

Established 1860

Regulated by the Financial Services Authority  
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### Directors

Dyfrig D. J. John - Chairman  
Peter L. Griffiths  
W. Guy Thomas  
Christopher A. Jones  
Gordon MacLean

Langley J. Davies  
Keith M. Brooks  
Graeme H. Yorston  
Joanne L. Kenrick

### Senior management team

David Cunningham-Jones  
Stuart Deane  
Julie-Ann Haines  
Peter Hughes

Steve Hughes  
Michael Jones  
Susan Lane  
Elaine Morris

### Subsidiary companies

**Peter Alan Limited**  
Managing Director:  
Andrew Barry

**Nemo Personal Finance Limited**  
Managing Directors:  
Phillip E. Jones  
Samuel F. Marshall

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You've currently chosen to receive information from us in English. However, if you'd prefer us to write to you in Welsh whenever possible, (including receiving the Summary Financial Statement in Welsh) please call Head Office on 029 2038 2000 or inform your local branch.

Principality Building Society is authorised and regulated by the Financial Services Authority (Authorisation No.155998).

# Summary Financial Statement 2011



**PRINCIPALITY  
BUILDING SOCIETY**

# Summary Financial Statement

## for the year ended 31 December 2011

**This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to Members and Depositors free of charge on demand at every office of Principality Building Society from 5 April 2012.**

**Approved by the Board of Directors on 31 January 2012.**

**Dyfrig D. J. John**  
**Chairman**

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

**W. Guy Thomas**  
**Group Finance Director**

## Summary Directors' Report

### Business review

Another successful year at Principality. We have done this by committing further to the Welsh High Street, developing more products for our Members and ensuring that through a strong performance and a healthy capital position, our goals remain undiminished to continue to serve the needs of our Members.

Our financial results were strong and our balance sheet is stable and in good shape. We continue to look ahead with confidence and cautious optimism and we continue to invest in the future of your Society.

### 2011 trading highlights

- Profit before tax of £24.5m (2010: £30.8m)
- Outstanding customer satisfaction levels
- Solid capital ratios with Tier 1 ratio of 13.49% (2010: 13.34%)
- Over 38,000 new customers welcomed to the Society
- 96.1% (2010: 101.6%) of loans funded by customer deposits

- Cost income ratio of 52.7% (2010: 48.1%)
- Successful Residential Mortgage Backed Security issue of £814.0m

Group pre-tax profit fell from £30.8m to £24.5m reflecting higher funding costs and a provision for an expected Financial Services Compensation Scheme charge of £1.5m (2010: £0.5m). All of our businesses recorded a profit during the year and all are well placed to deal with the recovery when it comes. We have strength and depth in our executive and senior management teams and we continue to attract the skills needed to run the business and deal with the significant challenges thrown up by current market conditions and increasing regulatory demands.

Gross new lending stood at £1.0bn with provisions for bad debts at lower levels than anticipated. Solid capital and high levels of liquidity are notable features in our balance sheet.

When we benchmark our customer willingness to recommend Principality, our score is amongst the best in the financial services sector in the UK. Staff satisfaction is at a record high and our brand retains very high levels of trust.

### Group overview

Market conditions have deteriorated since 2010. The illusion of an early recovery was shattered and we continue to tread carefully through a potential minefield of uncertainty. It is extremely difficult to plan a certain future in this uncertain world. We continue to regularly review our strategic plan and de-risk our business where we can. We will always seek to act in the interest of our Members and our commitment to a mutual future remains undiminished.

The core Building Society business grew slightly during the year. We will continue a policy of low growth into 2012 and we will focus harder on our efforts to put 'building back into building society' as we work closely with the Welsh Government to find new innovative solutions for housing needs across Wales.

Notwithstanding the dislocation in financial markets the Society successfully issued a £814.0m Residential Mortgage Backed Security in the autumn bringing in £500.0m of funding which strengthens liquidity going forward. We have clear evidence of positive wholesale investor sentiment towards our business and as a result we have no need to pursue marginal, highly priced retail savings. We have maintained our savings book broadly in line with 2010 levels and we continue to prudently fund substantially all of our lending through Member savings.

We are working hard to support borrowers who run into financial difficulties and these strategies are proving to be successful.

Our Commercial business continues to trade profitability with a quality lending book. Commercial property values have fallen and we have recognised current market concerns on valuation in our provision numbers. Whilst loan to value ratios overall have increased slightly, our commercial business was built on a traditional relationship model. Our lending has always been based on a cash flow and ability to repay model rather than simply loan to value. Whilst not complacent, we believe that valuation concerns and potential for future default are appropriately recognised. A deliberate strategy has been implemented during the year to reduce the Group's exposure in the Commercial business and this is reflected in the decline in balances. We are starting to see small yet encouraging signs of development opportunities re-emerging as confidence returns to some parts of the commercial market. Our new Commercial savings product has been a significant success with the book tripling in size during the year to £152.4m.

Our Nemo secured loan business continued to perform well, delivering strong profits. Trading performance was almost a replica of 2010. House prices fell slightly; however default levels improved. Consumer demand for loans of this nature remains strong and the risk/reward equation is an attractive one. During the year, we reduced the book slightly with sales of loan portfolios to a major investment bank demonstrating liquidity in this asset class.

Following the outcome of the Judicial Review of the Financial Services Authority's proposed approach to the assessment and redress of complaints in respect of sales of Payment Protection Insurance, we have set aside additional provisions of £9.3m as we work through the remediation process. Notwithstanding this, the Nemo business recorded a pre-tax profit of £13.3m after provision for these potential payments.

Our estate agency, Peter Alan, continues to be challenged by market conditions driven in the main by consumer uncertainty and the lack of mortgage product particularly for the first-time buyer. As a response to these issues, we have continued to aggressively grow our lettings business as a counter cyclical play and now manage 1,200 properties, a 50% growth year on year. We have strong on-going growth plans for the lettings business which has performed extremely well during the year. In the estate agency business we have created the 'pa black' brand during the year to broaden our footprint in this division delivering a premium service brand for higher value properties.

We have undertaken a number of property development schemes with significant success within our own estate during the year, including an initiative to turn empty space above Peter Alan and Principality branches into flats for occupation by local tenants. During 2010 floors one to four of Principality Buildings were converted into a hotel and was let to Travelodge Hotels Limited in January 2011. This has proved to be extremely popular and the plan will continue into 2012.

Our Surveyors' business has performed ahead of plan, volumes being consistent with our expectation but on-going low

levels of mortgage demand continue to hold back the real potential of this business.

### **Member focus and having your say**

Mutuality is based on the principles of partnership and we believe that listening to you, our Members, is the cornerstone to enhancing customer experience through process improvement, product development and innovation. Engaging with our Members is central to maintaining trusted relationships letting you know our strategic direction and holding directors and management of the Society accountable. In 2011, we continued our 'Member Talkback' sessions – where Members can meet with key Board members, ask questions and can discuss changes we are planning. We also have an established Members Forum, which is a panel of twelve Members who meet with the Executive team twice a year to represent the views of customers. We would like to express our thanks to this year's forum for the valuable insight and contribution they have made to our business.

Throughout 2011, we have been working with our staff, Members and customers to discover more about what you think of Principality and what more we could do to meet and exceed your expectations. Several key themes have emerged from our research, namely:

- Members expect us to show more flexibility in these exceptional times whilst understanding the need for us to be consistent in our approach.
- We enjoy and have earned high levels of trust from our Members and we need to ensure that we protect this.

- We are valued for being 'local' and for supporting our communities and the local economy.

From this research we are taking active steps to review policies, procedures and some of our fees and charges.

An immediate response has been the reduction of a number of fees as well as the removal of others.

### **Community commitment**

The Society has had a long history of community involvement and giving something back to the region. This is achieved through its branch community commitment scheme, sponsorship portfolio and nominated Charity of the Year policy. Staff chose to support the Wales Air Ambulance emergency service as its dedicated charity for 2011 and in total our staff raised £31,000.

Staff have also lent their time, energy and support to local community projects, helping to boost local football teams in Cardiff and Mold and propel the Monmouth Junior Rowing Squad to the Home International Regatta. To mark the opening of our Monmouth branch, the Society gave Monmouth's independent charity, Bridges, a financial boost to help refresh the entrance to its community centre at Drybridge House. This resulted in a warm and welcoming reception area for its many visitors.

Principality has also expanded its wide-reaching sponsorship programme designed to promote and support social and community life, enable young people to develop life skills and support creativity and encourage the best of Wales in a safe and supportive environment. This year the sponsorship programme grew to include Glamorgan Cricket Club, Golf's Junior

Wales Open and Only Boys Aloud – an initiative that has given over 200 boys from the Welsh valleys the opportunity to sing a mix of modern and traditional choral music in community venues across Wales. The success of the partnership has been outstanding in harnessing the power of the arts to engage young people and was recognised at the Arts and Business Cymru Awards 2011 when Principality picked up the award for 'Arts, Business and Young People'.

Thirty years of sponsoring the National Eisteddfod of Wales was followed this year by the Society supporting Llangollen International Music Festival, Anglesey Show and the Shrewsbury Flower Show, alongside its other longer-term support of the Royal Welsh Agricultural Show and Wales Millennium Centre.

### **Board and management**

Principality's Board is a highly experienced group of individuals who have ensured that our Members' interests are well protected during these challenging economic times. We would like to thank all of them for the significant additional commitment, effort and time during 2011. Our Deputy Chairman, Christopher Rowlands, left the Board in September 2011 to pursue business opportunities abroad. We thank Chris for the strong contribution he made to the Board during his time with the Society. We thank all Principality Group's employees for their continued hard work. Without their commitment, Principality would not be the strong and thriving business it is today.

## Going concern

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

## 2012 outlook and future prospects

Our business is not immune from ongoing issues in the global and the UK economy. Confidence is fragile and the year ahead is likely to be a difficult one. We would expect sector margins and profits to be challenged in 2012 as the price paid to secure retail and wholesale funding increases. Whilst good news for savers, that cost has to be borne by borrowers and credit will remain expensive and restricted. That in turn suggests that demand for loans across all of our businesses will remain low. Housing transaction levels may take further time to recover with short-term implications for our Estate Agency and Surveyors' business.

It would be reasonable to expect further small falls in house prices with the possibility of some larger falls in weaker geographical areas. The key determinant will be interest rates and we would expect a 'lower for longer' environment to persist during the year ahead. Any unforeseen rapid rise in rates would further slow down an already ailing housing market and have affordability and impairment ramifications.

The diversified nature of our business provides some resilience and provides room for cautious optimism. We will continue to make investments in the business to ensure your Society is well placed for the future. We will also seek to evaluate and invest in growth opportunities that may present themselves.

The commitment of you, our Members, and the Principality team is greatly appreciated.

# Group Summary Financial Statement

## for the year ended 31 December 2011

<b>INCOME STATEMENT</b>	<b>2011 £ m</b>	<b>2010 £ m</b>
Net interest receivable	105.0	111.8
Other income and charges	20.5	17.3
Administrative expenses	(66.2)	(62.1)
Impairment provisions	(24.6)	(22.2)
Provision for other liabilities and charges	(11.2)	(17.1)
Operating profit	23.5	27.7
Other gains	1.0	3.1
Profit for the year before taxation	24.5	30.8
Taxation	(7.1)	(7.6)
<b>Profit for the year</b>	<b>17.4</b>	<b>23.2</b>

<b>STATEMENT OF RECOGNISED INCOME AND EXPENSE</b>		
Profit for the year	17.4	23.2
Actuarial loss recognised in pension scheme	(4.2)	(0.5)
Movement in tax relating to pension scheme	0.9	-
<b>Total recognised income for the year</b>	<b>14.1</b>	<b>22.7</b>

<b>BALANCE SHEET</b>		
<b>Assets</b>		
Liquid assets	1,114.7	1,194.8
Mortgages	5,220.1	4,960.4
Fixed and other assets	114.9	106.9
<b>Total assets</b>	<b>6,449.7</b>	<b>6,262.1</b>
<b>Liabilities</b>		
Shares	5,013.8	5,039.0
Borrowings	808.6	618.6
Other liabilities	106.7	102.7
Pension liability	11.5	9.3
Subscribed capital	75.4	69.2
Subordinated liabilities	107.0	112.3
Reserves	326.7	311.0
<b>Total liabilities</b>	<b>6,449.7</b>	<b>6,262.1</b>

## Summary of key financial ratios at 31 December 2011

	2011	2010
	%	%
Tier 1 capital ratio	13.49	13.34
Gross capital as a percentage of shares and borrowings	8.75	8.71
Liquid assets as a percentage of shares and borrowings	19.14	21.12
Profit for the year as percentage of mean total assets	0.27	0.37
Management expenses as a percentage of mean total assets	1.04	1.00

Tier 1 capital ratio measures capital (comprising general reserves from retained profits, permanent interest-bearing shares (PIBS), less goodwill, intangible assets and other regulatory adjustments) as a proportion of risk-weighted assets.

The gross capital ratio measures the proportion of the Society's capital (comprising retained earnings, subscribed capital and subordinated liabilities as shown in the Group balance sheet) to the Society's liabilities to holders of shares and borrowings.

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

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

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

## Independent Auditors' Statement

to the Members and Depositors of Principality Building Society on the Summary Financial Statement for the year ended 31 December 2011

We have examined the Summary Financial Statement for the year ended 31 December 2011 which comprises the summary Income Statement, Statement of Recognised Income and Expense and Balance Sheet together with the summary Directors' Report.

This report is made solely to the Society's Members, as a body, in accordance with Section 76(5) of the Building Societies

Act 1986. Our work has been undertaken so that we might state to the Society's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's Members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

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

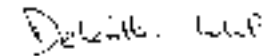
Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Report of the Remuneration Committee and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

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 on Summary Financial Statement

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of Principality Building Society for the year ended 31 December 2011 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.



**Deloitte LLP**  
Chartered Accountants and Statutory Auditor  
Cardiff, United Kingdom  
31 January 2012

## Report of the Remuneration Committee

The report has been divided into separate sections for audited and unaudited information.

### Unaudited information Remuneration principles

Principality is proud to be a mutually owned business, operated to provide benefits to its Members. Through our remuneration policy, we seek to promote the best interests of our Members and, in particular, to ensure that the business is run safely and successfully so as to keep our Members' savings safe and their other financial relationships with us secure and reliable. It follows that the two

most important principles underlying our approach to remuneration, in particular of the executive directors, are:

- To set the overall remuneration at a level which is competitive but not excessive, so that we are able to attract and retain high quality people who can ensure that Principality continues to trade successfully in a highly competitive and uncertain marketplace; and
- To structure that remuneration, particularly the variable elements, in such a way that our people are incentivised and rewarded for good performance

that furthers the interests of Members but does not encourage risk-taking that is excessive or in any other way inappropriate for a mutual institution.

Principality seeks to maintain high standards of corporate governance at all times. In this report, we set out information which meets the key disclosure requirements of the Combined Code on Corporate Governance.

### **Recent regulatory developments: Financial Services Authority Remuneration Code**

The Group is covered by the provisions and requirements of the Financial Services Authority's (FSA) 'Remuneration Code', being classified as a 'Tier 2' firm which primarily impacts on the Group's overall pay and incentive structures. As a Tier 2 firm, the Code, initially published in December 2010, became fully effective from 1 January 2011 with a transitional period to implement the Code's requirements which ran until 30 June 2011.

The work put in place over the past two years has meant that we already comply with much of the Code. During 2011, we have continued to respond to the FSA's requirements and have submitted the Group's agreed approach to the Code to the FSA, which included our approach to the identification of staff covered by the Code, the ratios of fixed to variable remuneration and the deferral arrangements for Code Staff bonus schemes. More specifically we have considered the guidance issued by the FSA on the disclosure of remuneration covering the requirements of the Capital Requirements Directive, and guidance from the Committee of European Banking Supervisors. During 2012, the Committee

will continue to maintain its compliance with the Code and all future regulatory developments.

### **The work of the Remuneration Committee**

The Remuneration Committee comprises Chris Jones (Chairman), Keith Brooks and Dyfrig John, all of whom are independent non-executive directors. The Committee met on seven occasions during the year (2010: six times). The Committee is responsible for determining, on behalf of the Board, the overall remuneration practices and policies for all staff and, in particular, the level of remuneration of the three executive directors and eight other senior 'Code Staff', who have been identified by the Committee as having a potential material impact on the Society's risk profile.

During the year the Committee reviewed the following:

- The annual pay review for staff across the Group;
- The design of bonus schemes against targets for executives and Code Staff including consideration of the FSA Remuneration Code;
- The scheme rules for both the executive Annual Bonus Scheme and the Group Performance Bonus Scheme;
- The pensions strategy in relation to future plans for the, closed to future accrual, defined benefit pension scheme (closed to future accrual in July 2010);
- Compliance with all elements of the FSA Remuneration Code; and

- The Group Reward, and other policies and the Terms of Reference for the Committee. Full Terms of Reference for the Committee can be found on the Society's website.

The Committee draws on the advice of independent external advisors if it considers this beneficial when performing its duties. This year Hewitt New Bridge Street provided benchmarking of executive, Chairman and non-executive director remuneration packages. This consultancy has no other connection with the Society. KPMG and Eversheds provided advice on forthcoming legislative changes relating to pensions, on taxation and pensions strategy.

Elaine Morris, Group Secretary, acts as secretary to the Committee. The Group HR Director attends each Committee meeting as well as the Head of Group HR. The Chief Executive, the Group Finance Director and the Director of Group Risk are invited to attend the Committee's meetings as needed and the Committee considers their views when reviewing the remuneration of senior executives, managers and staff. They are not involved in discussions concerning their own pay.

### **Components of executive remuneration**

There are five elements of pay for executive directors - basic salary, annual bonus, Group performance bonus, pension benefits and benefits in kind (details of which are set out on page 12). Awards under both bonus schemes are non-pensionable.

### **Base salary**

Base salary determined by the Committee reflects the individual's skills, experience and performance as well as the responsibilities of the role. The Committee considers salary levels for similar roles within a comparator group of the largest building societies. When determining executive salaries the Committee has regard to economic factors, remuneration trends and the general level of salary increases awarded through the Group. In 2011, a 2.5% increase was made to executive directors' salaries, the same as the average increase for all Society staff.

### **Annual bonus**

The Annual Bonus Scheme provides an opportunity to reward executive directors for achieving stretching targets for the financial year. It is based on the achievement of a basket of performance targets related to financial, customer service, people and process measures, together with personal objectives. To ensure affordability and to protect the interests of Members, the financial measure is a stretching profit target. The maximum bonus achievable under the Annual Bonus Scheme is 40% of salary. The scheme also specifies regulatory capital and liquidity hurdles which the Society must meet before any award can be made.

Three executive directors, Peter Griffiths, Guy Thomas and Graeme Yorston, are eligible for annual bonus awards of 20% in respect of performance during 2011. In accordance with the Remuneration Code, 60% of this award will be paid in February 2012, with the balance being paid in three equal instalments in February 2013, 2014 and 2015. Under the scheme rules, the remainder of the deferred award is subject to annual review and may be reduced

or withdrawn at the discretion of the Committee in line with the requirements set out in the FSA's Remuneration Code.

### Group performance bonus

The Group Performance Bonus (GPB) is designed to incentivise executive directors to achieve sustained returns, in particular through the growth of profitable new business within the Group. The GPB is based on a comparison of the Group's annual performance (in terms of the post-tax return on mean assets) with that of a comparator group consisting of the largest building societies. The maximum bonus achievable under the GPB scheme is 60% of salary. Thresholds for regulatory capital and liquidity must also be met before any comparison of the Group's performance with the comparator group is calculated and any award made. Payment is not made if the performance falls below 90% of the average of the comparator group.

In accordance with the Remuneration Code, 60% of this scheme's award for 2011 will be calculated and paid in June 2012, when the results are known for the comparator group of companies, some of which have a year-end date of March 2012. An accrual is made in these accounts of an amount equal to the payment for performance at the average of the comparator group. Under the scheme rules, the remainder of the deferred award (40%) will be paid in equal instalments over the following three years, subject to annual review and may be reduced or withdrawn at the discretion of the Committee in line with the requirements set out in the FSA's Remuneration Code.

### Non-executive directors' remuneration

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 for the Chairman and non-executive directors are set by the Board on recommendations from the executive directors.

In 2011, benchmarking data was sourced from Hewitt New Bridge Street as the Society recognised that the time demands and responsibilities for its non-executive directors have increased substantially over the past number of years due to the increase in regulatory demands. The benchmarking data showed that the Society's non-executive director fees were below the market median for our comparator group of the largest building societies. Therefore, the Chairman and non-executive director basic fees were increased by 2.5%, equal to the average increase for all staff and executive directors, and the fees for services on the Board Committees were also increased.

Details of non-executive directors' remuneration are set out on the following page. The Chairman and non-executive directors do not participate in any bonus schemes or any pension arrangements.

### Audited information

#### Directors' remuneration in respect of the year to 31 December 2011

The following disclosure in this report (and the following section concerning executive directors' pension arrangements) contains information which is audited.

	Salary & fees £000	Benefits £000	Annual bonus £000	GPB* £000	Sub-total £000	Increase in accrued pension £000	Pension £000	Total £000
<b>Executive 2011</b>								
Peter Griffiths	302	13	60	106	481	-	45	526
Guy Thomas	211	13	42	74	340	-	32	372
Graeme Yorston	200	11	40	70	321	-	30	351
<b>Total</b>	<b>713</b>	<b>37</b>	<b>142</b>	<b>250</b>	<b>1,142</b>	<b>-</b>	<b>107</b>	<b>1,249</b>
<b>Executive 2010</b>								
Peter Griffiths	296	13	74	177	560	5	19	584
Haydn Warman (to 09/03/10)	34	3	-	12	49	3	-	52
Guy Thomas	207	13	52	124	396	3	13	412
Graeme Yorston	196	11	49	118	374	-	27	401
<b>Total</b>	<b>733</b>	<b>40</b>	<b>175</b>	<b>431</b>	<b>1,379</b>	<b>11</b>	<b>59</b>	<b>1,449</b>

\*Group Performance Bonus.

	Salary & fees	
	2011 £000	2010 £000
<b>Non-executive</b>		
David Williams (to 23/04/10)	-	22
Dyfrig John	68	55
Eurfyl ap Gwilym (to 23/04/10)	-	20
Christopher Rowlands (to 01/10/11)	34	38
Christopher Jones	35	35
Gordon MacLean	45	44
Langley Davies	63	46
Keith Brooks	54	45
Jo Kenrick	34	32
<b>Sub-total</b>	<b>333</b>	<b>337</b>
<b>Executive remuneration total</b>	<b>1,249</b>	<b>1,449</b>
<b>Total directors' remuneration</b>	<b>1,582</b>	<b>1,786</b>

1. The 2010 Group Performance Bonus (GPB) was calculated in July 2011 once the full set of results for the comparator group was available. This resulted in an additional bonus entitlement of £174k earned by executive directors in relation to the final outcome of the Scheme. This sum is payable over three years.
2. The 2011 GPB is based on an assumption of average performance relative to the comparator group and will be adjusted upwards or downwards to reflect actual performance once the other 2011 results are known.
3. The figures under Benefits include cars, fuel, and personal medical insurance.

### Executive directors' service contracts

The following directors have service contracts in relation to their executive duties which provide for a 12-month notice period or termination payment:

	Date of contract
Peter Griffiths	14/11/06
Guy Thomas	14/11/06
Graeme Yorston	31/12/07

### Executive directors' pension arrangements

The defined benefit pension scheme was closed during 2010. At the end of 2010 the transfer value of accrued pension was £334k for Peter Griffiths and £363k for Guy Thomas.

From 1 August 2010 all three executives received pension contributions of 15% of basic salary payable into a defined contribution scheme or elected to be paid as a cash allowance. These pension contributions are recorded in the directors' remuneration table on page 12. Life assurance of four-times basic salary in the event of death in service is maintained.

### Conclusion

The Group has performed well in 2011 reflecting sound management and the benefits of strategies put in place in previous years. This result has been achieved in a year of extremely challenging and uncertain market conditions. Our good trading performance has protected the interests of our Members and has enabled us to continue to provide strong Member value. The Committee believes that having appropriate remuneration arrangements and policies in place, as set out in this report, has contributed to this positive result.

The Committee recommends this report to Members for approval at our Annual General Meeting.

**Christopher Jones**  
**Chairman**  
**31 January 2012**