

STRONGER AND BETTER, TODAY AND TOMORROW

INSIDE

OUR CHANGING FACE

MEMBER REWARDS

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YOUR DIRECTORS**

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Principality

Building Society
Cymdeithas Adeiladu

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WELCOME FROM GRAEME

It's been an exciting year for Principality. We've worked hard to ensure that the Society grows and made changes for the benefit of you, our Members. We want this to continue too, so that we are stronger and better, not just for today but tomorrow as well.

I am delighted to say we've had another strong 12 months. For the first time in our history our mortgage lending to homeowners has grown to over £5bn and we have increased our support for first-time buyers, helping 3,500 more people get a foot onto the property ladder. Our profitability has strengthened the security of the Society through the generation of capital, and our growth ensures that more people can enjoy the benefits of membership.

We've also made some exciting changes and investments, and there are plenty more lined up for the future. We've updated our website to make it easier to view using a mobile phone or tablet. And as you'll no doubt have seen we launched a ten year partnership with the Welsh Rugby Union to invest in rugby at all levels, which has also seen the national stadium of Wales renamed Principality Stadium! We've launched Member Rewards

too, giving our Members the chance to take advantage of exclusive competitions, priority ticket access, and various discounts.

We won't stop there though, the Society has to keep growing and changing to stay competitive and relevant. We've got some ambitious goals lined up over the next five years to make sure we keep Principality as successful as it has been in the past.

Over the next few pages we talk some more about the great work we've done in 2015 and some of what we have planned for the future. With the AGM just around the corner, this is also a great time for all Members to use their vote and have their say. I hope to see you there.

Graeme Howes Yorston
Chief Executive Officer



THE CHANGING FACE OF PRINCIPALITY

A brand is far more than just a name, logo or piece of advertising. It's how we show people who we are and helps guide us in everything we do, so it's pretty important we get it right.

The Principality Building Society brand is built on sixteen decades of experience in providing savings and mortgages to our Members. Our diligent customer service and reputation for doing the right thing are just two of the things that have helped shape us.

But the world around us has changed a lot over this time, and we know that Principality needs to keep changing with it to reflect who we are today.

That's why we're excited to introduce a new look and a new logo this year.

A new logo for 2016

The new logo uses a letter "P" and marries it with elements of the traditional "celtic knot" design (and the vibrant colours of Wales) to create something that reflects our heritage and unique identity, but that also gives us a modern edge.



Principality
Building Society
Cymdeithas Adeiladu

SIGN UP NOW

Members get more

Principality Stadium is here, and our Members can start enjoying a range of benefits.

www.principality.co.uk/getmore

Where home matters
principality.co.uk

0330 333 4012 | www.principality.co.uk/getmore

For full terms and conditions see www.principality.co.uk/getmore or in-store leaflet.
Principality Building Society is authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority, and the Prudential Regulation Authority, reference number 193598. Principality Building Society, Principality Buildings, Queen Street, Cardiff, CF10 3AB. principality.co.uk

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SAVINGS

From big moments in our history, to big moments in your future.

To celebrate the launch of Principality Stadium, we've introduced the **Principality Stadium Celebration Bond**, to help you plan for the big moments in your future.

2.40% AER
Fixed rate for 3 years

Minimum deposit
£500

Maximum deposit
£20,000
(or £40,000 if opened in joint names)

- Limited availability
- No withdrawals permitted
- Closure permitted subject to giving up 250 days' gross interest

CALL US
0330 333 4000

ONLINE
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BRANCH
Pop in to see us

Principality
Building Society

Interest is one float per customer. Rate correct at time of print on 05/07/16. Interest is calculated daily and paid monthly or annually.
*AER based on Annual Equivalent Rate and illustrates what the interest rate would be if interest were paid and compounded once a year. Please see Principality Stadium Celebration Bond terms for details. To be in residence for services and security checks only on the weekend on request.
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Where Mia trains for the World Championships

Whatever the hopes and dreams of your family, we'll help you prepare for their exciting future.

Principality. Where home matters.
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MORTGAGES | SAVINGS | INSURANCE
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Where Nita is happy to do a little dirty work

Your first home. There's nothing quite like it. Let's see how we can help you get there.

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MORTGAGES | SAVINGS | INSURANCE | FINANCIAL PLANNING

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Principality
Building Society

Where home matters

principality.co.uk

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As well as the logo we want the way we communicate with you to reflect who we are. It's easy to take the words we use for granted. But how we talk to you is important. We want to make sure the way we write is always as clear, understandable and as engaging as possible.

To keep costs down we're phasing in our new look across everything we do (you might have seen it on some of our new leaflets in branch, on our website and in this magazine). We've also included some examples of recent promotions on this page. It won't be an instant change though, and you'll still see our old logo from time to time this year.

Principality. Where home matters

We're the Building Society where home matters. And we want to help you make the most of your home, at every stage of life. After all, home is so much more than just bricks and mortar. It's at the heart of everything we do; it's the heart of life.

It's where plans, decisions and memories are made.

Having peace of mind in our home is the foundation that we all build our lives on. At Principality, we want to be able to help you achieve this by giving you practical solutions for your home finances so you can relax and spend time doing the things you enjoy with the people you love.

Whether you are saving for a holiday, a deposit, getting a foot on the property ladder, personalising your space or upsizing to a bigger place, we want to be there for you.

We strive to open up a world of possibilities for our Members. Trying to understand your needs and helping you find the right solution is what we aim to do best. And we get plenty of practice. Every day, throughout Wales and beyond, we help our Members enjoy a better way of life. What matters to us in 2016 and beyond is to see our Members prosper.

BEING A MEMBER JUST GOT BETTER

Being a mutual building society means that we are owned by and run for the benefit of our half a million Members – our savers and borrowers.

Unlike high street banks, mutuals are owned by their Members. It's a responsible model, we do not have any shareholder interests to satisfy, so all of our profits are put back into your Society, to benefit you, our Members. Our priority is to keep your money safe, not just for today but in the long-term too.

More than just a customer

Members are more than just customers. You have a say in how the Society is run and you can challenge how we do things. You can vote at the Annual General Meeting and ask questions of the Board.

Rewarding our Members

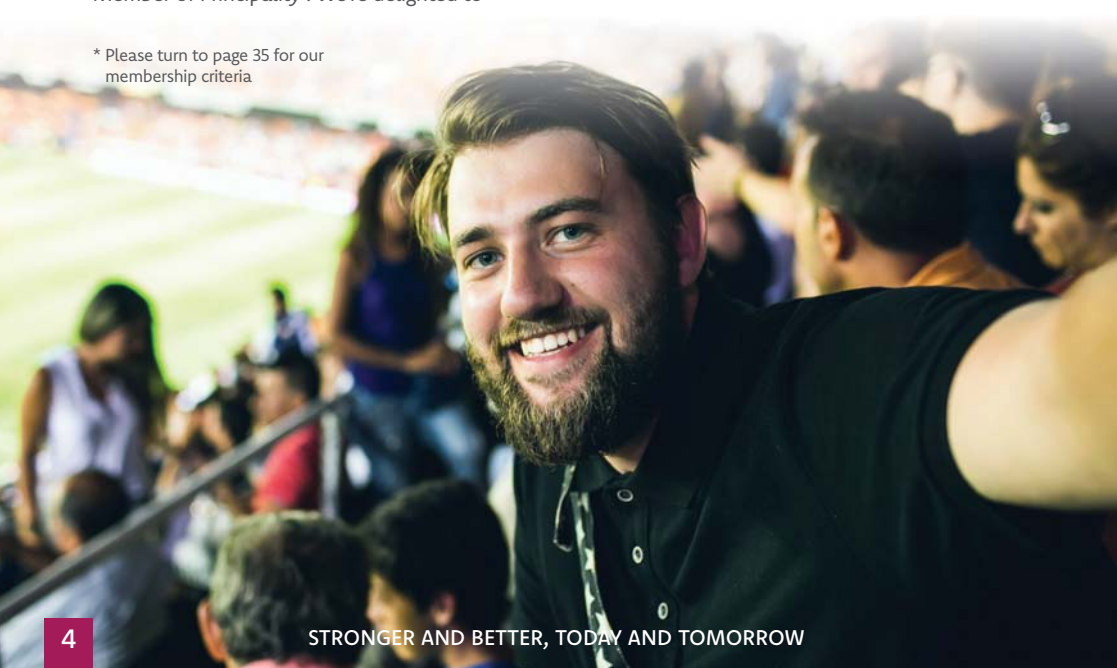
You can now get even more out of being a Member of Principality*. We're delighted to

introduce a new Member Rewards web page exclusively for you.

As part of our exciting ten year partnership with the Welsh Rugby Union and the momentous renaming of the home of Welsh rugby to Principality Stadium, we'll be sharing some exciting offers with our Members.

Throughout the coming years, you'll be given the opportunity to get hold of priority tickets for selected events at Principality Stadium, receive a 15% discount at the Welsh Rugby Union online store, get automatically entered in ticket give aways and take part in exclusive competitions with some great prizes. And once you've activated your Member Rewards, you'll be notified every time something new is added.

* Please turn to page 35 for our membership criteria



HOW TO JOIN MEMBER REWARDS

Joining Member Rewards is easy:

- If you're a Principality Member, just make sure you've signed up online for 'Your Account' – by visiting and following the instructions at www.principality.co.uk/getmore
- Log in to 'Your Account' and visit your Member Rewards page
- Activate your Member Rewards by completing the online form
- It's as easy as that!

Once you've activated your Member Rewards, we'll keep in touch with news of the latest rewards to make sure you don't miss out!

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We understand that not all Members who qualify for our online Member Rewards page will want to access the benefits online.

Give us a call or pop into your local branch to find out more about the other ways you can access your Member Rewards.

Your Account

Before you can join Member Rewards you'll need to register for Your Account.

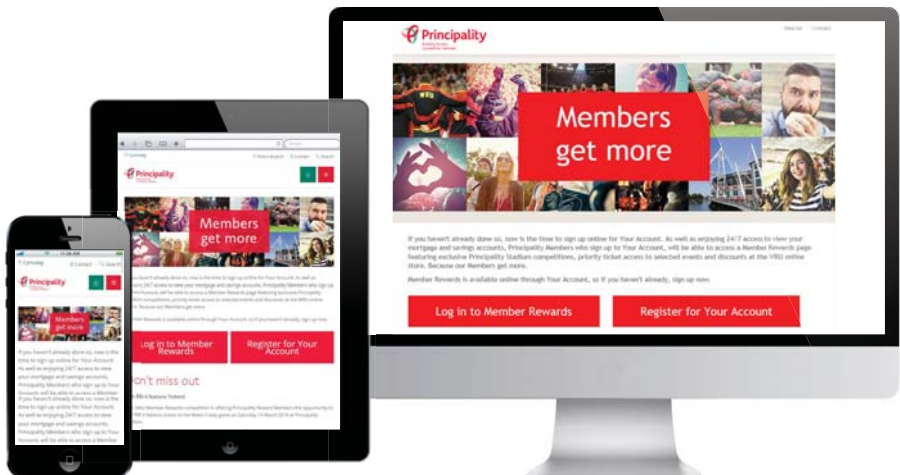
Your Account is a secure online banking service for our customers which allows access to your savings or mortgage accounts 24 hours a day, seven days a week.

You can view your balances, transactions, current interest rates, contact us via secure message, check maturity dates and print tax certificates.

How to sign up to Your Account

1. Go to www.principality.co.uk/getmore and click 'register for Your Account'.
2. Submit your personal details, including email address and one of your account numbers.
3. Choose a password and a memorable word.
4. Make a note of your User ID.
5. We'll then send you a letter with your activation code, which will help you activate your account.

We're all unique, and so are our banking needs, which is why the flexibility and convenience of Your Account is ideal for our customers. Even if you opened your account in branch or by post, you can still sign up to Your Account to enjoy all of the above online benefits and more.



YOU CAN MAKE US STRONGER

Any successful business should listen to its customers. We actively seek the views and opinions of our Members so together we can build a better Principality.

You really can make a difference, just by joining our Member Forum, signing up to our research panel or by coming along to one of our regular Member Talkback events. Please take a few minutes to find out how you can help.

Be the voice of Principality

If you join our Member Forum you could be the voice of Principality for our Members.

Made up of six of our Members, the Forum meets every few months to share their thoughts with our senior management team and tell us what they think of our products and initiatives. In short, they help us make the right decisions for all our Members.

Each meeting is hosted by one of Principality's Directors, and senior managers from across the Society take part. Last year, we spent time refreshing the way these meetings are run to make sure everyone gets the most out of them so your views will be listened to.

We welcome interest from any Members who'd like to join the Forum. You can also send Forum Members discussion topics you'd like raised in a small group setting.

For more information, visit the "about us" page on our website, or pop in to your local branch.

Share your views and experiences online

Over 7,000 of our Members have already joined our Customer Research Panel but we always welcome more.

Our research panel helps us understand the views of our customers and Members on many different aspects of our business, including new product development, our services and the way in which we communicate.

If you join our panel, we'll ask you to complete the occasional online survey about topics we feel are relevant and hopefully of interest to you.

We find our panel's feedback invaluable. For instance, when we produce a new product information leaflet, we ask our panel to read it and answer product related questions to make sure we're being clear and fair to our Members.

We also ask our panel to help us decide what new products and services might benefit our Members in the future. This is an exciting

time for Principality as we invest in changes that will make a real difference to our existing and future Members and this is your chance to help shape everything we do.

To register for our research panel, please visit www.principality.co.uk/research

Member Talkback

We hold regular Member Talkback events throughout the year, at various locations across Wales. These events give you the opportunity to ask our executive team questions about how we run our business and how we support your local community.

They also give us the opportunity to meet

with our Members – to understand what's important to you so we can offer practical solutions. The sessions give us scope to find out what our Members like about us, but more importantly, what they'd like to change.

In 2015, we held Member Talkback events in Blackwood, Swansea, Caernarfon and Cardiff. Send us an email to memberfeedback@principality.co.uk to let us know if you'd like to join the next event.

Help us shape the future of Principality. We can't do it without you.



OUR COMMITMENT TO WELSH COMMUNITIES

Since we were first established in 1860, we've been proud to be part of the communities in which we live and work.



As a mutual Building Society, acting responsibly in everything we do is really important to us (as our Chairman explains on page 18), whether it's for the benefit of our Members, our colleagues or our wider community.

Every year our staff volunteer to help local schools and communities. 2015 was no exception, with our staff putting in over 1,200 hours of their time.

In 2015 we also worked closely with our Charity of the Year, Mind Cymru, raising a record £90,000!

Supporting Mind Cymru

In 2015 our staff selected and supported Welsh mental health charity Mind Cymru as our Charity of the Year.

Mind Cymru works in a field that is desperately under-funded and yet 1 in 4 people in the UK will suffer from a mental health problem each year*.

Mind Cymru campaign to improve mental health services and raise awareness of the challenges faced by sufferers. They also promote understanding and help ensure that people impacted by mental health problems get advice, support and respect.

We rely on the goodwill, enthusiasm and inventiveness of our staff to find ways of fundraising for our Charity of the Year, and they never fail to disappoint.

Our small army of fundraisers have contributed an amazing £90,000 to charity this year, through bake sales, events and dinners, donations, and volunteering in charity shops. They've also tested their endurance through sponsored half marathons and climbing the highest peaks in Wales.

We're proud of their work this year and the support they've given to Mind Cymru.

* www.mind.org.uk/information-support/types-of-mental-health-problems/statistics-and-facts-about-mental-health/how-common-are-mental-health-problems/



Llandeilo branch staff on a sponsored hike to Carreg Cennen Castle



Principality staff join conFUSION Youth Disability Dance Group in Cardiff

Embracing our Welsh communities

Our community programme begins in high streets across Wales and the Borders, with our branches and agencies continuing to play an important role in their local communities.

This year our Prestatyn branch was nominated by people in its local community for the High Street Hero awards, hosted by the Welsh Government, for their work supporting victims of the Rhyl floods as well as other events in the town.

We've also been working with young people. Our staff have provided reading mentoring at Glyn Derw and Llanishen High Schools. We also saw our first intake of Network 75 students this year. Network 75 allows students to apply their academic knowledge to real-life work within a host company. We work with the University of South Wales to give undergraduates a placement in Principality as a combined work and study route to a degree.

In total, over the last 12 months, we've given over 1,200 volunteer hours and invested over £30,000 in 121 local community sponsorships.

In recognition of all the work our colleagues do to support the communities around us every day we were awarded Responsible Large Business of the Year 2015 at the Business in the Community Awards 2015. This is a fantastic achievement for everyone in our business and our Members that continue to support these initiatives.

Our pledge for 2016 and beyond

As the Building Society where home matters, at every stage of life, we want to make sure our charity and community approach shows what we truly believe in.

That's why we've recently launched our new Corporate Social Responsibility Policy with three key themes:

- **Getting and staying in a home**

We want to help people to get into a position to buy or rent a home, and help people to stay in their homes for longer.

- **Health and wellbeing**

We want to help families to live healthy and active lifestyles, and to celebrate Welsh culture and heritage.

- **Financial education**

We want to help to improve the financial knowledge and understanding of young people and families.

These themes will help us to focus our support for communities across Wales and the Borders. To cement this framework, our staff have selected three charities that we'll be working with closely over the next few years:

Llamau

Wales' leading homeless charity, working for 30 years with homeless and potentially homeless young people and vulnerable women across the country.

Cancer Research Wales (CRW)

Money raised for CRW goes to clinical and laboratory based research in universities and hospitals across Wales to make progress toward the prevention, early diagnosis and treatment of cancer.

School of Hard Knocks

Using sport to tackle the issues surrounding unemployment, crime and health, they work to help individuals take positive steps forward in their lives.

We're looking forward to working with each of these charities and helping them as much as we possibly can over the next three years.

What's more, we've now pledged to match any money raised by our staff up to a maximum of £150,000.



IN SAFE HANDS TODAY AND TOMORROW

The 2016 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 today and tomorrow, 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 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 are like 'critical friends' who 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 the financial market and understand areas such as audit, finance and marketing. They bring independence, impartiality, wide experience and specialist knowledge to the Board.



Laurence Philip Adams
MA
Chairman
Age: 59

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

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.



Derek Anthony Howell
BSc (Hons), FCA
Non-Executive Director
Age: 61

I was appointed a 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 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 proud to have the continuing opportunity to serve as a Non-Executive Director of Principality and to contribute to the Society's ongoing success.

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



Graeme Howes Yorston
FCIB MBA
Group Chief Executive
Age: 58

I joined the Society as Chief Operating Officer (COO) in July 2006 and was appointed to the main Board in October 2007. As COO I was responsible for all of the Society's functions including distribution, marketing, IT and operations. I became Group Chief Executive in October 2012. I am Chairman of Nemo Personal Finance and Loan Link and Chairman of the Group Management and Group Executive Risk Committees. In addition I am a member of the Asset and Liability and Commercial Asset and Liability Committees.

During my time in financial services I worked for Abbey National where I carried out a number of senior roles. I have led a number of significant strategic change programmes.

I was born in 1957 and now live close to Cardiff in the Vale of Glamorgan with my wife. I have three grown up children.



Natalie Cecilia Elphicke
LLB (Hons) OBE
Non-Executive Director
Age: 45

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 £4billion 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. I also sit on the Audit Committee and 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.



Robert Michael Jones
BA (Hons) MBA, ACIB
Group Risk Director
Age: 57

I joined the Society's Board in February 2013 and was subsequently elected in April 2014.

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 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 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.



Stephen James Hughes
ACMA
Group Finance Director
Age: 43

I was appointed Group Deputy Finance Director in December 2011 and was appointed to the Society's Board in March 2013 as Group Finance Director, with responsibility for Finance, IT and Business Change. I chair the Society's Asset and Liability Committee and Model Governance Committee and I am also a member of the Group Management Committee and Group Executive Risk Committee. I have particular responsibility for ensuring that the Society retains a strong capital base and has high quality and sufficient levels of liquidity.

I am a qualified accountant and bring over 20 years' experience in finance to my role. 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 in 1972 and continue to live close to that city with my wife and three children.



Nigel Charles Annett
CBE, MSC, MA (Hons),
DSC Econ
Non-Executive Director
Age: 57

I joined the Board of Principality as a Non-Executive Director in October 2013 and was elected to the Society's Board in April 2014. I now serve as Chairman of the Customer and Conduct Committee of the Board and also serve as a member of the Remuneration, Nomination and the Group Risk Committees. As Chair of the Customer and Conduct Committee I am responsible for making sure that the fair treatment of Members and customers is central to the Society's culture and operations.

I used to work in investment banking, but after ten years I decided on a change of career and 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. I believe strongly that mutual business models can do a great deal of good for the people and the communities that they serve.

Born in 1958 I have lived in Wales for more than 20 years and I have two grown up boys.



Sally Jones-Evans
FCIB, MBA
Non-Executive Director
Age: 49

I was appointed to the Society's Board in February 2015 and I am delighted to be able to stand for election for the first time at the Society's 2016 Annual General Meeting. I chair the Remuneration Committee and serve as a member of the Customer and Conduct and Nominations Committees. 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 was formerly a Non-Executive Director at Welsh Athletics.

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.



David James Rigney
ACMA, MBA, MA
Non-Executive Director
Age: 52

I was appointed to the Society's Board in March 2015 and am very pleased to be able to stand for election for the first time at the Society's 2016 Annual General Meeting. I also serve as a member of the Audit, Group Risk and Nominations Committees.

I am a Chartered Accountant and during my career I have performed a broad range of roles across the Post Office, BT and as a Board Director at Nationwide Building Society. I passionately 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. Outside of work and family I have just completed a Masters Degree in Sports History focusing particularly on the positive impact of sport on communities and society.

SUMMARY FINANCIAL STATEMENT 2015

Summary Directors' Report
Principality Building Society
Summary Financial Statement for the year ended 31 December 2015

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 principality.co.uk from 14 April 2016.

Approved by the Board of Directors on 9 February 2016 and signed on its behalf by:

Laurence Philip Adams
Chairman

Graeme H. Yorston
Group Chief Executive

Stephen Hughes
Group Finance Director



CHAIRMAN'S REVIEW OF THE YEAR



It has been another successful year for Principality and I am proud that we have continued to deliver growth in this business whilst supporting our Members, our savers and borrowers, in more ways than ever before.

As a mutual Building Society, which prioritises the delivery of value for our Members, we have continued to grow. This year profits were £49.0m and assets grew to £7.6bn, which will enable us to invest in our business for the future. Profit is vital to our mutual model as unlike banks, profit is one of the few ways we can create more capital for the Society. This capital can then be used to support future growth, invest in this business for the long-term and meet regulatory capital requirements to protect the business against market volatility.

Since 1860, Principality has helped people to find a home that is right for them and kept our Members' money safe so that they can

build the life that they want. This continues to be our focus and this year we have supported even more first-time buyers, Members and communities and we will continue to invest in these areas to make a difference to people, particularly in our heartland of Wales and the Borders.

The world is changing

Since we launched our growth strategy in 2012 the Society has come a long way, implementing significant change and growing this business to become the sixth largest Building Society in the UK.

However, the pace of change is accelerating and we must transform our business even further to ensure that we provide our Members with the service and products they need to prosper both now and in the future.

New entrants are starting to make an impact on financial services markets. With increasing competition and several online-only financial services providers emerging, there is an increasing need for us to differentiate ourselves from our competitors to ensure we can compete in a continually challenging marketplace.

With the life expectancy of the UK population increasing and technological advancements being made on a regular basis, the needs of consumers are changing. We are acutely aware of this and we recognise that we will need to adapt our business if we are to continue to remain focussed on meeting our Members' needs.

Responding to changing customer needs

Many of our Members value the convenience and support offered by our branch and agency network and we have 71 outlets as well as our Welsh and English language contact centres to support them. We continue to see an important role for our branches and agencies in the future to help our Members around Wales and the Borders.

However, businesses in all industries have to adapt to technological advances and our Members frequently want to interact with us through digital channels. Being able to interact with your financial services provider via the internet is no longer a 'nice to have', it is now seen as a minimum requirement and we must invest in technology so that we keep pace with our competitors and ensure the continued development of our business for the future.

We also recognise that the demographics of the UK are changing. There are already 11.6 million people over the age of 65 in the UK, and by 2034 it is estimated that around a quarter of the population will be 65 or older. We exist to help people prosper in their homes and we are already supporting these people in many ways. We know that there is

now increasing demand for borrowing into, and in, retirement from both older borrowers who need assistance now and the younger generations who expect to need a mortgage until later in life.

Supporting our communities

At Principality our Members and their communities are at the heart of everything we do. We have always tried to add value to the communities in which we live and work and this year we have expanded our community support programme to support even more people than before.

We do this in a number of ways, including volunteer projects, our Charity of the Year support and helping build homes for people where they are needed. A detailed update on all of our work in our communities can be found in the Member, Colleague and Community section of our Annual Report and Accounts, but here are some of the highlights from 2015:

2015 HIGHLIGHTS

- Named Responsible Large Business of the Year 2015 by Business in the Community Wales
- Given 1,241 volunteer hours to projects around Wales and the Borders
- Raised £90,000 for Mind Cymru, our 2015 Charity of the Year.

Your board of directors

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.

This year we have seen a number of changes to your Board. Gordon MacLean, Joanne Kenrick and Menna Richards have stepped down and we are immensely grateful to the three former Directors who have done an excellent job in keeping the Society safe during some difficult economic conditions.

We are delighted that Non-Executive Director Derek Howell has taken on the role of Senior Independent Director and we have two new Non-Executive Directors, Sally Jones-Evans and David Rigney, who bring a wealth of experience to Principality. I am sure that they will help the Society to meet the challenges to come.

colleagues in our branches, agencies and head office who work tirelessly to serve our Members. Without them Principality would not be the business it is today.

After 155 years supporting our Members, with all of the factors set out above and others impacting the market it is now more important than ever for us to invest in our business to ensure that the Society continues to prosper and support its Members for many years to come.



Laurence Philip Adams
Chairman
9 February 2016

Closing statement

I would like to take this opportunity to thank the Board, the leadership team and most importantly all of the hard-working



Principality staff signing a Time to Change Pledge to help reduce mental health discrimination



GROUP CHIEF EXECUTIVE'S REVIEW OF THE YEAR

Creating a strong platform

I am delighted to say that our Member-focussed mutual model continues to be successful and we have had another strong 12 months. We have seen continued good performance with net retail mortgage growth of £1.6bn since we launched our growth strategy in 2012. We have a solid balance sheet with total assets of £7.6bn, and generated statutory profit before tax for the year of £49.0m (2014: £53.5m). Underlying profit, adjusting for one-off items not reflective of the underlying performance of the business, has increased to £57.8m (2014: £51.9m). Details of the adjustments made in arriving at underlying profit are set out at the end of the Chief Executive's Review on page 26.

For the first time in our history our mortgage lending to homeowners has grown to over £5bn and we have increased our support to first-time buyers, helping 3,500 more people

get a foot onto the property ladder. In 2012 we set out on our journey to achieve balance sheet growth and enhance our Member proposition and our 2015 results show that our strategy is clearly delivering. Our profitability has reinforced the security of the Society through the generation of capital, and our growth ensures that more people enjoy the benefits of membership.

We are however conscious that the likely changes to the economic landscape over the coming years, including rising costs of funding and increasing competition in lending markets, will put downward pressure on margins across the financial services industry. We cannot therefore expect profitability to continue at the levels generated in the last few years. Despite these external pressures, we will continue to build on the capital base of our business to ensure we remain a safe and secure home for our Members' savings well into the future.

KEY PERFORMANCE HIGHLIGHTS

- Record customer satisfaction scores of 86.9% (2014: 86.8%)
- Net retail mortgage balances of £5.2bn (2014: £4.8bn)
- Strong capital ratios with a Common Equity Tier 1 ratio of 20.97% (2014: 18.20%)
- Net interest margin 1.81% (2014: 1.87%)
- Launched a ten year partnership with the WRU to invest in rugby at all levels, which will also see the national stadium of Wales renamed Principality Stadium.

Our customer satisfaction scores have continued to rise, which is testament to the excellent levels of service that can be seen right across the business. In 2015 we have also launched new partnerships with trusted organisations that will support the future growth of this business.

We've further strengthened our capital position and improved our balance sheet alongside our strong profit. This profit enables us to build a solid platform to increase investment in our people, systems, processes and technology so that we can meet the demands of our Members into the future and provide excellent service when and how they want it.

The benefit of having no shareholder interests to satisfy enables us to focus on long-term value for Principality and our Members rather than short-term gains.

The need for change

Consumers' needs are changing and we are seeing our Members demand our services

in new ways – asking for more accessibility, more interaction online and service that is seamless across our branches, contact centre and website. We are witnessing a period of change that is happening quicker than anyone could have predicted with new and innovative service and product offerings constantly emerging in the marketplace.

We are committed to providing financial products and services to our Members and customers that meet their needs and this involves proactively reviewing our processes and procedures to ensure that we continually improve. Our Members should be able to deal with us in the way that they want, when they need it the most. Whether that's in branch, online or on the telephone, we want them to be able to move between the options whilst still receiving the standards of service that they have come to expect from Principality.

During 2015 we started work on a number of measures to ensure that we are supporting the needs of our Members, including rolling out mortgage interviews through Skype™ and developing online appointment booking, but we know that there is a lot more to be done.

Future-proofing our business is critical to ensure its stability over the long-term and we must invest further to ensure the continued success of this business for our current and future Members.

We need to transform the Society at a rate not experienced before. This will include investment in a wider range of products that will meet our Members' needs, in updating branches and offices, in marketing and in new technology. We have launched an extensive investment programme to ensure that we have the right foundations to achieve our growth aspirations and meet the needs of our Members both now and in the future. Further information on this investment programme can be found in the Strategic Report section of the Annual Report and Accounts.

The changes set out above will not alter our core business values. We know we have a

strong platform to build upon and I believe that our business model will enable us to meet the challenges of the new world and ensure the future is as successful as the past.

Helping you prosper in your home

In 2015 we reassessed what Principality stands for and as part of that work we confirmed that helping people prosper in their homes is our core purpose. For 155 years we have been doing this for our Members and we want to continue helping them to manage their money and get the most out of their life at home.

We know that home matters to our Members and during 2015 we have continued to help more people own their own home than ever before.

Buying a home is not an option for everyone and we have supported a range of housing schemes to provide other solutions for our Members. Through funding a range of house building schemes, supporting housing

associations and looking at new ways to supply more homes where there is demand for them, we have been supporting the UK housing market for people who are renting as well as buying.

We have continued to support the buy-to-let market as another way to provide homes, as we know that renting is an important alternative for people, regardless of their situation.

The mortgage market is increasingly competitive and it is important that we have a diversified funding model in order to remain competitive. Our business model continues to rely heavily on savers with 85.9% of the money we lend coming from them. Whilst savers continue to be the principal funders of our lending programme, we have to take advantage of alternative, cost effective funding to help us grow the business. We have previously, and will continue, to take advantage of wholesale funding to ensure that our business grows for the good of our Members.



We know savers have had a difficult time in this low interest rate environment and we aim to pay savers competitive interest rates to support them as much as we can. We will continue to do our best for our savers against a backdrop of falling interest rates but we cannot operate in isolation from the market. For some time providers have been reducing rates and whilst we've tried to protect our savers against reductions, we made the difficult decision to reduce the rates on our Promise Saver and Promise ISA in 2015 as we couldn't sustain our position any longer. Even after these changes we remained in the top three high street providers in Wales and will continue to support savers as much as we can.

In 2015 we also simplified our range of savings products, reducing the number of products by 35%, to make it easier for our Members to compare their rates against other products and providers. We moved some of our older accounts, which are no longer on sale, to products in our on-sale range to make saving more straightforward and easier to understand. Under the changes 98% of the relevant customers were moved to the same or higher rate and we paid £300,000 of additional interest to customers who were moved to new accounts.

We have also recently launched a new general insurance offering with our partner Legal & General to keep people safe in their homes in the knowledge that they are insured should the worst happen.

Group businesses

After some challenging years in the commercial sector the market is now more buoyant and a number of larger players have started to re-enter these markets. This positivity is something that is certainly reflected in the performance of our commercial arm, Principality Commercial, which has seen a strengthened balance sheet and improvements in both asset quality

and profitability, with profits of £6.2m in 2015 (2014: £1.2m). The team has been working on some exciting projects this year, including student accommodation in Cardiff, a new pharmacy and office buildings to regenerate a derelict area at Baglan Energy Park in Port Talbot and a nursing home for people with dementia at a former hospital site in Pontcanna. Additionally, we have supported a number of housing association schemes, given support to developers that are small and medium-sized enterprises, and work at Ely Mill has begun: this is a fantastic project which will see much-needed affordable homes brought to Cardiff to meet the increasing demand as the capital continues to grow. Principality Commercial continues to support our mutual ethos and goals of helping people into a home that is right for them and I am delighted with the performance of this business in 2015.

To ensure that we continue to deliver value for our Members, we regularly review our operating model and over the last 12 months we undertook a thorough strategic review of our secured loans subsidiary Nemo.

Nemo has had a very positive year with profits of £14.0m (2014: £13.9m) and a strong balance sheet reflected in reduced levels of impairment charges. Competition in the market has remained high. Nemo has defended its market share well and concentrated on providing excellent customer service and putting customer outcomes at the heart of its business.

However the second charge market continues to develop and expand away from its traditional base. We have carefully managed this business but, as a result of these developments, we do not want to increase our exposure to this market. The Board has therefore taken the decision to cease new lending at Nemo and focus the Group's investment on the core retail and commercial businesses. Nemo will continue to be a meaningful contributor to our Group as a refocused business which provides excellent service to its customers.

Supporting our communities

We take our responsibility to our local communities seriously and we aim to play a supportive role within society in Wales. This year we won Responsible Large Business of the Year 2015 at the Business in the Community Wales Awards for our work in communities around Wales and the Borders.

We have raised £90,000 for our Charity of the Year, Mind Cymru, and introduced a new corporate social responsibility policy to focus on what we think are the most important areas of citizenship for our business.

We have entered into 121 local branch sponsorships, supporting young football teams, lifesaving groups, cricket teams and much more. We have teamed up with Tonypanyd Community College and other schools around Wales, to support future generations and improve financial education amongst young people. This work builds upon our longstanding relationships with Glyn Derw and Llanishen High School which we continue to support in a number of ways.

Many competitors invest large sums of money in advertising on television or other mass media. We have instead built upon our partnership with the WRU to invest in a ten year deal to encourage, develop and grow Welsh rugby at all levels. As part of this deal the national stadium of Wales has been renamed Principality Stadium. This is a strategic decision that will provide mutual benefits for both parties. It will help us to enhance Member value, with a range of Member-exclusive special offers, discounts and competitions for this multi-purpose venue, whilst putting our brand onto a worldwide stage.

This allows us to achieve a better balance for our marketing budget, by supporting community rugby and other events and providing additional benefits for our Members and colleagues, whilst also giving our brand wider exposure. The incremental cost to the organisation, compared with our existing

marketing budget, will be very small, as the sponsorship will be the lynchpin of much of our marketing and brand awareness activity over the next ten years as we refocus our marketing efforts.

Outlook

Growth in the UK economy has continued positively in 2015 albeit at slightly lower levels than originally expected, being fuelled by consumer spending and business investment. We have seen employment growth and modest wage inflation in the UK alongside rising house prices and increased consumer confidence and borrowing.

However, there are a number of economic headwinds as we enter 2016 including slowing growth in China, falling oil prices and volatile worldwide equity markets, together with ongoing pressures on domestic public spending. These factors suggest that any rise in the official Bank of England base rate is not likely to occur until 2017 and when it does it is likely to be modest.

Whilst the potential for rising interest rates might seem like good news for savers, the connectivity between the Bank of England base rate and savings rates has been well and truly broken. The difference between the two has to be managed by lenders to ensure that they can remain competitive and keep their business secure. This difference has been increasingly narrowing throughout a sustained low interest rate period and it will take a number of years of increasing interest rates to restore the balance. Disappointingly for savers, savings rates are likely to lag behind base rate rises. In order to keep their businesses secure, lenders like us may not be able to pass on interest rate rises as this would damage the strength of our business and our ability to support savers and homeowners in the long-term.

Homeowners also need to bear in mind the impact of any future interest rate rises on their mortgage or other longer-term loans.

Two young fans at the launch of Principality Stadium



At Principality we continue to test a borrower's ability to pay their mortgage not only at the point of borrowing but also in a rising interest rate scenario. This prudent approach should help to ensure people are able to cope with increasing interest rates and remain in their home, which will always be one of our core principles.

Despite the economic challenges we expect the UK economy to grow further in 2016 and to see another rise in house prices in most areas of the UK in the next 12 months, although we expect the housing market to remain stable. We will remain alert to the economic factors but will continue to focus on growth in our business to ensure its

long-term success. We will invest in our products, services, people and systems to ensure that we can retain and attract Members for many years to come and have a successful business of which our Members and colleagues can be proud.



Graeme H. Yorston
Group Chief Executive
 9 February 2016

Underlying Profit Calculation - For the year end 31 December 2015

Underlying profit, which adjusts for one-off factors not reflective of current trading performance, is calculated as follows:

	2015 £m	2014 £m
Statutory profit before tax from continuing operations	49.0	53.5
Pension inflation assumption change	-	(10.1)
Gain on the sale of Gilts	-	(0.2)
Nemo strategic review and restructuring costs	4.5	-
Provisions for other liabilities and charges	4.3	8.7
Underlying profit	57.8	51.9

INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS AND DEPOSITORS OF PRINCIPALITY BUILDING SOCIETY ON THE SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement for the year ended 31 December 2015 which comprises the Income Statement, Statement of Other Comprehensive Income and Statement of Financial Position 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 2015 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
9 February 2016

GROUP SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

Income statement

	2015 £m	2014 £m
Continuing operations:		
Net interest income	134.1	133.8
Other income and charges	7.7	6.6
Operating expenses	(83.7)	(64.7)
Impairment provisions	(4.8)	(13.5)
Provisions for other liabilities and charges	(4.3)	(8.7)
Profit for the year before taxation	49.0	53.5
Taxation	(11.3)	(11.7)
Profit for the year from continuing operations	37.7	41.8
Profit for the year from discontinued operations	-	10.5
Profit for the year	37.7	52.3

Statement of other comprehensive income

	2015 £m	2014 £m
Profit for the year	37.7	52.3
Items that will not be reclassified subsequently to profit and loss:		
Actuarial gain/(loss) on retirement benefit obligations	1.1	(1.6)
Taxation	(0.1)	0.4
Items that may be reclassified subsequently to profit and loss:		
(Loss)/Gain on available-for-sale assets	(1.3)	7.1
Taxation	0.3	(1.5)
Total comprehensive income	37.7	56.7

Statement of financial position

	2015 £m	2014 £m
Assets		
Liquid assets	962.0	1,037.4
Loans and advances to customers	6,544.9	6,139.9
Fixed and other assets	77.5	87.7
Total assets	7,584.4	7,265.0
Liabilities		
Shares	5,621.8	5,613.0
Borrowings	1,287.5	1,001.7
Other liabilities	59.9	67.9
Retirement benefit obligations	4.1	6.9
Subscribed capital	69.8	71.9
Subordinated liabilities	92.3	92.3
Reserves	449.0	411.3
Total equity and liabilities	7,584.4	7,265.0

Summary of key financial ratios

	2015 %	2014 %
Common Equity Tier 1 capital ratio	21.0	18.2
Solvency ratio	24.3	22.5
Leverage ratio	5.5	5.0
Liquid assets as a percentage of shares and borrowings	13.9	15.7
Profit for the year as percentage of total assets	0.51	0.72
Management expenses as a percentage of mean total assets	1.13	0.90*

*The 2014 ratio includes the impact of a one off credit of £10.1m in relation to a change in the inflation assumption regarding the defined benefit pension scheme. Excluding this item, the comparative ratio is 1.05%.



REPORT OF THE REMUNERATION COMMITTEE FOR THE YEAR ENDED 31 DECEMBER 2015

Dear Member,

It is a great responsibility and a privilege for me to write my first introductory letter to the Remuneration Report, especially in a year when so much previous work to simplify and streamline our remuneration has culminated in the launch of the new Rewarding Excellence Award for 2016.

I have taken on board the feedback we received from Members last year by including the table of Directors' remuneration in this summary report sent to all Members; more detail as always appears in the full Annual Report and Accounts on our website.

The important work of the Remuneration Committee, on behalf of Members, is to ensure all our remuneration policies align with the Board approved strategy to ensure the business is run safely and successfully. In particular we do this by ensuring that executive remuneration appropriately rewards those who bear the biggest burden of responsibility for executing this strategy, taking the right decisions on behalf of Members.

As you will read in the Annual Report and

Accounts and in this document, 2015 was a very good year of performance for the Society. The balance sheet remained strong, profit was robust, customer and Member feedback was generally very positive, and important steps have been taken to lay foundations for growing the core Building Society over the coming years. This is reflected in the Directors' remuneration as shown in the table overleaf. Some of the stretch targets for customer service were not met in full, and the variable element of their remuneration reflects this.

The ongoing work to streamline variable pay schemes across the organisation has made great progress this year. All colleagues are now rewarded according to measures of customer service and no variable pay schemes are paid based on the achievement of sales targets. Multiple incentive schemes have now been replaced with a single, annual variable pay scheme that we have called the Rewarding Excellence Award. All colleagues except those in our Nemo business will participate in this new scheme in 2016, and in Nemo the equivalent schemes are also now greatly simplified.

THE KEY FEATURES OF THE REWARDING EXCELLENCE AWARD ARE:

- It recognises and rewards all our colleagues for the results of the Society, reflecting Members' interests directly through design of the measures
- Through participation in one common scheme which pays the same percentage to all colleagues regardless of seniority it builds and rewards teamwork in an egalitarian way
- As the long-term security and health of the Society is paramount to our strategy, initial risk 'gateways' assessed by our capital and liquidity requirements must be met before any payments are triggered
- The measures chosen to reflect Members' interests and align with our strategy are Group Profit before Tax and Customer Service, both equally weighted
- The flat level of payment (determined by the Remuneration Committee for performance against these two measures) will be in the range of 0% to 12% of individual salary, with an award at the midpoint, 6% of salary, being payable for achieving both challenging targets set by the Board, and scope to reach the upper end of the range for exceptional results.

The Remuneration Committee, on behalf of Members, is also conscious that some of our most senior executives bear the burden of responsibility for decisions that impact the performance of the Society over multiple years, well into the future. Their salary levels reflect this responsibility of course, but we think that an element of their total remuneration should

reflect the longer-term performance of the Society. Such 'Long Term Incentive Plans' are understood by our Regulators and feature in the executive remuneration policies of other successful organisations.

Therefore a small number of our executives in this position will be invited to participate in a new Long Term Incentive Plan (LTIP). Similar to the Rewarding Excellence Award described above, this scheme will be subject to risk 'gateways', and is being designed to reward both long-term financial performance and improved customer service with equal weighting. The details of the measures are still being finalised. Transition arrangements will be put in place to ensure these valuable Executives are not disadvantaged in the meantime.

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 endorse the work of this Committee and support it.

I would just like to close by thanking Menna Richards for her valuable contribution to this committee whilst a Director of the Society; as Chair of the Customer and Conduct Committee she played an important role in ensuring that the new simplified reward schemes reflect our conduct and customer service strategy, a role Nigel Annett will now assume on Members' behalf as he succeeds her in that capacity. I am grateful to Nigel Annett for ensuring a smooth and helpful handover of the Chair to me.



Sally Jones-Evans
Chair of the Remuneration Committee
9 February 2016

What the Directors earned for 2015's performance

The following table shows a single total figure of remuneration for the 2015 financial year for each of the Executive Directors and compares this figure to the prior year. In respect of the annual variable pay we show the full amount of what was earned, even though half of the award will be paid a year later.

In February 2015, the Remuneration Committee decided that the base salary of Executive Directors (excluding the Group Chief Executive) should increase by 2%. This was equal to the average pay increase awarded to all other colleagues in the Group. The Group Chief Executive did not receive an award in 2015.

	Year	Salary & Fees	Benefits	Pensions	Annual variable pay*	Total
Individual		£'000	£'000	£'000	£'000	£'000
Group Chief Executive Graeme Yorston	2015	335	14	50	87	486
	2014	335	14	48	132	529
Group Finance Director Stephen Hughes	2015	245	12	37	64	358
	2014	240	12	36	95	383
Group Risk Director R Michael Jones	2015	234	12	35	n/a	281
	2014	227	15	34	n/a	276
Group Chief Operating Officer Guy Thomas (to 31/10/14)	2015	n/a	n/a	n/a	n/a	n/a
	2014	420	19	30	86	555**

How the annual variable pay for 2015 was calculated

The 2015 annual variable pay awards for Executive Directors were calculated by reference to performance against a challenging sliding scale of Group Profit before Tax, Relative Return on Assets, Net Promoter Score and Customer Satisfaction targets. Performance in the year was 23.6%, demonstrated in the outcomes set out in the table below:

Bonus Target	Proportion of Bonus	Actual 2015 Performance	Threshold	Target	Stretch	Extent to which targets were met %
Group Profit before Tax***	25%	£53.8m	£36.1m	£45.2m	£54.2m	9.8%
Relative Return on Assets	25%	Will not be available until May 2016	10 basis points below peer average	10 basis points above peer average	20 basis points above peer average	Will not be available until May 2016
Net Promoter Score ranking	25%	6.8	10th	6th	3rd	4.1%
Customer Satisfaction	25%	86.9%	80%	85%	87%	9.7%
Overall						23.6%

The Chairman and Non-Executive Directors' fees for 2015

The Chairman and Non-Executive Directors do not have service contracts and are subject to re-election at each year's AGM. Non-Executive Directors are paid a basic fee for participation on the Society Board. The Non-Executive Directors receive additional fees payable for providing services on Board Committees and 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	
	2015 £'000	2014 £'000
Laurence Adams (Chair from April 2014)	110	95
Nigel Annett	61	61
Natalie Elphicke OBE	57	53
Derek Howell (Senior Independent Director)	63	36
Sally Jones-Evans	50	-
Jo Kenrick (to 30 September 2015)	34	46
Gordon MacLean (to 25 April 2015)	22	68
Menna Richards (to 30 September 2015)	41	53
David Rigney	50	-
Dyfrig John (to 17 April 2014)	-	31
Langley Davies (to 24 October 2014)	-	56
	488	499

Approval

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



Sally Jones-Evans
Chair of the Remuneration Committee

Further information on remuneration is available in the full Annual Report and Accounts, which is available in branches and online from 14 April 2016 at: principality.co.uk

PRINCIPALITY BUILDING SOCIETY

Established 1860
Regulated by the Financial Conduct Authority and the Prudential Regulation Authority
Member of the Building Societies Association

DIRECTORS

Laurence Adams – Chairman
Graeme H. Vorston
Natalie Elphicke
R. Michael Jones
Stephen Hughes
Nigel Annett
Derek Howell
Sally Jones-Evans
David Rigney

SUBSIDIARY COMPANY

Nemo Personal Finance Limited
Chief Executive:
Alan Jarman

*The 2015 variable pay scheme contains a return on assets measure against the average performance of a comparator group of mutual building societies. Since all the results of other societies are not available until May 2016 an assumption has been made that Principality's performance will be in line with the comparator group and that therefore that an amount of 2.5% will be payable in respect of this measure. This figure will be adjusted upwards or downwards to reflect actual performance once the 2015 results for the comparator group are published. The recalculation of the 2014 award (once the full set of comparator information was available) resulted in an additional variable pay award of £60k earned by Executive Directors. **Includes payment in lieu of notice of £197,000. ***Adjusted for one-off items.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and fifty sixth Annual General Meeting of the Members of Principality Building Society will be held at 11.00am on Friday 29 April 2016 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 re-elect Derek Anthony Howell
 - e) To re-elect Stephen James Hughes
 - f) To re-elect Robert Michael Jones
 - g) To elect Sally Jones-Evans
 - h) To elect David James Rigney
 - i) To re-elect Graeme Howes Yorston

- 5) To approve the Report on Directors' Remuneration as set out in the Annual Accounts.

By Order of the Board.
J. Elaine Morris



Group Secretary

9 February 2016

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, 29 April 2016, if voting in person and 26 April 2016 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 2015, 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 29 April 2016, and
 - ii) have held shares* to the value of not less than £100 in the Society on 31 December 2015, and
 - iii) not have ceased to hold a share* or shares* in the Society at any time between 31 December 2015 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 29 April 2016, and

- ii) have owed the Society not less than £100 in respect of a mortgage debt on 31 December 2015, 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.

(* 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 2016.

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

YOUR GUIDE TO VOTING

Don't miss this chance to make your voice heard. There are three easy ways to vote. Plus you'll be helping to support our three charity partners, because for every vote we receive, we'll donate £1* towards their work.

Attending the AGM

Our Annual General Meeting takes place on Friday 29 April 2016 at Cardiff City Hall.

Please take a look opposite for details on how to reach the venue.

The Meeting starts at 11am, and you can register from 10am onwards. The Meeting will last for one hour and 45 minutes, and we will provide light refreshments afterwards.

If you plan to attend the Meeting please let us know by returning the slip attached to your ticket. Then, please bring your Proxy Form with you to the Meeting, so we can scan it to register you; this is the fastest and easiest way to register. Alternatively, you can bring your Principality savings passbook or mortgage statement.

*Charity donation capped at £20,000

Use the online Proxy Voting Form

If you can't attend the Meeting, you can still make your vote count. The easiest way is to vote online. Simply visit

www.ersvotes.com/principality16 and follow the instructions. You'll need the two security codes printed on your Proxy Voting Form. If you vote online, please don't return the Proxy Voting Form included in your pack, as you can only vote once.

Complete and return the Proxy Voting Form

You can register your vote using the Proxy Voting Form included in your pack. Just follow the instructions on the form and return it to your local branch or in the pre-paid envelope that is provided. If you lose your envelope, please send your form in a stamped envelope to: Principality Building Society Scrutineers, Electoral Reform Services, London, N81 1ER.

Give to charity

For every vote we receive we'll donate £1* to our charity partners.

Make sure your vote arrives in time

If you want your vote to count and to raise money for charity, your online vote or completed Proxy Voting Form must be with us by midnight, Tuesday 26 April 2016.

Making your voice heard

If you are attending the AGM, you can use the boxes provided at the venue to ask a question that will be raised at the meeting.

If you are not attending, you can submit your question in writing to: Group Secretary, Principality Building Society, PO Box 89, Principality Buildings, Queen Street, Cardiff CF10 1UA or complete our online form at www.principality.co.uk/yourvoice. Please ensure your question reaches us before 21 April 2016. We will endeavour to respond to your question, directly or indirectly, during the Meeting.

Similar topics and questions will be grouped together and raised at the Meeting.

Getting to the AGM

City Hall, Cathays Park, Cardiff, CF10 3ND.

Tel: 029 2087 1736

Car

If approaching from the M4 East, exit the motorway at Junction 29. If approaching from the M4 West exit at junction 33. Follow the signs to the City Centre. Parking is available in the Civic Centre avenues surrounding City Hall on a pay and display basis.

Train

City Hall is a 15 minute walk from Cardiff Central Station, 15 minutes from Cardiff Queen Street and 5 minutes from Cathays Station.

Bus

Both National Express and the Megabus stop outside Cardiff University on Park Place, which is very close to City Hall.





CALL US

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



VISIT

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*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

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