

YOUR SOCIETY

# 2016

## Building your future

Inside

Get to  
know your  
Directors

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Statement  
2016

Notice of  
Annual  
General  
Meeting

## Helping more people own homes



Gross mortgage applications of £2bn

Our net residential mortgage lending grew by over £600m



We helped over 3500 first-time buyers onto the housing ladder

## A strong performance and resilient business



Our pre-tax profits grew to £50.3m (2015: £49.0m)

We continued to grow savings balances - they increased to over £6.1bn (2015: 5.6bn)



We strengthened and grew our balance sheet to £8.3 billion (2015: £7.6bn)

## Serving our communities



We're committed to the high street - Over 70 branches and agencies

We raised a record £150,000 for charity



124 Local Community Groups



We helped 124 local community groups, investing £56,000



Meet your Directors so you know who you're voting for.



Summary Financial Statement for the year ended 31 December 2016



Notice of Annual General Meeting

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# Building your future today and tomorrow

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**The 2017 AGM is only a few weeks away and we'd like to see you there. It's a great opportunity for all our Members to use their vote and have their say.**

Over the next few pages we've included short biographies of each of our Directors seeking election and re-election to give you comfort that Principality is in good hands, and to help you fill out your Proxy Voting Form.

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## **What is the difference between Executive and Non-Executive Directors?**

An Executive Director is an employee of the Society and a member of the Board. He or she will have a specific role such as Finance Director and will be responsible for the day to day running of the Society.

A Non-Executive Director is a member of the Board who is not an employee but is appointed for his or her expertise. He or she will take part in decision making at Board meetings.

Both Executive and Non-Executive Directors have a key role to play in ensuring that our Members' interests are properly protected at all times.

## **Why do we need Non-Executive Directors?**

Non-Executive Directors provide objective criticism and challenge the Executive Directors. They are usually chosen because they bring extra diversity, experience and other qualities to the Board.

## **What do Non-Executive Directors do?**

They focus on Board matters and give an independent view of the Society. They may also have specialist knowledge that gives the Board valuable insights – or perhaps key contacts in related areas. They need to stay objective, as they can play a valuable role in monitoring management.

## **What experience do they bring to Principality?**

Our Non-Executive Directors are all experts in their respective fields and understand areas such as audit, finance and marketing. They bring independence, impartiality, wide experience and specialist knowledge to the Board.

**Visit [www.principality.co.uk/board](http://www.principality.co.uk/board)**

Here you will find short videos from some of our Non-Executive Directors, explaining their responsibilities as Chair for each of the Board Committees they lead.

### Laurence Philip Adams MA

Chairman,  
Non-Executive  
Director  
Age: 60



**I was appointed a Non-Executive Director of the Society in August 2013 and was elected Chairman in April 2014.**

I am a member of the Remuneration and Governance and Nominations Committees.

I have more than 25 years' experience in the banking industry. Most recently I have been involved as a Non-Executive Director helping to rescue the troubled Northern Rock PLC in 2007 where I headed the Risk Committee.

I am a qualified solicitor and previously served as Managing Director and Global Head of Legal and Compliance for the investment banking wholesale division of ABN Amro Bank. I am a Non-Executive Director of Novae Group PLC and of Exane Limited.

Born in 1956, I lived in Neath until I was five before moving to Barry where I went to school. I currently live in London with my wife and two children.

**I joined the Board of Principality as a Non-Executive Director in October 2013.**

I now serve as Chairman of the Customer and Conduct Committee of the Board and also serve as a member of the Remuneration, Governance and Nominations and the Audit Committees.

I used to work in investment banking, but after ten years I joined the Board of Welsh Water, as Planning Director. I was one of the founding Directors of Glas Cymru, the not-for-profit company that took over the ownership of Welsh Water in 2001, and I was Managing Director of Welsh Water until 2014. I am also a Board member of the Canal and River Trust and a Trustee of the Community Foundation in Wales.

Born in 1958 I have lived in Wales for more than 25 years and I have two grown up boys.

### Nigel Charles Annett CBE, MSC, MA [Hons], DSC Econ

Non – Executive  
Director  
Age: 58



### Natalie Elphicke LLB

Non-Executive  
Director  
Age: 46



**I was appointed to the Society's Board as a Non-Executive Director in July 2012.**

I am the Chief Executive of The Housing & Finance Institute and am a national expert in my field of housing and property finance and a regular adviser to the UK Government. I am a qualified barrister and solicitor and was formerly a City law firm partner.

I have worked on over £4bn of complex finance transactions across a range of finance, investment and regeneration projects.

I was appointed an OBE in the Queen's Birthday Honours 2015 for services to housing.

At Principality, I chair the Board's Group Risk Committee and serve on the Nominations Committee. Prior to joining the Society, I led the structuring team for the Ely Mill project which Principality jointly founded with the Welsh Government and which is on track to deliver 800 new affordable homes in Cardiff.

### Julie-Ann Haines MSC, BA [Hons]

Customer Director  
Age: 44



**I was appointed to the Board in May 2016 and have been the Society's Customer Director since 2012.**

I am responsible for marketing, distribution and operations as well as having responsibility for the core operational performance of the Society.

I joined the Society in 2007 to build and develop our award winning e-commerce business. Prior to Principality, I held a number of senior roles in sales, marketing and technology, working in leading customer-centric businesses including Sainsbury's, Reckitt Benckiser and HBOS.

I am the current Chair of The Council of Mortgage Lenders (CML) Cymru. I also sit on the Welsh Government's Expert Panel on Housing for Older People.

I was born and educated in Scotland, but Cardiff has been my home since 1999. I'm married to a Welshman and we have two daughters.

**I was appointed a Non-Executive Director of the Society in April 2014 and have subsequently been appointed to the role of Senior Independent Director.**

I also serve as Chairman of the Audit Committee and as a member of the Board Group Risk, Governance and Nominations Committees.

I hold a degree in mathematics and qualified as a chartered accountant with Price Waterhouse – subsequently Price Waterhouse Coopers [PwC].

I specialised in corporate recovery and insolvency work, becoming a partner in 1988. I retired from the PwC partnership in April 2013.

I am also Treasurer of St John Cymru Wales and a trustee of both the National Botanic Garden of Wales and Artes Mundi.

Born in 1954, I am married with two grown up children and live close to the centre of Cardiff.

### Derek Anthony Howell

BSc [Hons], FCA

Senior Independent  
Non-Executive  
Director

Age: 62



### Stephen Hughes

ACMA

Chief Executive Officer  
Age: 44



**I was appointed to the Board as Group Finance Director in March 2013 and I was appointed as Chief Executive Officer in March 2017.**

In March, I had the great honour and privilege to be appointed as Chief Executive Officer (CEO). I believe in the mutual model, we are a Member owned organisation and my role as CEO is to ensure we run the business in the long term interests of our Members.

I chair the Executive Committee and am a member of the Asset and Liability and Group Executive Risk Committees. I also attend the Board Audit, Risk, Customer and Conduct and Remuneration Committees.

I am a qualified Management Accountant. Prior to joining the Society I performed the role of Finance Director of the Lloyds Banking Group General Insurance business.

I am Chairman of the Wales Advisory Board for Business in the Community (BITC). I was born in Swansea and continue to live near there with my wife and three sons.



**Robert Michael Jones BA [Hons]**  
**MBA, ACIB**  
 Group Risk Director  
 Age: 58



**I joined the Society's Board in February 2013.**

I joined the Society in 1997, was appointed Head of Group Risk in 2005 and promoted to the role of Director of Group Risk in 2009.

I attend all meetings of the Board Audit, Group Risk, Customer and Conduct and Remuneration Committees. I also chair the Group Credit Risk Committee and Group Operational Risk Committee and I am a member of the Group Management Committee, Group Executive Risk Committee and the Asset and Liability Committees.

I hold a degree in Economics, an MBA from Henley Management College, and I am an Associate Member of the Chartered Institute of Bankers. Together with the Group Finance Director I have particular responsibility for ensuring that the Society maintains a strong capital base.

Born in Denbigh, North Wales, I now live just outside Cardiff and am married with two children.

**I was appointed to the Society's Board in February 2015.**

I chair the Remuneration Committee and serve as a member of the Customer and Conduct, Governance and Nominations Committees, as well as the Transformation sub-committee. I am responsible for ensuring that the Group's remuneration and reward strategy, policy and procedures follow best practice, are up-to-date and reflect the best interests of Members.

I have over 30 years of wide-ranging retail banking experience. I also sit on an advisory panel to the Welsh Government which seeks to stimulate the financial and professional services sector in Wales to create employment and economic growth. I serve as a Non-Executive Director on the Boards of the Student Loans Company and the Department for International Development.

I and my husband Alun were both born and educated in Cardiff, and lived in the Vale of Glamorgan until 10 years ago when work commitments moved us to Wiltshire.

**Sally Jones-Evans**  
**FCIB, MBA**

Non-Executive  
 Director  
 Age: 50



**David James Rigney ACMA,**  
**MBA, MA**  
 Non-Executive  
 Director  
 Age: 53



**I was appointed to the Society's Board in March 2015.**

Along with my Board responsibilities I serve as a member of the Audit, Group Risk and Governance and Nominations Committees. In addition, I am Chairman of Nemo Personal Finance Limited, a wholly owned subsidiary of Principality Building Society.

I am a Chartered Management Accountant and during my career I have performed a broad range of roles across multiple sectors including Board Director at Nationwide Building Society. I believe in the mutual business model and everything that I have seen so far at Principality demonstrates that the customer is truly at the heart of the business.

I am also Chairman of BACS Payment Schemes Limited, Non-Executive Director and Senior Independent Director of Elexon Limited and Non-Executive Director of Sports Resolutions. Born in 1963 I live in Bristol.

# Summary Financial Statement 2016

Summary Directors' Report  
Principality Building Society

Summary Financial Statement for  
the year ended 31 December 2016

This Summary Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to Members and depositors free of charge on demand at every office of Principality Building Society and on the internet at [www.principality.co.uk](http://www.principality.co.uk) from 14 April 2017.

Approved by the Board of Directors on 14 February 2017 and signed on its behalf by:

Laurence Philip Adams  
Chairman



Graeme Howes Vorston  
Group Chief Executive



Stephen Hughes  
Group Finance Director





# Chairman's Review of the Year

Strong performance



Laurence Philip Adams  
Chairman

**It has been another positive year for Principality, with record assets and our highest volume of lending, the major headlines of which are detailed in the Chief Executive's Review.**

Our mutual model and the strategy the Board adopted in 2012 continues to fulfill our key ambition to help our Members prosper in their homes at every stage of their lives.

The Group's financial position has strengthened further through strong profitability which places the Society in a good position to invest in our business for the future. It is important we continue to develop the organisation so it meets the demands of a rapidly changing technological landscape and the diverse lifestyles of our Members.

Such a strong performance helps us to future-proof the business as we enter greater uncertainty created by global events. We have a very strong balance sheet. I am in no doubt that our strategy has been crucial in helping the business meet with these challenges.

## Regulation

The scale of regulatory change is undiminished, as domestic and international authorities maintain their wide-ranging programmes of reform. This will clearly continue to represent a principal area of focus for the financial services industry, as firms respond to the increasingly demanding regulatory agenda.

The Society has maintained a prudent approach towards risk management and we will continue to work closely with our regulators in order to ensure that our aspirations remain consistent with their expectations. The Group's business model and strong Member focus leaves us well-placed to meet current and emerging regulatory requirements. Our team strives to keep our Members and their money safe and we remain supportive of our regulators as they seek to raise standards across the industry.



*Pictured: Two Members meeting with Sam Warburton and Ken Owen*

## Supporting our Members, Colleagues and Communities

Principality prides itself on representing the values of our Members and this bond is what makes us stand out as a trustworthy brand on the high street. We are aware of the great challenges faced by the communities we serve and remain committed to helping them through an uncertain period in the coming years. It is our purpose to help our Members and communities prosper at every stage of their lives and there are many ways our colleagues help to do this.

Our ongoing commitment to the high street, has maintained our strong connection with our Members. We will continue to invest in developing our service offering so we can adapt to modern ways of interacting with our customers.

In January 2016 we began a ten-year sponsorship with the Welsh Rugby Union (WRU) which included renaming the stadium to Principality Stadium. We have seen an increase in positive reaction to our brand as a result of this partnership. One of the major factors in signing the deal with the WRU was ensuring that we gave more benefits to our Members.

They now have the opportunity to apply for tickets through priority access, and enter exclusive competitions and ticket giveaways for rugby, concerts and events.

Principality colleagues voted to do something different when it came to our impressive charity work. They voted to help three charities during the next three years. That is a big challenge but one they have risen to in the first year.

### Member, colleague and community highlights

Principality began a 10 year sponsorship with the Welsh Rugby Union

Principality colleagues voted to help three charities over the three years - Cancer Research Wales, Llamau, School of Hard Knocks

HM Treasury's Women in Finance charter to improve gender diversity

In the summer the Principality signed up to HM Treasury's Women in Finance Charter to improve gender diversity. We are proud that women currently account for almost two-thirds of our workforce, and we have set ourselves a senior leadership team target of one third of women in post by 2021.

## Appointments

Along with a strong management team and skilled workforce, the strength of any business's Board is vital to its success and at Principality that is no different. We ensure that we have Directors of the highest calibre to represent the Society from a variety of different backgrounds.

After a rigorous selection process, I am delighted to announce Stephen Hughes as our new Chief Executive Officer. His commitment to our mutual values, invigorating leadership, financial and commercial acumen will help ensure he builds on the Society's success. During his time at Principality Building Society,

he has played an important role in keeping the Society safe during some difficult economic conditions. He is the right person to ensure we continue to deliver long term value and excellent service to both existing and future Members.

This year we were pleased to appoint Julie-Ann Haines to our Board. Julie-Ann joined Principality in 2007 and brings with her more than twenty years of experience in leading customer-centric businesses.

Her appointment was driven by a clear focus on Principality's growth strategy. Julie-Ann will bring invaluable experience and insight to the Board as part of the Society's focus on its products, marketing and customer experience. Her range of skills and experience, together with her knowledge of the industry and her deep understanding of our Members, customers and communities will strengthen the current collective knowledge within the Board.



*Pictured:* Partner schools Ysgol Strade and Bro Myrddin with School of Hard Knocks enjoy training at Parc y Scarlets



*Pictured:* Meeting Members at our AGM last year



*Pictured:* New CEO Steve Hughes gives Sam Milligan an achievement award after he raised £2,000 for a breast cancer ward

WINNER  
Principality Building Society  
Ysgol Y Strade Achievement  
Award Winner  
Enillydd (under Cyfaerriallt Ysgol y Strade  
Cymdeithas Adolau) Principality  
(November 2016)  
Awarded to  
Sam Milligan  
For outstanding courage and brilliant  
community fundraising  
An Award for a Member's growth  
and good work at 20 years



*Pictured:* The Senior Leadership Team on a sponsored sleepout for Llamau

## Thank you

I would like to extend my thanks to all of the hard-working colleagues in our branches, agencies and head office who connect so positively with our Members. It is the unique culture of hard work and the caring nature of our teams that makes Principality stand out from its competitors. We have strong values at the core of our business which are the foundations of its success.

I would like to take this opportunity to thank our outgoing Group Chief Executive, Graeme Yorston. I am very sorry that Graeme has decided to step down but understand his reasons for doing so. Graeme has led this business through a hugely successful period and he exemplifies the mutual sector values. I am extremely grateful for all that he has done for this business over the past ten years and more recently as Chief Executive.

Under his leadership the Society has delivered consistently strong financial results and excellent customer service for the benefit of all our Members. His considerable efforts have

left us in a healthy position to withstand any uncertainty in the next few years and a model that will allow us to grow the business for our Members. On behalf of the Board and all our colleagues at Principality I want to take this opportunity to wish him and his family the very best of luck and health for the future. Diolch yn fawr Graeme!

Laurence Philip Adams  
**Chairman**  
14 February 2017

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**Annual Report on  
Remuneration**

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## Group Chief Executive's Review of the year

Strong financial performance  
and resilient business



**Graeme Howes Yorston**  
Chief Executive

**I am delighted to say that the strength of the brand of Principality alongside our outstanding service and the dedication of our leaders and teams across the business have together delivered a very strong business performance in 2016**

Our trusted model continues to stand the test of time through difficult and sometimes uncertain periods. Despite a challenging interest rate environment for savers we have continued to grow savings balances which has been fundamental to supporting our growth in mortgage lending.

Delivering a strong performance is essential, both for our ability to withstand any downturn in the economy as well as providing investment in the business for the future. If Principality is to remain relevant for future generations then how we deliver products and services has to evolve. This will mean building on our current model and ensuring that we have digital capability across our business as well as a broader product set that will ensure the business is able to continue for generations to come.

In order to achieve this, we have been growing our business, and 2016 proved to be one of our strongest years ever where we achieved some significant milestones; see overleaf.

Each of our businesses continue to perform very well and I am particularly pleased with the performance of Nemo given that we took the difficult decision to cease accepting new business at the beginning of 2016.

Our Commercial Lending division continues to improve and has delivered one of the best performances for many years. This part of our business plays an important role in supporting, amongst other things, local house builders, and this is very much in line with the core purpose of the Building Society.



## 2016 Significant Milestones

Gross mortgage applications of £2bn for the first time in Principality's history

Our focus on providing outstanding customer service has once again delivered and our customer service net promoter score stood at 72.7% for the year (2015: 65.9%)

Our net lending to people buying homes grew by over £600m, again the biggest growth in our history

Profit before tax for the year grew to £50.3m (2015: £49.0m)

Our savings balances also grew strongly and now stand at over £6.1bn (2015: £5.6bn)

Our Commercial Lending division had one of its strongest years ever and delivered a significant contribution to the Group with a profit before tax of £12.5m (2015: £6.2m)

We continued our prudent business approach and strengthened the balance sheet further in the year as well as taking the overall size of the balance sheet to £8.3bn (2015: £7.6bn)

Nemo continues to make a significant contribution to the Group and in 2016 delivered a profit before tax of £11.6m (2015: £14.0m)

The strategy of growing the core business of the Building Society continues to deliver and the growth achieved this year is a record for this part of the business. This means that we have delivered on our promise to help more people own a home - both in Wales and beyond - than ever before.

It is important I signal that, in future years, it is likely that profits will reduce and this is entirely planned and expected. This will happen primarily for two reasons, the first of which is that from 2017 the investment programme to improve and develop our capabilities, digital and more generally, will start and so the cost of running the business will increase as we invest more in our infrastructure, therefore impacting profitability. Secondly, the run-off of the Nemo balance sheet will continue and the loss of this higher profitability business will also have

an impact. As I have said this is a planned reduction before the investment begins to deliver a return in future years.

We continue to live in uncertain times and 2016 has proved to be no exception to this, with what some would say were unexpected political changes which served to destabilise markets and led to the Bank of England reducing interest rates to another historical low.

Despite these uncertainties Principality performed well and the profits delivered in 2016 will further add to the strong capital position that we both need and should have, to provide a strength that will be able to weather any downturn in the market that may occur.

## Serving our communities

As our Members and communities face increasing challenges, which show no sign of diminishing, we understand the responsibility that this places on us and the increasingly important role we have to play in helping in these difficult times. We are very clear about why Principality exists, and that is to help people prosper in their homes at every stage of life. This has become a real rallying call for our colleagues and we will do all that we can to deliver on this. Prosperity can mean many things to different people, but we try and live up to this by focusing on the areas we can support, from children's accounts to providing financial education in schools, from first-time buyers through to the work we now do with a number of institutions to look at ways that we can help people stay in their own homes for longer later in life. This is what we mean by prospering and we will continue to find ways to help people through our products and services both now and into the future.

We remain committed to the high streets of Wales as being a place where our Members enjoy the great service delivered by our excellent teams. However, like the banks, we have seen the use of our branches decline, although this has been much more gradual than perhaps some of the banks have seen.

This more gradual decline does give us time to think about what the branch needs to be, and importantly become, but we also need to recognise that sustaining a branch network of the current scale, if the decline continues, could become a challenge. We need to reinvent the model and make sure that our branch network remains viable and relevant, and continues to be valued by our Members in the years ahead.

Supporting our three charities over a three-year period, as well as our local community work, continues to be a focus. The charities, chosen by our colleagues, play an important role in supporting research into finding a cure for cancer, helping those who are, for many reasons, not in a position to provide a roof over their head and those who have fallen on hard times and who need support in coping with day-to-day life. We continue to be determined to support our colleagues in giving up their time, and work time, to fund raise for these very important initiatives. I never fail to be impressed with the efforts put in by people right across our business to do this. You will find much more information in our Member, Colleague and Community section, which appears in the full Annual Report and Accounts on our website.



*Pictured:* Our three charities for the next three years: Llamau, Cancer Research Wales, School of Hard Knocks



*Pictured:* Three youngsters from Ysgol Bro Myrddin take a tour of Principality stadium

## Looking to the future

Technology has a very important role in helping people to run their lives, including being able to make payments easily and in running their accounts with us. Making sure technology is married to what we offer through our branch network is going to be critical for the long-term prosperity of our business. This is what we are required to do to ensure that this business is here to serve future generations. Our growth strategy has been about providing the platform to allow this investment to happen, therefore ensuring that Principality exists for many years to come in supporting people throughout Wales and beyond.

This business is very well placed to be able to respond to all of the demands that will inevitably come its way, whether that be changes in economic conditions or in meeting the changing demands of consumers in the financial services market place. The business has a strong executive and leadership team who understand these demands and who also understand the value of the mutual model and I am confident that this, together with the significant financial strength of the business, puts Principality in a position of being, rightly, optimistic about the future.

## Personal Reflections

In August of 2016 I indicated my intention to step down as Group Chief Executive of

Principality, a decision that I am very fortunate to be able to take but one that was incredibly difficult. I am privileged to have spent the final years of my executive career serving the Members of Principality over an 11-year period and the last five as Chief Executive. I really do consider this to have been the pinnacle of my career. My role was simply to ensure that the business was stronger than when I took over and I can honestly say that this is the case; but I also recognise that I could not have achieved this without the support of my Executive and Board colleagues, as well as colleagues up and down the breadth of Wales who have day in, day out looked after our Members. Finally I am very grateful for the support and loyalty of Principality Members themselves, a great number of whom have been loyal to this organisation for many, many years – it has been my pleasure to serve you all and to meet many of you over my time here in Wales – thank you, diolch!

A handwritten signature in black ink, appearing to read 'Graeme Howes'.

Graeme Howes Yorston  
**Group Chief Executive**  
 14 February 2017

# Independent Auditors' Statement to the Members and Depositors of Principality Building Society on the Summary Financial Statement for the year ended 31 December 2016

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement for the year ended 31 December 2016 which comprises the summary Income Statement, Statement of Recognised Income and Expense and Balance Sheet together with the summary Directors' Report.

This report is made solely to the Society's Members, as a body, in accordance with Section 76(5) of the Building Societies Act 1986. Our 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, for our audit report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual

Accounts, Annual Business Statement and Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Society's Annual Accounts describes the basis of our audit opinion on those financial statements.

## Opinion

In our opinion the Summary Financial Statement is consistent with the Annual Accounts, the Annual Business Statement and Directors' Report of Principality Building Society for the year ended 31 December 2016 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made thereunder.



Deloitte LLP  
Chartered Accountants and  
Registered Auditors  
Cardiff, United Kingdom  
14 February 2017

# Group summary Financial Statement for the year ended 31 December 2016

## Consolidated income statement

	2016 £m	2015 £m
<b>Continuing operations:</b>		
Net interest income	124.9	134.1
Other income and charges	11.3	7.7
Operating expenses	(82.1)	(83.7)
Impairment provisions	2.7	(4.8)
Provisions for other liabilities and charges	(6.5)	(4.3)
<b>Profit for the year before taxation</b>	<b>50.3</b>	<b>49.0</b>
Taxation	(11.2)	(11.3)
<b>Profit for the year</b>	<b>39.1</b>	<b>37.7</b>

## Consolidated statement of other comprehensive income

	2016 £m	2015 £m
Profit for the year	39.1	37.7
Items that will not be reclassified subsequently to profit and loss:		
Actuarial (loss)/gain on retirement benefit obligations	(12.6)	1.1
Taxation	2.5	(0.1)
Items that may be reclassified subsequently to profit and loss:		
Gain/(Loss) on available-for-sale assets	0.6	(1.3)
Taxation	(0.1)	0.3
<b>Total comprehensive income</b>	<b>29.5</b>	<b>37.7</b>



## Consolidated statement of financial position

	2016 £m	2015 £m
<b>Assets</b>		
Liquid assets	1,116.8	962.0
Loans and advances to customers	7,073.9	6,544.9
Fixed and other assets	90.5	77.5
<b>Total assets</b>	<b>8,281.2</b>	<b>7,584.4</b>
<b>Liabilities</b>		
Shares	6,165.2	5,621.8
Borrowings	1,468.8	1,287.5
Other liabilities	84.2	59.9
Retirement benefit obligations	15.3	4.1
Subscribed capital	69.3	69.8
Subordinated liabilities	-	92.3
Reserves	478.4	449.0
<b>Total equity and liabilities</b>	<b>8,281.2</b>	<b>7,584.4</b>

## Summary of key financial ratios

At 31 December:	2016 %	2015 %
Common Equity Tier 1 capital ratio	23.47	20.97
Solvency ratio	26.47	24.31
Leverage ratio	5.47	5.47
Liquid assets as a percentage of shares and borrowings	14.63	13.90
Profit for the year as percentage of total assets	0.49	0.51
Management expenses as a percentage of mean total assets	1.04	1.13

# Report of the Remuneration Committee for the year ended 31 December 2016

The important work of the Remuneration Committee is to ensure that all of our remuneration policies align with the Board-approved strategy to ensure that the business is run safely and successfully for our Members. This has been a year of embedding and consolidating our new reward schemes launched last year; there are no major changes to report.

## Board changes

Our Group Chief Executive Graeme Yorston advised the Board of his intention to stand down from the Board, on 31 August 2016, serving 12 months' notice. The terms of his departure have not yet been agreed and will be shared in next year's report. Stephen Hughes has been appointed as the new Chief Executive, and further detail of his remuneration is set out on pages 26 and 27. As Julie-Ann Haines was appointed as an Executive Director to the Board on 18 May 2016 her remuneration is reported here for the first time.

## Performance in 2016

As you will read in this document, the Society's performance has been very positive despite a challenging external environment. Assets and new lending are at record levels, profitability is strong, customer and Member feedback is very positive, and important steps have been taken to invest to grow the core Building Society over the coming years. This performance is reflected in the Directors' remuneration as shown on pages 24 and 25.

## Variable pay

2016 is the first year of operation of our two new variable pay schemes which were shared in last year's Report; the Rewarding

Excellence Award (a single scheme for all staff) and the Long Term Incentive Plan (for Executive Directors and a small number of Senior Executives). These schemes are linked to financial and customer measures to align with Member interests. Details of these schemes are shown on pages 27 and 28. The awards made to Executive Directors under both schemes are shown in the tables on pages 24 and 25.

As the long-term strength, safety and health of the Society is paramount to our strategy, initial risk 'gateways' were set for our capital and liquidity position for both schemes and have been met. Performance against the stretching targets set by the Board for financial and customer service measures on both schemes have also been achieved in this very successful year; I am pleased to confirm awards close to the maximum level have been made. For our hard working staff this means an award of 11.7% of their salary to thank them for their contribution to this success. I am delighted that this scheme will be expanded to include all colleagues in our Nemo business for 2017. I look forward to meeting many of you at the Annual General Meeting, and to taking your comments and answering your questions about this Report and the work of the Remuneration Committee. As usual we will be holding an advisory vote on our remuneration policy and I hope that you will support this.



Sally Jones-Evans  
**Chair of the Remuneration Committee**  
14 February 2017

## Our Remuneration Policy

As a mutual Building Society, our objective is to deliver good outcomes for our Members. This means that we must keep our Members' savings safe and we must offer good and competitive products and services to our savers and borrowers that meet their needs. All our team members are well trained, motivated, and understand our purpose and values. We continue to ensure that we generate sufficient profits to maintain a strong capital position and run the business efficiently, keeping our costs under control, and investing for the future.

This thinking underpins our Remuneration Policy which is, above all, designed to ensure that the business is run safely and successfully for our Members.

### The Remuneration Policy aims to:

Attract, motivate, reward and retain high quality people who can ensure that Principality continues to deliver value to Members and to be profitable in a competitive, and often uncertain, marketplace by positioning basic salaries and benefits, both in terms of total amount and structure (i.e. the balance of fixed and variable pay), at around market levels for similar roles within the UK mutual building society sector, as well as more broadly where this is appropriate;

Share the success of the Society in line with Members' interests by offering Directors and colleagues (except our leaders of Risk, Audit and Conduct) the chance to share in a variable pay award of up to 12% of salary based on the achievement of stretching targets based on customer service and financial performance, and for some senior executives, an additional long term incentive scheme of up to 28% based on performance over three years;

Promote the right behaviours that align with the Society's position on risk as well as its culture as a Member owned mutual building society; and

Encourage sound conduct and risk management practices, in particular by setting capital and liquidity hurdles that must be met before any variable pay award can be made, and by ensuring our Long Term Incentive Plan (LTIP) scheme for senior executives rewards consistent performance over multiple years.

During the year the Committee appointed PwC to provide independent advice on executive remuneration.

## How this policy is applied to Executive Directors

The table below provides a summary of the different elements of remuneration for Executive Directors for 2017:

Component	Purpose	Operation	Opportunity
<b>Base salary</b>	To attract and retain executives of sufficient calibre through the payment of competitive rates.	Reviewed annually (or more frequently if required).	Set at a level considered appropriate, taking into account: <ul style="list-style-type: none"> <li>- Role and experience;</li> <li>- Personal performance;</li> <li>- Benchmarking comparisons; and</li> <li>- Salary increases awarded across the Society.</li> </ul>
<b>Benefits</b>	Part of being a responsible employer and to assist in the performance of the job.	Benefits include a car allowance, private medical care for Executive Directors and their family, critical illness insurance and life insurance.	Set at a level considered appropriate by the Committee.
<b>Pension or Pension Allowance</b>	To provide for longer-term savings to fund retirement.	Executive Directors may join the Society's pension plan or be provided with an equivalent cash allowance.	Pension contribution of 15% of base salary or paid as a cash allowance.
<b>Rewarding Excellence Award</b>	To share the benefits of teamwork, financial discipline and customer service with all staff.	Annual targets based on risk gateways, group profit before tax and customer service measures.	Maximum annual payment is 12% of base salary.

Component	Purpose	Operation	Opportunity
<b>Long Term Incentive Plan (LTIP)</b>	To align selected senior executives to the Society’s longer-term goals and objectives.	Targets set over three years based on risk gateways, Return on Assets and Net Promoter Score. Transitional arrangements apply for the 2016 and 2017 LTIP.	Maximum annual payment is 28% of salary. Personal performance is taken into account.

Note: The Group Risk Director, Chief Internal Auditor and Chief Compliance and Conduct Officer do not participate in any variable pay scheme

### How we apply this policy to the Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors are paid a fee for Board participation and additional fees for serving on Board committees. These fees are reviewed annually and in 2016 the fees were increased by 2% in line with colleagues’ basic pay increase. The fees for chairing committees were also reviewed and adjusted as this had been omitted in the prior two years.

The Chairman and Non-Executive Directors do not receive any employee benefits, pension contributions or participate in any variable pay schemes. The Chairman and Non-Executive Directors do not have service contracts and are all subject to re-election at each year’s Annual General Meeting.

## Annual Report on Remuneration

### Introduction

We comply where appropriate with the Corporate Governance Code and aim to make the remuneration policy as transparent as possible. We therefore set out in this section the following information.

1. What the Executive Directors earned for 2016’s performance compared with 2015;
2. What the Executive Directors can earn for 2017; and
3. What the Chairman and the Non-Executive Directors were paid in 2016 compared with 2015.

### What the Executive Directors earned for 2016’s performance

The table on page 24 shows a single total figure of remuneration for the 2016 financial year for each of the Executive Directors and compares this figure to the prior year. Annual Variable Pay is the total of both the Rewarding Excellence Award and the Long Term Incentive Plan (LTIP).



## REMUNERATION

The normal performance period of the LTIP will be three years and the 2016 LTIP will operate for the performance period 1 January 2016 to 31 December 2018. As a transition to these longer assessments of performance we have put arrangements in place for two years whereby the 2016 LTIP award vesting on 31 December 2016 will be assessed over 2016's performance only and for the second LTIP award vesting on 31 December 2017, we will assess performance over the two years ending on that date.

In February 2016, the Remuneration Committee decided that the base salary of all Executive Directors should increase by 2%. This was equal to the average pay increase awarded to all other colleagues in the Group.

	Year	Salary & Fees <sup>1</sup>	Benefits <sup>2</sup>	Pensions <sup>3</sup>	Annual variable pay	Total
<b>Individual</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Group Chief Executive Graeme Yorston	2016	341	14	51	129	535
	2015	335	14	50	87	486
Group Finance Director Stephen Hughes	2016	250	12	37	94	393
	2015	245	12	37	64	358
Group Risk Director R Michael Jones	2016	239	12	36	n/a	287
	2015	234	12	35	n/a	281
Customer Director Julie-Ann Haines (from 18/05/16)	2016	131	7	20	49	207
	2015	n/a	n/a	n/a	n/a	n/a

1. The review date for salary is 1 February 2016.

2. Benefits comprise a car allowance, life assurance, critical illness insurance and private medical insurance.

3. A cash allowance of equal value (15% of salary) may be taken in lieu of pension.

4. The 2015 variable pay scheme paid 50% of the award in 2016 and 50% is due in 2017. All deferred awards are subject to review annually and confirmation by the Remuneration Committee which has the discretion to reduce or withdraw any deferred awards in the event that the basis upon which the original performance measures were established proves unsustainable.

This may not only relate to performance in the current year but also performance in previous years where relevant information has only come to light subsequent to the period for which the variable pay award was calculated.

The deferred award will be paid in full in 2017.

5. Awards under the variable pay schemes are non-pensionable.

6. The Group Risk Director, Chief Internal Auditor and Chief Compliance and Conduct Officer do not participate in any variable pay scheme.

## How the annual variable pay for 2016 was calculated

The 2016 annual variable pay awards for Executive Directors for each of the two schemes were calculated by reference to performance against challenging targets set by the Board for financial and customer measures. Performance in the year was demonstrated in the outcomes set out in the table below:

### Rewarding Excellence Award 2016

Variable pay scheme Target	Proportion of variable pay	Actual 2016 performance	Threshold	Target	Stretch	Award %
<b>Group Profit before tax *</b>	50%	£50.7m	£35.3m	£41.5m	£47.7m	6.0%
<b>Customer Satisfaction</b>	50%	72.7%	Below 64%	70%	73% or above	5.7%

\* Profit measure adjusted for items which are non-trading or performance related.

### Long Term Incentive Plan 2016

Variable pay scheme target	Proportion of variable pay	Actual 2016 performance	Threshold	Target	Stretch	Award** %
<b>Return on Assets</b>	50%	0.50%	0.37%	0.39%	0.41%	14.0%
<b>Net Promoter Score</b>	50%	Top 11%ile	Below 60%	Top 25%ile	Top 15%ile	14.0%

\*\* Note: The Remuneration Committee has exercised its discretion to reduce the award on the 2016 LTIP from 28% to 26% in the light of an isolated risk management event that occurred in the third quarter of the year. This event had no material financial consequences for the Society and no impact on Members.

## What the Executive Directors can earn for 2017

The Committee reviews the Executive Directors' base salaries on 1 February of each financial year, taking into account factors such as individual and corporate performance, an assessment of market conditions and, most importantly, the salary increases applicable to the Group's other colleagues. The Remuneration Committee determines any salary increase based on that average percentage increase awarded to all colleagues. For 2017, they have awarded a 2% increase, the same as to all other colleagues.

Following this review, the Executive Directors' 2017 salaries are:

- Graeme Yorston £348,534
- Stephen Hughes £254,996\*
- R Michael Jones £244,078
- Julie-Ann Haines £214,200

\*Stephen Hughes' salary will increase to £310,000 from the date on which he assumes the role of Chief Executive Officer, reflecting his increased responsibilities in that role.

## Benefits

No changes have been made to the benefits in kind provided to the Executive Directors, namely a car allowance, life assurance, critical illness insurance and private medical insurance.

## Pension

The Group pays its Executive Directors a pension contribution of 15% of salary which may be taken as a cash allowance. The provision remains unchanged.

## Annual Variable Pay

The all-colleague annual incentive plan, the Rewarding Excellence Award, will continue to operate from 1 January 2017. A summary is set out below:

Performance period	1 January 2017 to 31 December 2017
Participants	All employees of the Principality, except Executives such as R Michael Jones who is responsible for reviewing risk, the Chief Internal Auditor and Chief Compliance and Conduct Officer.
Administrator	Remuneration Committee
Initial gateway condition	Capital and liquidity conditions and the absence of any material regulatory breaches.
Performance measures	Group Profit before Tax – 50% Customer Satisfaction measures – 50%
Potential payments	Nil for threshold performance. 6% of salary for meeting challenging target performance. 12% of salary for attaining highly stretching targets.
Payment date	Subject to Audit and Remuneration Committee approval, in February 2018. There will be no partial deferral of payment.
Clawback (demanding repayment)	The Remuneration Committee can apply clawback to an award to an Executive Director and other senior executives if it is discovered that the award should not have been paid, in the event of a material misstatement of the Group's annual results or in the event of a serious regulatory breach.

## Long Term Incentive Plan (LTIP)

A three year Long Term Incentive Plan designed to ensure that the Society’s most senior management is aligned to the longer-term corporate goals, prevailing market conditions, corporate governance best practice standards and the regulators’ expectations.

<b>Performance period</b>	<b>1 January 2017 to 31 December 2019</b>
<b>Participants</b>	Invited senior management, except Executives such as R Michael Jones who is responsible for reviewing risk, the Chief Internal Auditor and Chief Compliance and Conduct Officer.
<b>Administrator</b>	Remuneration Committee
<b>Initial gateway condition</b>	Capital and liquidity conditions and the absence of any material regulatory breaches.
<b>Performance measures</b>	Return on Assets – 50% Net Promoter Score (externally benchmarked) – 50%
<b>Potential payments</b>	Nil for threshold performance. 14% of salary for meeting challenging target performance. 28% of salary for attaining highly stretching targets.
<b>Duration</b>	Three years – 2017 to 2019 inclusive
<b>Payment date</b>	Subject to Audit and Remuneration Committee approval, in February 2020. There will be no partial deferral of payment.
<b>Clawback (demanding repayment)</b>	The Remuneration Committee can apply clawback to an award to an Executive Director and other senior executives if it is discovered that the award should not have been paid, in the event of a material misstatement of the Group’s annual results or in the event of a serious regulatory breach.

We are maintaining our policy that the maximum variable pay that the executives can be awarded in any year is 40% of salary (excluding the Group Risk Director who does not participate in any scheme). This comprises a maximum 12% annual incentive award under the Rewarding Excellence Award (the all-colleague plan) and a maximum 28% of salary award under the LTIP. The normal performance period of the LTIP is three years. Transition arrangements are in place for 2016 and the 2016-2017 two year period.

The Committee will have absolute discretion to adjust the awards under both schemes if necessary including withholding vested awards under “malus” arrangements or recovering monies paid under clawback.

No variable pay awards at the Society are pensionable.

## Directors' service contracts

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

## The Chairman and Non-Executive Directors' fees for 2016

Non-Executive Directors are paid a basic fee for participation on the Society Board and additional fees payable for providing services on Board Committees and/or for their membership of subsidiary company Boards. The fees paid to the Non-Executive Directors are set at a level which allows the Society to attract and retain the required calibre of independent directors.

Fees paid to the Chairman and the Non-Executive Directors were as follows:

Non-Executive Directors	Fees	
	2016 £'000	2015 £'000
Laurence Philip Adams	112	110
Nigel Annett (Chair of Customer and Conduct Committee)	60	61
Natalie Elphicke OBE (Chair of Group Risk Committee)	53	57
Derek Howell (Chair of Audit Committee & Senior Independent Director)	69	63
Sally Jones-Evans (Chair of Remuneration Committee)	56	50
David Rigney (Chair of Nemo Board)	59	50
Joanne Kenrick (to 30 September 2015)	-	34
Gordon MacLean (to 25 April 2015)	-	22
Menna Richards (to 30 September 2015)	-	41
<b>Total</b>	<b>409</b>	<b>488</b>

## Approval

This report was approved by the Remuneration Committee and signed on its behalf by:



Sally Jones-Evans  
**Chair of the Remuneration Committee**  
 14 February 2017

# Notice of Annual General Meeting

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Notice is hereby given that the one hundred and fifty seventh Annual General Meeting of the Members of Principality Building Society will be held at 11.00am on Friday 28 April 2017 in City Hall, Cathays Park, Cardiff, CF10 3ND for the following purposes:

1. To receive the Auditors' Report.
2. To receive the Annual Report and Accounts.
3. To re-appoint Deloitte LLP as auditors.
4. Election of Directors:
  - a) To re-elect Laurence Philip Adams
  - b) To re-elect Nigel Charles Annett
  - c) To re-elect Natalie Cecilia Elphicke
  - d) To elect Julie-Ann Haines
  - e) To re-elect Derek Anthony Howell
  - f) To re-elect Stephen James Hughes
  - g) To re-elect Robert Michael Jones
  - h) To re-elect Sally Jones-Evans
  - i) To re-elect David James Rigney
- 5) To approve the Report on Directors' Remuneration as set out in the Annual Accounts.

By Order of the Board.  
Michael Borrill



**Group Secretary**  
14 February 2017

*Please read the notes opposite.*



## Notes

1. These Notes form part of the Notice of Meeting.
  2. Under the Society's Rules, a Member entitled to attend the Meeting and vote may appoint one proxy to attend and vote on his or her behalf. You may appoint the Chairman of the Meeting or anyone else as your proxy, and your proxy does not have to be a Member of the Society. Your proxy may vote for you at the Meeting but only on a poll. Your proxy may speak on your behalf at the Meeting and may demand or join in demanding a poll.
  3. You may instruct your proxy how to vote at the Meeting. Please read the instructions on the proxy voting form.
  4. The voting date is the date of the Meeting, 28 April 2017, if voting in person and 25 April 2017 if voting by proxy.
  5. In order to attend and vote at the Meeting, or appoint a proxy, you must qualify as either a shareholding Member or a borrowing Member.
    - ii) have owed the Society not less than £100 in respect of a mortgage debt on 31 December 2016, and
    - iii) owe the Society not less than £100 in respect of a mortgage debt on the voting date.
  - b) Where a mortgage debt is owed jointly by two or more persons, only the first named in the records of the Society in respect of that mortgage can have any voting rights.
- 6) In addition, you can vote only once as a Member, irrespective of:
    - a) the number of accounts you hold and whether you hold accounts in different capacities (for example, on your own behalf and as a trustee), and
    - b) whether you qualify to vote as both a shareholding Member and a borrowing Member.
  - 7) Members attending the Meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. If you are appointing a proxy, other than the Chairman of the Meeting, to attend the Meeting and vote on your behalf, please ensure that your proxy brings an appropriate form of identification to the Meeting.

## Shareholding Members

- a. To qualify as a shareholding Member, you must:
  - i) if you are an individual, be at least 18 years old on 28 April 2017, and
  - ii) have held shares\* to the value of not less than £100 in the Society on 31 December 2016, and
  - iii) not have ceased to hold a share\* or shares\* in the Society at any time between 31 December 2016 and the voting date, and
  - iv) hold a share\* or shares\* in the Society on the voting date
- b. Where the shares\* are held jointly by two or more persons, only the first named in the records of the Society in respect of those shares\* can have any voting rights.

## Borrowing Members

- a. To qualify as a borrowing Member, you must:
  - i) be at least 18 years old on 28 April 2017, and

(\* A reference to 'share' or 'shares' is a reference to a share savings account or share savings accounts with the Society.)

If you appoint a proxy to vote on your behalf and your proxy does not attend the Meeting, your vote will not be counted.

Copies of the Directors' Report, Annual Report and Accounts and Annual Business Statement may be obtained from any of the Society's branch offices from 14 April 2017.

Registration at the Annual General Meeting will commence from 10am at City Hall, Cathays Park, Cardiff, CF10 3ND.



#### CALL US

0330 333 5540

(Open Mon–Fri 8am–8pm  
Sat 9am–1pm)



#### VISIT

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