

Summary *Financial*  
Statement 2008



# Summary *Financial* Statement

for the year ended 31 December 2008

This 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 from 9 April 2009.

Approved by the Board of Directors on 24 February 2009.



**David B. Williams**  
Chairman



**Peter L. Griffiths**  
Director and Chief Executive



**W. Guy Thomas**  
Group Finance Director

## Summary Directors' Report

### Review of the business

Our Group of businesses has continued to weather the financial storm. We remain profitable, the balance sheet is robust, recruitment of new members is at an all time high and we have delivered significant benefits to our members. We believe the Principality brand and franchise has been strengthened during these testing times.

Our members are entitled to take for granted the simple fact that we can keep their money safe and that has been our key objective. We have achieved that aim but it has come at a cost. Contradictory demands to build up capital, hold record levels of liquidity, pay savers the best rate possible and provide cheap finance for borrowers posed some real challenges. Finding the optimum place to play, to keep all our stakeholders happy has been a difficult juggling act. We have achieved a good balance. We have safely invested our reserves

and we have not been hit by losses from exposures to defaulting UK and overseas banks. 95% of loans and advances were funded by retail savings and we were able to pass on enhanced returns to our savers, allowing them, rather than wholesale providers, to benefit from market premiums for funds.

Our underlying operating profit of £16.0m was reduced to £9.3m after exceptional items, including the levy for the Financial Services Compensation Scheme towards the costs of rescuing failed banks and one off costs of £1.5m of launching our covered bond programme. The cost of the levy recognised in 2008 is £5.2m with an additional £3.3m due in future years. Taking into account the unusually high cost of funding and the impact of falling house prices on provisions this is a solid set of results.

We have suffered losses in Peter Alan our estate agency as the market rapidly contracted and transactions fell. Early decisive action was taken with some branch closures and 22 job losses. We expect this business to return to break even in the second half of 2009. The Nemo business has been hardest hit by falling house prices and rising default. Arrears are higher than traditional first charge lending but are within industry norms for this type of lending. Clearly this business has a higher propensity for risk but pricing of loans reflects that risk and supports the overall strong Group net interest margin and profitability. This is likely to be of significant benefit in 2009 as funding costs fall and margins further improve.

Our commitment to the communities in which we operate remains undiminished and is reflected through our long standing sponsorships of the National Eisteddfod of Wales, the Urdd Eisteddfod and the Welsh Rugby Union. We also invested in a wide range of community projects and initiatives during 2008. Examples of branch sponsorships include Penarth Summer Festival, Swansea's Young Welsh Musical Theatre Singer of the Year competition, Denbigh's Winter Wonderland, Cowbridge Food Festival, Splott Operatic Society and a Welsh language children's football summer school in Llandudno.

The only change to the composition of the Board in 2008 was as a result of Margaret Foster's retirement as a non-executive director at the Annual General Meeting.

We are very grateful for Margaret's valuable contribution throughout her 9 years on the Board and we wish her well for the future. We are delighted to report that Jo Kenrick has been appointed to the Board with effect from 1 January 2009. She brings a strong background in marketing and customer service, gained across a range of well known retail and consumer businesses. At the Annual General Meeting to be held on 24 April 2009 Peter Griffiths, Christopher Jones and Gordon MacLean will retire by rotation under Society Rule 26(1). All three are eligible and willing to continue serving on the Board and there have been no other nominations. In 2010 Eurfyl ap Gwilym, Guy Thomas and Jo Kenrick will stand for election.

The Board thanks all staff in the Principality Group for their dedication, team work and contribution throughout 2008. In a testing year they have risen to the many challenges with commitment, energy and enthusiasm which are greatly appreciated.

### **Going concern**

Having considered the plans and forecasts for the Group the directors believe that there are no material uncertainties that lead to significant doubt on the Group's ability to continue in business for our members as a mutual building society for the foreseeable future. Accordingly, the financial statements continue to be prepared on a going concern basis.



Steffan Rhodri, star of sitcom, Gavin and Stacey, presents Pat Ashman, Events and Sponsorship Manager, with the prestigious Arts, Business and the Welsh Language Award.

## Significant events occurring during the year

These are the events considered to have had an important effect on the Group during the year:

- Achievement of record savings balance growth of £822.1m, through the attraction of 76,260 new savers to the Society, thus decreasing the Group's reliance on wholesale funding.
- Asset growth of 9.33% taking the Group past the £6bn asset milestone.
- Difficult trading conditions in the housing market resulted in a loss in Peter Alan, the Society's estate agency subsidiary, and the closure of 3 of its branches.
- Continued house price deflation and the current economic climate have resulted in Nemo, the Society's secured lending subsidiary, making increased provisions against loan losses.
- The decision was taken to cease the operations of Moneypilot, a subsidiary of the Society which provided remote mortgage and financial advice via the internet.
- The Group qualified for an eligibility certificate that enabled entry into the Government Credit Guarantee Scheme.
- Principality received a 4 star award under the mortgages category in the Financial Adviser Service Awards.
- Principality won the Arts & Business Cymru Award in the category The Arts, Business & the Welsh Language for our substantial five-year sponsorship of Oriel 1 gallery at the National Museum of Wales, St. Fagans.



Rosalind Stevens, Manager of Bridgend Principality Building Society (Centre) with class teacher and pupils from Mynydd Cynffig Infants School.

## Future events

Market disruption will continue for some time yet as politicians and regulatory authorities work with financial institutions to restore interbank lending. We can also expect further consolidation in a sector where substantial excess capacity exists.

Now more than ever before the mutual proposition will resonate more strongly with savers and borrowers alike. This plays to our strengths and we continue to face the future with confidence.

# Group Summary Financial Statement

for the year ended 31 December 2008

INCOME STATEMENT	2008 £ m	2007 £ m
Net interest receivable	84.6	68.6
Other income and charges	25.5	36.1
Administrative expenses	(63.9)	(67.6)
Impairment provisions	(31.7)	(6.5)
Financial Services Compensation Scheme (FSCS) levy	(5.2)	-
Profit for the year before taxation	9.3	30.6
Taxation	(3.6)	(10.1)
<b>Profit for the year</b>	<b>5.7</b>	<b>20.5</b>

Statement of recognised income and expense		
Profit for the year	5.7	20.5
Actuarial gain/(loss) recognised in pension scheme	0.7	(1.5)
Movement in tax relating to pension scheme	(0.2)	0.5
<b>Total recognised income for the year</b>	<b>6.2</b>	<b>19.5</b>

BALANCE SHEET		
<b>Assets</b>		
Liquid assets	1,390.0	1,196.7
Mortgages	4,884.3	4,584.0
Fixed and other assets	124.4	71.8
<b>Total assets</b>	<b>6,398.7</b>	<b>5,852.5</b>

<b>Liabilities</b>		
Shares	4,626.4	3,804.3
Borrowings	1,186.0	1,540.0
Other liabilities	105.2	51.0
Pension liability	1.3	1.9
Subscribed capital	68.9	57.6
Subordinated liabilities	125.9	120.9
Reserves	285.0	276.8
<b>Total liabilities</b>	<b>6,398.7</b>	<b>5,852.5</b>

## Summary of Key Financial Ratios at 31 December 2008

	2008	2007
	%	%
Gross capital as a percentage of shares and borrowings	8.00	8.53
Liquid assets as a percentage of shares and borrowings	23.98	22.39
Profit for the year as percentage of mean total assets (excluding FSCS levy)	0.15	0.38
Management expenses as a percentage of mean total assets	1.04	1.27
Gross capital represents retained earnings, subscribed capital and subordinated liabilities as shown in the Group balance sheet.		

The gross capital ratio measures the proportion which the Society's capital bears to the Society's liabilities to holders of shares and borrowings.

The liquid asset ratio measures the proportion of the Society's shares and borrowings which are held in the form of cash, short-term deposits and Government securities that are readily realisable.

The profit ratio measures profit after tax as a proportion of the average of total assets during the year. This is equivalent to a company's "return on assets".

The management expense ratio measures administrative expenses and depreciation as a proportion of the average of total assets during the year.



# Independent Auditors' Statement

## to the Members and Depositors of Principality Building Society on the Summary Financial Statement for the year ended 31 December 2008

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement which comprises the summary balance sheet and statement of recognised income and expense 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 auditors' 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.

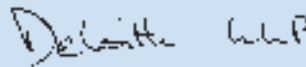
Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, the Annual Business Statement and Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it. We also read the other information contained within the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

### Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. 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 2008 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.



**Deloitte LLP**  
**Chartered Accountants and Registered Auditors**  
**Cardiff, United Kingdom**  
**24 February 2009**

#### Note:

1. The maintenance and integrity of the [www.principality.co.uk](http://www.principality.co.uk) website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
3. During the year the auditors changed their name from Deloitte & Touche LLP to Deloitte LLP.

# PRINCIPALITY BUILDING SOCIETY

Established 1860

Regulated by the Financial Services Authority

Member of the Building Societies Association

## Directors

Keith Brooks

Langley Davies

Peter Griffiths

Eurfyl ap Gwilym

Christopher Jones

Jo Kenrick

Gordon MacLean

Guy Thomas

Haydn Warman

David Williams – Chairman

Graeme Yorston

## Senior Management Team

David Cunningham-Jones

Peter Hughes

Susan Lane

## Subsidiary Companies

Peter Alan Limited

Managing Director:

Michael McGuire

Nemo Personal Finance Limited

Managing Directors:

Phillip Jones

Samuel Marshall

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Principality Building Society is authorised and regulated by the Financial Services Authority for deposit taking, residential mortgages and arranging and advising upon general insurance, investments, life assurance and pensions.