

YOUR  
SOCIETY

# 2017

Welcome



Summary  
Financial  
Statement  
2017

Get to  
know your  
Directors

Notice of  
Annual  
General  
Meeting



## Building your future

Key highlights of

2017

We were busy in 2017 building the future for our Members

5000<sup>+</sup>



first  
time  
buyers

We helped more than 5000 first time buyers get onto the property ladder

Members savings  
balances grew to over



£6.5  
billion

(2016: £6.1bn)

We invested **£90k**  
over



to support **131**  
community groups



and school projects  
across Wales

Our net retail  
mortgage lending  
grew by



£917.2  
million

(2016: £613.5m)

Pre-tax  
Profits

£57.6  
million



We had pre-tax  
profits of £57.6m  
(2016: £50.3m)

We raised  
**£134,000**  
for our charity  
partners



Through colleague fundraising  
and match funding



74.8%

Customer service net  
promoter score of 74.8%

(2016: 72.7%)

26.14%



Strong capital ratios with a  
Common Equity Tier 1 ratio  
of 26.14% (2016: 23.47%)

1.44%



Net interest margin

(2016: 1.57%)

# Welcome

## Summary Financial Statement 2017

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# Summary Financial Statement 2017

Summary Directors' Report  
Principality Building Society

Summary Financial Statement for  
the year ended 31 December 2017

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 13 April 2018.

Approved by the Board of Directors on 6 February 2018 and signed on its behalf by:

Laurence Philip Adams  
Chairman



Stephen Hughes  
Chief Executive Officer



Tom Denman  
Chief Financial Officer



# Chairman's review of the year

for the year ended 31 December 2017

I am pleased to report that Principality Building Society has continued to make significant strategic progress in 2017 despite a backdrop of political and economic uncertainty in the UK and the wider world.

## Strong performance

Steve Hughes was appointed as Chief Executive Officer (CEO) in March and together with his executive team has brought a clear focus on growing the core business of mortgages and savings. Our focus on a clear ambition to grow our business has resulted in Principality's strong performance, with an excellent retail lending performance which is outlined in our CEO's review. Our strong profitability and robust capital position places the Society in a good position as we look to the future.

It is important that we continue to meet the demands and needs of our Members in terms of improving our savings and mortgage product range. Also, we know the way in which people interact with financial services is changing and in particular how consumers are demanding choice with increasing digital interactions. So we are at the start of a medium term plan to improve our propositions and digital offering to bolster the excellent customer service we already offer. This will in all likelihood mean that our headline profitability will fall in the future as we invest and make these necessary changes for the benefit of our Members.

## Supporting our Members, Colleagues and Communities

Principality prides itself on being purpose led with a strong culture and values and a desire to deliver a personal service to our Members and customers which makes us stand out as a trusted brand on the high street. We strive to promote diversity and inclusion allowing our colleagues to bring their individuality and to have a workforce that represents the Members that we serve.

**Laurence Adams**  
Chairman

Great service from our colleagues has led to us receiving a number of customer services awards this year, of which we are immensely proud. We are aware of the challenges faced by the communities we serve and we recognise the role our branches, our people and our activities provide in helping these communities prosper.

Our ongoing commitment to the high street, when others are making decisions to close branches, has maintained our strong relationship and engagement with our Members. We will continue to invest in developing our multi-channel capability so we can adopt flexible ways of interacting with our customers. We are in the process of investing heavily in bringing our business in line with the changing demands of our Members and customers to strengthen the service we offer. From how our branches are designed, to the range of products available to Members, the personal service and expertise from our branch advisors will be balanced with the utilisation of technology and digital.

Once again our colleagues have done some great things for our three charities, schools and community projects and you can read all about their outstanding efforts in the Members, Colleagues and Communities section. The entire Board is immensely proud of the work our colleagues have put in over the year.

## Leadership

A strong Board, management team and skilled workforce is vital to an organisation's success and at Principality that is no different. We ensure that we have people of the highest calibre to represent the Society from a variety of different backgrounds. We have made some important senior appointments in the past year as Steve bolstered his executive team.

Tom Denman was appointed Chief Financial Officer and a member of the Board earlier this year, following a rigorous recruitment process. He has held a number of roles with the Society following his initial arrival at the Society in 2009, most recently as Deputy Finance Director. Tom will provide strong financial leadership to the Board and the wider business. He'll be responsible for ensuring profitable growth, strong financial control and driving cost efficiency. Above all, Tom has a strong understanding of mutuality and in putting our Members and customers' interests first.

Iain Mansfield was recently appointed as the Chief Operating Officer. Having clearly demonstrated his capability to the Board over the past year as CEO of Nemo, Iain will be accountable for ensuring we continue to provide fantastic service to our customers and Members but will also drive the delivery of our process improvement and technology initiatives.



*Pictured:* Inside our new Newport branch, which opened in December 2017.

Our former Head of Human Resources Rhian Langham became the Chief People Officer (CPO). The CPO role will be a pivotal role in supporting the business to drive investment in our culture, leadership and people capability. Rhian brings a wealth of experience, a strong track record of delivery and a passion for organisational development, leadership and cultural transformation. I am confident Rhian will be a strong and effective member of the executive team.

We strongly believe in growing and developing our staff at all levels. It is therefore very pleasing to note that all our senior appointments this year have been internal promotions following open and rigorous recruitment processes. We continue to prioritise colleague development and training.

### Governance

Our priority is to provide a safe and secure home for our Members' savings and to run the business prudently in the interests of our Members. The Society has maintained a prudent approach towards risk management and our business model and strong Member focus leaves us well placed to meet any headwinds in 2018.

### Thank you

I would like to extend my thanks to all of the hard-working colleagues in our branches, agencies and Cardiff offices who serve our Members' interests day in, day out. 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 have resulted in great success. Finally, I would like to thank you, our Members, for your continued support.



Laurence Philip Adams  
Chairman  
6 February 2018

Financial  
Statements

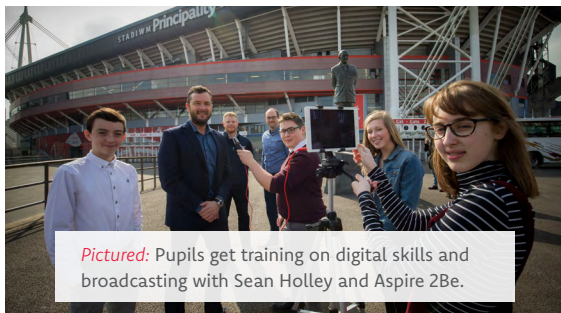
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Meet the Directors

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*Pictured:* Primary school children building money skills with our branch colleagues.



*Pictured:* Pupils get training on digital skills and broadcasting with Sean Holley and Aspire 2Be.



*Pictured:* Supporting Financial Capability Week 2017 by delivering 44 lessons to schools across Wales.

# Chief Executive's review of the year

for the year ended 31 December 2017

I am pleased to announce an excellent performance from Principality Building Society in 2017. We have continued to provide a safe and secure home for our Members' savings, provide market leading customer service and build financial resilience through strong residential mortgage growth and robust profitability.

## Building for your future

We are a proud mutual organisation that will continue to focus on running the business in the long term interests of our Members.

Grounded in mutuality we will be a challenger organisation, challenging ourselves to build a stronger business for the long term. This will be achieved through competing effectively with new entrants and existing providers whilst responding appropriately to the changing needs of consumers. We will continue to invest in branches whilst competition retreat, providing a personal service that rivals the best on the High Street. Our aim is to provide our Members with choice and seek true differentiation in the service we offer them.

We have an ambitious growth strategy with a clear focus on transforming our mortgage and savings business. To achieve this it means that headline profitability is likely to fall in the next few years as we invest in technology, process management and competitive propositions to future proof our organisation for existing and future generations of Members.

Our strong performance and profitability supports the significant investment in our technology, branches and our people to meet the changing demands of our Members.

**Steve Hughes**  
Chief Executive Officer





*Pictured:* Left: Branch staff celebrating our Which? award.

Right: Julie-Ann Haines with our three supported charities. Below: Strade School pupils on an athletics track in Llanelli.

Bottom right: Superhero fundraising walk from Barry Island to Principality Stadium.



Digital technology is evolving at a rapid pace and our Members have told us they want flexibility and to be afforded the opportunity to do business with us through their channel of choice. Technology will be used to complement our personal service which our Members and customers tell us makes us stand out. Our Members always tell us of the importance their branch has in their local communities and that our colleagues play a valuable role.

The transformation of our business has begun in earnest and we have already improved our online service to complement our great branch network. Members are also benefiting from the rollout of our Principality Connected video conference service which means the equivalent of face-to-face interviews can take place anywhere throughout our retail network. The feedback from users has been very positive.

**Performance**

Our total assets have risen to £9.3bn and this has been achieved by a strong retail lending performance. Overall pre-tax profits increased to £57.6m reflecting robust margin and strong arrears performance, providing resilience and security for our Members. Our capital and liquidity is strong and provides a firm platform for growth and investment in our business.

I am especially pleased that in the past year our net residential mortgage lending increased by £917.2m and our focus on improving our service has resulted in great feedback from our Members, customers and intermediary partners. Growing the residential

mortgage business is important and benefits our Members through building a sustainable business and providing the scale to allow us to invest for the future.

In order to support the growth in lending we have attracted an additional £399m in savings, proving our ability once again to offer competitive interest rates and stand out service to Members. Our maturity products were launched in the summer to allow us to reward existing customers. As a result our retention rates have improved and feedback from Members and colleagues has been positive.

Our commercial lending business is important in delivering financial dividends to our Members, and Principality Commercial has again performed strongly, recording a pre-tax profit of £17.9m. Commercial has played a significant role in funding more social and affordable housing in Wales, announcing £50m of loans for housing associations.

Our second charge loans business, Nemo, stopped offering new customer loans in 2016 but has again made a meaningful contribution to the overall results with a pre-tax profit of £17.1m and has consistently delivered strong service to customers.

We have continued to manage the costs of running the business effectively and if the impact of transformation and property impairments are excluded, our cost income ratio would have been 56.7%, broadly in line with 2016. More detail on this can be found in the Strategic Report in the Annual Report and Accounts.



**Pictured:** Above: A Branch colleague supporting Financial Capability Week in a Pontypool primary school.

**Right:** Easter Egg Appeal – over 400 Easter Eggs were donated for Llamau.

**Below:** Steve Hughes with singers from Only Boys Aloud.



It is also testament to our financial strength and brand that we were able to secure £475m of wholesale funding in the year, through our fourth residential mortgage backed securities issuance, and £300m through our first unsecured issuance since 2006. It's great to see the backing of institutional investors in the Principality name and also to receive recognition from our rating agencies, resulting in a Moody's upgrade.

### Members, Colleagues and Communities

Supporting our local communities and helping them prosper is a key part of what we do as a mutual building society. Our colleagues have yet again put in considerable effort to raise £134k for our three chosen charity partners (Llamau, School of Hard Knocks and Cancer Research Wales). They have also volunteered more than 1,000 hours to help us achieve our Corporate Social Responsibility objectives of helping people live and stay in a home for longer; health and wellbeing and financial education. The Society has also invested over £90k to support 131 community groups and school projects across Wales.

We have continued to build on the partnerships we have developed with schools in our communities and I am especially proud of the efforts our branch colleagues made, to deliver more than 44 financial education lessons to well over 1,000 primary school children the length and breadth of Wales. It makes a real difference to people's lives and we are committed to continuing to invest in our communities.

Our culture, values and continued investment in our colleagues is crucial to ensuring consistency and improvement in our performance. Thanks to their superb efforts in 2017 we received Recommended Provider status by consumer champion Which? for our savings accounts.

It would be impossible to achieve such recognition without the fantastic work of all our colleagues who look after the best interests of our Members everyday. We have had great feedback from our Members on how they value our excellent personal service. In 2017, we received an outstanding Net Promoter Score of 74.8% from our Members and customers, which is market leading. This score is based on people recommending us as a provider to other people, probably the best compliment you can get.

### Outlook

Looking ahead, we are very well placed to continue to grow and invest in future proofing the business to improve our Member proposition. The Bank of England has predicted that there will be further Base Rate rises in the next few years, while political uncertainty has undoubtedly affected the financial landscape as the shaping of the Brexit deal continues to dominate headlines and people's thoughts. Principality's balance sheet is strong, meaning we are confident in our ability to withstand economic headwinds, while enabling us to offer customers and Members some of the most competitive products on the High Street. The protection of our Members' interests is of paramount importance to us. We will continue to put our Members first, provide them with a stand out experience, whilst investing in our business for long term sustainability.

Thank you for your loyalty and continued support.

Steve Hughes  
Chief Executive Officer  
6 February 2018

# Independent Auditors' Statement to the Members and Depositors of Principality Building Society on the Summary Financial Statement for the year ended 31 December 2017

We have examined the Summary Financial Statement for the year ended 31 December 2017 which comprises the summary Income Statement 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

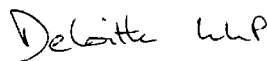
The Directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full financial statements, Annual Business Statement and Directors' Report and its conformity 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 "The auditor's statement on the Summary Financial Statement in the United Kingdom" issued by the Auditing Practices Board. Our report on the group and Society's full financial statements describes the basis of our audit opinion on those financial statements.

## Opinion

In our opinion the Summary Financial Statement is consistent with the full financial statements, the Annual Business Statement and Directors' Report of Principality Building Society for the year ended 31 December 2017 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.



Deloitte LLP  
**Statutory Auditor**  
Cardiff, United Kingdom  
6 February 2018

# Group Summary Financial Statement for the year ended 31 December 2017

## Consolidated income statement

	2017 £m	2016 £m
<b>Continuing operations:</b>		
Net interest income	125.9	124.9
Other income and charges	11.8	11.3
Operating expenses	(89.6)	(82.1)
Impairment provisions	10.0	2.7
Provisions for other liabilities and charges	(0.5)	(6.5)
<b>Profit for the year before taxation</b>	<b>57.6</b>	<b>50.3</b>
Taxation	(14.1)	(11.2)
<b>Profit for the year</b>	<b>43.5</b>	<b>39.1</b>

## Consolidated statement of other comprehensive income

	2017 £m	2016 £m
Profit for the year	43.5	39.1
Items that will not be reclassified subsequently to profit and loss:		
Actuarial loss on retirement benefit obligations	-	(12.6)
Taxation	-	2.5
Items that may be reclassified subsequently to profit and loss:		
(Loss)/Gain on available-for-sale assets	(1.9)	0.6
Taxation	0.4	(0.1)
<b>Total comprehensive income</b>	<b>42.0</b>	<b>29.5</b>

## Consolidated statement of financial position

	2017 £m	2016 £m
<b>Assets:</b>		
Liquid assets	1,320.0	1,116.8
Loans and advances to customers	7,864.1	7,073.9
Fixed and other assets	78.5	90.5
<b>Total assets</b>	<b>9,262.6</b>	<b>8,281.2</b>
<b>Liabilities</b>		
Shares	6,563.8	6,165.2
Borrowings	2,035.9	1,468.8
Other liabilities	67.1	84.2
Retirement benefit obligations	8.9	15.3
Subscribed capital	66.5	69.3
Reserves	520.4	478.4
<b>Total equity and liabilities</b>	<b>9,262.6</b>	<b>8,281.2</b>

## Summary of key financial ratios

At 31 December:	2017 %	2016 %
Common Equity Tier 1 capital ratio	26.14	23.47
Solvency ratio	29.21	26.47
Leverage ratio	5.32	5.47
Liquid assets as a percentage of shares and borrowings	15.36	14.63
Profit for the year as percentage of total assets	0.50	0.49
Management expenses as a percentage of mean total assets	1.02	1.04
Gross Capital as a percentage of shares and borrowings	6.82	7.18

# Report of the Remuneration Committee for the year ended 31 December 2017

I am pleased to present the Remuneration Committee report including detail of the Directors' and Non-Executives' pay for 2017. Our role as a 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.

## Change in Chief Executive

Last year Graeme Yorston announced his intention to retire as CEO. We are grateful for Graeme's successful leadership over the past five years. He leaves the Society in a strong position and in the careful stewardship of Steve Hughes, who was promoted to Chief Executive Officer from the role of group Finance Director following a thorough recruitment process. Details of Graeme's leaving arrangement and the remuneration package for Steve are described in this report.

Arising from Steve's promotion, a second thorough recruitment process led to the appointment of Tom Denman as Chief Financial Officer. As Tom Denman was appointed as a Board Director on 10 August 2017 his remuneration is reported here for the first time.

## Performance in 2017

As you have read in other sections of this report and the Annual Report and Accounts, the Society's performance has been strong despite a challenging external environment. Assets and new lending have been grown successfully, profitability is strong, customer and Member feedback is very positive, and important steps have been taken to invest for the future of the Building Society over the coming years. This performance is reflected in the Directors' remuneration as shown on page 20.

## Variable pay

In 2017, our two variable pay schemes again operated; the Rewarding Excellence Award (a single scheme for all staff including Nemo colleagues) and the Long Term Incentive Plan (for Executive Directors and a small number of senior members of staff). These schemes are linked to financial and customer measures to align with Member interests. Details of these schemes are shown in the Annual Report and Accounts. The awards made to Executive Directors under both schemes are shown in the tables on page 20.

As the long-term strength and safety of the Society is paramount to our strategy, initial risk 'gateways' are 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 maximum awards have been made. For our hard working staff this means an award of 12% of their salary to thank them for their considerable contribution to this success.

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  
6 February 2018

## Gender pay gap

In April 2017, new regulations were introduced which require all organisations with over 250 colleagues to report on their gender pay gap. Principality has to report on the mean hourly pay rate and mean bonus payment for both men and women, the median hourly pay rate and median bonus payments; the proportion of men and women who received a bonus payment; and the proportion of men and women in each of the pay quartiles.

There are more women than men working at Principality with 61% of colleagues being female and with more women than men in customer facing and office-based roles overall. Women make up the majority of 3 out of the 4 pay quartiles, although men make up the greatest proportion of the highest pay quartile, as shown below:

	Q1 (Lowest)	Q2	Q3	Q4 (Highest)
<b>Men</b>	22.05%	26.88%	44.09%	60.63%
<b>Women</b>	77.95%	73.12%	55.91%	39.37%

However, because there are more men than women in senior management (and therefore more highly paid) positions, when figures are calculated it shows that the average salary for men is at a higher level than women. Principality is aware that its gender pay gap is a result of its demographics rather than an equal pay issue. Policies and processes are in place that ensure roles are evaluated fairly and consistently with no gender bias and regular equal pay audits are carried out. Principality is committed to encouraging a more gender-balanced workforce at every level throughout the Society and is taking active steps to address this.

Principality's gender pay gap as at 5 April 2017 is:

Mean hourly pay gap – 31.33% and median hourly pay gap – 31.52%

Proportion of women that received a bonus payment – 93.70% and proportion of men – 93.16%

Mean bonus pay gap – 38.03% and median bonus pay gap – 32.24%

## 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 continue to use 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 Chief Risk Officer, 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 February 2017 the Board fees were increased by 2% in line with colleagues’ basic pay increase. In November, to address succession planning and provide continuing professional development, the membership of Non-Executives on Board committees was reviewed. As a consequence, the committee fees, which had not been assessed since 2011, were reviewed. Committee membership fees have been realigned and the Chair of Board Risk and Senior Independent Director fees have been increased. Overall, the cost of this review was 1.78% per annum.

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

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## Introduction

The business complies where appropriate with the Corporate Governance Code and aims 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 2017's performance compared with 2016;
2. What the Executive Directors can earn for 2018; and
3. What the Chairman and the Non-Executive Directors were paid in 2017 compared with 2016.

## What the Executive Directors earned for 2017's performance

The following table shows a single total figure of remuneration for the 2017 financial year for each of the Executive Directors and compares this figure to the prior year. In February 2017, 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 business.

Steve Hughes' salary increased to £310,000 from 3 March 2017 when he assumed the role of Chief Executive Officer, reflecting his increased responsibilities in that role.

Tom Denman's salary increased to £190,000 from 10 August 2017 when he assumed the role of Chief Financial Officer, reflecting his increased responsibilities in that role.

Julie-Ann Haines' salary was also reviewed and was increased from 1 October 2017 to £220,000 reflecting her increased responsibilities in her new role of Chief Customer Officer.

Annual Variable Pay is the total of both the Rewarding Excellence Award and the Long Term Incentive Plan.

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 2017 will be assessed over 2016 and 2017's performance only.

## REMUNERATION

	Year	Salary & fees <sup>1</sup>	Benefits <sup>2</sup>	Pensions <sup>3</sup>	Annual variable pay	Total
Individual		£'000	£'000	£'000	£'000	£'000
Chief Executive Officer Steve Hughes	2017	300	14	45	114	473
	2016	250	12	37	94	393
Chief Financial Officer Tom Denman (from 10/08/2017)	2017	75	4	11	27	117
	2016	n/a	n/a	n/a	n/a	n/a
Chief Risk Officer R Michael Jones	2017	244	12	37	n/a	293
	2016	239	12	36	n/a	287
Chief Customer Officer Julie-Ann Haines (from 01/05/16)	2017	215	12	32	82	341
	2016	131	7	20	49	207
Former Chief Executive <sup>7</sup> Graeme Yorston (to 03/03/2017)	2017	235	15	35	62	347
	2016	341	14	51	129	535

1. The review date for salary is 1 February 2017.

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

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

6. Graeme Yorston was not required to work his full notice period. The above 2017 figures include a gross payment of £173k together with a cash allowance of £35k for pension, as pay in lieu of his contractual notice period.

7. Under the terms of his departure agreement, Graeme Yorston is entitled to receive awards under the 2016 Rewarding Excellence Award and Long Term Incentive Plan which will be pro-rated by reference to service.

For 2017, the award will be £62k, which will be paid in February 2018. He is also entitled to receive further awards in 2018 and 2019 under the LTIP, calculated pro-rata based on the Remuneration Committee award for those years.

## How the annual variable pay for 2017 was calculated

The 2017 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 2017

Variable pay scheme target	Proportion of variable pay	Actual 2017 performance	Threshold	Target	Stretch	Award %
<b>Group Profit before tax *</b>	50%	£55.4m	£37.6m	£44.2m	£50.8m	6%
<b>Customer Service Net Promoter Score</b>	50%	74.8%	Below 65%	71%	74% or above	6%

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

### Long Term Incentive Plan 2017

Variable pay scheme target	Proportion of variable pay	Actual 2017 performance	Threshold	Target	Stretch	Award %
<b>Return on Assets</b>	50%	0.48%	0.41%	0.43%	0.45%	14.0%
<b>Net Promoter Score</b>	50%	Top 19%ile	Below 60%ile	Top 25%ile	Top 15%ile	11.3%

## What the Executive Directors can earn for 2018

### Base salary

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 the salary increases applicable to other colleagues. For 2018, they have awarded a 2.0% increase, the same as to all other colleagues.

Following this review, the Executive Directors' 2018 salaries are:

- Steve Hughes - £316,200
- R Michael Jones - £248,960
- Tom Denman - £193,800
- Julie-Ann Haines - £224,400

### 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 Business 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 2018. A summary is set out below:

Performance period	1 January 2018 to 31 December 2018
Participants	All employees of 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 conditions	Capital and liquidity conditions and the absence of any material regulatory breaches.
Performance measures	Group Profit before Tax – 50% Customer Service Net Promoter Score – 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 2019. 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)

The three year Long Term Incentive Plan is designed to ensure that the Society’s most senior management, who have responsibility for decisions affecting the long term health and success of the Society 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 2018 to 31 December 2020</b>
Participants	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.
Administrator	Remuneration Committee.
Initial gateway conditions	Capital and liquidity conditions and the absence of any material regulatory breaches.
Performance measures	Return on Assets – 50% Net Promoter Score (externally benchmarked) – 50%
Potential payments	Nil for threshold performance. 14% of salary for meeting challenging target performance. 28% of salary for attaining highly stretching targets.
Duration	Three years – 2018 to 2020 inclusive.
Payment date	Subject to Audit and Remuneration Committee approval, in February 2021. 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.

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 Chief Risk Officer 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 2017.

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 Society 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 Society 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 2017

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	
	2017 £'000	2016 £'000
Laurence Philip Adams	114	112
Nigel Annett CBE (Chair of Customer and Conduct Committee)	60	60
Natalie Elphicke OBE (Chair of Board Risk Committee)	52	53
Derek Howell (Chair of Audit Committee & Senior Independent Director)	70	69
Sally Jones-Evans (Chair of Remuneration Committee)	58	56
David Rigney (Chair of Nemo Board)	63	59
<b>Total</b>	<b>417</b>	<b>409</b>

## Approval

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



Sally Jones-Evans  
Chair of the Remuneration Committee

# Building your future today and tomorrow

Over the next few pages we've included short biographies of each of our Executive and Non-Executive 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.

## 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 Chief Financial Officer 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)

To watch 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: 61

## 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 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 chair the Customer and Conduct Committee of the Board and also serve as a member of the Remuneration, Governance and Nominations and the Board Risk 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: 59



**Tom Denman**  
**BSc (Econ) [Hons], ACA**  
 Chief Financial Officer  
 Age: 43

**I was appointed Chief Financial Officer on 1 June 2017 and joined the Board in August 2017.**

I have worked for the Society since February 2009. I was appointed Deputy Finance Director in March 2016 with responsibility for all of finance, treasury operations, procurement and legal services. I chair the Asset and Liability Committee and am a member of the Executive Committee and the Executive Risk Committee. I also attend all meetings of the Board Audit and Board Risk Committees.

I am a qualified Chartered Accountant with over 20 years' experience in finance. Previously I held a number of finance roles across a range of industries.

My principal role as CFO is to ensure we plan and manage our capital, liquidity and funding in the long term interests of our Members.

I live in Cardiff with my wife and two children.

**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, am a qualified barrister and solicitor, and was formerly a City law firm partner.

I was appointed an OBE in the Queen's Birthday Honours 2015 for services to housing. I am a Board member of the Student Loan Company and more recently have become chair of that organisation's Audit and Risk Committee. I also act as an independent member of the Audit and Risk Committee of the Department of Education.

At Principality, I chair the Board's Risk Committee and serve as a member of the Governance and Nominations Committee. I am married with two children and my family home is in Kent.



**Natalie Elphicke OBE, LLB**  
 Non-Executive Director  
 Age: 47

**Julie-Ann Haines**  
**MSC, BA [Hons]**  
 Chief Customer Officer  
 Age: 44



**I was appointed to the Board in May 2016.**

As Chief Customer Officer I am responsible for strategy, marketing, distribution and leading the Society's transformation programme as Executive Business Sponsor. My role is to ensure that the Society adapts to a fast-paced environment, and meets the needs of our Members through fantastic customer experience, and a range of channels and products.

I joined the Society in 2007 to build and develop our award winning e-commerce business. Previously, I held a number of senior roles in sales, marketing and technology, working in 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 End Youth Homelessness Steering group.

I was born 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 chair the Audit Committee and serve as a member of the Board Risk, Governance and Nominations Committees.

I hold a degree in mathematics and qualified as a Chartered Accountant with Price Waterhouse – subsequently PricewaterhouseCoopers (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: 63



**Stephen Hughes**  
**ACMA**

Chief Executive Officer  
 Age: 45



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

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 Executive Risk Committee. I also attend all meetings of the Board, Audit, Customer and Conduct, Remuneration and Risk Committees.

I am a qualified Management Accountant with over 25 years' experience in finance. 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**

Chief Risk Officer

Age: 59



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

I joined the Society in 1997 and was appointed Head of Group Risk in 2005 and promoted to the role of Director of Group Risk (now Chief Risk Officer) in 2009.

I attend all meetings of the Board Audit and Board Risk Committees, am a member of the Executive Committee and chair the Executive Risk Committee. I also attend meetings of the Model Governance Committee and the Asset and Liability Committee.

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 Chief Financial Officer 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 Audit Committee. I am responsible for ensuring that the Society's remuneration and reward strategy, policy and procedures follow best practice, support the strategy approved by Board, 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 a few years ago when work commitments moved us to Wiltshire.

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

Non-Executive Director

Age: 51



**David James Rigney**

**ACMA, MBA, MA**

Non-Executive Director

Age: 54



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

Along with my Board responsibilities I serve as a member of the Board Audit, Risk, Customer and Conduct, and Governance and Nominations Committees. I served as Chairman of Nemo Personal Finance Limited, a wholly owned subsidiary of Principality Building Society until 31 December 2017.

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 Deputy Chairman of Sports Resolutions Limited.

# Notice of Annual General Meeting

Notice is hereby given that the one hundred and fifty eighth Annual General Meeting of the Members of Principality Building Society will be held at 11.00am on Friday 27 April 2018 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 elect Thomas Denman
  - d) To re-elect Natalie Cecilia Elphicke
  - e) To re-elect Julie-Ann Haines
  - f) To re-elect Derek Anthony Howell
  - g) To re-elect Stephen James Hughes
  - h) To re-elect Robert Michael Jones
  - i) To re-elect Sally Jones-Evans
  - j) 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**  
6 February 2018

*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, 27 April 2018, if voting in person and 24 April 2018 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 2017, 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 27 April 2018, and
  - ii) have held shares\* to the value of not less than £100 in the Society on 31 December 2017, and
  - iii) not have ceased to hold a share\* or shares\* in the Society at any time between 31 December 2017 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 27 April 2018, 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 13 April 2018.

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



**CALL US**

0330 333 4000\*  
(Open Mon–Fri 8am–8pm  
Sat 9am–1pm)



**VISIT**

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To find your nearest branch



**ONLINE**

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# Building your future

\* 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 Buildings, Queen Street, Cardiff, CF10 1UA. [principality.co.uk](http://principality.co.uk)