0.6bn in 2025 to £11.1bn (2024: £10.5bn). The savings portfolio has also continued the growth trajectory from prior years, growing by £0.8bn in 2025, to £11.6bn (2024: £10.8bn).

	2025 £m	2024 £m
Liquid assets and balances with other credit institutions	1,772.6	2,505.5
Loans and advances to customers	12,000.6	11,284.5
Other assets	170.5	319.2
Total assets	13,943.7	14,109.2
Retail savings	11,583.8	10,798.8
Wholesale funding	1,463.1	2,447.9
Other liabilities	97.4	108.8
Total liabilities	13,144.3	13,355.5
Reserves	799.4	753.7
Total liabilities and equity	13,943.7	14,109.2

Loans and advances to customers by portfolio*



*Excludes 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 £0.7bn (2024: increase of £1.1bn) to £12.0bn excluding fair value adjustments (2024: £11.4bn), driven by an increase in our retail owner-occupied portfolio of £566m (increase of £1,090m) and an increase in our commercial lending portfolio of £74m (2024: decrease of £17m).

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 £2.3bn (2024: £2.4bn). Despite comparable gross lending to the prior year, redemptions and other repayments have increased to £1.8bn (2024: £1.2bn), leading to the £0.5bn increase in net retail mortgage lending in the year (2024: £1.2bn).

The retail mortgage book remains the largest portfolio of the business at £11.1bn (2024: £10.5bn). This includes both lending to homeowners and a buy-to-let portfolio of £2.5bn (2024: £2.5bn). 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 £37m (2024: £49m), secured against residential property by a second charge. This business is in run off with balances reducing by £12m (2024: £14m reduction) in the year.

Our retail mortgage and secured personal lending portfolios reflect the prudent nature of our lending policies, with 72% (2024: 73%) of exposures having a balance to indexed valuation of less than 75%, and 91% (2024: 91%) less than 90%. The exposures are well spread by geographical area within England & Wales, albeit with a larger share of lending by region in Wales, which by value constitutes 28% of lending (2024: 29%) in the retail mortgage and secured personal lending portfolios.

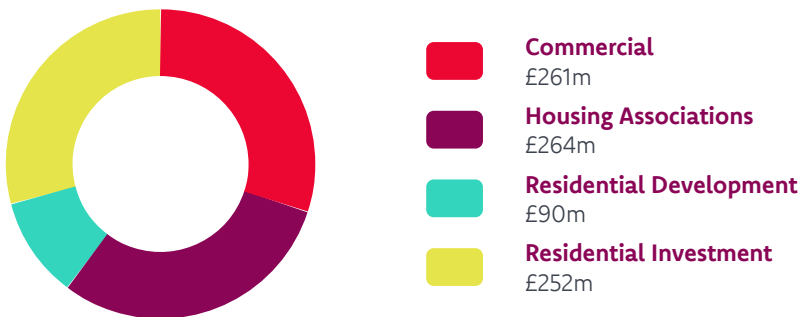
The number of retail mortgage lending cases fully secured by a first charge currently with arrears of more than three months is 450 (2024: 480), which as a percentage of the portfolio is 0.51% (2024: 0.55%), comparing favourably with the industry average of 1.0%*. The number of properties taken into possession during the year fell to 13 (2024: 20), with total repossessed cases representing 0.02% of the retail portfolio which compares favourably with the industry average of 0.08%*.

ii. Commercial lending

The Society provides loans secured on residential and commercial property across England and Wales, with 50% (2024: 50%) of lending situated in Wales. The commercial lending portfolio is composed of lending against both residential property and housing associations representing 70% (2024: 67%) of balances and commercial property exposures representing 30% (2024: 33%).

The commercial lending portfolio had five exposures greater than three months in arrears at the year-end (2024: two). The high interest rate environment in prior years has seen some commercial lending customers fall into forbearance due to interest cover covenant (ICC) breaches although there are only six customers currently in arrears (2024: four customers). 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.

Commercial loans and advances by portfolio**



* UK Finance arrears and possession data at 13 November 2025.

** Excludes fair value adjustments

Defined benefit pension scheme

The Society operates a defined benefit pension scheme, which is closed to new entrants and to further accrual. In 2023, the Scheme purchased a new annuity policy to wholly cover the liabilities associated with the scheme (“buy in”). As a result only a small surplus of £0.4m remains at 31 December 2025 (2024: deficit of £0.1m).

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. No triennial valuation was deemed necessary by the scheme’s actuary in 2025 as there is a plan to complete a buy-out transaction in 2026, instead the annual update in 2025 formed the basis for the accounting position at 31 December 2025 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 as the scheme progresses towards buy-out.

Liquidity

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 13.6% (2024: 18.9%) as a proportion of shares, deposits, and loans. Our liquidity is made up of cash, balances with the Bank of England and investments in credit institutions. Included within liquidity is cash held in respect of collateral deposit posted by counterparties. Liquidity levels

at the end of the year have decreased primarily due to the £550m repayment of the Bank of England’s Term Funding Scheme loans and the use of excess liquidity to fund mortgage growth.

The Liquid Asset Buffer as defined by the Prudential Regulatory Authority (PRA) includes highly liquid assets, typically central bank and sovereign exposures, as well as high quality liquid assets issued by other credit institutions. At the year end, the proportion of the Group’s available liquidity which was buffer eligible was 83% (2024: 87%). Of the total liquid assets, none (2024: 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 168% at 31 December 2025 (2024: 231%), while the Group’s NSFR, a measure of availability of stable funding, was 144% at 31 December 2025 (2024: 147%). The Group has a healthy buffer over the required regulatory amounts of 100% for both measures.

We were a participant in the Bank of England’s Term Funding Scheme, although our outstanding balance owing of £550m was repaid during the year, 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:

	2025 £m	2024 £m
Cash and balances with the Bank of England	403.9	1,668.8
Securities issued by the UK Government	476.8	-
Securities issued by other institutions	593.6	481.3
Total Buffer Eligible Assets	1,474.3	2,150.1
Loans and advances to credit institutions and other debt securities	298.3	355.4
Total	1,772.6	2,505.5

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

Funding

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

Funds are raised from a variety of sources in order to meet the strategic objective of maintaining a diversified funding mix. The largest component is retail savings, which at £11.6bn (2024: £10.8bn) represents 97% (2024: 96%) of

all mortgage and loan balances. Retail savings balances have increased by £0.8bn in the year (2024: £1.7bn increase).

Other funding is comprised of RMBS notes issued by the Society on the wholesale markets. The total value of external RMBS notes outstanding at the end of the year was £900m (2024: £1,305m).

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

	Short-term	Long-term	Outlook
Moody's	P-2	Baa1	Stable
Fitch	F2	BBB+	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, 8.8% (2024: 14.8%) of the Group's assets were encumbered, representing £1.0bn (2024: £2.1bn) of residential mortgage assets and £274m (2024: £285m) 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 2025, 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. The following table shows the composition of the Group's capital ratios at the end of the year.

	2025 £m	2024 £m
General reserve	798.2	753.0
Other reserves and prudential adjustments	(44.4)	(37.9)
Common equity tier 1 capital	753.8	715.1
Loans and advances to credit institutions	33.2	41.7
Debt securities	85.7	77.4
Derivative financial instruments	27.4	29.0
Loans and advances to customers	3,522.2	3,142.2
Other assets	49.2	5.2
Credit valuation adjustment	35.4	51.2
Operational risk	269.2	262.0
Risk weighted assets	4,022.3	3,608.8
CET1 ratio	18.7%	19.8%
Solvency ratio	18.7%	19.8%

	2025 £m	2024 £m
Total exposures	14,558.0	14,682.1
Bank of England exposures and other cash items	(403.7)	(1,668.8)
PRA leverage exposure	14,154.3	13,013.3
PRA Leverage Ratio	5.3%	5.5%

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

Our CET1 ratio has decreased to 18.7% in the year (2024: 19.8%). The decrease is due to planned book growth, primarily within the residential mortgage sector. The reduction had been expected due to the efficient use of capital to assist in the growth of the portfolio.

The ratio still remains strong and above the regulatory limit of 10.7%, with our profitability during the year meaning that we continue to generate capital to support future lending to households and our commercial customers.

Our Solvency ratio, the ratio of total capital to risk weighted assets, is consistent with our CET1 ratio at 18.7% (2024: 19.8%). A further measure of capital strength is the PRA Leverage Ratio, a measure of Tier 1 capital held against total (non-risk-weighted) assets, including certain off-balance sheet commitments. At the end of the year, our PRA Leverage Ratio was 5.3% (2024: 5.5%), above the regulatory limit of 3.3%.

Impact Beyond Scale

for the year ended 31 December 2025

Social Impact

Our Impact Strategy frames our commitment to supporting local communities; with a focus on young people, inclusion, and environmental sustainability.

Our community commitments funding was a total of £1.5m during 2025 (and has been over £4.3m since 2023).

Community Grants

In collaboration with Community Foundation Wales, we were delighted to continue our Future Generations Fund for another year, with our 5th round of grant funding taking place in 2025.

As part of this, almost £500,000 was shared with another 15 community projects across Wales and the Borders; with all grants helping under 25s with topics ranging from work skills, financial education, health and wellbeing activities, mental health provision and environmental conservation.

Since we launched the Future Generations Fund in 2022, over £2m in grants have now been distributed into communities.

In January 2025 we received Impact Reports for projects funded during the 2nd and 3rd rounds, with 18,806 young people getting help, and 1,516 community volunteers supported.

In addition, we also ran our second round of Retrofit for the Future Fund in 2025 with another £100,000 of grant funding being shared to help develop community sustainability projects.

Charity Partnership

Our colleagues have a longstanding commitment to supporting charitable causes and were delighted to welcome Barnardo's Cymru as our new charity partner in 2025. The partnership will run until the end of 2026, with fundraising efforts supporting Barnardo's Cymru services for children, young people and families across Wales.

During 2025 over £237,000 was fundraised and donated by colleagues and Members, helping children and young people feel safer, happier, healthier and more hopeful for their futures.

We reached a significant milestone in terms of charity support in 2025, having fundraised and

donated over £2m for Welsh charities since 2014. These charities included MS Society, Mind Cymru, Llamau, Cancer Research Wales, School of Hard Knocks, Alzheimer's Society, Teenage Cancer Trust, Ty Hafan and Hope House Tŷ Gobaith.

Community Volunteering

Our colleagues actively engaged in volunteering opportunities, stepping away from their desks and branch roles to support local communities. In 2025, they collectively contributed 1,091 hours to local schools and a variety of community initiatives.

Community Partnerships providing opportunities for young people

We were extremely proud to work with a wide range of educational partners throughout 2025, all with the ambition to provide learning opportunities for young people, and included Young Enterprise (Fiver Challenge), Team Wales (Commonwealth Games – Schools Programme), 2B Enterprising and the King's Trust in Wales.

We teamed up with Connect R to bring the Discover Finance Work Experience project to Wales for the first time, and 27 students from across Cardiff and Newport took part and boosted their CVs.

Across all partnerships and activities, 36,183 children and young people were supported (2024: 50,217). Each year we set ourselves a target on the number of children and young people we want to help reach, which is based on the delivery contracts we have in place and activities planned – there is a continuing trend towards helping fewer people but with deeper and more meaningful impact.

Responsible Business Networks

Throughout 2025, we strengthened our contribution to the responsible business agenda by demonstrating leadership through our membership of Business in the Community Cymru and sponsorship of its Place Programme across Rhondda Cynon Taf. We shared our social impact investment data as part of the Business for Societal Impact (B4SI) global network and continued our sponsorship of the Future Generations Leadership Academy in partnership with the Office of the Future Generations Commissioner.

Climate-related Financial Disclosures

for the year ended 31 December 2025

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

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

As our work evolves, and the impact of different scenarios is considered, we will assess financial risks by reference to our risk appetite and determine the most appropriate measures and targets to put in place. SS3/19 requires specific disclosures to be made regarding these risks, and these are included within this report. We note that this Supervisory Statement has been superseded by SS5/25, which we have not adopted for voluntary reporting as at 31 December 2025. A focus for 2026 will be performing a gap analysis against the new requirements, with compliance achieved by the mandatory date.

Governance

Climate change considerations are embedded in our governance model and future planning and, aligning to our purpose, are intrinsic to how we operate. The Executive Committee and Board are fully engaged with our climate strategy, proposition development, risk management, and disclosures and have ultimate oversight of

our approach to considering, evaluating, and integrating climate-related risks and opportunities throughout the Society on a day-to-day basis.

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

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

Our Executive Committee received two reports in relation to climate-related activity in 2025. In the first half of the year this included the results of our 2024 carbon footprint, and in September they received an update on progress against our carbon reduction strategic key performance indicator (SKPI).

Ownership for responding to the financial risk of climate change rests with the Risk Directorate, while overall responsibility for meeting our net zero ambitions now rests with the Chief Executive following an internal restructure.

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

Board Risk Committee (BRC)

The Board has delegated oversight of climate risk management to the Board Risk Committee. The Board Risk Committee receives regular updates on climate-related risk in its scorecard at every meeting.

Executive Risk Committee (ERC)

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

Remuneration Committee

The Remuneration Committee has oversight of the review of colleague remuneration schemes for the financial year. Performance of our Impact Strategy in relation to our progress towards net-zero remained intrinsically linked to remuneration in 2025, with carbon reduction one of the elements of the 2025 variable remuneration scheme.

Supply Chain Governance

Seeking to be a sustainability-focused organisation includes our supply chain and we have a Supplier Code of Conduct, which suppliers are expected to adhere to. It includes the information we check from suppliers prior to onboarding, and our expectations of suppliers to develop their own sustainability plans to meet both social and environmental commitments. Since 2024, we've included sustainability clauses in our contracts, to ensure we remain leaders in sustainable procurement.

All of our Supplier Performance Managers received bespoke training in 2025 to enable them to have conversations with their suppliers about our carbon reduction journey and inviting them to join us by measuring and reporting their own emissions. This is already starting to improve our data quality, meaning we can focus on supporting our suppliers to set meaningful carbon reduction targets, and this training will continue in 2026. To further support this, we also created a bespoke Sustainable Supplier Toolkit, which can be used to help suppliers in the first steps of their journey.

Strategy

A key outcome under the Fairer Society pillar of our enterprise strategy is to deliver carbon net zero in our operations (i.e. excluding our financed emissions) by 2040. We've calculated

our corporate carbon footprint for five years and during this time the quality of our data has continued to improve, enabling us to further refine our plan. In 2024, the Board and Executive Committee reaffirmed their commitment to achieve net zero in Scopes 1 and 2 by 2030, and Scope 3 (excluding financed emissions) by 2040.

In 2024, we joined the United Nations Environment Programme Finance Initiative (UNEP-FI) and committed to the Principles of Responsible Banking (PRB). During 2025 we worked on understanding the requirements of the principles and undertook our first materiality assessment, asking a range of key stakeholders, including our Members, where they felt Principality Building Society could have the most impact on our communities. We also held an Impact Workshop with Subject Matter Experts from across the business, aimed at understanding where our business makes the most impact on society, both positive and negative, and chose the priority areas to act. The results of both exercises will be taken forward into our planning for the next year.

As a requirement of PRB, we will soon be issuing our first Annual Progress Statement, which will be published on our website. As part of our PRB commitment, we also joined the Net Zero Banking Alliance. Although there has been a change to the organisation's structure recently, moving from a membership base to a framework, we continue to see the benefit in the guidance it offers.

During 2025, the Society achieved certification against ISO14001: 2015, the International Standard for Environmental Management, making us the first large Building Society to achieve this in the UK. The standard sets out clear, robust criteria for an environmental management system and provides a framework for organisations from any industry or sector to follow, in order to produce an effective environmental management system. The standard is an internationally recognised way of providing assurance to company management and colleagues, as well as external stakeholders, that environmental impact is being measured and improved.

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

Understanding the risks of climate change

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

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

Physical Risk

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

Transition Risk

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

Qualitative Analysis

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

Scenario Analysis

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

The majority of our carbon-related assets are linked to mortgages, and to understand fully the risks associated with properties currently held as security in support of our mortgage portfolio, we partnered with Hometrack and others to capture relevant physical and transition risk data. Physical risk data includes an assessment of the likelihood of flooding (data provided by Ambiental) and subsidence and coastal erosion (data provided by Terrafirma). Transition risk data uses EPC ratings for currently mortgaged properties, with Hometrack sourcing the data from the Department for Levelling Up, Housing and Communities (DLUHC).

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

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

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

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

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

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

Climate change stress testing is run on an annual basis, with year-on-year results reviewed to analyse the impact of any strategic changes on the overall risk in the mortgage portfolio. Climate change is not currently expected to pose a material risk over the 5 years.

In 2025 the results of our scenario analysis identified the following impacts:

Physical risk impact

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

Financial risk impact

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

Transition risk impact

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

Potential changes to EPC (Energy Performance Certificate) legislation meet these criteria, as the Government could make changes in order to influence CO₂ emissions. We recognise that there is already legislation in place setting minimum EPC ratings for Buy-to-Let properties, which could be tightened and/or expanded in the future.

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

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

Risk Management

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

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

The framework outlines the strategic approach for risk management and provides an integrated and holistic view of vulnerabilities and risks across the business. It captures responsibilities, delegation of authorities, and the methods by which risks are identified, measured, monitored and controlled. Principal risks within our ERMF are assessed and, where relevant, climate change is considered to ensure that the exposure remains within risk appetite.

There are two key elements to the assessment:

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

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

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

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

Risk Category	Potential Impacts (Transition and Physical Risk)
<p>Credit risk The risk that borrowers or counterparties do not meet their financial obligations as they fall due</p>	<p>Medium-term risks:</p> <ul style="list-style-type: none"> • Impact of a greener economy on employment (lack of skills) and increases in energy costs leading to default • Impact on house prices due to government policy such as the stipulation of minimum EPC ratings • Impact of increased household insurance premiums leading to uninsured and/or underinsured homes <p>Long-term risk:</p> <ul style="list-style-type: none"> • Physical damage to property caused by climate change e.g. flooding
<p>Operational risk The risk of loss arising from inadequate or failed internal processes, systems, human error or external events.</p>	<p>Medium-term risks:</p> <ul style="list-style-type: none"> • Availability of employees during a physical event and the impact this would have on our ability to provide members with a service • Impact on the supply chain in relation to costs and their ability to provide agreed services due to physical impacts • Reconsideration of third-party relationship due to their attitude to climate change risk <p>Long-term risks:</p> <ul style="list-style-type: none"> • 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
<p>Conduct risk The risk of poor outcomes to customers, or an adverse effect on market integrity, arising from the actions and behaviours of employees and the Society as a whole</p>	<p>Medium-term risk:</p> <ul style="list-style-type: none"> • Potential for increased levels of complaints and disputes because climate-related physical or transition risks result in poor customer outcomes
<p>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</p>	<p>Medium-term risk:</p> <ul style="list-style-type: none"> • 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 the Society in relation to the management of risks associated with climate change

Interest rate risk

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

Medium-term risk:

- Macroeconomic market movements impact value of balance sheet assets and liabilities as a result of interest rate movements

Business risk

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

Medium-term risks:

- Reputational damage caused by a negative perception of the Society and its perceived response to the climate risk agenda
- Managing and meeting Member expectations
- Macroeconomic market impacts arising from physical or transition events

Solvency risk

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

Long-term risk:

- Deterioration of balance sheet assets following physical impacts or as a consequence of a fall in the value of collateral held to support mortgage loans

We define short-term as 1 to 5 years, medium-term as 5 to 30 years and long-term as 30 years and above. The 5 year short-term window is aligned with our internal five year plan, and we currently do not identify any material risks in the short-term.

Our culture and risk management philosophy reflects a strong awareness of the current and emerging risk landscape that could affect the delivery of our strategy. We have identified specific climate risks this year in relation to credit, property, people and our supply chain which will continue to be monitored closely.

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

Metrics and Targets**Operational Emissions**

Scope 1 emissions are created directly by the Society (from self-generated heat and from our fleet vehicles). Scope 2 emissions are indirect emissions from purchased electricity and Scope 3 covers all other indirect emissions from our operations occurring from sources that are not owned or controlled by the Society. Financed

emissions relate to the emissions of the financed element of properties included in the mortgage portfolio, and whilst part of Scope 3 (category 15), are reported separately here.

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

Our 2025 operational emissions can be seen in the table overleaf. These are calculated by ClimatePartner, using a mix of activity, hybrid and spend based data. Appropriate emission factors are taken from a variety of sources, primarily sourced from DEFRA and Ecoinvent.

The overall emission profile of the Society has increased as a result of operational and capital expenditures due to an increase in the average emission intensity of our suppliers. However, great improvements were made in other areas within Scope 3, with significant reductions in business travel and employee commuting partially offsetting this. Further work will continue into 2026 with the focus on working with suppliers who both report and are aiming to reduce their own emissions. These improvements in the supply chain will then flow into the Society's emission profile in future periods.

Emission Source	2025		2024	
	Emissions (t CO ₂)	Share %	Emissions (t CO ₂)	Share %
Heat (self generated)	264.6	7.5	236.8	7.1
Combustion	1.4	-	1.4	-
Refrigerant leakage	-	-	1.2	-
Direct emissions from company facilities	266.0	7.5	239.4	7.1
Vehicle fleet	7.1	0.2	5.6	0.2
Direct emissions from company vehicles	7.1	0.2	5.6	0.2
Scope 1	273.1	7.7	245.0	7.3
Electricity (charging vehicle fleet)	0.7	-	1.1	-
Purchased electricity for own use	0.7	-	1.1	-
Scope 2	0.7	-	1.1	-
Operational Expenditure (all other)	1,950.6	54.9	1,777.1	53.0
Print products	81.3	2.3	97.9	2.9
Office paper	0.8	-	0.3	-
Water	1.1	-	1.3	-
External data centre	0.4	-	0.3	-
Purchased goods & services	2,034.2	57.2	1,876.9	56.0
Capital Expenditure	423.8	11.9	385.5	11.5
Electronic devices	45.1	1.3	32.9	1.0
Capital Goods	468.9	13.2	418.4	12.5
Upstream emissions - heat & combustion	44.0	1.2	39.4	1.2
Upstream emissions - electricity	57.8	1.6	40.3	1.2
Upstream emissions - vehicle fleet	2.1	0.1	1.8	0.1
Fuel and energy-related activities	103.9	2.9	81.6	2.4
Delivery of letters, leaflets & cheque	49.2	1.4	30.9	0.9
Upstream transportation	49.2	1.4	30.9	0.9
Operational waste	14.2	0.4	18.3	0.5
Transport to disposal facility	1.0	-	1.9	0.1
Waste generated in operations	15.2	0.4	20.2	0.6
Rental & private vehicles	40.9	1.2	51.8	1.5
Rail	20.5	0.6	22.6	0.7
Hotel nights	9.8	0.3	13.9	0.4
Flights	1.6	-	5.3	0.2
Business travel	72.8	2.1	93.5	2.8
Employee commuting	360.8	10.2	437.9	13.1
Home office	175.6	4.9	147.7	4.4
Employee commuting	536.4	15.1	585.6	17.5
Scope 3	3,280.6	92.3	3,107.0	92.7
Overall results	3,554.4	100.0	3,353.0	100.0

The table above only includes emission categories that are relevant to the Group. The following scope 3 emission categories are not applicable to the Group in 2025 or 2024: Upstream leased assets; Processing of sold products, End-of-life treatment of sold products, Downstream leased assets, Franchises.

Financed emissions

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

Scope 3 mortgage emissions:	Total	2025 Owner occupier	BTL	Total	2024 Owner occupier	BTL
Property Metrics						
Volume of Properties - With a valid EPC	58,656	42,958	15,698	67,731	49,427	18,304
Volume of Properties - Total book	88,790	67,386	21,404	86,708	64,366	22,342
Property floor area in million metres ² (i) - With a valid EPC	5.11	3.98	1.13	5.90	4.57	1.32
Property floor area in million metres ² (ii) - Total book	7.78	6.24	1.54	7.55	5.96	1.61
Absolute Scope 3 carbon dioxide emissions (CO₂e) in million tonnes (Mt) per year (y) for mortgages						
On properties with a valid EPC (iii)	0.23	0.17	0.06	0.26	0.19	0.07
On whole book using interpolated EPC data (iv)	0.34	0.26	0.08	0.33	0.25	0.08
Absolute carbon dioxide emissions in kilograms per square metre of floor area per year (kgCO ₂ e/m ² /y) using interpolated EPC data	43.74	41.98	49.94	43.76	41.98	49.94
LTV weighted Scope 3 carbon dioxide emissions (CO₂e) in million tonnes (Mt) per year (y) for mortgages						
On whole book using interpolated LTV weighted data (v)	0.20	0.16	0.04	0.19	0.15	0.05
LTV weighted carbon dioxide emissions in kilograms per square metre of floor area per year (kgCO ₂ e/m ² /y) using interpolated data (vi)	25.96	25.02	28.47	25.97	25.02	28.47
Data Score (v)	3.68	3.73	3.53	3.44	3.46	3.36

Methodology

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

PCAF guidance suggests using the property value at origination, but there are drawbacks of using this metric as it doesn't accurately reflect current

financing for customers who have increased their borrowing as house prices have increased. Using a more recent house valuation would therefore give a better representation of the LTV ratio and estimated financed emissions of the book.

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

Data quality score

A weighted data quality score of 3.68 has been calculated for financed emission data by:

- Using emissions data in publicly accessible EPCs available for approximately 66% of the total mortgage book. These are given a data score of 3.
- Interpolated EPC data across the remaining 34% of the portfolio. Properties without an EPC are assumed to have the same EPC characteristics as the properties with an EPC. These are given a data score of 5.

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

Comments

Estimated total emissions have increased 0.01 M tCO_{2e} per year from the 2024 disclosure (0.34 from 0.33) largely due to an increase in the number of properties, while CO_{2e} per square metre per year has marginally reduced by 0.02kg (43.74 vs 43.76). Financed emissions have remained flat year on year. The data score has worsened in 2025 as we transition to a new approach for sourcing EPC ratings but is expected to improve over the next 12 months.

Targets

Principality has the following targets:

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

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

Although we would like to set a target for the decarbonisation of the mortgage book, we don't believe it is possible to set a meaningful target until there is more certainty over the UK Government's policy and investment plans in relation to achieving its net zero commitment under the Paris Agreement. We continue to support this initiative in a number of ways, including contributing to various working groups led by organisations such as UK Finance, and the Building Societies Association, to lobby and influence government policy on issues including the decarbonisation of the UK housing stock. We welcomed the publication of the Warm Homes Plan in January 2026 and look forward to seeing how the policy measures set out are brought to fruition over the coming years.

We're conscious of the various dependencies that impact the achievement of the UK Government's goals in relation to decarbonising the built environment including the decarbonisation of the National Grid, the rate of retrofitting existing properties and the rate of development of new homes that are compliant with the Future Homes Standard. Whilst we have no control over much of this, we support the development of new low carbon homes in a number of ways through our commercial lending business, with 82% of new homes funded by Commercial rated EPC B or above (2024: 76%).

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

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

Risk Overview

for the year ended 31 December 2025

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 manage risks by:

- operating a business model underpinned by strong risk governance
- adopting an Enterprise Risk Management Framework which covers all risks and is supported by a clearly defined 'three lines of defence' model
- monitoring and managing risks within risk appetite as set by the Board
- ensuring we maintain sufficient capital and liquidity to enable the business to survive a combination of severe but plausible market and firm specific stresses
- providing assurance on Material Controls supporting the delivery of strategic objectives and regulatory compliance, supported by regular assessment; and
- continuing to strengthen our organisational resilience through scenario testing, supplier dependency assessments, and ongoing investment in technology and operational capabilities to ensure continuity of our important business services.

Principal risks

The key risks to which we are exposed are outlined below, there are no new or removed principal risks in 2025.

Solvency risk

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

Operational risk

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

Credit risk

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

Interest Rate risk

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

Model risk

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

Conduct risk

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

Business risk

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

Liquidity and Funding risk

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

Legal and Regulatory risk

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

a) Business Risk

(i) Market background and uncertainties

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

(ii) Risk mitigation

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

b) Credit Risk

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

(i) Market background and uncertainties

Interest rates in the UK have fallen during the year, but remain higher than they were in the immediate post pandemic period (2022/23) when many fixed rate mortgages were taken out. With UK inflation remaining above the 2% target, the opportunity for further Bank rate reductions is limited.

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

(ii) Risk mitigation

The quality of individual lending decisions and subsequent management and control of mortgage exposures, together with the application of a credit policy that reflects our risk appetite as a lender of prime residential mortgages, 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.

c) Liquidity and funding risk

(i) Market background and uncertainties

The UK continues to face moderate economic growth, affected by persistent inflationary pressures and high interest rates. The Bank of England continues in its efforts to balance between inflation control and economic growth through cautious rate cuts.

There are still uncertainties around inflation trends, future interest rate movements, consumer and business confidence and continued global geopolitical risks. The pace of recovery is delicate, with external shocks and domestic fiscal constraints posing risks to sustained growth. The cost-of-living pressure remained high, and the increased focus on consumer duty has intensified the competition on savings, resulting in a squeeze in margin.

(ii) Risk mitigation

Day-to-day management of liquidity is the responsibility of the Balance Sheet Management function. The Treasury Committee, being a sub-committee of the Asset and Liability Committee, exercises control over levels of liquidity through the operation of strict liquidity policies and close monitoring, receiving weekly reports on current and projected liquidity positions.

The Board determines the level of liquid resources required to support the Society's strategy through the review of the annual Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken as part of the development of the Society's Corporate Plan. Stress tests considering a range of severe but plausible scenarios and their impact on the Society, particularly with respect to retail saving outflows, ensure that the Society has sufficient liquid assets to withstand liquidity stresses. The Board approved the most recent ILAAP in November 2025.

The Society has a diverse funding base, with a strong history of attracting and retaining retail funds through its range of product offerings, while maintaining a presence in the wholesale market, supported by external credit ratings.

d) Market risk

(i) Market background and uncertainties

In 2025, the UK economy continued to stabilise amid easing inflationary pressures and a gradual shift in monetary policy. While inflation has moved closer to target, the Monetary Policy Committee maintained a cautious stance, emphasising that monetary policy must remain restrictive until price stability is firmly secured. Uncertainties persist around the pace of disinflation, labour market resilience, and global geopolitical and commodity market developments, leaving the timing and extent of further rate reductions highly data-dependent.

(ii) 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 Asset and Liability Committee considers the impact of a number of interest rate risk and basis risk stress tests on the balance sheet, using both earnings and economic value measures. In addition, our Executive and Board Risk Committees review options and strategies available to manage the impact of

any potential future changes in interest rates. Our forecasts and plans take into 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 adverse effects on both the net interest income generated and the economic value of the balance sheet.

e) Model risk

(i) Market background and uncertainties

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

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

(ii) Risk Mitigation

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

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

Examples of activities that support risk mitigation include:

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

f) Operational risk

(i) Market background and uncertainties

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

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

crime analytic and monitoring capabilities whilst following developments in regulatory economic crime reforms aimed with increasing consumer protection and reducing fraud.

(ii) Risk mitigation

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

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

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

g) Solvency risk

(i) Market background and uncertainties

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

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

(ii) Risk mitigation

Solvency risk is subject to regular monitoring and is managed within the risk appetite set by the Board. The Board determines the level of capital resources required to support the Society's strategy through the review of the annual Internal Capital Adequacy Assessment Process (ICAAP) undertaken as part of the development of the Society's Corporate Plan. Stress tests considering a range of severe but plausible scenarios and their impacts on the Society ensure that the Society holds sufficient capital to withstand an equivalent stress. The assessment process also includes evaluation of financial risk exposure to physical (e.g. flood, coastal erosion) and transition risks (e.g. environmental legislation, customer demand) related to climate change. The Board approved the most recent ICAAP in December 2025.

h) Conduct risk**(i) Market background and uncertainties**

We place good customer outcomes at the heart of our decision making and this ethos is embedded in our culture, product design, services and communication strategies. Ensuring fair value and good customer outcomes across our channels and products remains a key priority. We remain committed to embedding the principles of the FCA's Consumer Duty, continuously evolving in response to insights gained from our customer interactions.

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

Board oversight. The principles of the Consumer Duty will continue to drive cultural change, ensuring that the delivery of good outcomes is embedded across the entire customer journey.

Management of conduct risk at the Society will continue to align with applicable elements of the FCA's annual programme of work 2025/26 and the FCA's strategy for Building Societies in 2025. Key areas of focus remain; reducing and preventing financial crime, supporting customers in financial difficulty, operational resilience, access to financial services and sustainable finance.

(ii) Risk mitigation

Our Consumer Duty Governance Framework enables us to identify, manage, and measure conduct risk through targeted management information across products, services, and customer journeys. The Risk Management framework articulates the Board's risk appetite, and key conduct metrics are reported to appropriate Committees within our governance structure. We use outcome testing to assess whether we're delivering good outcomes for our customers, and monitor complaints to understand where we need to improve. As well as internal processes, we seek feedback from customers across numerous interactions with us. This 'voice of the customer' is vital in terms of product design, delivering fair value and improving customer communication strategies.

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

i) Legal and Regulatory risk

(i) Market background and uncertainties

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

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

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

(ii) Risk mitigation

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

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

All principal risks have the potential to affect more than 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

The most significant emerging risks identified for the coming years are outlined below.

Risk	Brief Definition
<p>Digital savings capability</p> <p>As technology evolves, our current and future Members' needs do too. Whilst we remain committed to our presence on the high street, there is growing demand from Members looking to manage their savings online. There is therefore a risk that our current digital experience and the capability of our current systems are not 'fit for the future' and will need to evolve in the coming years.</p>	<p>We continue to invest heavily in our technological capabilities to ensure we have the right systems in place to provide an enhanced digital customer experience. Alongside this, we continue to enhance our customer insight, helping us understand what our members want.</p>
<p>Information Technology and Cyber Security</p> <p>The threat represented by cyber attacks is expected to remain at an elevated level, considering the sophistication, frequency and severity of reported attacks instigated against other financial services providers within both the UK and wider markets. Equally, the emerging risks posed by the increasing using of Artificial Intelligence (AI), as well as the risk of not taking opportunities to use it, are ever-evolving, and being considered.</p>	<p>We continue to invest in our cyber risk management capability alongside the investment in our core product offering. We regularly assess this capability via a variety of means including third party penetration testing, third party led live scenario exercises and is supported by ongoing training and awareness. 'Test and learn' activities have also been conducted in a safe environment to enhance our understanding of how AI can help us to be more effective and efficient.</p>

Climate change

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

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

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

Climate considerations are embedded strategically within the business, more details of which are provided in the Climate-related Financial Disclosures.

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

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

Approval of the Strategic Report

This Strategic Report (on pages 4 to 40) has been approved by the Board of Directors and is signed on behalf of the Board by:



Iain Mansfield

Chief Executive Officer

19 February 2026

Governance

Corporate Governance Report

for the year ended 31 December 2025

Dear Member,

I am pleased to present our Corporate Governance Report for the financial year ended 31 December 2025. This report provides an overview of the way in which the Board has operated over the last 12 months and outlines our commitment to maintaining high standards of corporate governance.

The Society's approach to corporate governance is based on the Principles and Provisions of the 2024 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 and for this reason, and to meet the expectations of the Society's Members and other stakeholders, the Board has best regard to the 2024 UK Code, in so far as possible where it applies to building societies (as set out in the Building Societies Association Guidance available at [bsa.org.uk](https://www.bsa.org.uk)).

As a mutual organisation, we do not have shares or shareholders, and therefore do not have best regard to the following:

Provision 3	The Chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the strategy.	Principality Building Society does not have shareholders. We endeavour to apply the sentiment of the Provision by having member engagement, such as Member Pulse.
Provision 36	References to long-term shareholdings in relation to remuneration.	Principality Building Society does not have shareholders.

In addition, as Provision 29 of the 2024 Code will apply for financial years beginning on or after 1 January 2026, we continue to have best regard to Provision 29 of the 2018 Code for the year ended 31 December 2025.

Board changes

Executive Directors:

Julie-Ann Haines resigned as Chief Executive Officer on 20 November 2025 after 5 years in role, with Iain Mansfield appointed as the Society's new Chief Executive Officer on 21 November 2025. The Board and I would like to thank Julie-Ann for her time with the Society and wish her all the best in the future. 2026 will be an exciting year for the Society as Iain settles into the role.

Non-Executive Directors:

Garry Stran joined the Board on 6 January 2025; and Claire Hafner resigned on 31 December 2025 after serving on the Board for over seven years.

The biographies on pages 45 to 47 provide information about your Board of Directors as at 31 December 2025. Shimi Shah will not stand for re-election at the Annual General Meeting, after serving one term of three years on the Board. There have been no other changes to the Board post 31 December 2025 and as at the date of signing the Annual Report and Accounts.

Annual General Meeting (AGM)

As a mutually owned organisation, the Board is accountable to the Society's Members. The Board is committed to, and proud of, the Society's mutual status, putting the needs of Members at the heart of its decision making. We care about Members being able to vote, ask questions and have their say in how we are run, and we are keen to make the event as accessible as possible for our Members. We continue to offer a hybrid AGM, allowing Members to choose how to join and participate. I look forward to welcoming our Members to this year's AGM.

Inclusion, diversity and culture

We remain committed to maintaining diversity of thought, experience and background on our Board and within senior management. The composition of the Board is outlined on page 50.

Environmental, Social and Governance

In 2025 we produced our first Impact Report, detailing all of our ESG activities. This is available on our website www.principality.co.uk/home/about-us/building-a-fairer-society and published every two years.

Looking forward

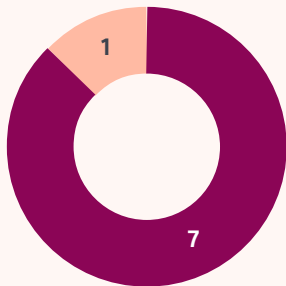
In 2025, the Society moved to a new operating model and the focus in 2025 was embedding the model and becoming even more efficient. In 2026, the Board will continue to focus on the Society's medium and long-term plans to ensure our business model remains fit for purpose.



Simon Moore
Chair

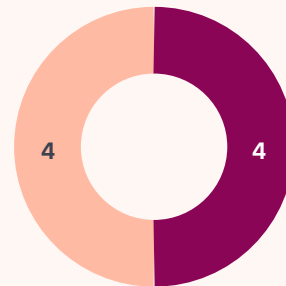
Board of Directors

Board Composition



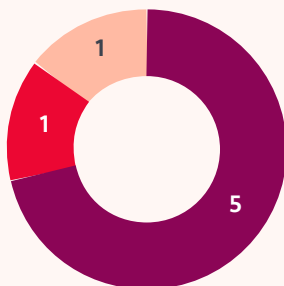
- Non-Executive Directors
- Executive Directors

Gender Diversity



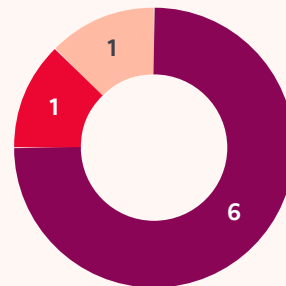
- Female
- Male

Tenure



- 0-3 years
- 3-6 years
- 6-9 years

Ethnicity Diversity



- White British
- Irish
- Minority Ethnicities

Committee Key:

A Audit

R Risk

G Governance and Nominations

(C) Chair

RC Remuneration



Simon Moore
Chair of the Board

Skills and experience

I have over 30 years in the financial sector working for various banks, including Managing Director for Barclays Commercial Wales and the South West. I also serve as Chair of another leading mutual organisation, LV=, the UK life assurance company.

External appointments

I am Chair of Liverpool Victoria Financial Services Limited.

G **RC** **G(C)**

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



Jonathan Baum
Senior Independent Director

Skills and experience

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

External appointments

I am Non-Executive Director at FCE Bank PLC (trading as Ford Credit).

A **R** **G** **R(C)**

Joined the Board in July 2021.



Karen Maguire
Non-Executive Director

Skills and experience

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

External appointments

I am on the Council of Clifton College Group where I chair the Finance & Operations Committee and am a member of the Audit, Risk and Compliance Committee.

A **R** **G** **A(C)**

Joined the Board in September 2024.



R G RC

Joined the Board
in November 2024.

Maria Timon Samra
Non-Executive Director

Skills and experience

I have gained a breadth of experience both locally and internationally, in senior executive roles such as CEO of Tŷ Hafan, Managing Director at KPMG, Digital Transformation Director at Barclaycard, Management Consulting Partner at Arthur Andersen, Transformation Partner at Unisys and Director of Client Services at Professional Software Systems. I am also a Director of Timon Samra Associates Ltd, a transformation/turnaround consulting business, and have hands-on experience delivering complex digital transformation and cultural change programmes for ‘household name’ clients.

External appointments

I am a Director at Timon Samra Associates Ltd.



R G RC

Joined the Board
in May 2023.

Shimi Shah
Non-Executive Director

Skills and experience

I have over 20 years of venture capital and private equity investment experience and over 15 years of board leadership across sectors and size of business. I am an experienced Chair and NED with strategic scale up, growth, and expansion experience.

External appointments

I am on the Board of Carousel Solutions. I am also on the advisory boards for the North East Fund (NEF), Miratech Limited and HaysMac.



Joined the Board
December 2019.
Became CEO on
21 November 2025.

Iain Mansfield
Chief Executive Officer

Skills and experience

I am a Chartered Accountant with over 20 years’ experience in senior leadership roles across mutuals, retail banking, start-up and private equity owned consumer financial services businesses in the UK.

External appointments

I hold the role of Non-Executive Director at Hafren Dyfrdwy and the Chair of Confederation of British Industry (CBI) Wales.



Joined the Board
in January 2025.

Garry Stran
Non-Executive Director

Skills and experience

I have over 35 years of executive experience across the financial services sector, with a focus on credit risk management and operational and cultural transformation. I have held senior and non-executive level positions at Nationwide, PCF Bank, WH Ireland and Computershare Loan Services. I am also a Non-Executive Director and Chair of the Risk Committee of the financial services subsidiaries of The Very Group.

External appointments

Non-Executive Director and Chair of the Risk Committee of the financial services subsidiaries of The Very Group..



Joined the Board
in September 2019.

Debra Williams
Non-Executive Director

Skills and experience

I have held a range of Executive and Non-Executive Director roles, as well as senior roles at NCR, Britannia Building Society, Tesco Compare and Confused.com.

External appointments

Non-Executive Director of Co-Op Insurance. Chair of GCRE Ltd and a Director of Awen Consulting Services Ltd. I am also a proud ambassador for Ty Hafan, and Pro-Vice Chancellor of Trinity St Davids.

How the Board operates

The Board met eleven times in 2025 – this includes meetings focussed on Strategy, Planning and Training. The Board and its committees also held additional meetings to consider the recruitment and appointment of the new CEO. The Society Secretary attends Board and committee meetings. Members of senior management regularly attend meetings of the Board and its committees to present matters relating to their respective business and subject matter areas. Board meetings are structured to ensure that the Board considers and discusses a range of matters relating to the Society’s strategy, performance, operations and culture. The Board receives updates at each meeting on the work of its principal committees to ensure that all Board members are aware of anything material. Should matters arise that require consideration between scheduled Board meetings, an additional meeting is arranged.

Board Committees met throughout 2025. Audit Committee met six times in 2025, Board Risk Committee met five times in 2025, Governance and Nominations Committee met four times in 2025 and Remuneration Committee met six times in 2025.

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

Attendance record at scheduled meetings 31 December 2025

	Board	Audit	Board Risk	Remuneration	Governance and Nominations
Simon Moore	11/11			6/6	4/4
Jonathan Baum	11/11	6/6	5/5		4/4
Claire Hafner ¹	7/11	4/4		3/3	2/2
Julie-Ann Haines ²	8/9				
Karen Maguire	10/11	5/6	5/5		4/4
Iain Mansfield	11/11				
Shimi Shah	10/11	4/6		6/6	3/4
Maria Timon Samra	11/11		5/5	6/6	4/4
Debra Williams	9/11		4/5	6/6	4/4
Garry Stran	11/11	5/6	4/5		4/4

¹ Claire Hafner stepped down as Chair of Audit Committee in August 2025 and did not attend Board and Committee meetings to allow Karen Maguire to Chair of Audit Committee with sufficient time ahead of year-end.

² Julie-Ann Haines ceased to be a Director on 20 November 2025.

There was an additional private board meeting held with the Non-Executive Directors to appoint the CEO.

The Role of the Board

The Board is the governing body of the Society. The Board derives its powers from the Society’s Rules and Memorandum (the Rules), which are based on the provisions of the Building Societies Act 1986 and other applicable law and regulations that the Society must comply with. The Board has delegated the day-to-day management of the Group’s business to the Group Chief Executive Officer, who cascades the agreed standards to the business.

The responsibilities of the Board are set out in a formal Board Terms of Reference, which

the Board reviews annually. 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. The Board oversees the work of each of the committees by receiving regular reports from each committee chair on the key matters considered following each committee meeting. In addition, each committee carries out a review of its own effectiveness and reports on the outcome of this to the Board.

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

Division of responsibilities

There are clear divisions between the roles of the Executive and Non-Executive members of the Board. The role profiles for the Chair, CEO and Senior Independent Director and Non-Executive Directors are reviewed annually by the Governance and Nominations Committee.

Chair and CEO

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

- The leadership and operation of the Board, ensuring that it promotes high standards of corporate governance
- Leading the development of the Society's culture and standards
- Ensuring the effectiveness of the Board, its committees and individual Directors are subject to annual board performance review
- 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. The full responsibilities are outlined within a role profile. 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 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, and five members of the Senior Leadership Team.

Senior Independent Director

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

Governance Framework

Under the Society's Rules, the Board must comprise no more than 14 and no less than seven Directors and, under the UK Code, at least half of the Board should comprise Non-Executive Directors. At 31 December 2025, the Society's Board comprised the Chair, six independent Non-Executive Directors and one Executive Director. This composition is designed to be able to meet the needs of the business and allow for efficient operation of the Board's committees.

Board Composition

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

Board of Directors



Directors' Skills and Experience

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

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



Non-Executive Directors

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

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

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

Time Commitment

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

Independence

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

Appointments to the Board, Induction and Training Programme

Further details about the Non-Executive recruitment process can be found in the Report of the Governance and Nominations Committee. Candidates to fill Non-Executive Director vacancies on the Board are sought in various ways, including through press advertisements and with the assistance of external search consultants. Candidates must meet the tests of fitness and propriety as prescribed by the Financial Conduct Authority (FCA) and must receive approval, where necessary, from the Prudential Regulation Authority (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 2026 AGM.

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

The Society's induction programme for new Non-Executive Directors covers all aspects of the Society's operations and the regulatory

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

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

The Society's Secretary maintains an ongoing Board training and development programme and during 2025 the following areas were addressed:

- Future Business Model Operating Model
- Overview of Ambition Statements, SKPIs and Enterprise Objectives
- Overview of Objectives and Key Results (OKRs) and Change Model
- Information Security
- Cyber Risk
- Provision 29 of the 2024 UK Corporate Governance Code

Whistleblowing

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

All colleagues receive annual training on the Society's whistleblowing policies and procedures,

which includes how to raise concerns both internally and by reporting directly to the FCA or the PRA. Additional training is provided for managers. The training is reviewed annually.

Karen Maguire (Non-Executive Director and Chair of Audit Committee) is the Whistleblowers' Champion and is responsible for ensuring and overseeing the integrity, independence and effectiveness of our processes to ensure we protect whistleblowers from being victimised because they have disclosed reportable concerns.

The Board recognises that having effective and trusted confidential whistleblowing arrangements is key in supporting the Society's open and honest culture. The Board receives an Annual Whistleblowing Report. During the 12 months to 31 December 2025, a total of six concerns were raised, of which four were investigated as whistleblowing (12 months to 31 December 2024: seven concerns raised, of which none were investigated as whistleblowing). The remainder were managed utilising other internal channels.

Conflict of interest

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

Individual Performance Review

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

in conjunction with the other Non-Executive Directors, and for conducting their annual ‘fit and proper’ assessment. The Chief Executive Officer is responsible for carrying out the annual performance appraisal and ‘fit and proper’ assessment for each of the members of the Executive Committee. Each of the relevant ‘fit and proper’ assessments were carried out during the course of 2025 and the Chair attested that each Non-Executive Director is ‘fit and proper’ and has the requisite knowledge and skills to be able to discharge their responsibilities effectively.

Board Performance Review

The collective performance of the Board is subject to an external review every three years. In 2024, this was conducted by Nasdaq who specialise in performing board performance reviews. Nasdaq observed Board and Committee meetings, conducted interviews with the Board Directors and Secretary and reviewed questionnaires completed by attendees of meetings. Themes that arose in the 2024 review and resulted in action being taken to further strengthen Board governance, included:

<p>Review and simplify the Board Skills Matrix ensuring alignment to the strategic needs of the organisation</p>	<p>This was completed within the year to provide a greater understanding of the Board skills and experience and their alignment to our strategy.</p>
<p>Ensure that the induction process is tailored to each individual Director’s skills and experience</p>	<p>This was reviewed, updated and approved by the Governance and Nominations Committee.</p>
<p>Increase the amount of Non-Executive Director stakeholder engagement</p>	<p>Non-Executive Directors were asked to increase the time they spend on stakeholder engagement. For the first time in 2025, as part of our Annual General Meeting, Non-Executive Directors attended each of six branches hosting live stream screening events.</p>
<p>Consider additional training on specialist areas to elevate Directors’ understanding</p>	<p>Additional training was held on specialist topics to elevate Directors’ understanding. The training sessions were optional to take into consideration each Directors’ previous experience and training needs.</p>
<p>Review senior leader succession and talent management</p>	<p>Succession and talent has been considered throughout 2025.</p>

2025 was an internal review year, however we chose to use the Nasdaq system to host the questionnaire and provide the report. The objective was to assess overall effectiveness and consider progress made against the recommendations from the external review. The report findings were presented back to the Board and Board Committee for consideration and discussion. The findings were positive and showed progress had been made. The outcome of review has informed our plans to build upon the Board’s strong governance foundations with agreed action plans for further improvement. The Board's area of focus for 2026 will be to continue the focus on Board composition ensuring the most skilled and efficient Board possible. Ensure the Board spends its time focussed on long term strategic goals and its stakeholders. Increase reporting to Board on certain risk areas, such as cyber, ESG and people risk.

Stakeholder Engagement

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

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

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

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

In accordance with the UK Corporate Governance Codes provision to keep engagement mechanisms under review, the Board enhanced engagement with Principality colleagues. In addition to the Colleague Forum in place which advises on more operational issues, we introduced a Colleague Panel, where

colleagues are invited to meet the Board Directors and provide their views on strategic topics. We've found this to be a successful development in engagement for the Board Directors and wider workforce as the Directors have met more colleagues and listened to more colleague voices on key strategic issues. In 2025, the Colleague Panel discussed the Society's Transformation, Digital and Operating Model Storytelling.

Annual General Meeting ("AGM")

The Society seeks to encourage all eligible Members to participate in the AGM, either by attending in person or via a live-stream, and by voting.

The AGM provides Members with the opportunity to hold the Board to account through raising questions and voting either for or against any of the resolutions on the agenda at that meeting. A resolution on the Report on Directors' Remuneration is included on the agenda.

The voting process is overseen by independent scrutineers, who also attend the Meeting in person to count votes cast by Members. The results of the vote are published on the Society's website.

In accordance with the Society's rules, all eligible Members are sent the Notice of the AGM at least 21 days prior to the Meeting. All Directors attend the Meeting unless their absence cannot be avoided. All Directors who stood for election or re-election in 2025 were duly elected or re-elected. Shimi Shah will not stand for re-election at the 2026 AGM.

Following the success of the 2025 AGM, the 2026 AGM is planned to be a hybrid event where Members can either access a live-stream of the AGM via the internet or physically attend in person. There will be a live-stream of the event at a selection of our branches where Members can join local teams to take part in the AGM.

The AGM will take place at 11am on Friday 17 April 2026 at The Marriott Hotel, Cardiff. More details can be found in our Notice of AGM.

Board Activity

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

Responsibility	Key Activity
Standing agenda items	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Strategy and Business Model Review • Corporate Plan • Marketplace developments • Macro-economic assumptions • Commercial Strategy • Transformation programme • Impact Report which covers all aspects of ESG and Impact Strategy
Financial reporting and performance	<ul style="list-style-type: none"> • Annual Report and Accounts and Interim Financial Statements • Long-term Viability Statement Review • Letter of Representation to the Auditors • Summary Financial Statement • Quarterly Performance Review • Budget and Quarterly Reforecasts • Consumer Duty Attestation
Risk management	<ul style="list-style-type: none"> • ILAAP and ICAAP • Regulatory matters • Recovery and Resolution Plan • Approval of risk appetite and tolerance • Information security, Cyber strategy and resilience • Operational resilience and outsourcing • Senior Manager Certification Regime and Responsibilities Map • Treasury Policy Statement • Wholesale funding decisions • Lending Policies • Covered Bond programme
People, culture and remuneration	<ul style="list-style-type: none"> • Colleague engagement surveys • Culture, including People Programme and diversity and inclusion • Member and stakeholder engagement • Colleague Forum updates • Remuneration Policy

Governance

- Approval of Board and Board Committee Terms of Reference
 - Board Performance 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
-

In 2025 the Board spent its time on strategy, culture, performance, risk and governance. An example of key Board decisions made in 2025 and their outcomes in the context of the company's strategy and objectives is included below:

Appointing a new Chief Executive Officer

A key decision for the Board in 2025 was the appointment of Iain Mansfield as Chief Executive Officer (having previously served as Chief Financial Officer). The Board had created a sub-committee to oversee the process. The Board looks forward to working with Iain in 2026 to drive the Society's strategy forward.

Organisational restructure

The Executive Committee led a project to restructure the organisation to align to business lines. The Board approved the governance framework to enable the change and create the right operating model for success in the future. During 2025, the change has been embedded with the intention of making the Society more efficient and fit for the future.

Approving the Corporate Plan and Budget

The Board approved the Corporate Plan and Budget, which brings together the agreed strategic ambitions, strategic key performance indicators and enterprise change themes. The Corporate Plan and Budget provides the direction for the Society to deliver its strategy and objectives.

Risk Appetite Metrics

Following the recommendation from the Board Risk Committee, the Board approved the Risk Appetite Metrics. The Board sets a risk appetite to enable the Society to identify and define the level of risk it is willing to accept in order to deliver its strategic objectives. A risk appetite statement is a critical tool in providing qualitative and quantitative parameters, most notably Key Risk Indicators.

Consumer Duty

Following updates during the year, the Board approved the Consumer Duty Annual Report and Attestation. The Society is required to ensure it delivers good outcomes, enables customers to meet their financial objectives, avoid foreseeable harm and act in good faith. This is underpinned by the 4 pillar outcomes of Consumer Support, Consumer Understanding, Price & Value and Products & Services. The Duty is embedding into the Society and we will continue to look for opportunities to enhance the processes we have created.

Recovery and Resolution Plan (RRP)

Following recommendation by the Board Risk Committee, the Board approved the RRP. A RRP is intended to ensure that the Society is prepared for either recovery or resolution in the event of potential failure. The RRP is prepared and made available to the Prudential Regulation Authority (PRA) and the Bank of England (BoE) annually. It considers credible recovery actions which could be implemented to restore a firm to a stable and sustainable position including how the stress would be identified and escalated to management and includes information and analysis which would be required to implement an appropriate resolution strategy.

Internal Liquidity Adequacy Assessment Process (ILAAP)

Following recommendation by the Board Risk Committee, the Board approved the ILAAP. The ILAAP is a key risk architecture document, which demonstrates that the Society has sufficient liquidity to function in business as usual, survive liquidity stresses and that liquidity and funding risk is understood and managed. The ILAAP stress scenarios and assumptions are approved by Board Risk Committee.

Internal Capital Adequacy Assessment Process (ICAAP)

Following recommendation by the Board Risk Committee, the Board approved the ICAAP. The ICAAP is a key risk architecture document, which demonstrates that the Society has sufficient capital to function in business as usual, survive capital stresses and that capital risk is understood and managed. A strong risk management framework and a robust funding plan enables the Society to deliver on the objective of maintaining a scalable, compliant and operationally resilient organisation.

Audit, risk and internal control

The Board is responsible for determining the nature and extent of the risks the Society is willing to take to achieve its long-term strategic objectives. This is detailed in the Society's Risk Appetite Statement. The Board is responsible for ensuring that Management maintains an effective system of risk management and internal control and for assessing its effectiveness. The Society has a robust Enterprise Risk Management Framework (ERMF) in place, supported by a system of internal controls and processes to manage risk. The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. For 2025, the Board is satisfied that the ERMF is appropriate.

Internal control over financial reporting

The Society's financial reporting process has been designed to provide assurance regarding the reliability of financial reporting and preparation of financial statements, as well as consolidated financial statements, in accordance with International Financial Reporting Standards (IFRS). Internal controls and risk management systems are in place to provide assurance over the preparation of the financial statements. Information on the work of the Audit Committee can be found on page 64. Financial information submitted for inclusion in the financial statements is attested by individuals with appropriate knowledge and experience.

The Annual Report and Accounts are scrutinised throughout the financial reporting process by relevant senior stakeholders before being submitted to the Audit Committee, which provides challenge, before recommending to the Board for approval. The Audit Committee also discusses control conclusions and recommendations arising from the audit with the external auditor. Based on the reports provided to the Audit Committee, it was concluded, notwithstanding IT control observations noted on pages 65 to 66, that the controls over financial reporting are effective. More information on the Society's risk management and internal control systems can be found on pages 65 to 66 of the Governance Report.

Remuneration

The Board and its Remuneration Committee are responsible for determining the Society's remuneration policies and practices, including executive and senior management remuneration. Information on the work of the Remuneration Committee and the Report of the Directors on remuneration can be found on page 68.



Simon Moore
Chair

19 February 2026

Governance and Nominations Committee Report

for the year ended 31 December 2025

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 2025 comprised all of the Non-Executive Directors. The Board Chair acts as Chair of the Committee. The Committee met on four occasions during the year. The Committee invites the Chief Executive Officer, the Society Secretary and the Chief People Officer to attend the meetings, along with other colleagues from across the business, where appropriate.

Appointments

During the year, two Board recruitment searches were undertaken with direction and decision from the Committee:

- For the search for a new Non-Executive Director, the appointment was supported by external search firm Teneo (who have no other relationships with the Society). Garry Stran was subsequently appointed as a Non-Executive Director. Following the appointment of Garry, consideration was given to committee composition to ensure the best use of experience and knowledge of the Non-Executive Directors across the committees. The committee composition was updated with effect 1 March 2025.
- Following the resignation of our Chief Executive Officer, the Board created a subgroup to lead the search for the Society's next CEO. After a tender exercise, Per Ardua (who have no other relationships with the Society) were appointed as the external search firm to support the appointment. The Board was pleased to announce that it had appointed Iain Mansfield to become Chief Executive

Officer with effect 21 November 2025. Iain had served on the Board as Chief Financial Officer for three years and Chief Operating Officer, before that. The Board recognised Iain's strengths, attributes and relevant experience that enable him to fulfil the role.

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.

Activity during the year

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
- Reviewed the use of Non Disclosure and Settlement Agreements
- Reviewed the Non-Executive Director, Chair, Senior Independent Director and Chair of Committee role profiles
- 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, as well as training and professional development of Board members
- Received a report on the arrangements in place which enable the Society to comply with the provisions contained in the UK Corporate Governance Code as far as the Code can reasonably be applied to a building society
- Received regular reports on regulatory and corporate governance related developments
- Received regular reports on the progress being made with work to implement the actions arising from the Board's performance and that of its committees

Diversity and inclusion

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 by agreeing to support the Women in Financial Services Charter. The Board aims for a diversity target of 33.3%. The table below shows the ratio of women to men in senior management positions within the Society over the period 31 December 2023 to 31 December 2025:

Ratio as at 31 December 2023	Ratio as at 31 December 2024	Ratio as at 31 December 2025
39%	46%	45%

**This ratio includes Non-Executive Directors*

At 31 December 2025, 50% (2024: 67%) 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 2025

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 2025, the Committee comprised of the following independent Non-Executive Directors: Jonathan Baum as Committee Chair with Claire Hafner (until February 2025), Shimi Shah (until February 2025), Maria Timon Samra, Debra Williams (from February 2025), Karen Maguire (from February 2025), and Garry Stran (from February 2025).

The Committee regularly invites the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer to attend the meetings, together with other colleagues from across the business, where

appropriate. The Committee met on five occasions during the year.

Management of risk

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

a) Risk culture

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

b) Three lines of defence model

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

Three lines of defence model:

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

c) Risk Management

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

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

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

d) Risk appetite and tolerance

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

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

e) Planning and stress testing

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

Reverse stress testing is a key component of the Society's existing stress testing framework and considers extreme events that could result in failure of the Society. As such, it complements the existing ICAAP and ILAAP processes, helping to improve risk identification and measurement. A qualitative approach is used to explore potential scenarios, which, if crystallised, could result in

failure of the Society. This is supplemented by quantitative assessments which determine the potential impact to the Society's capital or liquidity arising as a consequence of the scenarios. A key outcome from the process is to consider whether any of the scenarios considered are sufficiently plausible to necessitate a change to the Society's strategy, require mitigating actions to be taken, or require supplementary management information to monitor the likelihood of crystallisation.

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

f) Recovery and resolution planning

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

g) Governance and control

There is a formal structure for managing risks across the Society, which is documented in detailed risk management policies. These policies, and associated limits, are owned and reviewed at least annually by the following committees, which report to the Board Risk Committee and the Board. Each committee includes appropriate representation drawn from the Executive Committee (ExCo), divisional management and risk specialists:

- Executive Risk Committee (ERC) is chaired by the Chief Risk Officer and is responsible for controlling risks across the business and monitoring risk exposure levels.
- Model Governance Committee (MGC) is chaired by the Chief Financial Officer and is responsible for oversight of the Society's credit, finance and operational models, ensuring appropriate governance of all models in line with the Society's Model Risk Policy. The Committee is responsible for approval of models with Very High Inherent Risk rating. This includes Internal Ratings Based (IRB) models, however only a selection of members, dependent on role, will have IRB voting rights. The Committee is also responsible for the approval of models with lower Inherent Risk which will be delegated to the two MGC sub-committees of Credit Model Governance Committee (CMGC) and Finance Model Governance Committee (FMGC).
- Credit Risk Committee (CRC) is chaired by the Head of Credit Risk & Modelling and is responsible for controlling and monitoring credit risk exposures across the business.
- Operational Risk Committee (ORC) is chaired by the Chief Technology Officer and is responsible for assessing the overall effectiveness of the operational risk and control environment and have oversight of adherence to the Enterprise Risk Management Framework ensuring there is appropriate ownership and management of operational risks.
- Asset & Liability Committee (ALCo) is chaired by the Chief Financial Officer and is responsible for the oversight of the balance sheet management strategy and risks faced by the Society, combined or consolidated asset and liability performance with respect to net interest margin, cashflow management and treasury operations and subsequent understanding of risks and opportunities and the funding, liquidity and capital plans, including contingency planning and stress testing.

Activity during the year

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

Topic	Activity
Strategy and Risk Appetite	<ul style="list-style-type: none"> • Review of Strategic Risk Appetite & Tolerance Statements and Key Risk Indicators • Approval and monitoring of Operational Resilience Framework • Review of Change oversight approach • Review of Retail Lending Policy • Oversight of Consumer Duty Implementation and approval of annual attestation
Policy	<ul style="list-style-type: none"> • Annual review and approval of Treasury Policy Statement & Retail & Commercial Lending Policies • Review of Second Line Assurance Plan, including annual approval of Compliance & Conduct Policy and Monitoring Plan • Approval of Bribery & Conflicts of Interest Policy and Commercial Credit Risk Policy Statement
Stress Testing	<ul style="list-style-type: none"> • 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 & Resolution Plan (RRP) to the Board
Risk Management	<ul style="list-style-type: none"> • Review of Credit Risk profile of mortgage portfolios • Review of Cyber Security Strategy • Review of risk exposure relative to appetite and tolerance measures

**Risk
Monitoring**

- Approval of the overall level of insurance for the Society, including Directors' and Officers' Liability insurance
- Considered the roadmap to the Provision 29 Corporate Governance Code attestation. Planning sessions took place with support from External Advisors.
- Review of CRO's report and Key Risk heat map
- Horizon scanning
- Oversight of Executive Risk Committee and subsidiary Risk Management Committees, including IRB Model and Model Risk Management Framework
- Review of Compliance & Conduct Risk monitoring activity and relevant Internal Audit Reports
- Approval of the Integrated Assurance Plan

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 2025

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 2025 comprised of the following independent Non-Executive Directors, Claire Hafner (Chair – until September 2025), Jonathan Baum, Debra Williams (until February 2025), Shimi Shah (from February 2025), Karen Maguire (Chair from September 2025) and Garry Stran (from February 2025). The Committee met on six occasions during the year.

The Board continues to be satisfied that the Committee has the requisite levels of knowledge and understanding relevant to the markets in which the Society operates. In accordance with the 2024 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 we attempt to reduce gaps and unnecessary duplication.

Financial reporting judgements and estimates

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

- **Going concern and viability assessment.** During the year, the Committee has received regular reports from the Chief Financial Officer outlining the basis on which it is reasonable for the Group to continue to prepare its financial statements on a going concern basis and has continued to be satisfied that it is appropriate to consider the Viability Assessment over a three-year planning horizon. It assessed, together with the Board Risk Committee, the levels of capital and availability of funding and liquidity, together with outputs of stress tests and reverse stress tests. The Committee also considered risks from business activities and current and forecast economic factors such as the impacts from high levels of interest rates, inflation, and on-going volatility in the economic environment.
- **Impairment provisions on loans.** During the year, the Committee has closely monitored the output from the IFRS 9 impairment provision models and the performance of the Society's

loan books. The level of impairment suggested by the models and the assumptions which inform the models are key areas of judgement. The Committee has given careful consideration to the appropriateness of the methodologies used by Management to assess the likelihood of losses (Probability of Default) and the severity of losses (Loss Given Default) against each loan book, in conjunction with the overall adequacy of the provisions held against those loan books. The Committee concluded that the assumptions that are used to inform Management's assessment as to the adequacy of impairment provisions, remain appropriate. The Committee has continued to monitor the volatility in the economic environment, including actions taken to manage the impact of the high-interest rate environment on the performance of the Society's loan books and consequent impact on the IFRS 9 impairment provision.

The following risks were also discussed, though these are not considered to be significant areas of judgement:

- **Fixed asset impairment.** The Committee has been kept informed with the outcome of the fixed asset impairment review relating to the Society's corporate property. The Committee remains supportive of the methodology used in the impairment review, including the identification of potential impairment indicators and the calculation of recoverable amounts of fixed assets. The Committee is supportive of the decision to reverse the impairment recognised in 2023 against Principality House head office and to recognise an impairment on The Friary office.
- **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 is appropriate.
- **Retirement benefit obligations.** The Committee has considered the key assumptions used by the Scheme Actuary to determine the liability under IAS 19 in connection with the Society's Defined Benefit Retirement Scheme obligation. The Committee agreed that the assumptions used for this purpose were reasonable.

Following the Society performing a 'buy-in' of the pension scheme in 2023, the scheme is now effectively de-risked apart from a small, remaining uninsured element. The Committee has been kept informed of progress towards a full 'buy-out' which is expected to be transacted in 2026.

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

Deloitte, as the Society's external auditor, has reported on both the interim and year-end financial statements and the Committee considered those reports prior to recommending approval of the financial statements to the Board. Deloitte has reported to the Committee on the work carried out in relation to the most significant areas of audit risk and where accounting assumptions and estimates have been applied by Management. Management confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. Deloitte calculated its materiality level and the clearly trivial threshold which were presented to the Committee at the planning stage, and these were accepted by the Committee.

The Auditor provided the Committee with a summary of misstatements, which exceeded the clearly trivial threshold which had been identified during the course of the testing, and no material amounts remain unadjusted. The Committee is also responsible for considering the annual Deloitte management letter and has received reports from Management on progress with work to address findings set out in the 2024 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 which 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 under the delegation provided to it by the Board.

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

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

During the year, the Committee also considered carefully the risks associated with Management circumventing the control framework. Work undertaken by the Internal Audit team during the year and by Deloitte, as part of the annual audit cycle, has enabled the Committee to be satisfied that the overall control framework remains robust.

Deloitte identified IT control deficiencies during a prior year audit, and Management have been working to rectify these throughout 2025, with regular updates given to the Committee on progress. Despite some deficiencies still being recognised, the Committee remains confident that the overall control environment remains sufficiently robust.

The Committee has met with Deloitte privately during the year.

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

- Changes to regulatory requirements, including the UK Corporate Governance Code, are considered on an ongoing basis
- Key accounting judgements which are presented to the Audit Committee for approval
- Whether the description of the Group's business model is accurate
- Whether the narrative reports explain the financial statements
- Whether the principal risks and uncertainties faced by the Group are clearly described, together with mitigating actions
- Whether the Group's projected solvency and liquidity positions over the next three years are adequate to support the going concern assessment
- Whether there are any significant control weaknesses, or failings which should be brought to the attention of the Society's Members
- A thorough process of review and evaluation of the inputs into the accounts to verify accuracy and consistency, including review by senior management
- A meeting of the Audit Committee to review and consider the draft AR&A in advance of the final sign-off. The Chair of the Audit Committee reports the Committee's conclusions to the Board and final sign-off is provided by the Board of Directors

As part of the Committee's assessment of the Annual Report and Accounts, 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.

Regulatory reporting

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

Auditor independence and effectiveness

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

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

There is periodic rotation of the audit partner responsible for the audit engagement, and each year the external audit firm confirms to the Audit Committee that it considers itself to be independent as defined by the current rules of the Financial Reporting Council. David Heaton has served as Audit Partner from 2022 and is expected to serve for five years. In 2025, the Society carried out a tender for the position of external auditor

with the change taking effect after the AGM in 2027. Deloitte will remain the external audit firm until the year ended 31 December 2026.

In order to safeguard auditor objectivity and independence, the Committee maintains a formal policy which governs the engagement of the external auditor for non-audit services. The policy is designed to ensure that the provision of such services does not have an impact on the external auditor's independence and objectivity. This policy identifies services which can only be undertaken with appropriate authority from the Committee Chair or the Committee where non-audit fees will exceed pre-set thresholds.

The external auditor may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. Non-audit services prohibited by ethical standards are not permitted to be undertaken under any circumstances.

The Committee receives a schedule of fees for non-audit work paid to the audit firm at each meeting, an annual report on the non-audit services being provided and the cumulative total of non-audit fees. The audit fee for the year in respect of the Group was £1.2m (inc. VAT). Non-audit fees, mainly in relation to further assurance services, were £0.2m (inc. VAT).

Other matters

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

Remuneration Committee Report

for the year ended 31 December 2025

Introduction

On behalf of the Remuneration Committee, I am pleased to share the Director's Remuneration Report for the year ended 31 December 2025.

The Remuneration Report is split into the following key sections:

- The Remuneration Committee Chair's letter, which details Committee activity in 2025, membership and the role and responsibilities of the Committee.
- The Director's Remuneration Policy, which outlines the new policy framework under which Directors' pay will be set from 2026.
- The Annual Report on Remuneration which details all elements of remuneration for our Executive and Non-Executive Directors in 2025 and sets out how we plan to implement the new policy in 2026.

Role of the Remuneration Committee

The Remuneration Committee is responsible for the remuneration of the Society's executive directors and executive team. We also have a Non-Executive Director Remuneration Committee which is responsible for approving the remuneration for the Non-Executive Directors and Board Chair.

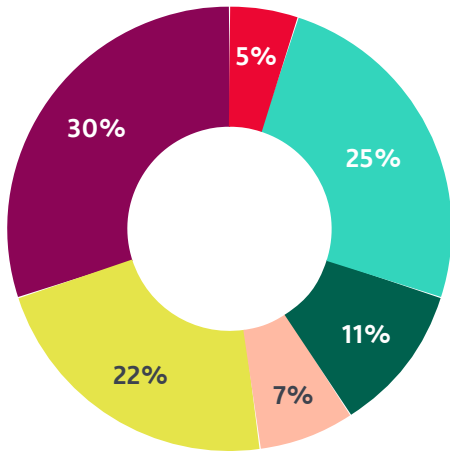
The Committee comprises Debra Williams (Chair), Simon Moore, Shimi Shah, Maria Timon-Samra and Claire Hafner (left September 2025). All members of the Committee are independent Non-Executive Directors, except for Simon Moore who was independent on appointment to the Board. Once a year, other Non-Executive Directors are invited to attend the Remuneration Committee to participate in the discussion on Variable Pay outturns. The Chief Executive Officer, Chief People Officer and Head of Reward are invited to attend on a regular basis, alongside our independent external advisers. No individuals have participated in discussions relating to their own remuneration.

The Remuneration Committee attendance during 2025 is shown on page 48.

Committee activity in 2025

- Pay review – budget approval and principles
- 2024 Variable Pay – approval of REA and LEA payouts
- 2025 Variable Pay – approval of REA and LEA performance measures, targets and scheme rules
- Reward Roadmap
- Remuneration Policy review and operation for 2026
- Executive and senior leadership appointments and leaver arrangements
- RemCo advisor review and new appointment

Proportion of time spent by the Remuneration Committee



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

Society performance in 2025

Despite market challenges in 2025, the Society has delivered strong financial results and remains focused on creating value for our Members.

We have seen significant retail lending growth of £0.6bn and have grown our savings balances by £0.8bn. During 2025 we also commenced work on delivery of the first phase of our new mobile app, continued to drive growth in our commercial lending business and contributed £1.5m of our profit to causes that benefitted our communities.

Looking ahead to 2026 as we turn the page in our story with our new CEO, Iain Mansfield, we will be focused on accelerating the transformation of the business, taking bold next steps to reimagine how we deliver for Members, both digitally and in branch, to help more people save and buy their homes than ever before.

Board changes

In October 2025, we announced that our Chief Executive Officer, Julie-Ann Haines, would be stepping down from her position following 18 years at the Society. In determining the treatment for Julie-Ann's remuneration as a leaver, the Committee considered Julie-Ann's length of service at Principality, the performance of the Society since her appointment as CEO in 2020 and her active employment to 20 November 2025 in order to provide an orderly handover to our new CEO.

As a result, the Committee has exercised its discretion so that Julie-Ann is eligible to receive

50% of the final payout under the 2025 Leading Excellence Award (LEA), the incentive for the Executive Directors and Executive Committee, payable in total in March 2026. All deferred LEA amounts which have been earned subject to performance tests in prior years will be eligible to continue to pay out on their usual release dates. Julie-Ann will not be eligible to receive the 2025 Rewarding Excellence Award (REA), the colleague incentive scheme, or any variable pay opportunity for 2026.

We were delighted to appoint Iain Mansfield, formerly Chief Financial Officer, as our new Chief Executive Officer. Iain took over the role of Chief Executive Officer on 21 November 2025, following which Julie-Ann stepped down from the Board.

The Committee determined a remuneration package for our new Chief Executive Officer in line with the Directors' remuneration policy at the time of appointment. This included no change to benefits, pension or REA and LEA opportunities as a % of salary for 2025. Iain's salary on appointment was set at £500,000, which reflects a slight inflationary increase from his predecessor's salary but remaining well below the market rate for the role which the Committee has signposted in previous reports. The Committee is committed to keeping salary positioning under review and intends to increase the CEO's salary to the market rate over the next two years, subject to performance in role, as part of our wider review of the executive remuneration policy and market positioning principles.

A search is underway for our new CFO and when appointed, the remuneration package will be set taking into account the market rate for the role and the remuneration policy. In the meantime, an interim CFO has been appointed who is not an Executive Director.

2025 variable pay outcomes

The 2025 REA for all colleagues was based 30% on underlying ManEx, 30% on customer satisfaction, 30% on net savings growth and 10% on CO₂ reduction. As a result of performance between target and stretch for ManEx and customer satisfaction measures, but below threshold for net savings growth and the CO₂ reduction measure, the overall performance outturn is 4.39% of salary out of a maximum 12% of salary.

The Committee considered the outcome of the REA in the context of overall Society performance in 2025, strategic decisions taken during the year and the Member experience and determined that it would be appropriate to exercise discretion to increase the payout level of the REA to 4.99% of salary for all colleagues excluding Executive Directors, the Executive Committee and Senior Leadership Team.

The 2025 LEA for the Executive Directors and Executive Committee was based 33.3% on strategic KPIs, 33.3% on enterprise objectives and 33.3% on individual performance. As a result of 5 out of 10 SKPI's achieved and 7 out of 11 Enterprise Objectives achieved and end of year performance ratings of "Strong", the overall performance outturn is 12.66% of salary for Iain Mansfield and 6.33% of salary for Julie-Ann Haines out of a maximum 38% of salary. For Iain Mansfield, 20% of the payout will be deferred for one year, and 20% will be deferred for two years. As I explained earlier in my letter, Julie-Ann Haines was not entitled to the deferred components of her 2025 LEA which was agreed as part of her exit arrangements. The LEA payout for Executive Committee members was between 12.66% and 19.01% of salary depending on role and individual performance.

Executive Director Remuneration Policy review

During the year, the Committee undertook a review of the Executive Directors' Remuneration policy in the context of the Society's strategy and 2030 ambitions. Since the last policy review in 2021, we have reframed our strategy, focusing on three key pillars: Better Homes, Secure Futures and Fairer Society. We've been successful

in scaling the business and supporting more customers with our market share of mortgage new business growing from 0.27% at the start of 2021 to 0.94% and total savers growing by 12%. The size of our organisation has grown, with total assets increasing by 28% over the same period, making us the sixth largest building society in the UK.

Underpinning the new policy are the following reward principles:

1. The quantum and structure of remuneration packages should be considerate of our culture as a Member-owned Building Society, but take account of wider practice outside of the sector so as to ensure the Society can attract and retain senior talent.
2. Fixed remuneration and total target/maximum remuneration should be set by reference to mid-market levels, with a greater focus on building societies relative to all peer groups and applying appropriate discounts to listed banking/financial services sector peers' data.
3. A significant proportion of remuneration for Executive Directors will be performance-related pay to ensure the remuneration package is competitive in relation to the sector. Performance-related pay will comprise both short and long-term elements.
4. A performance-culture should be reflected in the remuneration policy via a strong alignment between performance and reward and a meaningful weighting to financial metrics across incentives as a whole.
5. Incentive structures should be easily understood, transparent and avoid unnecessary complexity.

Our review of the policy against market benchmarks demonstrated that the current remuneration packages, both in terms of salary and total variable pay positioning, were significantly below market against all the reference points considered.

Furthermore, the Committee was mindful of the evolving market practice in the financial services sector in recent years, which would likely increase our gap to market if no action is taken in relation to pay. At such a pivotal time in the sector and for the Society, it is very important that the Society is able to attract, retain, and appropriately incentivise our Executive Directors and senior leaders. Doing so is vital to ensuring the success of the Society and the delivery of real value for our Members.

Considering these factors and risks, the Committee is making two key changes to policy:

- The REA and LEA will be replaced with a single annual bonus plan. The normal maximum opportunity will be 62.5% of salary for Executive Directors and performance will be based on a mix of financial and non-financial measures and an individual's personal performance excellence rating. The maximum bonus opportunity may only be realised if the individual were to achieve maximum performance under all elements of the bonus, together with also achieving the highest possible individual performance rating of "Outstanding". Conversely, a performance excellence rating of "Developing" can reduce any bonus earned under the targets to zero. No deferral will apply to payouts from the 2026 annual bonus.
- A long-term incentive plan (the LTIP) will be introduced from 2026. Annual LTIP cycles will be launched each year, with payouts being assessed over the following three-year period. The maximum that could be earned under the LTIP for 2026 is 65% of salary for the Chief Executive Officer and 50% of salary for other Executive Directors, subject to full achievement of all the performance targets.

The performance conditions for the incentives have also been reviewed in light of the Society's strategy, and further details are set out in the "operation of policy" section below.

The new policy enables the Committee to provide market competitive packages to Executive Directors with a greater proportion of remuneration delivered through performance related pay. This means maximum remuneration will only be delivered for achievement of stretching performance targets that drive increased Member value.

No other significant changes have been made to policy; however, minor amendments have been made to ensure alignment with best practice and to ensure that the Committee has appropriate flexibility in the operation of the policy from year to year. The new Directors' Remuneration Policy is set out in full later in this report.

Operation of new Policy for 2026

Iain Mansfield's salary will be increased by 3% in line with the proposed increase for other colleagues.

The maximum annual bonus opportunity for the CEO will be 62.5% of salary. Performance will be assessed against a scorecard of measures comprising 33.3% adjusted ManEx, 33.3% profit before tax, 16.7% customer satisfaction, and 16.7% colleague engagement. An individual's performance excellence rating then applies to the scorecard outcome to determine the final bonus payout.

The maximum that can be earned under the new cash LTIP is 65% of salary for the CEO. Performance will be assessed over a three-year period from FY2026 to FY2028, 33.3% against profit before tax, 33.3% against return on capital and 33.3% against transformational milestones linked to our new strategy. Performance will be tested against targets at the end of FY2028 and any payout will be made in early 2029 following audited results.

Details of the target ranges for the annual bonus and LTIP will be disclosed at the end of their respective performance periods.

Conclusion

The Committee has ensured that 2025 variable payouts appropriately reflect Society performance and the experience of our Members. Looking forward, the Committee is satisfied the new remuneration policy will support our next chapter under our new Chief Executive Officer and the delivery of real value to our Members. We therefore trust you will be supportive of the resolution on the directors' remuneration report at our forthcoming Annual General Meeting.



Debra Williams

Chair of the Remuneration Committee

19 February 2026

Directors' Remuneration Policy

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

Base salary	
Link to Strategy	To attract and retain Executive Directors who have appropriate capabilities, skills, and experience to deliver the purpose and strategy of the organisation.
Operation	<p>The Committee normally undertakes a review of the Executive Directors' base salaries each financial year, taking into account factors such as individual role, responsibilities, experience, business performance, market conditions, and the level of salary increase applied to other colleagues across the Society.</p> <p>Where appropriate, for example for a director commencing a new role, the Committee may decide to set the salary at a discount to market rate, with the opportunity for phased above-inflation increases as the individual settles into the role.</p>
Maximum potential value	<p>There is no formal cap set on salaries.</p> <p>Increases are typically in line with the average increase for colleagues. Above workforce increases can be awarded at the Committee's discretion, for example to bring an individual to market level where a shortfall has been identified.</p>
Performance conditions and assessment	N/A although individual performance can be considered when planning base pay increases.

Annual bonus

Link to Strategy

Supports attraction, motivation, engagement, and retention of our colleagues. Drives achievement of key financial and non-financial targets for the Society in line with strategy and the delivery of strong outcomes for the Society and its Members.

Promotes a high-performance culture.

Operation

The annual bonus is an all-colleague scheme which includes the Executive Directors.

Performance is assessed against a scorecard of measures and individual performance normally over one financial year.

The Remuneration Committee will determine the final annual bonus outcome after the year end audited results, based on performance against targets.

Payment is made in cash following the Committee's determination of the outcome.

Malus and clawback provisions apply. These allow the Society to reduce and/or recover all or part of the payment in certain trigger circumstances, as detailed later.

Maximum potential value

The overall maximum annual bonus for Executive Directors is up to 62.5% of salary.

Normally, no bonus is payable for threshold performance against a scorecard element.

50% of maximum is normally payable for target performance under each element of the scorecard.

Performance conditions and assessment

There are affordability considerations for payment of the bonus which normally consist of risk, capital and liquidity conditions, individual performance and the absence of any material regulatory breaches.

Performance is assessed against a scorecard of financial and non-financial measures, set annually taking into account the Society's strategy and KPIs.

Following the determination of the formulaic scorecard outcome, the Remuneration Committee will review the out-turn holistically. The Committee retains the discretion to override the formulaic outcome of the annual bonus if it considers that this does not reflect the underlying performance of the Society, and the Member experience.

An individual performance modifier will then apply to the scorecard outcome which has the ability to increase the bonus payout to the maximum for an "Outstanding" performance excellence rating, but also reduce the bonus payout to zero for performance excellence rating of "Developing".

Long-term incentive plan

Link to Strategy	<p>To support the attraction, motivation, engagement, and retention of high-quality Executive Directors.</p> <p>Encourages long-term sustainable growth, creating value for the Society and its Members.</p>
Operation	<p>LTIP cycles will normally be launched annually based on performance over three financial years.</p> <p>Performance is assessed against a scorecard of measures normally over three financial years beginning in the financial year that the LTIP cycle is launched.</p> <p>Performance against targets is assessed following the end of the performance period, and payment will be made in cash.</p> <p>The Remuneration Committee has discretion to override the formulaic outcome of the annual bonus taking into account the underlying performance of the Society, and the Member experience.</p> <p>Malus and clawback provisions apply.</p>
Maximum potential value	<p>The maximum LTIP level for Executive Directors is 65% of salary.</p> <p>30% of the maximum award under each performance measure is normally payable for threshold performance. 60% of the maximum award under each performance measure is normally payable for target performance.</p>
Performance conditions and assessment	<p>Performance conditions are based on a mix of financial (majority) and non-financial measures aligned to the Society's long-term strategy and KPIs.</p> <p>Following the determination of the formulaic scorecard outcome, the Remuneration Committee will review the out-turn holistically. The Committee retains the discretion to override the formulaic outcome of the LTIP if it considers that this does not reflect the underlying performance of the Society, and the Member experience.</p>

Pension

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

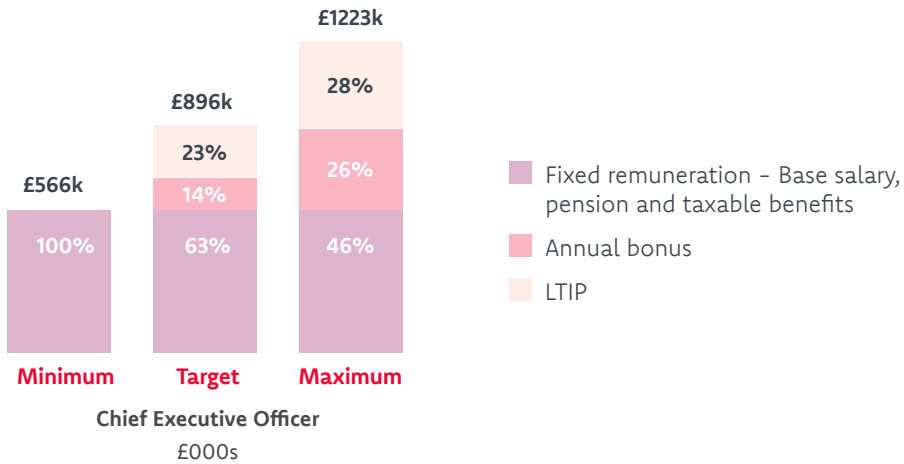
Benefits

Link to Strategy	To attract and retain Executive Directors who have appropriate capabilities, skills, and experience to deliver the purpose and strategy of the organisation.
Operation	<p>Executive Directors are entitled to fully funded family private medical insurance, critical illness cover, life assurance and annual health checks. The Remuneration Committee retains discretion to be able to offer other benefits that it deems appropriate.</p> <p>New appointments are entitled to the above benefits.</p>
Maximum potential value	There is no maximum level; however, the overall value is determined by the nature of the benefit offering which is subject to change each year.
Performance conditions and assessment	N/A

Performance scenario illustrations

The below graph shows the remuneration that the Chief Executive Officer could earn for 2026 in line with our new Directors’ Remuneration Policy as a minimum, at target and as a maximum. This is calculated using salary as at February 2026.

Fixed remuneration figures include salary, pension and taxable benefits. No annual bonus or LTIP is payable for minimum performance. Maximum annual bonus is 62.5% of salary, assuming maximum payout of the scorecard and an “Outstanding” performance excellence rating and target annual bonus is 25% of salary assuming 50% achievement of the scorecard and a “Strong” performance excellence rating. Maximum LTIP opportunity is 65% of salary and target LTIP opportunity is 39% of salary.



Malus and clawback

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

The Committee may, at any time within three years of LTIP awards vesting or the payment of the annual bonus, determine that malus or clawback provisions may apply. In the Committee’s view, a three year period is considered appropriate as it is a reasonable period in which the specified circumstances would be discovered, and a three year period is in line with market practice across other comparable financial services organisations. Malus and clawback apply the following circumstances:

- A significant downturn in the financial performance of the Society.
- Material misstatement of the Society’s Financial Report and Accounts.

- Error in the calculation of performance measures or payout level.
- 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.
- Series reputational damage to the Society.
- Corporate failure of the Society.

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

Policy on remuneration of Non-Executive Directors

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

Fees	
Link to strategy	There are set fees for all Non-Executive Directors, to attract and retain individuals with appropriate knowledge and experience to ensure the purpose of the Society is fulfilled and all governance, regulatory, legal and financial obligations are met.
Operation	<p>The fees are set with reference to the market and taking into account the time commitment and contribution required.</p> <p>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.</p> <p>Additional fees are payable for additional responsibilities, for example for the role of Senior Independent Director (SID), Chairs of the various committees, and for Membership of the Remuneration Committee, Audit Committee and Risk Committee.</p> <p>The fees applied to newly appointed Non-Executive Directors are consistent with those paid to existing Non-Executive Directors.</p>
Maximum potential value	There is no maximum fee opportunity. Fee increases will usually be made in line with the average workforce increase.

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

Approach to recruitment remuneration

The remuneration arrangements for appointees will be in line with the policy tables above. The base salary of newly appointed Executive Directors is positioned based on market conditions, skills and experience, and salary relative to other Executive Directors. Depending on the timing of appointment, the individual may receive a pro-rated annual bonus based on their employment as a proportion of the financial year. In addition, the Society may offer a relocation package where appropriate and necessary, this would be in line with our relocation policy.

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

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

Directors' service contracts

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

Executive Director	Date of appointment as a Director of the Society
Chief Executive Officer - Iain Mansfield	21 November 2025 (Appointed as CEO)
	15 July 2022 (Appointed as CFO)
	31 December 2019 (Appointed as Executive Director)

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

Loss of office

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

Policy	
Fixed remuneration	<p>Salary, pension, and contractual benefits continue during the notice period.</p> <p>The Board may agree to terminate the Directors' contract rather than requiring them to serve notice, and in this event a payment in lieu of notice may be made based on salary only. Payments in lieu of notice are granted at the discretion of the Remuneration Committee and are normally payable in monthly instalments. The Executive Director will normally have a duty to seek alternative employment and any outstanding payments will be subject to offset against earnings from any new role.</p>
Annual bonus	<p>Colleagues who are not employed by the Society on the date that the annual bonus is to be paid, or are under notice of dismissal or have tendered resignation, will normally not be entitled to receive their annual bonus payment.</p> <p>A colleague who has left or is leaving the Society as a result of: redundancy, the completion of a fixed term contract, death, ill health, injury or disability, retirement with the Committee's agreement or for any other reason at the Remuneration Committee's discretion will be entitled to receive an annual bonus payment. Payments will normally be pro-rated accordingly to reflect months in business worked during the scheme year and the annual bonus payment will normally be made at the usual time.</p>
LTIP	<p>Colleagues who are not employed by the Society on the date that the LTIP vests, or are under notice of dismissal or have tendered resignation, will normally forfeit unvested entitlements.</p> <p>A colleague who has left or is leaving the Society as a result of: redundancy, death, ill health, injury or disability, retirement with the Committee's agreement or for any other reason at the Remuneration Committee's discretion, will retain their unvested LTIP entitlements on cessation of employment. LTIP payouts in such circumstances would normally be pro-rated to reflect (i) months in business worked relative to the vesting or performance period and (ii) the extent the performance conditions have been achieved. LTIPs would normally vest at the usual time.</p>

Variable Pay awarded prior to 2026

For performance years prior to 2026, a deferred component applied. Colleagues who are not employed by the Society on the date that the variable pay is to be paid, or are under notice of dismissal or have tendered resignation, will normally not be entitled to receive that payment of their deferred component.

Any colleague who has left or is leaving the Society either as a result of redundancy, or due to the completion of a fixed term contract, or in the event of death, ill health, injury or disability, retirement with the Committee's agreement or for any other reason at the Remuneration Committee's discretion, will be entitled to receive the payments at the usual time.

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 Code for listed companies (to the extent appropriate), throughout the year colleagues are invited to provide feedback via the colleague forum and our quarterly engagement survey. This enables the Society to ensure employees' views are reflected in Board discussions and decisions.

Consideration of Member views

The Remuneration Committee takes into consideration Member feedback given at the

AGM when determining the remuneration policy and remuneration outcomes each year. In our recent AGMs we have received a significant majority vote in favour of our remuneration reports.

Annual Report on Remuneration

This section of the report sets out remuneration awarded to Executive Directors and Non-Executive Directors for 2025. All remuneration decisions have been made in accordance with the Directors' Remuneration Policy, detailed within the Directors' Remuneration Policy section of the 2024 report.

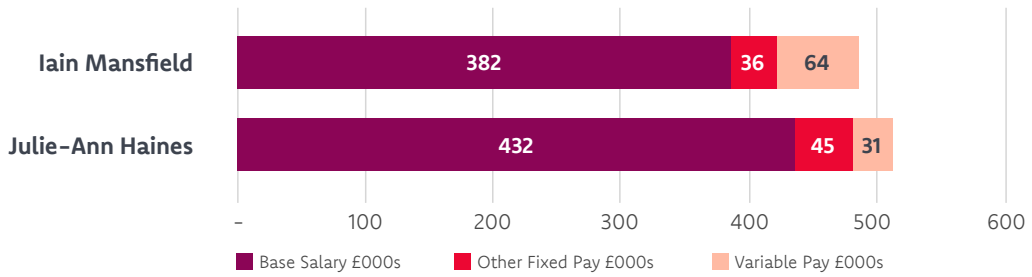
Single total figure of remuneration of Executive Directors

The below graph and table provide a summary of the audited single total figure of remuneration for the 2025 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.

Audited information	Year	Base Salary £000	Taxable Benefits £000	Pension £000	Variable Pay £000	Total Remuneration £000
Individual						
Iain Mansfield ¹	2025	382	5	31	64	482
	2024	338	3	26	112	479
Julie-Ann Haines ²	2025	432	6	39	31	508
	2024	469	5	38	157	669

1. Iain Mansfield, former CFO, was appointed CEO during the year. Iain Mansfield's salary increased to £500,000 on appointment as CEO designate on 13 October 2025 and he took over the role as CEO on 21 November 2025.

2. Julie-Ann Haines, former CEO, stepped down from the role and the Board on 20 November 2025.



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 2025 are detailed in the sections below.

Rewarding Excellence Award

Executive Directors will receive a REA award for 2025 of 4.39% of base salary. As explained earlier in this report, Julie-Ann Haines will not receive a payout under the 2025 REA and all colleagues excluding Executive Directors, Executive Committee and Senior Leadership Team will receive a REA award of 4.99% of salary following the exercise of discretion by the Remuneration Committee.

Performance measure	Weighting	Threshold performance	Target performance	Stretch performance	Performance result	Performance outturn
Financial Performance Adjusted ManEx	30%	0.76%	0.74%	0.72%	0.74%	1.87%
Customer Service CSAT	30%	68.8	70.0	72.0	70.8	2.52%
Key Strategic Measure Net Savings Growth ¹	30%	£1bn	£1.19bn	£1.24bn	£0.79bn	0.00%
Carbon footprint CO ₂ Reduction ²	10%	50 tCO ₂ e	80 tCO ₂ e	110 tCO ₂ e	23.5 tCO ₂ e	0.00%

1. Net savings growth is the growth in customer savings, excluding accrued interest.

2. CO₂ Reduction measures the reduction of our carbon footprint.

Leading Excellence Award

The LEA is only awarded to Executive Directors and Senior Leaders. The total LEA award for 2025 will be 12.66% of base salary for Iain Mansfield. As explained earlier in this report, the Remuneration Committee determined that Julie-Ann Haines may receive 50% of the payout of the LEA which is 6.33% of salary.

Performance measure	Weighting	Threshold performance	Target performance	Stretch performance	Performance result	Performance outturn as % of salary
Strategic KPIs Progress Better Homes, Secure Futures and Fairer Society outcomes ¹	33.33%	4 measures (out of 10) at or above target	6 measures (out of 10) at or above target	8 measures (out of 10) at or above target	5 out of 10 measures achieved	3.17%
Enterprise Objectives Progress longer term strategic ambitions ²	33.33%	6 measures (out of 11) at or above target	8 measures (out of 11) at or above target	10 measures (out of 11) at or above target	7 out of 11 measures achieved	3.17%
Leadership Promises Individual assessment ³	33.33%	Developing	Strong	Outstanding	Strong	CEO – 6.33%, CFO – 6.33%

¹ Our core SKPIs will drive a continued focus on maintaining our longer term Society outcomes. The targets are based on a total of 10 SKPIs. Further details on SKPIs can be found in the Strategic Report section of the Annual Report.

² During 2025 we have focussed on 11 short to medium term Enterprise Objectives which each have a defined success measure(s) and focus on in year priorities to deliver our longer term goals. For 2025, examples included, working to create a differentiated savings brand and customer experience, and simplifying our business to become more efficient and effective. The Committee updated the target for one of the Enterprise Objectives measures, to reflect business decisions that were made after the targets were set at the beginning of the performance year.

³ The outturn for this measure is based on an individual performance rating.

The committee considered the outcome of the LEA in the context of performance in 2025 and whether there were matters to consider, that were not already reflected in the scheme performance measures. Following this review the committee concluded no discretionary adjustment should be made to the outturn.

The impact of deferral

For Executive Directors, 60% of the award for 2025 performance is payable in March 2026, 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	2025	2026	2027	2028
2025 performance period	-	60%	20%	20%
2024 performance period	60%	20%	20%	-
2023 performance period	20%	20%	-	-

Payments to past directors or Payments for loss of office

Julie-Ann Haines stepped down from the Board and the role as Chief Executive Officer on 20 November 2025. After stepping down from the Board, Julie-Ann Haines was on garden leave and received salary (£55k), benefits and pension (£6k) until the end of the 2025 financial year. Julie-Ann was not entitled to any variable pay for the period after she stepped down from the Board. Julie-Ann will receive salary (£205k), benefits and pension (£45k) over the remainder of her notice period.

Remuneration of the Chief Executive Officer over time

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

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

Year ended	Chief Executive Officer	Total remuneration £000	Actual variable pay received as a percentage of maximum opportunity %
2025	Iain Mansfield ¹	68	34%
2025	Julie-Ann Haines ²	508	13%
2024	Julie-Ann Haines	669	66%
2023	Julie-Ann Haines	592	80%
2022	Julie-Ann Haines	501	60%
2021	Julie-Ann Haines	508	73%

¹ Remuneration for Iain Mansfield as CEO from 21 November 2025 to the end of 2025

² Remuneration for Julie-Ann Haines as CEO until 20 November 2025

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 25th and 75th percentiles represent the lower and upper quartile positions.

The table below shows that the Chief Executive Officer's total remuneration is 14 times that of the median colleague and has decreased slightly compared to prior year due to the lower actual variable pay received for 2025 for both Julie-Ann Haines and Iain Mansfield for their respective periods as CEO during the year. Variable pay makes up a greater proportion of the CEO's pay compared to colleagues and therefore the decrease in variable pay outturn this year has a greater proportional impact on CEO total remuneration and results in a lower ratio. The ratio remains consistently lower than peer group comparators in Financial Services.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2025	Option A	19:1	14:1	10:1
2024	Option A	22:1	16:1	11:1
2023	Option A	20:1	14:1	10:1
2022	Option A	19:1	14:1	10:1
2021	Option A	20:1	14:1	10:1

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2025 are:

	25th percentile	Median	75th percentile
Total remuneration	£30,385	£41,879	£58,016
Salary	£26,406	£36,154	£51,000

Notes to the Chief Executive Officer pay ratio:

- CEO pay comprises Julie-Ann Haines' pay to 20 November 2025 and Iain Mansfield's pay from 21 November to the end of the financial year.
- Employee data includes full time equivalent total remuneration for all permanent and fixed term UK employees employed as at 31 December 2025. Variable pay is based on actual outcomes for 2025 as detailed in this report. Colleagues on sick leave, parental leave or career breaks at this date were excluded to ensure most accurate like for like comparison data.
- The calculation of the CEO pay ratio is in line with the spirit of Option A of the guidelines. In 2025, we continued to apply this Option but refined our approach.
- Our approach to reward ensures that remuneration (including base pay, variable pay and benefits) at Principality is transparent, fair, free from discrimination, and aligned to the external market.

Non-Executive Directors' Remuneration

The following table provides the fee structure for our Non-Executive Directors, effective February 2025. Our fees contain a base fee element and an additional element for additional responsibilities such as the role of Senior Independent Director or chairing a Committee, to reflect the additional level of responsibility.

Non-Executive Director fees have been treated the same way as the wider workforce in terms of consideration of market competitiveness and the same level of increase applied to them. Following a review in 2025, this resulted in increases to NED fees of between 2.8% to 3.7%.

Role and fee structure	Total fees
Chair / Chair of Noms & Gov	£165,000
Committee Member	£60,000
Senior Independent Director	£10,280
Remuneration Committee Chair	£15,720
Risk Committee Chair	£15,720
Audit Committee Chair	£15,720

The following table provides the audited information showing a single total figure of remuneration for the 2025 financial year for each of the Non-Executive Directors and compares this figure to the prior year.

Audited information Non-Executive Directors	Fees	
	2025 £000	2024 £000
Simon Moore – Chair of the Board of Directors	165	151
Claire Hafner – Chair of the Audit Committee (until September 2025) and Non-Executive Director until 31 December 2025	90	73
Debra Williams – Chair of the Remuneration Committee	90	73
Jonathan Baum – Chair of the Board Risk Committee and Senior Independent Director	110	83
Shimi Shah – Non-Executive Director	60	58
Karen Maguire – Non-Executive Director and Chair of the Audit Committee (from September 2025)	65	19
Maria Timon-Samra – Non-Executive Director	60	9
Garry Stran – Non-Executive Director	59	-

Relative importance of spend on pay

The following table sets out the changes in underlying Profit Before Tax for 2025 and 2024 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 decrease in employee remuneration costs reflects the reduction in headcount following reorganisation activity as part of Project Seren.

	2025 £m	2024 £m	Percentage change
Total assets	13,945	14,109	-1.16%
Employee remuneration costs	62.3	65.9	-5.46%
Underlying profit before tax	61.7	40.3	53.10%
Headcount (number of full-time equivalent employees)	1,153	1,225	-5.88%

Material Risk Takers

MRTs are defined as those 'whose professional activities have a material impact on the firm's risk profile'. The Remuneration Committee is responsible for approving remuneration policies, maintaining oversight of the remuneration of MRTs and for ensuring the remuneration paid to MRTs is in line with regulatory requirements. Details of the MRT remuneration arrangements for 2025 are included in the Pillar 3 document which is available on our website.

External advisers

During the year, the Committee sought independent advice from PwC and Korn Ferry in relation to Executive Director remuneration and regulatory developments. Following a competitive tender process during the year, Korn Ferry were appointed as our independent external advisers, with effect from 1 September 2025.

PwC and Korn Ferry are signatories to the voluntary Code of Conduct in relation to remuneration in the UK. The Committee reviews all other services provided by PwC and Korn Ferry to ensure they continue to be independent and objective and is satisfied that PwC and Korn Ferry provide independent, robust and professional advice.

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

Looking ahead to 2026

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 2026, it was agreed that our Chief Executive Officer's base salary will be increased by 3% to £515,000.

No changes will be made to the benefits or pension provided to the CEO for 2026.

The maximum annual bonus opportunity for the CEO will be 62.5% of salary. Performance will be assessed against a scorecard of measures comprising 33.3% adjusted ManEx, 33.3% profit before tax, 16.7% customer satisfaction, and

16.7% colleague engagement. An individual performance modifier will then apply to the scorecard outcome to determine the final payout.

The maximum that can be earned under the 2026 cash LTIP is 65% of salary for the CEO. Performance will be assessed over a three-year period from FY2026 to FY2028, 33.3% against profit before tax, 33.3% against return on capital and 33.3% against transformational milestones linked to our new strategy. Performance will be tested against targets at the end of FY2028 and any payout will be made in early 2029 following audited results.

Non-Executive Director fees have been reviewed, resulting in an increase to £190,000

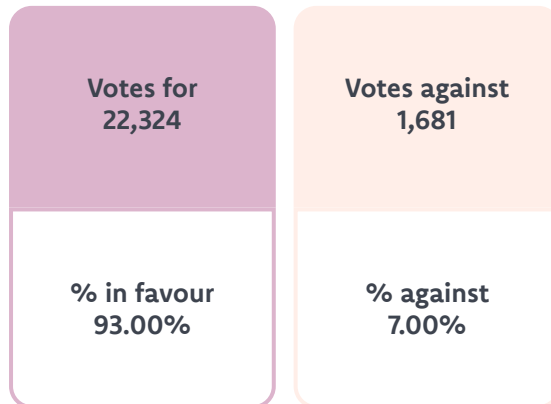
for the Chair of the Board. All remaining fees have been increased by 3% in line with the wider workforce. Furthermore, following a review of the NED fee structure and time commitment of NED roles, committee membership fees of £5,000 have been introduced.

Statement of Member Voting

The Society is committed to open and honest dialogue with our Members and take an active interest in voting outcomes. The voting results for the 2024 Director's Remuneration Report at our 2025 AGM are set out below.

Approval

This report is approved by the Remuneration Committee.



* 482 votes were withheld

Directors' Report

for the year ended 31 December 2025

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 2025. The Directors confirm that, to the best of their knowledge, the Annual Report and Accounts, taken as a whole, is fair, balanced, provides an understandable assessment of the Society's position and prospects and provides the information necessary to Members to assess the Society's performance, business model and strategy. Further information is provided in the Report on the Audit Committee on pages 64 to 67.

Directors

The names of the Directors at the date of this report, together with brief biographical details, are listed on pages 45 to 47. Details of changes affecting the composition of the Board are set out in the Corporate Governance Report on pages 42 to 43. 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. Shimi Shah will not stand for re-election at the 2026 AGM. 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 11 April 2025, the Members passed a resolution that Deloitte LLP be reappointed as auditor for the ensuing year.

Responsibilities of the Directors in respect of the preparation of the Annual Report and Accounts

The following statement, which should be read in conjunction with the statement of the auditor's responsibilities on page 96, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, the Report of the Remuneration Committee, the Annual Business Statement and the Directors' Report.

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

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

The Act states that references to International Accounting Standards accounts giving a true and fair view, are references to their achieving a fair presentation. In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report,

each containing prescribed information relating to the business of the Society and its connected undertakings.

Directors' responsibilities for accounting records and internal controls

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

- Keeps accounting records in accordance with the Building Societies Act 1986
- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made under the Financial Services and Markets Act 2000.
- The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities. So far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware. Each of the Directors, whose names and functions are listed on pages 45 to 47, have taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

The Directors are also responsible for the integrity of statutory and audited information on the Society's website www.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 34 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 2028. 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 2026-2028 business plans through the Society's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process. The key economic stress test modelled reflected a market-wide fall in residential house prices of 30%, unemployment reaching 8.5% and the Bank Base Rate reaching a high of 8.0%, 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 40.

Risk Management

The Society's approach to risk management is outlined in pages 34 to 40.

Anti-Corruption and Anti-Bribery matters

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

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

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

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

Colleagues

More information on how the Society engages and supports its colleagues can be found in the Impact Beyond Scale section on page 23.

Country by country reporting

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

a) Name, nature of activities and geographical location

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

b) Average number of employees

The average number of employees is disclosed in note 10.

c) Annual turnover

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

d) Pre-tax profit or loss

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

e) Corporation tax paid

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

f) Public subsidies received

No public subsidies were received in 2025.

Charitable and political donations

In 2025, the Society made donations to charities of £1.5m (2024: £1.5m). No political donations were made by the Society in the current or prior year.

Creditor payment policy

Our policy is to agree terms and conditions with suppliers that outline the way in which business is to be transacted, including the terms of payment, and to pay in accordance with contractual and other legal obligations. The Society's creditor days stood at 2 days at 31 December 2025 (2024: 6 days).

Whistleblowing policy

Our Whistleblowing policy sets out the arrangements in place which enable colleagues (and others) to raise concerns relating to wrongdoing. The Society's Board reviewed and approved the Whistleblowing policy at its December 2025 meeting alongside receiving the annual Board Whistleblowing Champions Report.

Section 172

Although Principality, as a building society, is not required to follow the Companies Act, we seek to apply section 172 requirements where appropriate. Our Corporate Governance Report set out on pages 42 to 57 includes a summary of how the board has carried out its duties in promoting the success of the organisation, this includes the board's activities, engagement with stakeholders and how it demonstrates its commitment to doing the right thing. The next section outlines how the board engages with stakeholders and remains cognisant of their needs when running the business.

Modern slavery statement

The Society's Modern Slavery Statement outlines the steps taken during 2025 to prevent slavery, servitude, forced labour and human trafficking within its business, subsidiaries and supply chains, in line with section 54(1) of the Modern Slavery Act 2015.

The Society operates in a regulated, low-risk sector and remains vigilant in managing modern slavery risks through its systems and controls, colleague vetting and training, and supplier due diligence. Oversight is provided through the Financial Crime Policy Team and the Operational Risk Committee, supported by supplier assurance and ongoing monitoring.

The Society is committed to conducting business with honesty and integrity, treating everyone with dignity and respect, and working with suppliers and partners to raise awareness and mitigate the risk of modern slavery. Relevant policies and procedures are kept under regular review.

On behalf of the Board of Directors:



Simon Moore
Chair

19 February 2026

Financial Statements

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

for the year ended 31 December 2025

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 2025 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom 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 statement of financial position;
- the Group statement of changes in Members' interests;
- the Group and Society cash flow statements;
- the material accounting policy information; and
- the related notes 1 to 36.

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 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 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	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"> • IFRS 9 Financial Instruments - Expected Credit Loss (“ECL”) provisioning. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> - Similar level of risk
Materiality	<p>The materiality that we used for the Group financial statements was £6.36m (2024: £6.03m) which was determined on the basis of 0.8% (2024: 0.8%) of net assets.</p>
Scoping	<p>All material entities in the Group are within our audit scope and audited to an appropriate lower-level component performance materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed by the Group audit engagement team.</p>
Significant changes in our approach	<p>There are no significant changes in our approach in the current year.</p>

Conclusions relating to going concern

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

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

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

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

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

Key audit matters

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

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

IFRS 9 Financial Instruments – Expected Credit Loss provisioning

Key audit matter description

In accordance with IFRS 9 Financial Instruments, expected credit losses are recognised for all residential and commercial mortgages that are held at amortised cost. Estimating these expected credit losses requires the use of complex models and application of judgement and estimation to assumptions. These assumptions are informed using historical behaviour and experience through different economic cycles as well as credit bureau data.

The Group held £24.6m of impairment provisions as at 31 December 2025 (2024: £30.6m) against total loans and advances to customers of £11,985m (2024: £11,391m).

The Group applies four macro-economic scenarios when determining the ECL calculation: a base, an upside, a downside and a severe downside scenario. The selection and probability weighting of relevant macro-economic scenarios is judgemental and has a significant impact on the ECL calculations. We have identified the selection of the macro-economic scenarios selected for use within the model, along with the weightings applied, and the assumptions related to the House Price Index (HPI), unemployment rates and interest rates within the economic forecasts as our key audit matter. The economic forecasts are based on a range of forecasts that take account of current and historical macroeconomic conditions. Judgement is involved in selecting key assumptions, scenarios and weightings.

Given the material effect of the significant judgement taken in deriving the above, we also consider that there is a potential for fraud risk through possible manipulation of these assumptions.

The Group's loan loss provision balances are detailed within note 17. The Group's associated accounting policies are detailed on pages 108 to 110 with detail about judgements in applying accounting policies and key sources of estimation uncertainty on pages 114 to 115. The Directors' consideration of the effect of the future economic environment is disclosed on pages 16 to 17. The Audit Committee's consideration of the matter is described on pages 64 to 65.

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

Our audit procedures included obtaining an understanding of the relevant controls around the loan impairment process and the determination of the judgements within the model.

We challenged the Directors' consideration of the future economic environment and, with the involvement of our economic specialists, we assessed the forecasts used with reference to external market data and other independent sources.

With the involvement of our credit risk specialists, we challenged the macroeconomic weightings applied within the model, as well as evaluating the compliance of the modelled approach against the requirements of IFRS 9.

We reconciled the loan book to the general ledger and substantively tested a sample of loans to assess the completeness and accuracy of the data used in the provision calculation. We also assessed the relevance and reliability of information provided by third party institutions, which are used in the model.

We performed a stand back assessment of the overall provision recognised by management across the retail and commercial loan book portfolios.

We also assessed the appropriateness of the disclosures in relation to the significant judgements and critical accounting estimates relating to ECL.

Key observations

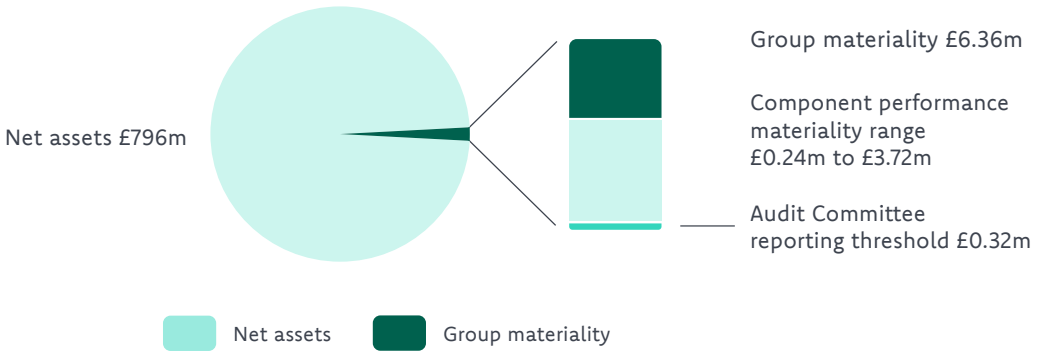
Based on our audit procedures above, we concluded that the Group's ECL provision is reasonably stated based on the macro-economic assumptions and scenarios applied, and is supported by a methodology that is appropriately applied.

Our application of materiality

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

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

	Group financial statements	Society financial statements
Materiality	£6.36m (2024: £6.03m)	£5.73m (2024: £5.37m)
Basis for determining materiality	0.8% of net assets (2024: 0.8% of net assets)	Society materiality equates to 0.76% of net assets, which is capped at 90% of Group materiality (2024: 0.8% of net assets)
Rationale for the benchmark applied	We have continued to determine it appropriate to use net assets as the benchmark for materiality. This is based on professional judgement and taking consideration of the financial measures most relevant to users of the financial statements. The Group and the Society are balance sheet driven businesses, which is of significant interest for users of the financial statements including regulators and also a more stable benchmark than other metrics.	



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% (2024: 65%) of Group materiality	65% (2024: 65%) of Society materiality
Basis and rationale for determining performance materiality	Due to IT control deficiencies identified in previous periods, we continue to be unable to adopt a control reliance strategy in performing audit procedures over key lending and savings balances. As part of our response, we have maintained a reduced performance materiality level of 65% of materiality. We have not reduced performance materiality further due to the moderate and isolated level of prior-year uncorrected and corrected misstatements that have been corrected in the current period, and the low likelihood of errors occurring based on our previous experience.	

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £318k (2024: £302k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group wide controls and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and its material subsidiaries (Nemo Personal Financing Limited, Friary No. 7 plc, Friary No. 8 plc and Friary No. 9 plc), which is consistent in scope with the prior year, providing full scope and coverage of 100% (2024: 100%) of the Group's net assets and a 99% (2024: 99%) coverage on revenue and 99% (2024: 99%) coverage on profit before tax. This work was executed at levels of component performance materiality applicable to each individual entity which were lower than Group performance materiality and in the range of £0.24m to £3.72m (2024: £0.32m to £3.49m).

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

Our consideration of the control environment

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

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

The Audit Committee has performed their own assessment of the internal control environment as set out on pages 65 to 66.

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

We also considered the consistency of the climate change disclosures, included in the Strategic Report on pages 24 to 33, 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: www.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 Group'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:
 - > identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - > detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - > 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, prudential regulation, pensions, IT, analytics and credit modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

We also obtained an understanding of the legal and regulatory framework 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 legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Building Societies Act 1986

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

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

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

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

In our opinion the information given on page 89 to the financial statements for the financial year ended 31 December 2025 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Other matters which we are required to address
Audit tenure

Following the recommendation of the Audit Committee, we were appointed at the Annual General Meeting by the Members of the Society on 27 April 2007 to audit the financial statements for the year ending 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 31 December 2007 to 31 December 2025.


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 2026

Financial Statements

for the year ended 31 December 2025

Consolidated income statement

	Notes	2025 £m	2024 £m
Interest receivable and similar income	4	699.8	724.4
Interest payable and similar charges	5	(530.1)	(562.4)
Net interest income		169.7	162.0
Fees and commission receivable	6	1.4	2.9
Fees and commission payable		(0.9)	(2.4)
Net fee and commission income		0.5	0.5
Other operating income		1.7	1.7
Other fair value (losses)/gains	8	(0.5)	8.9
Net operating income		171.4	173.1
Administrative expenses	9	(109.6)	(113.8)
Depreciation and amortisation	22 & 23	(7.7)	(10.8)
Other impairment losses	22 & 23	(0.3)	-
Operating expenses		(117.6)	(124.6)
Impairment provision release on loans and advances	19	6.7	3.6
Provision for liabilities	20	(0.5)	(2.9)
Operating profit and profit before taxation		60.0	49.2
Taxation expense	13	(14.8)	(12.6)
Profit for the year		45.2	36.6

Consolidated statement of other comprehensive income

	Notes	2025 £m	2024 £m
Profit for the year		45.2	36.6
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain on retirement benefit obligations	12	-	0.1
Items that may be reclassified subsequently to profit and loss:			
Gain on fair value through other comprehensive income		0.7	-
Tax charge on fair value through other comprehensive income	13	(0.2)	-
Total comprehensive income for the year		45.7	36.7

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 106 to 164 form part of these accounts.

Income statement of the Society

	Notes	2025 £m	2024 £m
Interest receivable and similar income	4	692.4	716.2
Interest payable and similar charges	5	(526.4)	(558.8)
Net interest income		166.0	157.4
Fees and commission receivable	6	1.4	2.9
Fees and commission payable		(1.4)	(2.4)
Net fee and commission income		-	0.5
Other operating income		1.7	1.7
Income from investments	7	15.0	16.8
Other fair value gains	8	23.7	7.6
Net operating income		206.4	184.0
Administrative expenses	9	(109.0)	(113.0)
Depreciation and amortisation	22 & 23	(7.2)	(10.8)
Other impairment losses	22 & 23	(0.3)	-
Operating expenses		(116.5)	(123.8)
Impairment provision release on loans and advances	19	6.3	3.0
Provision for liabilities	20	(0.1)	(2.8)
Operating profit and profit before taxation		96.1	60.4
Taxation expense	13	(20.0)	(11.1)
Profit for the year		76.1	49.3

Statement of other comprehensive income of the Society

	Notes	2025 £m	2024 £m
Profit for the year		76.1	49.3
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain on retirement benefit obligations	12	-	0.1
Items that may be reclassified subsequently to profit and loss:			
Gain on fair value through other comprehensive income		0.7	-
Tax charge on fair value through other comprehensive income	13	(0.2)	-
Total comprehensive income for the year		76.6	49.4

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 106 to 164 form part of these accounts.

Consolidated statement of financial position

	Notes	2025 £m	2024 £m
Assets			
Cash in hand and balances with the Bank of England		403.7	1,668.8
Loans and advances to credit institutions	14	283.5	308.4
Debt securities	15	1,085.4	528.3
		1,772.6	2,505.5
Derivative financial instruments	16	110.7	246.6
Loans and advances to customers:			
Loans fully secured on residential property		11,742.0	11,018.6
Other loans		258.6	265.9
	17	12,000.6	11,284.5
Intangible fixed assets	22	11.9	15.7
Property, plant and equipment	23	26.4	25.6
Investment properties	23	7.4	7.8
Current tax assets		-	3.3
Deferred tax assets	28	1.0	2.1
Retirement benefit assets	12	0.4	-
Other assets		0.9	1.2
Prepayments and accrued income		11.8	16.9
Total assets		13,943.7	14,109.2
Liabilities			
Shares	24	11,583.8	10,798.8
Deposits and debt securities:			
Amounts owed to credit institutions	25	129.3	744.8
Amounts owed to other customers		111.5	250.1
Debt securities in issue	26	1,222.3	1,453.0
		1,463.1	2,447.9
Derivative financial instruments	16	72.0	67.5
Other liabilities	27	10.3	13.1
Provision for liabilities	20	2.9	5.1
Accruals and deferred income		6.4	12.1
Current tax liabilities		1.0	-
Deferred tax liabilities	28	4.8	10.9
Retirement benefit obligations	12	-	0.1
Total liabilities		13,144.3	13,355.5
General reserve		798.2	753.0
Other reserves		1.2	0.7
Total equity and liabilities		13,943.7	14,109.2

The accounting policies and notes on pages 106 to 164 form part of these accounts. These accounts were approved by the Board and authorised for issue on 19 February 2026.

Signed on behalf of the Board:



Simon Moore
Chair



Iain Mansfield
Chief Executive Officer

Statement of financial position of the Society

	Notes	2025 £m	2024 £m
Assets			
Cash in hand and balances with the Bank of England		403.7	1,668.8
Loans and advances to credit institutions	14	174.6	203.8
Debt securities	15	1,085.4	528.3
		1,663.7	2,400.9
Derivative financial instruments	16	97.6	205.0
Loans and advances to customers:			
Loans fully secured on residential property		11,705.2	10,969.4
Other loans		258.5	265.9
	17	11,963.7	11,235.3
Subsidiary asset	21	0.1	0.1
Intangible fixed assets	22	11.9	15.7
Property, plant and equipment	23	26.4	25.1
Investment properties	23	7.4	7.8
Current tax assets		-	3.5
Deferred tax assets	28	0.9	2.0
Retirement benefit assets	12	0.4	-
Other assets		1.0	1.3
Prepayments and accrued income		11.8	16.9
Total assets		13,784.9	13,913.6
Liabilities			
Shares	24	11,583.8	10,798.8
Deposits and debt securities:			
Amounts owed to credit institutions	25	917.0	1,765.1
Amounts owed to other customers		111.5	250.1
Debt securities in issue	26	321.9	320.2
		1,350.4	2,335.4
Subsidiary liability	21	1.0	1.4
Derivative financial instruments	16	72.0	67.5
Other liabilities	27	10.2	12.7
Provision for liabilities	20	0.9	3.4
Accruals and deferred income		6.5	11.8
Current tax liabilities		0.9	-
Deferred tax liabilities	28	1.5	1.5
Retirement benefit obligations	12	-	0.1
Total liabilities		13,027.2	13,232.6
General reserve		756.5	680.3
Other reserves		1.2	0.7
Total equity and liabilities		13,784.9	13,913.6

The accounting policies and notes on pages 106 to 164 form part of these accounts. These accounts were approved by the Board and authorised for issue on 19 February 2026.

Signed on behalf of the Board:



Simon Moore
Chair



Iain Mansfield
Chief Executive Officer

Statement of changes in Members' interests

	2025			2024		
	General Reserve	Fair Value through OCI Reserve	Total equity attributable to Members	General Reserve	Fair Value through OCI Reserve	Total equity attributable to Members
	£m	£m	£m	£m	£m	£m
Group						
At 1 January	753.0	0.7	753.7	716.3	0.7	717.0
Comprehensive income for the year	45.2	0.5	45.7	36.7	-	36.7
At 31 December	798.2	1.2	799.4	753.0	0.7	753.7
Society						
At 1 January	680.3	0.7	681.0	630.9	0.7	631.6
Comprehensive income for the year	76.2	0.5	76.7	49.4	-	49.4
At 31 December	756.5	1.2	757.7	680.3	0.7	681.0

The Group's capital at 31 December 2025 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

	2025 £m	2024 £m
Net cash flows from operating activities (see below)	(410.2)	397.1
Cash flows from investing activities		
Purchase of intangible assets	(0.8)	(0.9)
Purchase of property, plant and equipment	(3.1)	(4.2)
Purchase of investment securities	(594.0)	(273.8)
Proceeds from sale and maturity of investment securities	41.9	65.1
Net cash flows from investing activities	(556.0)	(213.8)
Cash flows from financing activities		
Interest paid on debt securities in issue	(95.2)	(113.0)
Proceeds from issuance of debt securities in issue	-	500.0
Redemption of debt securities in issue	(228.6)	(296.3)
Repayment of lease liabilities	(1.0)	(1.1)
Net cash flows from financing activities	(324.8)	89.6
(Decrease)/increase in cash and cash equivalents	(1,291.0)	272.9
Cessation of cash ratio deposit scheme ¹	-	35.7
Cash and cash equivalents at the beginning of year	1,978.6	1,670.0
Cash and cash equivalents at the end of year	687.6	1,978.6
Represented by:		
Cash and balances with the Bank of England	403.7	1,669.7
Loans and advances to credit institutions repayable on demand	283.9	308.9
	687.6	1,978.6
Cash flows from operating activities		
Profit before taxation	60.0	49.2
Adjusted for:		
Depreciation and amortisation	7.7	10.8
Impairment on loans and advances to customers	(6.7)	(3.6)
Impairment on fixed assets	0.3	-
Change in fair values	(104.8)	(13.5)
Other provisions	0.5	2.5
Interest on debt securities in issue	91.1	110.3
Non-cash items included in profit before tax	(4.7)	(1.5)
Changes in net operating assets		
Loans and advances to customers	(595.6)	(1,171.8)
Other operating assets	5.2	(3.3)
Derivative financial instruments	140.3	19.7
Shares	777.9	1,723.8
Deposits	(754.0)	(318.1)
Other operating liabilities	(11.9)	0.1
Contributions paid into defined benefit scheme	(0.5)	(0.4)
Taxation paid	(15.0)	(7.1)
Net cash flows from operating activities	(410.2)	397.1

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

Statement of cash flows of the Society

	2025 £m	2024 £m
Net cash flows from operating activities (see below)	(727.4)	502.3
Cash flows from investing activities		
Purchase of intangible assets	(0.8)	(0.9)
Purchase of property, plant and equipment	(3.0)	(4.2)
Purchase of investment securities	(594.0)	(273.9)
Proceeds from sale and maturity of investment securities	41.9	65.1
Dividend from subsidiary	15.0	16.8
Net cash flows from investing activities	(540.9)	(197.1)
Cash flows from financing activities		
Interest paid on debt securities in issue	(25.9)	(25.9)
Repayment of lease liabilities	(1.0)	(1.1)
Net cash flows from financing activities	(26.9)	(27.0)
(Decrease)/increase in cash and cash equivalents	(1,295.2)	278.2
Cessation of cash ratio deposit scheme ¹	-	35.7
Cash and cash equivalents at the beginning of year	1,873.7	1,559.8
Cash and cash equivalents at the end of year	578.5	1,873.7
Represented by:		
Cash and balances with the Bank of England	403.7	1,669.7
Loans and advances to credit institutions repayable on demand	174.8	204.0
	578.5	1,873.7
Cash flows from operating activities		
Profit before taxation	96.1	60.4
Adjusted for:		
Depreciation and amortisation	7.2	10.8
Impairment on loans and advances to customers	(6.3)	(3.0)
Impairment on fixed assets	0.3	-
Change in fair values	(104.8)	(13.5)
Other provisions	0.1	2.8
Interest on debt securities in issue	25.9	25.9
Subsidiary dividend	(15.0)	(16.8)
Non-cash items included in profit before tax	(5.0)	(1.4)
Changes in net operating assets		
Loans and advances to customers	(608.4)	(1,186.1)
Increase in loans from subsidiary companies	(0.5)	0.1
Other operating assets	5.3	(3.4)
Derivative financial instruments	111.8	17.3
Shares	777.9	1,723.9
Deposits	(986.6)	(109.2)
Other operating liabilities	(10.8)	1.0
Contributions paid into defined benefit scheme	(0.5)	(0.4)
Taxation paid	(14.1)	(6.1)
Net cash flows from operating activities	(727.4)	502.3

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

Notes to the accounts

for the year ended 31 December 2025

1. Accounting policies

General information

Principality Building Society is a building society, incorporated and domiciled in the United Kingdom. The address of the registered office is Principality House, The Friary, Cardiff, CF10 3FA.

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 2025.

Adoption of other amendments to existing standards and annual improvements applicable in 2025 did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

The UK Endorsement Board (UKEB) formally adopted IFRS 18 Presentation and Disclosure

in Financial Statements for use in the UK on 10 December 2025, this will replace IAS 1 Presentation of Financial Statements. IFRS 18 introduces new presentation requirements within the statement of profit or loss, including prescribed totals and subtotals. It also requires disclosure of newly defined management defined performance measures, which represent subtotals of income and expenses. In addition, the standard sets out enhanced requirements for the aggregation and disaggregation of financial information, reflecting the distinct roles of the primary financial statements and the notes.

IFRS 18 is effective for reporting periods beginning on or after 1 January 2027. The Society is currently assessing the full impact of these amendments on its primary financial statements and accompanying notes

Basis of consolidation

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

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

Investments in subsidiaries

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

Securitisation transactions

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

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

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

Interest receivable and payable

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

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

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

Interest income on debt securities, derivatives and other financial assets accounted for at either fair value through the statement of other

comprehensive income or fair value through profit or loss is included in interest receivable and similar income.

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

Fees and commission and Other income

Fees associated with originating new loans or retaining existing loans are reflected in the calculation of the effective interest rate of the loan. Fees received for loan servicing and other business processes are 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.

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 (in default) if they are 90 days past due, repossessed or the borrower has been declared bankrupt. The definition of default aligns to the regulatory definition under the IRB approach for capital requirements. 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
- 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.

Write-offs

Where there is no reasonable prospects of recovering part or all of the future cash flows from a loan, writing off part or all of a customer's

debt may be considered. Write-offs are only pursued in exceptional circumstances such as bankruptcy, unsecured debt, or avoiding negative outcomes for vulnerable customers.

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
Loans and advances to credit institutions	A significant increase in credit risk is deemed to have occurred if the credit rating of the credit institution drops below investment grade. All loans and advances to credit institutions are in stage 1.	PDs for loans and advances to credit institutions are based on the CDS price of the credit institution.
Debt securities	A significant increase in credit risk is deemed to have occurred if the credit rating of the debt issuer drops below investment grade. All debt securities are in stage 1.	PDs for debt securities are based on historical default rate of comparable rate securities.

Forward-looking information in the ECL models

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

Loans and advances to credit institutions

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

Derivative financial instruments and hedge accounting

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

i) Derivative financial instruments

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

Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within 'amounts owed to credit institutions'. Where collateral is given, to mitigate the risk inherent in amounts due from

the Group, it is included as an asset in 'loans and advances to credit institutions'.

ii) Hedge accounting

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

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

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

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

Portfolio (macro) fair value hedges

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

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

Micro fair value hedges

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

amount of the hedged item is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

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

The Group discontinues hedge accounting when:

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

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

Taxation

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

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

Deferred tax liabilities are defined as the amounts of income taxes payable in future periods in respect of taxable temporary differences.

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

is probable that future taxable profits will be available against which the temporary differences can be utilised.

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

Leases

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

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

Intangible assets

Computer software

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

Website costs

Website costs, or costs related to similar digital platforms, are capitalised where the expenditure is incurred on developing an income-generating

asset. Where software costs are capitalised, they are amortised using the straight-line method over their estimated useful lives which is between three to seven years. The 2024 website costs have been amortised over five 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 considered for impairment testing within the smallest identifiable group of assets that generates largely independent cash inflows, and any impairment is recognised immediately in the income statement.

Gains and losses on disposal are determined by comparing the net disposal proceeds with the carrying amount of the asset and are included in the income statement.

Pension costs

The Society operates two pension schemes, a defined contribution scheme and a defined benefit scheme.

A defined contribution scheme is one into which the Group and the employee pay fixed contributions, without any obligation to pay further contributions. Payments into the defined contribution scheme are charged to the income statement as they become payable in accordance with the rules of the scheme. The majority of the Group's employees are members of this scheme.

A defined benefit scheme is one that defines the benefit an employee will receive on retirement, depending on such factors as age and length of service. Defined benefit pension scheme assets are measured using closing market values. Scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. This scheme closed to future accruals on 31 July 2010.

The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in other operating income. Actuarial gains and losses are recognised in full in the statement of other comprehensive income.

Qualifying insurance policies are reflected in plan assets at their fair value, which is defined as the present value of the related defined benefit obligations. The difference between the fair value of plan assets and the cost of the policy is treated as an actuarial loss which is recognised in full in the statement of other comprehensive income.

In September 2023 the Society contracted into a pension buy-in where an annuity (insurance policy) was purchased transferring

the responsibility for meeting scheme members' benefits to Legal & General Assurance Society Ltd (LGAS), significantly reducing the risk and related liability from the Pension trustees and the Society with the only residual risk relating to the solvency of the insurer. The premium paid in return for the buy-in policy was £13.5m, in addition to £0.7m of costs. An additional premium in the region of 1.3% of scheme liabilities in respect of GMP equalisation is expected to be required to complete the buy-out in a future period, alongside further advisor costs.

Segmental reporting

A business segment is defined as a group of assets and operations providing products and services that are subject to different risks and returns from the other business segments. The Group considers that business segments are its primary reporting format for segmental analysis. Business segments are reported in a manner consistent with the internal reporting provided to the Board which has been identified as the chief operating decision maker.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, loans and advances to banks, and other amounts due from banks.

Provisions and contingent liabilities

A provision is recognised when there is a present obligation because of a past event, it is probable that the obligation will be settled, and it can be reliably estimated. Where it is not probable that the obligation will be settled and/or it cannot be reliably estimated, a contingent liability is disclosed in the notes to the accounts.

Advertising and promotional costs

Advertising and promotional costs are expensed as incurred. Where payment has been made in advance of the rendering of the service or the delivery of goods, a prepayment is recognised. The costs are then recognised in the income statement on a straight-line basis over the term of the contract.

Sale and repurchase agreements

Investment and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain within the Group, and the counterparty liability

is included separately on the statement of financial position as appropriate. Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the statement of financial position.

2. Judgements in applying accounting policies and critical accounting estimates

The preparation of these financial statements involves making judgements in the application of accounting policies which affect the amounts recognised. In addition, critical accounting estimates and assumptions are made that could have a significant impact on the reported amounts of assets and liabilities within the next financial year and beyond.

The critical judgements and the most significant areas where accounting estimates are made are as follows:

a) Significant judgements in applying accounting policies

Significant increase in credit risk

As described in note 1 on page 108, 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	Commercial lending £m
Stage 1 to stage 2	4.1	2.3
Stage 2 to stage 1	(0.6)	(0.2)

Nemo provisions no longer materially sensitive from a Group reporting perspective.

Post model adjustment (PMA) – probability of possession given default (PPGD)

Recent data, over an observation period of 2012 to 2019, shows that actual repossession rates are lower than the assumptions used within the retail model, particularly in the base and upside scenario. Actual possession rates have been low since the global financial crisis due to comparatively favourable economic conditions and the moratorium of possessions following the onset of the pandemic. Therefore, there is a risk that modelled provisions are inflated. As a result, a PMA has been introduced to reduce the PPGD assumptions within the base and upside scenario. The downside scenarios have also been amended to apply downturn assumptions, in order to capture the full economic cycle. This results in a reduction in retail ECL of £2.9m.

Removal of the refinance risk post model adjustment

A refinance risk PMA was previously held to reflect the risk that customers who had been paying fixed rates lower than current market rates could struggle to afford their mortgage repayments when their current rate ends. This resulted in a PMA of £0.8m in 2024. As most customers have refinanced at higher rates and arrears remain relatively low, this has now been released.

b) Sources of key estimation uncertainty

Impairment provision on loans and advances

The key sources of estimation uncertainty applied in determining expected credit loss provisions are forward looking UK macro-economic variables and the number and probability weightings of macro-economic scenarios used.

Further information is included in note 19.

Climate Change

Physical climate-related risks, such as flooding, subsidence and coastal erosion, have been identified within the existing portfolio, and scenario analysis has been undertaken to assess potential changes in risk through scenario analysis, discussed on pages 26 to 27. Applying the most severe RCP (8.5), does not result in material financial risk over the next five years, therefore the impact on expected credit losses is also considered to be immaterial.

Transition risks remain broad, and limited data is currently available to quantify potential impacts. As future government policies and economic and regulatory responses to climate-related risks continue to evolve, future effects remain inherently uncertain and cannot be reliably incorporated into assessments at this time.

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.

	2025			
	Retail financial services	Commercial lending	Secured personal lending	Total
	£m	£m	£m	£m
Net interest income	142.4	23.8	3.5	169.7
Other income & charges	1.3	0.4	0.5	2.2
Fair value loss	(0.5)	-	-	(0.5)
Net operating income	143.2	24.2	4.0	171.4
Operating expenses	(113.9)	(3.0)	(0.7)	(117.6)
Impairment provision release for losses on loans & advances	3.8	2.6	0.3	6.7
Provision for liabilities	(0.1)	-	(0.4)	(0.5)
Operating profit & profit before taxation	33.0	23.8	3.2	60.0
Taxation expense				(14.8)
Profit after taxation				45.2

	2024			
	Retail financial services £m	Commercial lending £m	Secured personal lending £m	Total £m
Net interest income	134.3	23.1	4.6	162.0
Other income and charges	0.7	1.5	-	2.2
Fair value gain	8.9	-	-	8.9
Net operating income	143.9	24.6	4.6	173.1
Operating expenses	(120.9)	(2.9)	(0.8)	(124.6)
Impairment provision for losses on loans & advances	1.8	1.1	0.7	3.6
Provision for liabilities	(2.8)	-	(0.1)	(2.9)
Operating profit & profit before taxation	22.0	22.8	4.4	49.2
Taxation expense				(12.6)
Profit after taxation				36.6

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

	Group	
	2025 £m	2024 £m
Total assets by business segments		
Retail financial services	13,061.3	13,292.7
Commercial lending	844.6	766.0
Secured personal lending	37.8	50.5
Total assets	13,943.7	14,109.2
Total liabilities & equity by business segment		
Retail financial services & Commercial lending	13,905.9	14,058.7
Secured personal lending	37.8	50.5
Total liabilities & equity	13,943.7	14,109.2

Retail financial services and commercial lending are part of the same legal entity and liabilities are not shown for each business segment for internal reporting purposes.

4. Interest receivable and similar income

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
On loans fully secured on residential property	522.7	443.8	519.1	439.1
On other loans	18.2	22.7	18.2	22.7
On debt securities	33.2	20.9	33.2	21.6
On other liquid assets	63.8	99.9	60.0	95.7
On derivative financial instruments	61.9	137.1	61.9	137.1
	699.8	724.4	692.4	716.2

5. Interest payable and similar charges

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
On shares held by individuals	427.2	400.6	427.2	400.6
On deposits and debt securities	103.2	151.5	77.3	105.6
On lease liabilities	0.2	0.1	0.2	0.1
On derivative financial instruments	(0.5)	10.2	21.7	52.5
	530.1	562.4	526.4	558.8

6. Fees and commission receivable

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Insurance and related financial service products	0.2	0.2	0.2	0.2
Mortgage related administration fees	1.2	2.7	1.2	2.7
	1.4	2.9	1.4	2.9

7. Dividends

Income from investments of £15.0m (2024: £16.8m) relates to a dividend paid, at £150 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	
	2025 £m	2024 £m	2025 £m	2024 £m
Losses on derivatives in hedging relationships	(109.1)	(11.3)	(109.1)	(11.3)
Gains on derivatives not in hedging relationship	2.0	6.9	26.2	5.6
Losses on derivatives	(107.1)	(4.4)	(82.9)	(5.7)
Gains/(losses) on economic hedged items	9.4	(2.1)	9.4	(2.1)
Gains on hedged items attributable to the hedged risk	97.2	15.4	97.2	15.4
Gains on hedged items	106.6	13.3	106.6	13.3
	(0.5)	8.9	23.7	7.6

Other fair value gains and losses represent the difference between changes in the fair values excluding interest flows of the hedging derivatives and the changes in the fair values excluding interest flows of the underlying hedged items.

9. Administrative expenses

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Wages and salaries	52.9	57.4	52.9	57.4
Social security costs	6.0	5.1	6.0	5.1
Other pension costs	3.4	3.4	3.4	3.4
Total	62.3	65.9	62.3	65.9
Other administrative expenses	47.3	47.9	46.7	47.1
	109.6	113.8	109.0	113.0

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Other administrative expenses include:				
Auditor's remuneration				
For audit of the Society's Annual Accounts	1.0	1.0	1.0	1.0
For audit of the Society's subsidiaries	0.2	0.1	-	-
Total	1.2	1.1	1.0	1.0
For other services				
Further assurance services (interim review and treasury related assurance services)	0.2	0.3	0.2	0.3
Total other services	0.2	0.3	0.2	0.3

Auditor's remuneration is stated inclusive of value added tax.

10. Employees

The average number employed including Executive Directors was:

	Full-time		Part-time	
	2025 Number	2024 Number	2025 Number	2024 Number
Society's head office	757	829	65	77
Society branches	188	194	143	125
Employed by the Group	945	1,023	208	202

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 (2024: £1.7m).

12. Retirement benefit obligations

The Group operates two pension schemes, a defined contribution scheme and a defined benefit scheme.

Defined contribution scheme

The Group operates a defined contribution scheme, the Group Flexible Retirement Plan (GFRP). A defined contribution scheme is one into which the Group and the employee pay contributions, without any obligation to pay further contributions. Staff employed after 1 January 2001 and those staff who were formerly members of the defined benefit scheme are eligible to join this scheme. The cost to the Group

and Society of employer's contributions (before salary sacrifice arrangements) to the scheme in 2025 was £3.4m (2024: £3.4m). There were no contributions outstanding or prepaid at the end of the year.

Defined benefit scheme

A defined benefit scheme is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary. Staff, including Executive Directors, who entered service before 1 January 2001 were eligible to join the Society's Defined Benefit Scheme which is designed to provide pension entitlements based on career average salary (final salary until 31 December 2005) with assets held outside the Society in a separate fund administered by the Trustees of the pension fund. Membership of the scheme was, however, available at the discretion of the Society, and a small number of new members were admitted to the scheme on this basis subsequent to 1 January 2001. As the scheme is now fully insured there will be no further admissions to the scheme.

The defined benefit scheme closed to future accruals on 31 July 2010 and was replaced with an enhanced defined contribution scheme, the GFRP, described in the above section.

During 2012, the Trustees of the defined benefit scheme agreed their first buy-in of the pensioner element of the scheme with Legal & General Assurance Society Limited (LGAS). The buy-in involved the purchase of a bulk annuity policy by the scheme under which Legal & General assumed full responsibility for the benefits payable to the scheme's active pensioners at the time. The buy-in took effect from September 2012.

In September 2023 a second buy-in with LGAS was transacted which covered all remaining members of the pension scheme. The buy-in was funded utilising the existing scheme assets and additional contributions from the Society totalling £13.5m. A contribution of £0.4m was made in March 2024 to reimburse the pension scheme for the calculated premium in respect of amending and restating the historical buy-in contract for the known and anticipated future differences between RPI and CPI on the benefits insured and the benefits actually paid to members. A further £0.5m contribution was made in September 2025, in accordance with the Schedule of Contributions. There are no expected contributions in the next reporting period.

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 six individuals, four of which are Society Nominated Trustees and two Member Nominated Trustees. 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 £50.3m (2024: £50.3m).

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

	At 31 December				
	2025 %	2024 %	2023 %	2022 %	2021 %
Rate of increase of pensions in payment:					
CPI 3%	2.05	2.15	2.05	2.00	2.40
CPI 5%	2.50	2.70	2.55	2.60	2.80
CPI 3% Fixed	-	-	-	-	-
Discount rate	5.40	5.40	4.50	4.70	1.80
Inflation assumption (RPI)	2.95	3.25	3.10	3.20	3.35
Inflation assumption (CPI)	2.55	2.75	2.60	2.65	2.80

The assumptions used for the valuation at 31 December 2025 take into account the estimated impact of the RPI reforms from 2030 and will be reviewed at least annually as more information becomes available.

The assumptions on mortality are determined by the following tables:

	2025	2024
Retired and non-retired members	S3NA CMI 2024 LTR 1.00%	S3NA CMI 2023 LTR 1.00%

The assumptions are illustrated by the following years of life expectancy at age 60:

Retired members		
Males currently aged 60	26.2	26.0
Females currently aged 60	28.9	28.9
Non-retired members		
Males currently aged 40	27.4	27.2
Females currently aged 40	30.1	30.1

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

	At 31 December				
	2025 £m	2024 £m	2023 £m	2022 £m	2021 £m
Target return funds	-	-	-	-	-
Multi asset	-	-	-	18.2	46.7
LDI	-	-	-	12.7	9.6
Annuities	49.2	50.1	55.6	17.6	24.7
Bonds and cash	1.0	0.5	0.2	1.1	3.7
Total fair value of plan assets	50.2	50.6	55.8	49.6	84.7
Present value of funded obligations	(49.3)	(50.0)	(55.9)	(50.0)	(81.0)
Present value of unfunded obligations	(0.5)	(0.7)	(0.5)	(0.5)	(0.5)
Net surplus/(deficit) recognised in the statement of financial position	0.4	(0.1)	(0.6)	(0.9)	3.2

The maximum economic benefit available is equal to the net surplus of £0.4m, as the scheme is in a buy-in position.

The actual gain on plan assets was £2.0m during the year (2024: £2.5m loss).

The amounts recognised in the income statement are as follows:

	Group & Society	
	2025 £m	2024 £m
Analysis of the amounts recognised in the income statement		
Interest on pension scheme assets	(2.7)	(2.4)
Interest on pension scheme liabilities	2.7	2.4
Net interest expense	-	-
Past service cost	-	-
Total amount recognised in the income statement	-	-
Analysis of amount recognised in statement of other comprehensive income		
Gain on scheme assets in excess of interest	(0.6)	(4.9)
Experience losses on liabilities	(0.5)	0.4
Gains from changes to demographic assumptions	(0.2)	(0.4)
Gains from changes to financial assumptions	1.3	5.0
Total remeasurement	-	0.1
Analysis of the movement in the statement of financial position deficit		
Deficit in scheme at beginning of year	(0.1)	(0.6)
Movement in year:		
Net interest expense	-	-
Remeasurements	-	0.1
Contributions paid & accrued	0.5	0.4
Past service cost	-	-
Surplus/(deficit) in scheme at end of year	0.4	(0.1)
Analysis of the movement in the fair value of pension scheme assets		
Fair value of assets at the beginning of the year	50.6	55.8
Interest on assets	2.6	2.4
Society contributions	0.5	0.4
Benefits paid	(2.9)	(3.1)
Return on plan assets less interest	0.3	0.6
Change in fair value of the annuity policy	(0.9)	(5.5)
Fair value of assets at the end of the year	50.2	50.6
Analysis of the movement in the present value of the pension scheme liabilities		
Present value of liabilities at the beginning of the year	50.7	56.4
Interest expense	2.6	2.5
Remeasurement losses/(gains):		
Actuarial gains & losses arising from changes in demographic assumptions	0.2	0.4
Actuarial gains & losses arising from changes in financial assumptions	(1.3)	(5.1)
Actuarial gains & losses arising from experience adjustments	0.5	(0.4)
Benefits paid	(2.9)	(3.1)
Past service cost	-	-
Present value of liabilities at the end of the year	49.8	50.7

Significant actuarial assumptions in the determination of the defined benefit obligation are the discount rate, inflation rate and life expectancy. All assumptions have been calculated with reference to the duration of the scheme's liabilities of approximately 12 years. The sensitivity analysis below represents the net impact on the scheme liabilities taking into account the change in the value of both the scheme's liabilities and the bulk annuity contract. No allowance has been made for any changes to the non-insured asset value. The weighted average duration of the liabilities is 12 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	(1.5)	1.5
Inflation	1.3	(1.3)
Life expectancy (+1 year/-1 year)	1.6	(1.6)

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	
	2025 £m	2024 £m	2025 £m	2024 £m
Current tax				
UK corporation tax charge for the year	20.9	12.5	20.0	11.3
Adjustments in respect of prior years	(0.8)	(0.5)	(0.8)	(0.5)
	20.1	12.0	19.2	10.8
Deferred tax				
Deferred tax charge/(credit) for year	(5.8)	0.2	0.3	(0.1)
Adjustments in respect of prior years	0.5	0.4	0.5	0.4
	(5.3)	0.6	0.8	0.3
Taxation expense	14.8	12.6	20.0	11.1

The corporation tax rate applied to 2025 is 25%. No banking surcharge applies in 2024 or 2025, as this reduced to 3% in April 2023 and is applied to profits over £100m (previously 8% over £25m).

The actual tax charge for the year differs from that calculated using the statutory rate of corporation tax in the UK. The differences are explained below:

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Profit before taxation	60.0	49.2	96.1	60.4
Profit multiplied by the statutory rate of corporation tax at 25% (2024: 25%)	15.0	12.3	24.0	15.1
Effects of:				
Expenses not deductible for tax purposes/(income not taxable)	0.1	0.2	(3.7)	(4.2)
Adjustments to prior years	(0.3)	0.1	(0.3)	0.2
Timing differences	-	-	-	-
Taxation on profit from ordinary activities	14.8	12.6	20.0	11.1

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	
	2025 £m	2024 £m	2025 £m	2024 £m
Current tax				
Relating to retirement benefit obligations	(0.1)	(2.6)	(0.1)	(2.6)
	(0.1)	(2.6)	(0.1)	(2.6)
Deferred tax				
Relating to retirement benefit obligations	0.1	2.6	0.1	2.6
Gain on fair value through other comprehensive income	0.2	-	0.2	-
	0.3	2.6	0.3	2.6
Total charged to other comprehensive income	0.2	-	0.2	-

14. Loans and advances to credit institutions

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Loans and advances to credit institutions	283.5	308.4	174.6	203.8

Included in the above amount for the Group is £164.6m of collateral given under Credit Support Annex (CSA) agreements (2024: £180.6m).

15. Debt securities

	Group and Society	
	2025 £m	2024 £m
Issued by other borrowers and unlisted	607.4	498.5
Issued by UK government	478.0	29.8
	1,085.4	528.3

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

The movement in debt securities is summarised as follows:

	Group and Society	
	2025 £m	2024 £m
At 1 January	528.3	317.6
Additions	592.3	273.8
Disposals & maturities	(41.8)	(65.1)
Gains from changes in fair value	2.5	-
Increase in accrued interest	4.3	2.0
Movement in impairment provisions	(0.2)	-
At 31 December	1,085.4	528.3

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	
	2025 £m	2024 £m	2025 £m	2024 £m
Derivative assets:				
Interest rate swaps	5,866.0	7,787.7	110.7	246.6
Total recognised derivative assets	5,866.0	7,787.7	110.7	246.6
Derivative liabilities:				
Interest rate swaps	7,871.2	5,286.2	72.0	67.5
Total recognised derivative liabilities	7,871.2	5,286.2	72.0	67.5
Total recognised derivatives	13,737.2	13,073.9	182.7	314.1

	Society			
	Contract/notional amount		Fair value	
	2025 £m	2024 £m	2025 £m	2024 £m
Derivative assets:				
Interest rate swaps	4,742.0	6,431.6	97.6	205.0
Total recognised derivative assets	4,742.0	6,431.6	97.6	205.0
Derivative liabilities:				
Interest rate swaps	7,871.2	5,286.2	72.0	67.5
Total recognised derivative liabilities	7,871.2	5,286.2	72.0	67.5
Total recognised derivatives	12,613.2	11,717.8	169.6	272.5

Derivative financial instruments held or issued for hedging purposes

The Group uses derivatives for economic hedging purposes as part of its asset and liability management in order to reduce its exposure to market risks by hedging specific financial instruments. Where possible, the Group applies hedge accounting. The accounting treatment explained in note 1 depends on the nature of the item hedged and compliance with the IAS 39/IFRS 9 hedge accounting criteria.

Derivatives in economic hedge relationships

Included in this classification are any derivatives entered into by the Group in order to economically hedge its exposures for risk management purposes that are not designated in hedge relationships as they do not meet the IAS 39 hedge accounting criteria.

This table shows the split of derivatives between those in a fair value hedge relationship and those in an economic hedge relationship, this has been further split by derivative assets and liabilities.

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Derivatives used as fair value hedges				
Derivative assets				
Interest rate swaps	4,679.0	6,215.2	4,679.0	6,215.2
Derivative liabilities				
Interest rate swaps	6,651.9	3,518.1	6,651.9	3,518.1
Total derivatives				
Interest rate swaps	11,330.9	9,733.3	11,330.9	9,733.3
Derivatives used in economic hedge relationships				
Derivative assets				
Interest rate swaps	1,186.9	1,572.5	63.0	216.3
Derivative liabilities				
Interest rate swaps	1,219.3	1,768.2	1,219.3	1,768.2
Total derivatives				
Interest rate swaps	2,406.2	3,340.7	1,282.3	1,984.5
Total derivatives	13,737.1	13,073.9	12,613.2	11,717.8

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	
	2025 £m	2024 £m	2025 £m	2024 £m
Fair value hedges				
Micro hedges				
Commercial loans	264.4	226.2	264.4	226.2
Investments	345.0	30.0	345.0	30.0
Wholesale	300.0	300.0	300.0	300.0
FV adjustment on hedged item (asset) - Commercial	(1.4)	10.6	(1.4)	10.6
FV adjustment on hedged item (asset) - Investments	(1.8)	(0.4)	(1.8)	(0.4)
FV adjustment on hedged item (liability) - Wholesale	1.7	(10.5)	1.7	(10.5)
Macro hedges				
Residential & commercial loans	7,757.5	6,861.1	7,757.5	6,861.1
Retail savings	2,627.4	2,346.0	2,627.4	2,346.0
FV adjustment on hedged item (asset)	(99.0)	(11.7)	(99.0)	(11.7)
FV adjustment on hedged item (liability)	3.3	(3.5)	3.3	(3.5)
Other underlying adjustments				
Amortisation/unwinds	(9.4)	2.1	(9.4)	2.1

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Hedging strategy outcome				
Micro hedge - asset				
Commercial loans - hedged items	(1.4)	10.6	(1.4)	10.6
Commercial loans - hedged instruments	1.9	(10.6)	1.9	(10.6)
Investments - hedged items	(1.8)	(0.4)	(1.8)	(0.4)
Investments - hedged instruments	1.8	0.4	1.8	0.4
Micro hedge - liability				
Wholesale - hedged items	1.7	(10.5)	1.7	(10.5)
Wholesale - hedged instruments	(1.7)	11.0	(1.7)	11.0
Macro hedge - asset				
Residential & commercial loans - hedged items	(99.0)	(11.7)	(99.0)	(11.7)
Residential & commercial loans - hedged instruments	114.7	1.5	114.7	1.5
Macro hedge - liability				
Retail savings - hedged items	3.3	(3.5)	3.3	(3.5)
Retail savings - hedged instruments	(7.6)	9.0	(7.6)	9.0
Economic hedge items				
Amortisation/unwinds	(9.4)	2.1	(9.4)	2.1
Economic hedge instruments				
Dedesignation	-	-	-	-
Economic hedges - awaiting designation	(2.0)	(6.9)	(2.0)	(6.9)
Economic hedges- securitisation	-	-	(24.2)	1.3

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 2025	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	-	-	10.2	109.4	151.3	270.9
EMTN interest rate swaps	-	-	-	10.0	335.0	345.0
Investment interest rate swaps	-	-	-	300.0	-	300.0
Macro hedge						
Retail mortgages interest rate swaps	97.0	260.0	1,648.0	5,629.0	147.0	7,781.0
Commercial interest rate swaps	-	4.0	2.5	44.9	13.9	65.3
Savings interest rate swaps	200.0	255.0	1,642.0	530.0	-	2,627.0
Economic hedges						
Retail mortgages interest rate swaps	-	-	-	45.0	5.0	50.0
Commercial interest rate swaps	-	-	-	-	-	-
Savings interest rate swaps	-	-	25.0	25.0	-	50.0
Securitisation interest rate swaps	-	-	-	2,247.8	-	2,247.8
	297.0	519.0	3,327.7	8,941.2	652.2	13,737.1
Society						
As at 31 December 2025						
	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	-	-	10.2	109.4	151.3	270.9
EMTN interest rate swaps	-	-	-	10.0	335.0	345.0
Investment interest rate swaps	-	-	-	300.0	-	300.0
Macro hedge						
Retail mortgages interest rate swaps	97.0	260.0	1,648.0	5,629.0	147.0	7,781.0
Commercial interest rate swaps	-	4.0	2.5	45.0	13.9	65.4
Savings interest rate swaps	200.0	255.0	1,642.0	530.0	-	2,627.0
Economic hedges						
Retail mortgages interest rate swaps	-	-	-	45.0	5.0	50.0
Commercial interest rate swaps	-	-	-	-	-	-
Savings interest rate swaps	-	-	25.0	25.0	-	50.0
Securitisation interest rate swaps	-	-	-	1,123.9	-	1,123.9
	297.0	519.0	3,327.7	7,817.3	652.2	12,613.2

Group As at 31 December 2024 Restated ¹	Less than 1 month £m	Between 1 month and 3 months £m	Between 3 months and 12 months £m	Between 1 year and 5 years £m	More than 5 years £m	Total £m
Fair value hedges – derivatives						
Micro hedge						
Commercial interest rate swaps	-	4.2	6.2	60.8	155.2	226.4
EMTN interest rate swaps	-	-	-	300.0	-	300.0
Investment interest rate swaps	-	-	-	-	30.0	30.0
Macro hedge						
Retail mortgages interest rate swaps	144.0	205.0	1,635.0	4,682.0	135.0	6,801.0
Commercial interest rate swaps	-	2.7	-	42.7	14.7	60.1
Savings interest rate swaps	135.0	221.0	1,270.0	720.0	-	2,346.0
Economic hedges						
Retail mortgages interest rate swaps	-	-	-	220.0	102.0	322.0
Commercial interest rate swaps	-	-	-	14.6	16.7	31.3
Savings interest rate swaps	-	-	95.0	150.0	-	245.0
Securitisation interest rate swaps	-	-	-	2,712.3	-	2,712.3
	279.0	432.9	3,006.2	8,902.4	453.6	13,074.1

Society As at 31 December 2024 Restated ¹	Less than 1 month £m	Between 1 month and 3 months £m	Between 3 months and 12 months £m	Between 1 year and 5 years £m	More than 5 years £m	Total £m
Fair value hedges – derivatives						
Micro hedge						
Commercial interest rate swaps	-	4.2	6.2	60.8	155.2	226.4
EMTN interest rate swaps	-	-	-	300.0	-	300.0
Investment interest rate swaps	-	-	-	-	30.0	30.0
Macro hedge						
Retail mortgages interest rate swaps	144.0	205.0	1,635.0	4,682.0	135.0	6,801.0
Commercial interest rate swaps	-	2.7	-	42.7	14.7	60.1
Savings interest rate swaps	135.0	221.0	1,270.0	720.0	-	2,346.0
Economic hedges						
Retail mortgages interest rate swaps	-	-	-	220.0	102.0	322.0
Commercial interest rate swaps	-	-	-	14.6	16.7	31.3
Savings interest rate swaps	-	-	95.0	150.0	-	245.0
Securitisation interest rate swaps	-	-	-	1,356.2	-	1,356.2
	279.0	432.9	3,006.2	7,546.3	423.6	11,688.0

¹ Prior years have been restated for corrections to notional derivative amounts.

Hedge ineffectiveness

Hedging relationships are designed to be economically effective, with notional amounts, durations and interest rates on interest rate swaps agreed when they closely align with the corresponding characteristics of the assets being hedged. However, some hedge ineffectiveness may still occur. This can result from early repayments of assets, imperfectly matched key terms, timing differences in cash flows between hedged items and hedging instruments, the use of different interest rate curves for discounting, or changes in counterparties' credit risk that affect the fair value of hedging instruments.

Total ineffectiveness recognised is a loss of £2.5m (2024: £2m gain), included within the other fair value gains/losses financial statement line within the Income Statement. There were no unexpected sources of hedge ineffectiveness during the year.

17. Loans and advances to customers

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Fully secured on residential property	11,719.6	11,125.4	11,682.3	11,075.3
Fully secured on land	265.7	265.9	265.7	265.9
	11,985.3	11,391.3	11,948.0	11,341.2
Provision for impairment losses	(24.6)	(30.6)	(23.9)	(29.1)
Effective Interest Rate adjustments	20.9	18.5	20.6	17.9
Fair value adjustment for hedged risk ¹	19.0	(94.7)	19.0	(94.7)
	12,000.6	11,284.5	11,963.7	11,235.3

¹ The movement in fair value is due to the falling interest rate environment.

Retail financial services and secured personal lending

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

Stage	31 December 2025 %	31 December 2024 %
1	81	81
2	18	18
3	1	1

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

Staging reason	31 December 2025 %	31 December 2024 %
PD grade deterioration	93	94
30-60 days past due	7	6
Forbearance	-	-

Commercial

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

Stage	31 December 2025 %	31 December 2024 %
1	92	88
2	7	10
3	2	2

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

Staging reason	31 December 2025 %	31 December 2024 %
Risk grade deterioration	54	57
30-60 days past due	3	2
Forbearance	43	41

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 2025, the encumbrance ratio was 8.8% (31 December 2024: 14.8%). All other assets are defined as unencumbered.

An analysis of the Group's encumbered and unencumbered on-balance sheet assets as at 31 December 2025 and 2024 is set out below.

	2025		2024	
	Encumbered £m	Unencumbered £m	Encumbered £m	Unencumbered £m
Cash in hand and balances at the Bank of England	-	403.7	-	1,668.8
Loans and advances to credit institutions	273.5	10.0	284.8	23.6
Debt securities	-	1,085.4	-	528.3
Derivative financial instruments	-	110.7	-	246.6
Loans and advances to customers ¹	955.7	11,044.9	1,803.3	9,481.2
Consolidated other assets	-	59.8	-	72.6
Total	1,229.2	12,714.5	2,088.1	12,021.1

¹ Restated to match the PRA's definition of Asset Encumbrance in relation to loans and advances to customers.

19. Provision for impairment losses

Group 2025	Retail £m	Commercial lending £m	Secured personal lending £m	Total £m
New loans	2.2	0.6	-	2.8
Settled loans	(2.2)	(1.2)	(0.2)	(3.6)
Changes in model assumptions	(3.6)	-	-	(3.6)
Changes in credit quality	0.6	(1.8)	(0.4)	(1.6)
Balance sheet impact	3.0	2.4	0.6	6.0
(Utilisation)/recoveries	-	0.2	(0.2)	-
Income statement impact	3.0	2.6	0.4	6.0

Total income statement impact is £6.7m (2024: £3.6m), £6.0m related to loan loss provisioning (2024: £3.7m) and £0.7m related to other debt instruments (2024: £0.1m charge).

Group 2024	Retail £m	Commercial lending £m	Secured personal lending £m	Total £m
New loans	3.1	1.0	-	4.1
Settled loans	(1.8)	(2.5)	(0.4)	(4.7)
Changes in model assumptions	(3.1)	-	-	(3.1)
Changes in credit quality	-	0.5	(0.8)	(0.3)
Balance sheet impact	1.8	1.0	1.2	4.0
(Utilisation)/recoveries	-	0.1	(0.5)	(0.4)
Income statement impact	1.8	1.1	0.7	3.6

Provision for impairment losses at 31 December 2025 include £24.6m for loan loss provisioning impairment (2024: £30.6m) and £0.7m on other debt instruments (2024: £1.4m). Total ECL coverage as at 31 December 2025 was 0.14% (2024: 0.18%) in respect of retail financial services and secured personal lending and 0.78% in respect of commercial lending (2024: 1.03%). Changes in model assumptions for 2025 relate to the addition of the probability of possession given default PMA and the removal of the refinance risk PMA as discussed in note 2.

The following tables analyse the movements in gross loan balances during the year by stage. The difference between gross loan balances shown in the tables below and loans and advances to customers as per the balance sheet relates to commitments and undrawn balances. New loans are those advanced in the year and their subsequent stage movements during the course of the year.

Group 2025	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2025	9,940.9	2,178.6	107.6	12,227.1
Transfers:				
Stage 1 transfers	(103.5)	-	-	(103.5)
Stage 2 transfers	-	80.4	-	80.4
Stage 3 transfers	-	-	23.1	23.1
New loans	2,802.1	291.7	1.0	3,094.8
Settled loans	(1,933.1)	(269.9)	(15.9)	(2,218.9)
Repayments	(257.1)	(58.8)	(1.7)	(317.6)
Gross loan balance at 31 December 2025	10,449.3	2,222.0	114.1	12,785.4

Society 2025	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2025	9,914.5	2,160.7	102.0	12,177.2
Transfers:				
Stage 1 transfers	(104.4)	-	-	(104.4)
Stage 2 transfers	-	81.8	-	81.8
Stage 3 transfers	-	-	22.6	22.6
New loans	2,802.1	291.6	1.0	3,094.7
Settled loans	(1,929.3)	(267.7)	(15.0)	(2,212.0)
Repayments	(253.7)	(56.8)	(1.3)	(311.8)
Gross loan balance at 31 December 2025	10,429.2	2,209.6	109.3	12,748.1

Group 2024	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2024	8,978.9	1,910.5	82.9	10,972.3
Transfers:				
Stage 1 transfers	(298.4)	-	-	(298.4)
Stage 2 transfers	-	253.4	-	253.4
Stage 3 transfers	-	-	45.0	45.0
New loans	2,974.8	258.7	0.9	3,234.4
Settled loans	(1,463.4)	(183.0)	(16.4)	(1,662.8)
Repayments	(251.0)	(61.0)	(4.8)	(316.8)
Gross loan balance at 31 December 2024	9,940.9	2,178.6	107.6	12,227.1

Society 2024	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2024	8,949.5	1,883.7	74.4	10,907.6
Transfers:				
Stage 1 transfers	(302.3)	-	-	(302.3)
Stage 2 transfers	-	256.5	-	256.5
Stage 3 transfers	-	-	45.8	45.8
New loans	2,973.9	258.7	0.9	3,233.5
Settled loans	(1,459.0)	(180.0)	(14.9)	(1,653.9)
Repayments	(247.7)	(58.2)	(4.2)	(310.1)
Gross loan balance at 31 December 2024	9,914.4	2,160.7	102.0	12,177.1

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

Group 2025	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2025	6.6	15.2	8.8	30.6
Transfers:				
Stage 1 transfers	(3.9)	-	-	(3.9)
Stage 2 transfers	-	1.9	-	1.9
Stage 3 transfers	-	-	2.0	2.0
New loans	1.2	1.5	0.1	2.8
Settled loans	(1.2)	(1.2)	(1.1)	(3.5)
Changes in credit quality	2.8	(3.4)	(1.0)	(1.6)
Changes in model assumptions	(1.1)	(1.5)	(1.1)	(3.7)
Loss allowance at 31 December 2025	4.4	12.5	7.7	24.6

Society 2025	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2025	6.6	14.8	7.8	29.2
Transfers:				
Stage 1 transfers	(3.9)	-	-	(3.9)
Stage 2 transfers	-	2.0	-	2.0
Stage 3 transfers	-	-	1.9	1.9
New loans	1.2	1.5	0.1	2.8
Settled loans	(1.2)	(1.2)	(1.0)	(3.4)
Changes in credit quality	2.7	(3.3)	(0.7)	(1.3)
Changes in model assumptions	(1.1)	(1.5)	(1.0)	(3.6)
Loss allowance at 31 December 2025	4.3	12.3	7.1	23.7

Group 2024	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2024	10.8	16.5	7.3	34.6
Transfers:				
Stage 1 transfers	(5.6)	-	-	(5.6)
Stage 2 transfers	-	1.6	-	1.6
Stage 3 transfers	-	-	4.0	4.0
New loans	2.0	2.0	0.1	4.1
Settled loans	(1.7)	(1.8)	(1.2)	(4.7)
Changes in credit quality	3.7	(2.5)	(1.4)	(0.2)
Changes in model assumptions	(2.7)	(0.5)	-	(3.2)
Loss allowance at 31 December 2024	6.5	15.3	8.8	30.6

Society 2024	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Stage 3 Lifetime ECL £m	Total £m
At 1 January 2024	10.7	15.8	5.5	32.0
Transfers:				
Stage 1 transfers	(5.6)	-	-	(5.6)
Stage 2 transfers	-	1.6	-	1.6
Stage 3 transfers	-	-	4.0	4.0
New loans	2.0	1.9	0.1	4.0
Settled loans	(1.7)	(1.8)	(0.8)	(4.3)
Changes in credit quality	3.8	(2.3)	(0.9)	0.6
Changes in model assumptions	(2.7)	(0.5)	-	(3.2)
Loss allowance at 31 December 2024	6.5	14.7	7.9	29.1

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 2025.

Retail and Secured personal lending	2025		2024	
	Sum of ECL £m	Coverage %	Sum of ECL £m	Coverage %
0.00% - 0.11%	0.1	0.00	0.6	0.02
0.11% - 0.17%	0.2	0.01	0.4	0.02
0.17% - 0.25%	0.2	0.02	0.5	0.03
0.25% - 0.41%	0.6	0.04	0.8	0.06
0.41% - 0.60%	0.6	0.06	0.9	0.08
0.60% - 0.88%	1.2	0.14	1.5	0.20
0.88% - 1.49%	1.9	0.31	2.4	0.44
1.49% - 2.96%	1.7	0.65	2.1	0.87
2.96% - 6.84%	1.3	1.23	1.5	1.51
6.84%+	8.6	3.85	9.3	5.04
Total	16.4		20.0	

Commercial lending	2025		2024	
	Sum of ECL £m	Coverage %	Sum of ECL £m	Coverage %
PD:				
0.28%	0.1	0.1	0.2	0.1
0.56%	0.4	0.1	0.6	0.3
1.13%	1.4	0.4	1.4	0.4
2.25%	2.2	1.7	1.5	0.9
4.50%	0.8	3.7	2.1	4.3
9.00%	0.2	7.1	0.7	9.0
18.00%	0.1	5.0	0.6	23.0
36.00%	0.0	7.9	0.2	11.1
100.00%	2.9	15.2	3.3	14.3
Total	8.1		10.6	

The key sources of estimation uncertainty applied in determining expected credit loss provisions are forward-looking UK macroeconomic variables and the number and probability weightings of macroeconomic scenarios used. 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.

In 2025, four (2024: four) scenarios have been applied. The scenarios, economic variables and weightings are provided by an external data provider. These are reviewed bi-annually through analysis and benchmarking of third-party published economic data and forecasts to ensure they represent a reasonable range of possible outcomes. The scenarios and weightings applied are outlined below, the downside scenario has been amended in 2025 to reflect a rates down downside as opposed to the rates up scenario applied in 2024:

Scenario	31 December 2025 %	31 December 2024 %
Base scenario Base scenario reflects U.K. economic growth, supported by improving inflation dynamics and easing financial conditions. With inflation having peaked, the Bank of England has greater scope to reduce interest rates, which is expected to support demand over the medium term. While some structural challenges remain, the overall outlook is underpinned by increasing economic stability and gradually improving growth momentum.	50	50
Upside scenario A rapid easing of trade tensions and cooling of geopolitical risks improves confidence and economic momentum. Stronger demand, improved energy security, and supportive regulatory reforms lift productivity, reinforcing growth and encouraging further investment.	20	20

<p>Downside scenario Renewed U.S. trade tensions and escalating geopolitical risks undermine confidence across Europe. Disruptions to global trade and rising political uncertainty trigger a financial market selloff, leading to a moderate but prolonged recession. The Bank of England responds too slowly to support the weakening economy.</p>	23	23
<p>Severe downside scenario A worsening trade war and rising geopolitical tensions push the global economy into a sharp downturn. Disrupted shipping, higher tariffs, and growing political instability hit confidence hard, triggering a major sell off in financial markets.</p>	7	7

The scenarios include the following forecasts between December 2026 to December 2030, the figures are as at 31 December for each year:

Base Rate	Scenario	Weighting at 31 December 2025 %	2026	2027	2028	2029	2030
	Base	50	3.2	2.8	2.8	2.5	2.5
	Upside	20	3.5	3.2	2.9	2.5	2.5
	Downside	23	1.9	1.0	1.3	1.6	2.0
	Severe downside	7	1.4	0.7	0.7	0.8	1.0
	Weighted average		2.9	2.3	2.3	2.2	2.3

Unemployment (Absolute)	Scenario	Weighting at 31 December 2025 %	2026	2027	2028	2029	2030
	Base	50	5.1	5.0	4.9	4.9	4.9
	Upside	20	4.5	4.1	4.1	4.3	4.5
	Downside	23	7.0	7.7	7.6	7.1	6.4
	Severe downside	7	8.2	8.8	8.5	8.2	7.5
	Weighted average		5.6	5.7	5.6	5.5	5.3

HPI %	Scenario	Weighting at 31 December 2025 %	2026	2027	2028	2029	2030
	Base	50	2.1	2.3	1.6	1.9	2.5
	Upside	20	16.5	5.4	(1.0)	(2.1)	0.1
	Downside	23	(9.1)	(7.0)	0.8	4.7	5.8
	Severe downside	7	(15.3)	(11.0)	1.2	3.4	5.0
	Weighted average		1.2	0.3	0.8	1.6	2.7

Other variables are used within the models, including Nominal GDP, 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. While all feed into the economic forecasts and impact the final ECL provision, the models are particularly sensitive to HPI, given the significant impact on mortgage collateral valuations.

Sensitivity assessment

As at December 2025, replacing the HPI growth forecasted for the first two years of the base scenario with an annual HPI reduction of 5% would have the impact of increasing modelled retail provisions by £1.8m to £15.8m.

The equivalent scenarios and weightings for the period ending 31 December 2024 were as follows:

Base Rate	Scenario	Weighting at 31 December 2024 %	2025	2026	2027	2028	2029
	Base	50	4.1	2.8	2.5	2.5	2.5
	Upside	20	4.3	3.0	2.6	2.5	2.5
	Downside	23	5.6	4.8	2.7	2.5	2.5
	Severe downside	7	2.1	0.8	0.7	0.9	1.0
	Weighted average		4.3	3.1	2.4	2.4	2.4

Unemployment (Absolute)	Scenario	Weighting at 31 December 2024 %	2025	2026	2027	2028	2029
	Base	50	4.4	4.5	4.6	4.7	4.8
	Upside	20	3.8	3.6	3.8	4.1	4.4
	Downside	23	6.2	7.0	7.0	7.0	6.6
	Severe downside	7	7.5	8.3	8.2	8.0	7.3
	Weighted average		4.9	5.2	5.2	5.3	5.3

HPI %	Scenario	Weighting at 31 December 2024 %	2025	2026	2027	2028	2029
	Base	50	2.2	3.9	2.6	1.5	2.1
	Upside	20	16.6	7.0	0.1	(2.6)	(0.3)
	Downside	23	(12.5)	(8.4)	2.2	4.2	3.5
	Severe downside	7	(15.2)	(9.6)	2.3	2.9	4.6
	Weighted average		0.5	0.8	2.0	1.4	2.1

The IFRS 9 models calculate expected credit losses for each scenario and then apply the weightings to generate the weighted output for each model. Sensitivity analysis has been performed on the impact of each economic scenario. The table below shows the range of ECL impact between the most optimistic and the most severe scenario for each portfolio. The ECL range is the difference between applying a 100% weighting to the most severe downturn scenario and the upside scenario.

Portfolio	2025			2024		
	Upside £m	Severe downside £m	ECL Range £m	Upside £m	Severe downside £m	ECL Range £m
Retail financial services	2.6	49.9	47.3	5.5	38.4	32.9
Secured personal lending	0.5	1.2	0.7	0.8	1.9	1.1
Commercial lending	6.1	7.1	1.0	6.1	11.3	5.2

20. Provision for liabilities

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
At 1 January	5.1	2.6	3.4	0.7
Utilisation	(2.7)	(0.4)	(2.6)	(0.1)
Addition during the year	0.5	2.9	0.1	2.8
At 31 December	2.9	5.1	0.9	3.4

Included within the prior year is £2.7m relating to a restructuring provision recognised per IAS 19 relating to termination benefits which was utilised during the year.

At 31 December 2025, the Group held a provision of £2.9m (2024: £5.1m), 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	
	2025 £m	2024 £m
Shares in subsidiary undertakings	0.1	0.1
Loans to subsidiary undertakings	-	-
	0.1	0.1

	Subsidiary undertakings	
	Shares £m	Loans £m
<i>Movement in investments in subsidiary undertakings:</i>		
At 1 January 2025	0.1	-
Loan repayment	-	-
At 31 December 2025	0.1	-

	Society	
	2025 £m	2024 £m
Surplus cash received from subsidiaries	1.0	1.4
	1.0	1.4

The surplus of cash received shown above relates to the residual balance between the intercompany positions of the Society and Nemo, following the dividend payment which is based on the November balance.

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	Issuing covered bonds	Ordinary	100%	Direct

Principality Building Society consolidates funding vehicles Friary no.7 PLC, Friary no.8 PLC and Friary no.9 PLC into the Group accounts. These companies are not wholly owned by the Society but the Society retains substantially all of the risk and reward of the assets, and therefore the Society's interests in these entities are, in substance, no different than if they were 100% held subsidiary undertakings and consequently they are consolidated into the Group accounts. All subsidiaries have a 31 December reporting period. Principality Mortgage and Insurance Services Limited and Principality Covered Bond LLP will be taking the subsidiary audit exemption for the year ending 31 December 2025.

The Society also holds 100% of the ordinary share capital of the following subsidiary undertakings. None of the subsidiary businesses listed below carried out business during the year and so meet audit exemption criteria. All subsidiary businesses were incorporated in the United Kingdom, at the registered address of Principality House, The Friary, Cardiff, CF10 3FA.

- Principality Limited
- Principality Bank Limited
- Principality Financial Management Limited
- Principality Group Limited
- Principality Homes Limited
- Principality Mortgage Corporation Limited
- Principality Personal Loans Limited
- Principality Property Development Services Limited
- Principality Property Services Limited

22. Intangible assets

	Group and Society	
	2025 £m	2024 £m
Cost:		
At 1 January	42.7	41.8
Additions	0.8	0.9
At 31 December	43.5	42.7
Amortisation:		
At 1 January	27.0	22.7
Charge for the year	4.6	4.3
At 31 December	31.6	27.0
Net book value:		
At 31 December	11.9	15.7

Assets in the course of construction which are not yet ready for use and therefore have no amortisation charged against them was £0.8m at 31 December 2025 (2024: nil).

23. Property, plant and equipment

2025	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 2025	9.3	9.3	55.6	54.5	53.2	53.2	118.1	117.0
Additions	0.7	0.7	2.2	2.2	1.3	1.3	4.2	4.2
Disposals	-	-	(0.3)	(0.3)	-	-	(0.3)	(0.3)
At 31 December 2025	10.0	10.0	57.5	56.4	54.5	54.5	122.0	120.9
Depreciation:								
At 1 January 2025	5.9	5.9	42.6	42.0	44.0	44.0	92.5	91.9
Charge for the year ¹	0.9	0.9	(0.6)	(1.1)	3.1	3.1	3.4	2.9
Disposals	-	-	(0.3)	(0.3)	-	-	(0.3)	(0.3)
Impairment	-	-	-	-	-	-	-	-
At 31 December 2025	6.8	6.8	41.7	40.6	47.1	47.1	95.6	94.5
Net book value:								
At 31 December 2025	3.2	3.2	15.8	15.8	7.4	7.4	26.4	26.4

¹ Land and buildings depreciation charge for the year includes £3.0m credit due to reversal of impairment recognised in 2023.

2024	Right of use assets		Land and buildings		Equipment, fixtures, fittings and vehicles		Total	
	Group £m	Society £m	Group £m	Society £m	Group £m	Society £m	Group £m	Society £m
Cost:								
At 1 January 2024	9.1	9.1	57.5	56.4	50.5	50.5	117.1	116.0
Additions	0.2	0.2	1.5	1.5	2.7	2.7	4.4	4.4
Disposals	-	-	(3.4)	(3.4)	-	-	(3.4)	(3.4)
At 31 December 2024	9.3	9.3	55.6	54.5	53.2	53.2	118.1	117.0
Depreciation:								
At 1 January 2024	4.9	4.9	42.2	41.6	40.2	40.2	87.3	86.7
Charge for the year	1.0	1.0	1.6	1.6	3.9	3.9	6.5	6.5
Disposals	-	-	(1.2)	(1.2)	-	-	(1.2)	(1.2)
Impairment	-	-	-	-	-	-	-	-
At 31 December 2024	5.9	5.9	42.6	42.0	44.1	44.1	92.6	92.0
Net book value:								
At 31 December 2024	3.4	3.4	13.1	12.6	9.1	9.1	25.6	25.1

Investment properties	Group and Society	
	2025 £m	2024 £m
Cost:		
At 1 January	16.4	13.0
Additions	0.3	0.4
Disposals	0.1	-
Re-classification	(0.3)	3.0
At 31 December	16.5	16.4
Depreciation:		
At 1 January	8.6	7.4
Charge for the year	0.5	0.5
Disposals	-	-
Impairment in the year	0.3	-
Re-classification	(0.3)	0.7
At 31 December	9.1	8.6
Net book value:		
At 31 December	7.4	7.8

Included within land and buildings additions is £1.2m (2024: £1.9m) on account of assets in the course of construction. With the exception of investment properties, all properties are occupied by the Group.

Each year the Society employ 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. Following this review, The Friary investment property has been impaired by £0.2m. No impairment was recognised in 2024.

The fair value of investment properties as at 31 December 2025 is £15.1m (2024: £13.0m).

24. Shares

	Group and Society	
	2025 £m	2024 £m
Held by individuals	11,569.0	10,791.0
Other shares	2.2	2.3
Fair value adjustment for hedged risk	12.6	5.5
	11,583.8	10,798.8

25. Amounts owed to credit institutions

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Amounts owed to credit institutions	129.3	744.8	917.0	1,765.1

Included in the above amounts is £41.6m of collateral held under Credit Support Annex (CSA) agreements (2024: £182.8m).

26. Debt securities in issue

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Senior unsecured debt	321.9	320.2	321.9	320.2
Residential mortgage backed securities	900.4	1,132.8	-	-
	1,222.3	1,453.0	321.9	320.2

27. Other liabilities

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Other taxation and social security	1.7	0.8	1.7	0.8
Lease liabilities	3.6	3.7	3.6	3.7
Other creditors	5.0	8.6	4.9	8.2
	10.3	13.1	10.2	12.7

The undiscounted maturity profile of lease payments at 31 December 2025 is shown below:

2025 Group	Property £m	Cars £m	IT Lease £m	Total £m
Year 1	0.7	0.1	-	0.8
Year 2	0.6	0.1	-	0.7
Year 3	0.5	-	-	0.5
Year 4	0.5	-	-	0.5
Year 5	0.4	-	-	0.4
5 years >	1.3	-	-	1.3
Total	4.0	0.2	-	4.2

The undiscounted maturity profile of lease payments at 31 December 2024 is shown below:

2024 Group	Property £m	Cars £m	IT Lease £m	Total £m
Year 1	0.8	-	-	0.8
Year 2	0.6	-	-	0.6
Year 3	0.5	-	-	0.5
Year 4	0.4	-	-	0.4
Year 5	0.4	-	-	0.4
5 years >	1.3	-	-	1.3
Total	4.0	-	-	4.0

28. Deferred tax

The movement in net deferred tax is as follows:

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
At 1 January	(8.8)	(5.5)	0.5	3.5
Income statement credit/(charge)	5.3	(0.6)	(0.8)	(0.3)
Statement of other comprehensive income charge	(0.3)	(2.7)	(0.3)	(2.7)
At 31 December	(3.8)	(8.8)	(0.6)	0.5

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

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Deferred tax assets:				
Accelerated tax depreciation	0.7	1.7	0.6	1.6
Other temporary differences	0.3	0.4	0.3	0.4
	1.0	2.1	0.9	2.0
Deferred tax liabilities:				
Other temporary differences	(4.8)	(10.9)	(1.5)	(1.5)
	(4.8)	(10.9)	(1.5)	(1.5)

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

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Accelerated tax depreciation	(1.0)	(0.5)	(1.0)	(0.5)
Fair value volatility on financial instruments in securitisation entities	6.1	(0.3)	-	-
Other movements	0.2	0.2	0.2	0.2
	5.3	(0.6)	(0.8)	(0.3)

The statement of other comprehensive income includes a deferred tax charge of £0.2m (2024: nil) arising from the gain on assets held at fair value through other comprehensive income.

29. Financial commitments and contingent liabilities

a) Other provisions for liabilities and charges and contingent liabilities

At 31 December 2025, the Group held a provision of £2.9m (2024: £5.1m). Further details of these provisions are included in note 20.

At 31 December 2025, the Group recognises no contingent liabilities.

b) Income receivable under non-cancellable operating leases:

Property rental income earned during the year was £1.0m (2024: £1.0m). At the statement of financial position date, the Group and Society had contracted with tenants for the following future minimum lease payments:

	2025 £m	2024 £m
Receivable within 1 year	0.9	0.9
Receivable between two and five years	4.1	3.9
Receivable after five years	3.1	4.5
	8.1	9.3

c) Capital commitments:

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Capital expenditure contracted for but not provided for	6.8	0.7	6.8	0.7

d) Loan commitments:

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Irrevocable loan facilities and commitments	800.0	834.0	800.0	834.0

30. Cash flows from financing activities

For the purposes of the Statements of Cash Flows, provisions for impairment losses are removed from cash and cash equivalents in order to present gross figures. A reconciliation is provided below for cash and cash equivalents as per the Statements of Financial Position and the Statements of Cash Flows.

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Cash in hand & balances with the Bank of England				
As per the Statements of Financial Position	403.7	1,668.8	403.7	1,668.8
Provision for impairment losses	-	0.9	-	0.9
As per the Statements of Cash Flows	403.7	1,669.7	403.7	1,669.7
Loans and advances to credit institutions				
As per the Statements of Financial Position	283.5	308.4	174.6	203.8
Provision for impairment losses	0.4	0.5	0.2	0.2
As per the Statements of Cash Flows	283.9	308.9	174.8	204.0

For the purposes of the Statements of Cash Flows, debt securities in issue and lease liabilities are classified as liabilities arising from financing activities. The table below provides a reconciliation of movements in liabilities arising from financing activities:

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
Debt securities in issue:				
At 1 January	1,453.0	1,262.1	320.2	330.1
<i>Cash:</i>				
Proceeds from issuance	-	500.0	-	-
Redemptions	(228.6)	(296.3)	-	-
Interest paid	(95.2)	(113.0)	(25.9)	(25.9)
<i>Non-cash:</i>				
Accrued interest	91.1	110.3	25.9	25.9
Other non-cash movements	0.3	0.5	-	0.5
Fair value movements	1.7	(10.4)	1.7	(10.4)
At 31 December	1,222.3	1,453.0	321.9	320.2
Lease liabilities:				
At 1 January	3.7	4.4	3.7	4.4
<i>Cash:</i>				
Repayment of lease liabilities	(1.0)	(1.1)	(1.0)	(1.1)
<i>Non-cash:</i>				
Accrued interest	0.2	0.1	0.2	0.1
New leases	0.7	0.3	0.7	0.3
At 31 December	3.6	3.7	3.6	3.7

31. Financial instruments

Categories of financial instruments

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost.

The accounting policies note describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the financial assets and liabilities in the statement of financial position by the class of financial instrument to which they are assigned and by the measurement basis.

Group As at 31 December 2025	At amortised cost £m	Fair value through OCI £m	Fair value through profit and loss £m	Total £m
Group assets:				
Cash in hand & balances with Bank of England	403.7	-	-	403.7
Loans and advances to credit institutions	283.5	-	-	283.5
Debt securities	-	1,085.4	-	1,085.4
Derivative financial instruments	-	-	110.7	110.7
Loans and advances to customers	12,000.6	-	-	12,000.6
Total financial assets	12,687.8	1,085.4	110.7	13,883.9
Total non-financial assets				59.8
Total Group assets				13,943.7
Group liabilities:				
Shares	11,583.8	-	-	11,583.8
Amounts owed to credit institutions	127.4	-	1.9	129.3
Amounts owed to other customers	111.5	-	-	111.5
Debt securities in issue	1,212.2	-	10.1	1,222.3
Derivative financial instruments	-	-	72.0	72.0
Total financial liabilities	13,034.9	-	84.0	13,118.9
Total non-financial liabilities				25.4
General reserve and other reserves				799.4
Total Group reserves and liabilities				13,943.7

Society As at 31 December 2025	At amortised cost £m	Fair value through OCI £m	Fair value through profit and loss £m	Total £m
Society assets:				
Cash in hand & balances with Bank of England	403.7	-	-	403.7
Loans and advances to credit institutions	174.6	-	-	174.6
Debt securities	-	1,085.4	-	1,085.4
Derivative financial instruments	-	-	97.6	97.6
Loans and advances to customers	11,963.7	-	-	11,963.7
Investments in subsidiaries	0.1	-	-	0.1
Total financial assets	12,542.1	1,085.4	97.6	13,725.1
Total non-financial assets				59.8
Total Society assets				13,784.9
Society liabilities:				
Shares	11,583.8	-	-	11,583.8
Amounts owed to credit institutions	915.1	-	1.9	917.0
Amounts owed to other customers	111.5	-	-	111.5
Debt securities in issue	311.8	-	10.1	321.9
Derivative financial instruments	-	-	72.0	72.0
Loans from subsidiaries	1.0	-	-	1.0
Total financial liabilities	12,923.2	-	84.0	13,007.2
Total non-financial liabilities				20.0
General reserve and other reserves				757.7
Total Society reserves and liabilities				13,784.9

Group As at 31 December 2024	At amortised cost £m	Fair value through OCI £m	Fair value through profit and loss £m	Total £m
Group assets:				
Cash in hand & balances with Bank of England	1,668.8	-	-	1,668.8
Loans and advances to credit institutions	308.4	-	-	308.4
Debt securities	-	528.3	-	528.3
Derivative financial instruments	-	-	246.6	246.6
Loans and advances to customers	11,284.5	-	-	11,284.5
Total financial assets	13,261.7	528.3	246.6	14,036.6
Total non-financial assets				72.6
Total Group assets				14,109.2
Group liabilities:				
Shares	10,798.8	-	-	10,798.8
Amounts owed to credit institutions	743.0	-	1.8	744.8
Amounts owed to other customers	250.1	-	-	250.1
Debt securities in issue	1,444.5	-	8.5	1,453.0
Derivative financial instruments	-	-	67.5	67.5
Total financial liabilities	13,236.4	-	77.8	13,314.2
Total non-financial liabilities				41.3
General reserve and other reserves				753.7
Total Group reserves and liabilities				14,109.2

Society As at 31 December 2024	At amortised cost £m	Fair value through OCI £m	Fair value through profit and loss £m	Total £m
Society assets:				
Cash in hand & balances with Bank of England	1,668.8	-	-	1,668.8
Loans and advances to credit institutions	203.8	-	-	203.8
Debt securities	-	528.3	-	528.3
Derivative financial instruments	-	-	205.0	205.0
Loans and advances to customers	11,235.3	-	-	11,235.3
Investments in subsidiaries	0.1	-	-	0.1
Total financial assets	13,108.0	528.3	205.0	13,841.3
Total non-financial assets				72.3
Total Society assets				13,913.6
Society liabilities:				
Shares	10,798.8	-	-	10,798.8
Amounts owed to credit institutions	1,763.3	-	1.8	1,765.1
Amounts owed to other customers	250.1	-	-	250.1
Debt securities in issue	311.7	-	8.5	320.2
Derivative financial instruments	-	-	67.5	67.5
Loans from subsidiaries	1.4	-	-	1.4
Total financial liabilities	13,125.3	-	77.8	13,203.1
Total non-financial liabilities				29.5
General reserve and other reserves				681.0
Total Society reserves and liabilities				13,913.6

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	2025		2024	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Group assets:					
Cash in hand & balances with Bank of England	i.	403.7	403.7	1,668.8	1,668.8
Loans and advances to credit institutions	ii.	283.5	283.5	308.4	308.4
Debt securities	iii.	1,085.4	1,085.4	528.3	528.3
Derivative financial instruments	iv.	110.7	110.7	246.6	246.6
Loans and advances to customers	v.	12,000.6	12,360.0	11,284.5	11,378.3
		13,883.9	14,243.3	14,036.6	14,130.4
Group liabilities:					
Shares	vii.	11,583.8	11,552.7	10,798.8	10,781.6
Amounts owed to credit institutions	viii.	129.3	129.3	744.8	744.8
Amounts owed to other customers	viii.	111.5	111.5	250.1	250.1
Debt securities in issue	ix.	1,222.3	1,254.3	1,453.0	1,479.4
Derivative financial instruments	iv.	72.0	72.0	67.5	67.5
		13,118.9	13,119.8	13,314.2	13,323.4

	Note	2025		2024	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Society assets:					
Cash in hand & balances with Bank of England	i.	403.7	403.7	1,668.8	1,668.8
Loans and advances to credit institutions	ii.	174.6	174.6	203.8	203.8
Debt securities	iii.	1,085.4	1,085.4	528.3	528.3
Derivative financial instruments	iv.	97.6	97.6	205.0	205.0
Loans and advances to customers	v.	11,963.7	12,322.0	11,235.3	11,329.1
Loans to and investments in subsidiaries	vi.	0.1	0.1	0.1	0.1
		13,725.1	14,083.4	13,841.3	13,935.1
Society liabilities:					
Shares	vii.	11,583.8	11,552.7	10,798.8	10,781.6
Amounts owed to credit institutions	viii.	917.0	917.0	1,765.1	1,765.1
Amounts owed to other customers	viii.	111.5	111.5	250.1	250.1
Debt securities in issue	ix.	321.9	351.5	320.2	344.9
Derivative financial instruments	iv.	72.0	72.0	67.5	67.5
Loans from subsidiaries	x.	1.0	1.0	1.4	1.4
		13,007.2	13,005.7	13,203.1	13,210.6

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The following methods and assumptions have been applied in determining fair value:

- i. The carrying amount of cash in hand and balances with the Bank of England are assumed to equate to fair value. Balances are held at amortised cost, and would be considered as a Level 1 item within the hierarchy for fair value.
- ii. The carrying amount of loans and advances to credit institutions with a maturity of under 12 months is assumed to equate to their fair value. Balances would be considered as a Level 2 item within the hierarchy for fair value disclosures.
- iii. Debt securities are measured at fair value by reference to market prices, with balances considered as a Level 1 item within the hierarchy for fair value disclosures.
- iv. The fair value of interest rate swaps is calculated by utilising discounted cash flow valuation models. Balances are held as fair value through profit and loss, and a breakdown of the fair value hierarchies can be seen in the table below.
- v. The fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received after taking account of expected loss provisions, expected levels of early repayment and discounting at current market rates. Balances would be considered as a Level 3 item within the hierarchy for fair value disclosures.
- vi. The fair value of loans and advances to subsidiaries at a variable rate is considered to be their carrying amounts with the use of transfer pricing mechanisms. Balances would be considered as a Level 3 item within the hierarchy for fair value disclosures.
- vii. The fair value of customer accounts represents the discounted amount of estimated future cash flows expected to be paid, with reference to market-observable interest rates and would be considered as a Level 2 item.
- viii. The fair values of amounts owed to credit institutions and amounts owed to other customers are considered to be the amount payable at the date of the statement of financial position. Balances are held at amortised cost, and would be considered as a Level 2 item within the hierarchy for fair value.
- ix. The fair values of debt securities in issue and subscribed capital are obtained from market prices. Balances are held at amortised cost, and would be considered as a Level 1 item within the hierarchy for fair value.
- x. The fair value of loans from subsidiaries is considered to be their carrying value as the loan is repayable on demand. Balances would be considered as a Level 3 item for fair value disclosures.

	Group			
	2025 £m	Level 1 £m	Level 2 £m	Level 3 £m
<i>Financial assets at fair value through profit or loss:</i>				
Derivative financial instruments	110.7	-	97.6	13.1
<i>Financial assets at fair value through other comprehensive income:</i>				
Debt securities	1,085.4	1,085.4	-	-
Total	1,196.1	1,085.4	97.6	13.1
<i>Financial liabilities at fair value through profit or loss:</i>				
Amounts owed to credit institutions	1.9	-	1.9	-
Debt securities in issue	10.1	10.1	-	-
Derivative financial instruments	72.0	-	58.9	13.1
Total	84.0	10.1	60.8	13.1

	Society			
	2025 £m	Level 1 £m	Level 2 £m	Level 3 £m
<i>Financial assets at fair value through profit or loss:</i>				
Derivative financial instruments	97.6	-	97.6	-
<i>Financial assets at fair value through other comprehensive income:</i>				
Debt securities	1,085.4	1,085.4	-	-
Total	1,183.0	1,085.4	97.6	-
<i>Financial liabilities at fair value through profit or loss:</i>				
Amounts owed to credit institutions	1.9	-	1.9	-
Debt securities in issue	10.1	10.1	-	-
Derivative financial instruments	72.0	-	58.9	13.1
Total	84.0	10.1	60.8	13.1

	Group			
	2024 £m	Level 1 £m	Level 2 £m	Level 3 £m
<i>Financial assets at fair value through profit or loss:</i>				
Derivative financial instruments	246.6	-	205.1	41.5
<i>Financial assets at fair value through other comprehensive income:</i>				
Debt securities	528.3	528.3	-	-
Total	774.9	528.3	205.1	41.5
<i>Financial liabilities at fair value through profit or loss:</i>				
Amounts owed to credit institutions	1.8	-	1.8	-
Debt securities in issue	8.4	8.4	-	-
Derivative financial instruments	67.5	-	26.0	41.5
Total	77.7	8.4	27.8	41.5

	Society			
	2024 £m	Level 1 £m	Level 2 £m	Level 3 £m
<i>Financial assets at fair value through profit or loss:</i>				
Derivative financial instruments	205.0	-	205.0	-
<i>Financial assets at fair value through other comprehensive income:</i>				
Debt securities	528.3	528.3	-	-
Total	733.3	528.3	205.0	-
<i>Financial liabilities at fair value through profit or loss:</i>				
Amounts owed to credit institutions	1.8	-	1.8	-
Debt securities in issue	8.4	8.4	-	-
Derivative financial instruments	67.5	-	26.0	41.5
Total	77.7	8.4	27.8	41.5

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.

The costs to replace derivatives contracts in the event that a counterparty was unable to honour their contractual obligation are materially equal to the fair value of derivatives disclosed above.

32. Credit risk

The credit risk to which the Group is exposed is described in the Risk Overview on pages 34 to 35. Credit risk in relation to loans and advances to customers including first and second charge retail credit risk and commercial lending credit risk is described in section a) below. Credit risk in relation to treasury financial instruments is described in section b).

a) Loans and advances to customers

The Group's exposure to credit risk relating to loans and advances to customers can be broken down by security as follows:

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
<i>In respect of loans and advances to customers:</i>				
Secured by a first charge on residential property	11,682.3	11,075.3	11,682.3	11,075.3
Secured by a first charge on land	265.7	265.9	265.7	265.9
Secured by a second charge on residential property	37.4	50.1	-	-
	11,985.4	11,391.3	11,948.0	11,341.2
Provision for impairment losses	(24.7)	(30.6)	(23.9)	(29.1)
Effective Interest Rate adjustments	20.9	18.5	20.6	17.9
Fair value adjustments	19.0	(94.7)	19.0	(94.7)
	12,000.6	11,284.5	11,963.7	11,235.3

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	
	2025 £m	2024 £m	2025 £m	2024 £m
Retail financial services	11,067.5	10,532.2	11,067.5	10,532.2
Commercial lending	880.5	809.0	880.5	809.0
Secured personal lending	37.4	50.1	-	-
	11,985.4	11,391.3	11,948.0	11,341.2
Provision for impairment losses	(24.7)	(30.6)	(23.9)	(29.1)
Effective Interest Rate adjustments	20.9	18.5	20.6	17.9
Fair value adjustments	19.0	(94.7)	19.0	(94.7)
	12,000.6	11,284.5	11,963.7	11,235.3

i) Retail financial services and secured personal lending credit risk

Risk concentrations

The Group provides loans secured on residential property across England, Scotland and Wales and the Society, as a regional building society, has a geographical concentration in Wales.

The geographical concentration of first and second charge retail loans by account and value is shown below:

	Group by account		Group by value	
	2025 %	2024 %	2025 %	2024 %
In Wales	28.0	29.3	23.7	25.0
Outside Wales	72.0	70.7	76.3	75.0
	100.0	100.0	100.0	100.0

The Group holds a high quality buy-to-let portfolio with an amortised cost of £2,486.7m (2024: £2,511.7m). At the end of the year, 79% of buy-to-let mortgages (2024: 80%) were on interest only products and 20% (2024: 19%) were repayable by capital and interest repayments. 1.0% of mortgages were a combination of interest only and capital and interest (2024: 1.0%).

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 51.7% (2024: 51.2%). Index-linked BTV banding is shown below:

	Group		Society	
	2025 %	2024 %	2025 %	2024 %
Less than 50%	33.6	36.2	33.6	36.3
More than 50% but less than 75%	38.1	37.0	38.1	36.9
More than 75% but less than 90%	19.3	17.7	19.3	17.7
More than 90%	9.0	9.1	9.0	9.1
	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 0.51% (2024: 0.55%) which compares favourably with the industry average of 1.0% (UK Finance arrears and possession data at 13 November 2025). Residential lending cases fully secured by a first charge which were six months or more in arrears had arrears balances of £2.6m (31 December 2024: £2.2m) with 288 cases (31 December 2024: 253).

The percentage of secured personal loans currently in arrears of three months or more by number is 7.38% (2024: 7.96%), which by value is 11.54% (2024: 11.81%).

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

	Group			
	2025		2024	
	£m	%	£m	%
Current	10,953.7	98.6	10,486.7	99.1
Past due up to 3 months	109.9	1.0	45.8	0.4
Past due 3 months up to 6 months	15.9	0.1	24.0	0.2
Past due 6 months up to 12 months	21.5	0.2	16.2	0.2
Past due over 12 months	13.1	0.1	12.5	0.1
Possessions	1.6	-	0.8	-
	11,115.7	100.0	10,586.0	100.0

	Society			
	2025		2024	
	£m	%	£m	%
Current	10,922.3	98.6	10,443.8	99.1
Past due up to 3 months	107.9	1.0	43.6	0.4
Past due 3 months up to 6 months	15.3	0.1	23.3	0.2
Past due 6 months up to 12 months	20.2	0.2	14.6	0.2
Past due over 12 months	11.8	0.1	10.9	0.1
Possessions	1.6	-	0.8	-
	11,079.1	100.0	10,537.0	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 £25,154.7m (2024: £23,591.4m).

The Group holds collateral against loans and advances to residential customers in the form of mortgage interests over property. £2.5m (2024: £1.7m) 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:

	2025 £m	2024 £m
Retail financial services	15.5	18.5
Secured personal lending	0.9	1.5
	16.4	20.0

Forbearance

The Group uses a range of forbearance options which are considered based on the borrower's financial circumstances, agreed subject to set criteria and reviewed on a case-by-case basis. Forbearance options include capitalisation of arrears, interest-only concessions, arrangements to underpay and term extensions. Others relate to government initiatives, such as the Mortgage Charter. Repossession of a property will only take place once all alternatives have been reviewed and there are no other solutions available. 13 properties were taken into possession during 2025 (2024: 20) with balances of £1.2m (2024: £1.5m).

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.

2025	Revised payment schedule	Transfer to interest-only	Term extensions	Capitalisation of Arrears	Other	Total
	£m	£m	£m	£m	£m	£m
Current	13.6	4.5	0.4	0.7	26.2	45.4
Past due up to 3 months	15.5	0.2	-	1.7	2.9	20.3
Past due 3 months up to 6 months	8.4	0.1	0.2	0.2	1.0	9.9
Past due 6 months up to 12 months	6.2	-	-	1.1	0.4	7.7
Past due over 12 months	2.2	-	-	0.9	-	3.1
	45.9	4.8	0.6	4.6	30.5	86.4

2024	Revised payment schedule	Transfer to interest-only	Term extensions	Capitalisation of Arrears	Other	Total
	£m	£m	£m	£m	£m	£m
Current	9.2	6.1	0.2	0.2	26.9	42.6
Past due up to 3 months	14.3	1.2	0.1	1.1	4.4	21.1
Past due 3 months up to 6 months	9.0	0.3	0.1	0.9	2.2	12.5
Past due 6 months up to 12 months	5.6	0.4	-	0.6	0.4	7.0
Past due over 12 months	2.8	-	-	0.3	0.1	3.2
	40.9	8.0	0.4	3.1	34.0	86.4

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, housing associations, and funding for commercial investment property.

The commercial loan portfolio is managed by a relationship team with many years of experience in the commercial property lending business. All lending is subject to a rigorous underwriting process, operating within a well-defined and conservative lending policy.

Risk concentrations

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

	Group and Society			
	2025		2024	
	£m	%	£m	%
Loans to housing associations secured on residential property	266.7	30.3	233.3	28.8
Other loans secured on residential property	348.1	39.5	309.8	38.3
Loans secured on commercial property	265.7	30.2	265.9	32.9
	880.5	100.0	809.0	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			
	2025		2024	
	£m	%	£m	%
Retail	100.4	37.8	92.2	34.6
Office	104.6	39.3	109.4	41.2
Industrial	52.0	19.6	52.6	19.8
Leisure	-	-	0.5	0.2
Land	-	-	-	-
Other	8.7	3.3	11.2	4.2
	265.7	100.0	265.9	100.0

The Group provides loans secured on commercial property across England and Wales and the Society, as a regional building society, has a geographical concentration in Wales. An analysis of commercial property loans by geographical location is provided below:

	Group and Society			
	2025		2024	
	£m	%	£m	%
Wales	439.8	49.9	405.7	50.1
Greater London	250.3	28.3	219.6	27.1
South East/East of England	79.9	9.1	67.4	8.3
Midlands	20.1	2.3	20.7	2.6
South West/South of England	59.0	6.7	62.4	7.7
North West/North of England	15.8	1.8	16.2	2.0
Mixed/other	15.6	1.9	17.0	2.2
	880.5	100.0	809.0	100.0

The average loan to value (LTV) in respect of the Group's commercial loans is estimated to be 54.8% (2024: 53.1%). LTV analysis has been undertaken by using a combination of external valuations and internal and external desktop reviews which consider the type and quality of security, lease term/tenant as well as geographical location.

No exposures have an LTV of greater than 100% (2024 £0.2m). None of these are already classified as impaired (2024: nil).

The largest exposure to one counterparty is £61.3m (2024: £62.2m) or 7.0% (2024: 7.7%) of gross balances relating to a number of loans to a Welsh housing association.

Performance

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			
	2025		2024	
	£m	%	£m	%
Exposures not classified as higher risk	839.0	95.3	750.3	92.7
Watch-list	22.2	2.5	34.9	4.3
Impaired or past due up to 3 months	19.3	2.2	23.8	2.9
	880.5	100.0	809.0	99.9

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	%
Housing Associations	266.7	-	-	-	-	-	266.7	30.3
Commercial Investment (including Owner Occupier)	-	1.7	227.2	22.3	0.2	10.8	262.2	29.8
Residential Investment	-	28.0	214.7	5.0	-	6.9	254.6	28.9
Commercial Development	-	-	1.4	2.1	-	-	3.5	0.4
Residential Development	-	-	72.2	19.7	-	1.6	93.5	10.6
	266.7	29.7	515.5	49.1	0.2	19.3	880.5	100.0

Watch-list exposures are categorised in line with the perceived severity of the risk to identify cases having the greatest potential cause for concern and to facilitate timely risk mitigation activity. Accounts in the watch-list are typically those which have had a material covenant breach, have persistent arrears (but are not presently >30 days past due) or where there are other concerns about the likelihood of eventual repayment. Defaulted accounts are described as impaired.

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

	Group and Society			
	2025		2024	
	£m	%	£m	%
Unimpaired				
Current	861.3	97.9	786.0	97.2
Past due 1 to 3 months	-	-	0.2	-
Impaired				
Past due 3 to 6 months	1.1	0.1	3.0	0.4
Past due 6 to 12 months	-	-	1.8	0.2
Past due over 12 months	-	-	-	-
Defaulted but not past due	15.4	1.7	18.0	2.2
Law of Property Act (LPA) Receivers appointed	2.7	0.3	-	-
	880.5	100.0	809.0	100.0

There are five commercial cases (2024: two) three months or more in arrears. Total arrears of one month or more are £4.1m (2024: £4.8m).

The total collateral held against commercial loans is estimated to be £1,853m (2024: £1,776m). 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:

2025	Group and Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Commercial lending provisions	2.0	3.2	3.0	8.2
Total provisions	2.0	3.2	3.0	8.2

2024	Group and Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Commercial lending provisions	3.5	3.8	3.3	10.6
Total provisions	3.5	3.8	3.3	10.6

In some cases of default, or in order to avoid a default, action plans are implemented which may require the granting of a concession involving amendments to the contractual terms of a loan. For example, an extension of a maturity or non-enforcement of covenants can often be the best way to avoid default and minimise losses, giving the customer time to take action to improve their situation. Such forbearance activity is always carefully considered with the aim of maximising the benefit and optimising the outcome for both the Group and the borrower. In 2025, 9 (2024: 5) accounts with balances totalling £18.7m (2024: £7.9m) in value were granted forbearance concessions. The total exposure in forbearance at December 2025 stands at balances of £31.5m and 13 accounts (2024: £58.4m, 32 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 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	
	2025 £m	2024 £m	2025 £m	2024 £m
UK Government securities	877.9	29.9	877.9	29.9
UK Financial institutions	886.9	1,054.4	764.9	907.4
	1,764.8	1,084.3	1,642.8	937.3

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 £41.6m (2024: £182.8m) is held over derivative financial instruments.

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

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
AAA to AA-	1,568.8	822.8	1,568.8	822.8
A+ to A-	196.0	261.5	74.0	114.5
BBB+ to BBB-	-	-	-	-
	1,764.8	1,084.3	1,642.8	937.3

The geographical distribution of these exposures is as follows:

	Group		Society	
	2025 £m	2024 £m	2025 £m	2024 £m
UK	1,764.8	1,084.3	1,642.8	937.3
	1,764.8	1,084.3	1,642.8	937.3

The treasury risk function monitors exposure concentrations against a variety of criteria including counterparty and country limits and all exposures are well spread across this risk assessment framework.

33. Liquidity risk

The following tables analyse the gross contractual principal cash flows payable under financial liabilities based on the remaining contractual life to the maturity date. The contractual maturity will differ to actual payments; for example, most on demand customer deposits will be repaid later than the earliest date on which repayment can be requested.

2025	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:						
<i>Non-derivative liabilities</i>						
Shares	0.2	6,794.0	3,087.5	1,689.5	-	11,571.2
Amounts owed to credit institutions	41.6	85.9	0.2	(0.2)	-	127.5
Other customers	-	111.5	-	-	-	111.5
Debt securities in issue	-	47.9	134.3	1,029.9	-	1,212.1
	41.8	7,039.3	3,222.0	2,719.2	-	13,022.3
Society:						
<i>Non-derivative liabilities</i>						
Shares	0.2	6,794.0	3,087.5	1,689.5	-	11,571.2
Amounts owed to credit institutions	41.6	135.3	98.9	639.4	-	915.2
Other customers	-	111.5	-	-	-	111.5
Debt securities in issue	-	-	12.2	299.6	-	311.8
	41.8	7,040.8	3,198.6	2,628.5	-	12,909.7
Group:						
<i>Derivative liabilities</i>						
Interest rate swaps	-	9.7	37.3	64.9	(5.0)	106.9
	-	9.7	37.3	64.9	(5.0)	106.9
Society:						
<i>Derivative liabilities</i>						
Interest rate swaps	-	9.7	37.3	64.9	(5.0)	106.9
	-	9.7	37.3	64.9	(5.0)	106.9

2024 Restated	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						
<i>Non-derivative liabilities</i>						
Shares	0.4	6,263.6	2,646.8	1,882.5	-	10,793.3
Amounts owed to credit institutions	182.8	553.0	7.6	(0.4)	-	743.0
Other customers	-	222.9	27.2	-	-	250.1
Debt securities in issue	-	42.0	126.7	1,275.8	-	1,444.5
	183.2	7,081.5	2,808.3	3,157.9	-	13,230.9
Society						
<i>Non-derivative liabilities</i>						
Shares	0.4	6,263.6	2,646.8	1,882.5	-	10,793.3
Amounts owed to credit institutions	182.8	602.3	99.1	879.1	-	1,763.3
Other customers	-	222.9	27.2	-	-	250.1
Debt securities in issue	-	-	12.2	299.5	-	311.7
	183.2	7,088.8	2,785.3	3,061.1	-	13,118.4
Group						
<i>Derivative liabilities</i>						
Interest rate swaps ¹	-	11.6	25.9	63.7	0.2	101.4
	-	11.6	25.9	63.7	0.2	101.4
Society						
<i>Derivative liabilities</i>						
Interest rate swaps ¹	-	11.6	25.9	63.7	0.2	101.4
	-	11.6	25.9	63.7	0.2	101.4

¹ Restated to amend cash flows associated with derivative liabilities from discounted cash flows to undiscounted cash flows.

The Group's liquidity resources comprise cash held in the Bank of England reserve account, along with other readily marketable assets and contingent liquidity. The Liquidity Coverage Ratio (LCR) is used to monitor liquidity resources, the LCR measures the level of unencumbered high quality liquid assets relative to net cash outflows over a 30 day stress scenario. As at 31 December 2025, the LCR was 168% (2024: 231%).

34. Market risk

Market risk can be sub-divided into interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of movements in market rates. The Group reviews the potential impact that six interest rate scenarios (a range of parallel and non-parallel market rate shifts) could have on the market value of its financial assets and liabilities, on a discounted cashflow basis. Account is also taken of those assets and liabilities with embedded optionality, such as pipeline and prepayment risk on fixed rate mortgages.

The Group monitors its position daily and operates within parameters set by the Board Risk Committee. The results of each of the six interest rate scenarios (parallel and non-parallel) are actively managed by

the Treasury 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 Treasury Committee, Asset and Liability Committee and the Board Risk Committee.

As at 31 December 2025, the Economic Value of the Group's balance sheet would have decreased by £14.2m in the case of a parallel 2% rate up. A parallel 2% rate up scenario is where rates across the entire yield curve increase by 2%.

Currency risk

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

35. Related party transactions

The remuneration of the Directors (including Non-Executive Directors), who are the key management personnel of the Group, is set out in the report of the Remuneration Committee.

Loans to and shares held by Directors

There were no outstanding balances in respect of secured advances made prior to, or during the year, to Directors at the end of the financial year (2024: £0.2m).

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 17 April 2026.

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 £0.4m (2024: £0.3m).

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 2025 £m	Surplus cash paid to Society 2024 £m
Nemo Personal Finance Limited	1.0	1.4
	1.0	1.4

The Society enters into derivative financial instruments with the consolidated funding vehicles used in the residential mortgage backed securities programme, described in note 21. As at 31 December 2025, the Society held intercompany derivative liabilities of £13.1m (2024: £41.6m) in respect of these instruments.

36. Non-adjusting post balance sheet events

In January 2026, the Society issued a five year Sterling Covered Bond of £500m, guaranteed by Principality Covered Bonds LLP. The bond will mature on 21 January 2031. This event does not provide evidence of conditions existing at the reporting date, therefore no adjustments have been made to the financial statements.

Annual Business Statement

for the year ended 31 December 2025

1. Statutory percentages

	At 31 December 2025 %	At 31 December 2024 %	Statutory limit %
The lending limit	2.3	2.5	25.0
The funding limit	11.2	18.5	50.0

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, Sections 6 and 7 of the Building Societies Act 1986 (as substituted by the Building Societies Act 1997) and are based on the consolidated statement of financial position.

2. Other percentages

	At 31 December 2025 %	At 31 December 2024 %
<i>As a percentage of shares and borrowings:</i>		
Gross capital	6.1	5.7
Free capital	5.8	5.3
Liquid assets	13.6	18.9
<i>As a percentage of mean total assets:</i>		
Profit for the year as a percentage of statutory mean total assets	0.32	0.28
Management expenses as a percentage of statutory mean total assets	0.84	0.94

- Gross capital – the aggregate of general reserve and available for sale reserve.
- Free capital – gross capital less intangible assets and property, plant and equipment.
- Liquid assets – the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
- Mean total assets – the average of the total assets in the consolidated statement of financial position at the beginning and end of the year.
- Management expenses – the aggregate of administrative expenses, depreciation and amortisation.

3. Directors

Details of Directors are contained on pages 45 to 47.

Details of Directors' service contracts are included in the report of the Remuneration Committee on page 78.

Documents may be served on any of the Directors c/o Eversheds Sutherland, Reference RP, 1 Callaghan Square, Cardiff CF10 5BT.

No Director or other officer, including connected persons, has any right to subscribe for share capital in, or debentures of, any connected undertaking of the Society.

Subsidiary companies

Nemo Personal Finance Limited
Chief Executive: Iain Mansfield

Glossary

Additional Tier 1 capital	A component of regulatory capital comprising Permanent Interest-Bearing Shares (PIBS) and other qualifying instruments after regulatory adjustments.
Administered rate	A rate which is set by the Society, such as SVR, and that is at the Society's discretion to change, subject to the terms and conditions of the product.
Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan payment is overdue. Such a customer can also be said to be in a state of delinquency.
Basel III	In December 2010, the Basel Committee on Banking Supervision issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Brand consideration	Brand Consideration measures whether a respondent would consider taking a product or service from Principality.
Buffer eligible liquid assets	Includes high quality debt securities issued by a government or central bank, securities issued by a designated multilateral development bank or reserves in the form of sight deposits with a central bank in an EEA State or Canada, the Commonwealth of Australia, Japan, Switzerland or the United States of America.
Business assets	The total assets of the Society and its subsidiary undertakings as shown in the statement of financial position plus provision for loan impairment, less fixed assets and liquid assets.
Capital Requirements Directive (CRD IV)	European legislation to implement Basel III, which includes the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD).
Carbon net zero	We will reduce our carbon emissions to as low as they can possibly be, across all scopes.
Commercial lending	Secured loans to a commercial borrower.
Commercial property	Includes office buildings, industrial property, medical centres, hotels, retail stores, shopping centres, multi-family housing buildings, warehouses and garages.
Contractual maturity	The final payment date of a loan or other financial instrument, at which point the entire remaining outstanding principal and interest is due to be repaid.

Common Equity Tier 1 capital	The highest quality form of capital as defined in the Capital Requirements Directive IV, comprising accumulated reserves and qualifying instruments after regulatory deductions.
Common Equity Tier 1 capital ratio	Common Equity Tier 1 capital as a proportion of risk-weighted assets.
Cost income ratio	A ratio that represents the proportion of management expenses (i.e. administrative expenses, depreciation and amortisation) to total income.
Covered bonds	A type of wholesale funding backed by cash flows from mortgages.
Credit risk	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.
Credit Valuation Adjustment (CVA)	An adjustment that represents an estimate of the change to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures.
Debt securities in issue	Transferable certificates of indebtedness including certificates of deposits, and fixed and floating rate notes.
Defined benefit pension scheme	A scheme that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.
Defined contribution pension scheme	A scheme into which the Group and the employee pay fixed contributions without any obligation to pay further contributions.
Delinquency	See Arrears.
Effective Interest Rate method (EIR)	The Group uses the EIR method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the Group makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges.
Euro Medium Term Note (EMTN)	Medium term flexible debt instrument.
Expected Loss (EL)	A regulatory capital calculation to estimate the potential losses on current exposures due to potential defaults over a one-year time horizon. It is the product of PD, LGD and EAD.
Exposure	The maximum loss that a financial institution might suffer if a borrower or counterparty fails to meet its obligations to the Group.

Exposure At Default (EAD)	A regulatory capital parameter used to estimate the amount outstanding at the time of default.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The FCA also has responsibility for protecting consumers and promoting healthy competition.
Financial Services Compensation Scheme (FSCS)	A protection fund for depositors of failed institutions. This is funded by the financial services industry and each firm, including the Society, is obliged to pay an annual levy.
Forbearance strategies	Strategies to assist borrowers in financial difficulty, such as extending loan terms, temporarily converting loans to an interest-only basis and agreeing a temporary reduction in payments. Forbearance strategies aim, if possible, to avoid foreclosure or repossession.
Funding limit	The proportion of shares and borrowings not in the form of customer accounts held by individuals.
Impaired loans	Loans where there is evidence to suggest a measurable decrease in the present value of expected cash flows that has occurred after initial recognition of the asset, but before the statement of financial position date.
Individually/collectively assessed impairment allowances	Impairment is measured individually for assets and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available. Collective assessment also covers losses that have occurred but are not yet individually identified on loans subject to individual assessment.
Individual Liquidity Guidance (ILG)	Guidance from the PRA on the required quantity of a firm's liquidity resources and the firm's funding profile.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's internal assessment of the levels of capital that need to be held by the Society to meet its regulatory capital requirements.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.
International Swaps and Derivatives Association (ISDA) master agreement	A standardised contract developed by ISDA and used to enter into bilateral derivative transactions. The contracts grant legal rights of set-off for derivative transactions with the same counterparty. This reduces the credit risk of the derivatives to the extent that negative values offset positive values.

Internal Ratings Based (IRB)	An approach for measuring exposure to credit risks. IRB approaches are more sophisticated and risk sensitive than the standardised approach and may be Foundation or Advanced. IRB approaches may only be used with PRA permission.
Lending limit	The proportion of business assets not in the form of loans fully secured on residential property.
Leverage ratio	A Basel III ratio which measures Tier 1 capital against total on and off balance sheet assets.
LIBOR	London Inter Bank Offered Rate.
Liquid assets	Cash or other assets that can be readily converted to cash without loss of value.
Liquidity Coverage Ratio (LCR)	A liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a severe stress scenario.
Liquidity and funding risk	The risk that the Group does not hold sufficient liquidity, in terms of quantity and quality, to meet its liabilities as they fall due.
Loan To Value ratio (LTV)	A ratio showing outstanding loan balance as a percentage of the value of the security.
Loss Given Default (LGD)	The difference between Exposure At Default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Management Expense Ratio	A ratio that measures cost as a proportion of mean assets.
Member	A person who has a share investment or a mortgage loan with the Society.
Net Interest Income	The difference between the interest received on assets and the interest paid on liabilities.
Net Interest Margin	This ratio calculates the net interest income as a percentage of mean total assets.
Net retail mortgage lending	Total movements in the retail mortgage book; includes all inflows and outflows in respect of retail lending.
Net retail savings growth	Total movements in the retail savings portfolio; includes all inflows and outflows in relation to retail savings.
Net Stable Funding Ratio (NSFR)	A liquidity ratio, currently proposed under Basel III, to calculate the proportion of long-term assets that are funded by stable, long-term funding sources (customer deposits and long-term wholesale funding).

Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Overnight Indexed Swap rate (OIS)	A rate reflecting the overnight interest typically earned or paid in respect of collateral exchanged. OIS is used in valuing collateralised interest rate derivatives.
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.
Return on Assets	This ratio calculates statutory profit after tax divided by average total assets.
Return on Capital	This ratio calculates statutory profit after tax divided by total reserves.

Risk appetite	The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk-Weighted Assets (RWA)	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
Securitisation	A process by which a group of assets, usually loans, is aggregated into a pool, which is used to back the issuance of new securities. A company transfers assets to a special purpose entity (SPE) which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities. These securitisation structures use retail mortgages as the asset pool.
Senior unsecured debt funding	Bonds issued by corporate bodies and financial institutions, which are not secured by any collateral and are not subordinated to any other liabilities of the Society.
Shares	Money deposited by members in a retail savings account with the Society and held as a liability in the statement of financial position.
Shares and borrowings	The total of shares, deposits from banks, other deposits, amounts due to customers and debt securities in issue.
Solvency ratio	A component of regulatory capital measuring of the Group's total regulatory capital as a proportion of the Group's Risk Weighted Assets.
Special Purpose Entities (SPEs)	Entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. The Group uses an SPE set up under a securitisation programme. Where the Group has control of these entities or retains the risks and rewards relating to them they are consolidated within the Group's results. This term is used interchangeably with SPV (special purpose vehicle).
Standardised approach	The basic method used to calculate credit risk capital requirements under Basel III. In this approach the risk weights used in the capital calculation are determined by PRA supervisory parameters. The standardised approach is less risk-sensitive than IRB.
Stress testing	Various techniques that are used by the Group to gauge the potential vulnerability to exceptional but plausible events.

Tier 1 capital ratio	Tier 1 capital as a proportion of Risk-Weighted Assets.
Tier 2 capital	A further component of regulatory capital comprising subordinated debt less certain regulatory deductions.
Underlying management expense ratio	An alternative variation of management expense ratio which removes any costs that are considered to be one off in nature and not indicative of ongoing operating costs. This is an internal measure to demonstrate ongoing costs as a percentage of total average assets.
Value at Risk (VAR)	A technique that estimates the potential loss that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence.



Online

Visit us at [principality.co.uk](https://www.principality.co.uk)
or on our social channels
f **@** **@principalitybs**
for the latest updates,
including our opening hours.



Visit

Visit [principality.co.uk/branch](https://www.principality.co.uk/branch)
to find your nearest branch
and for our service updates.



Contact

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



Member Pulse

Have your say by joining
our online community at
[principalitypulse.co.uk](https://www.principalitypulse.co.uk)

- * To help us maintain our service and security standards, telephone calls may be monitored and recorded.

Principality Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, reference number 155998. Principality Building Society, Principality House, The Friary, Cardiff, CF10 3FA.