

**MONMOUTHSHIRE BUILDING SOCIETY
MINUTES OF THE ANNUAL GENERAL MEETING HELD AT
RODNEY PARADE, NEWPORT ON WEDNESDAY 23 AUGUST 2017 AT 11AM**

Present

Mr H Warman in the Chair and other members as recorded in the attendance book.

Introduction

The Chairman welcomed everyone to the Society's 148th Annual General Meeting. He advised that the Notice of the Annual General Meeting had been distributed to members with the Customer Newsletter and Summary Financial Statement.

The Chairman explained that James Bawa, who had joined the Society in November 2016 as Chief Executive, had resigned on grounds of ill health. He extended the Society's thanks to James for his work at the Society over the past nine months and wished him well in achieving a good and speedy recovery.

The Board had confirmed that Will Carroll should assume the role of interim Chief Executive. Will had been Finance Director and a member of the Board for the past seven years and the Board was confident he would continue to provide sound leadership for the Society.

Further to the resignation of James Bawa the Board intended to withdraw resolution 4(d), as set out in the Notice of Meeting, related to his election as a director. The withdrawal of resolution 4(d) did not affect the validity of the proxy voting form circulated to members or any proxy votes already received.

Presentations

The Directors' Report, Annual Accounts and Annual Business Statement for the year ended 30th April 2017 were formally presented to the meeting.

The Directors' Report, having been previously circulated, was taken as read but the Chairman summarised the more important aspects of the year. The key points raised in the course of his address included:

- The Monmouthshire was in good shape and had completed a year which had seen a sound financial outturn and also considerable change within the Society.
- The financial highlights of the year were outlined as pre-tax profits of £5.7m, an increase in capital reserves to £61.25m and gross mortgage lending of £141.2m.
- The Society had continued to pursue the concept of mutuality by balancing the interests of both investing and borrowing members as equitably as possible within the framework of market forces.
- The key features of the year had been the impact of fierce competition for mortgage business in a low interest rate environment and an investment programme considered by the Board to be essential if the Society was to continue to thrive in the future.
- Competition in the mortgage market had increased relentlessly during the year and this had increased pressure on the Society's interest margin. Mortgage interest rates of less than 0.9% were available in the marketplace and positioning the Society's mortgage rates at a level that attracted and retained business had inevitably had a suppressing effect on the interest rates that the Society could pay to investors.

- The Board was acutely aware of the impact this had on saving members, many of whom depended upon their investments for income. The Society had sought to mitigate the effects as best it could and at the same time provide attractively priced products – an approach the Society aimed to continue in the future. Currently the Society was offering competitive one and two year fixed rate bonds, and would look to launch further equally competitive products throughout the year.
- The Society continued to invest in its infrastructure to improve operational resilience and provide an appropriate platform from which to grow, and successfully compete, by providing the products and services that members required through the distribution channels they chose to use. To this end a series of significant initiatives supported by the Board had been introduced during the year. These included:
 - Considerable investment in recruitment to ensure the Society had the right capabilities at all levels to implement its strategy. The number of staff in branches had been increased and individuals with expertise in areas such as Treasury Management and Project Management recruited;
 - Ensuring that the Society had the appropriate risk management capabilities to underpin its risk management framework, so that all risks were managed effectively in line with the Society's risk appetite. As an example the Chairman outlined how more resources were being allocated to manage cyber risk, which was now an extremely important issue for all financial institutions and being closely monitored by the Board;
 - Committing resources to improve processes and systems across all areas of the business. For example, by looking to move progressively from paper to electronic records at Head Office which would free up space currently taken up with storage of paper records and allow for expansion in the future;
 - Actively investigating the feasibility of modernising the Society's Head Office and branch network to afford space for expansion and create an environment which would be fit for purpose in the future. The Chepstow branch had been refurbished during the year and the Risca branch would be relocated to a more suitable premises in the town centre.
- These investments would inevitably be reflected in an increase in the Society's management expenses, which understandably might be a cause of concern. This was not however a one sided exercise and in conjunction with these investments increased efficiencies were being looked for and the Board had clear expectations of management in this respect. The Board strongly believed it must invest in the Society's future to support the long term sustainability of the business.
- Since the last AGM there had been no changes amongst the Non-Executive Directors and the Chairman was grateful for the substantial commitment they had shown to the Society throughout the year. The Society was extremely fortunate to have the breadth of knowledge and experience they brought to the Board.
- The year's achievements were the result of the dedication and hard work of the management and staff. The Society was very fortunate to have such a committed and hardworking team, and on behalf of the Board and members the Chairman extended his sincere thanks to them all.
- The Chairman also expressed the Board's appreciation to all the loyal members whose support continued to be the lifeblood of the Society. The fact that the Society had continued for 148 years was a testament to that continuing support and the Board was extremely grateful for their commitment to the Society

- The Society had made considerable progress during the year but there was always more to do. The Board would strive to ensure it built on past achievements enabling the Society to remain vibrant and independent, committed to providing current and future members with products and services that demonstrated the benefits of mutuality.
- It was now ten years since the start of the global financial crisis and the ramifications of recent political shocks had led commentators to question how vulnerable the global economy was to a renewed downturn.
- The Bank of England's reduction in base rate, additional quantitative easing and the introduction of the Term Funding Scheme for financial institutions, were the direct result of a significant reduction in market confidence following the vote for Brexit on 23 June 2016. These measures were designed to provide a stimulus to the market and prevent the country falling back into recession, encouraging households and businesses to continue to spend and invest.
- Prospects for the UK economy were subdued and likely to remain more uncertain than usual for the next few years. Projections therefore carried a degree of uncertainty, as the timing and outcome of negotiations surrounding the UK's membership of the European Union varied.
- However, the Society expected base rate to remain low this year and competition to intensify even further in the mortgage market. Despite this, the Society's core values, financial strength, sustainable business model and investment in infrastructure meant it was well placed to deal with challenges that might arise now and in the future.
- In conclusion the Chairman outlined that the Society had made considerable progress during the year but that there was always more to do. The Board would strive to ensure it built on past achievements enabling the Monmouthshire to remain a vibrant independent Society committed to providing current and future members with products and services that demonstrated the benefits of mutuality.

Having concluded his address, the Chairman called on the Interim Chief Executive Officer, Will Carroll, to address the meeting.

The key points raised by the Interim Chief Executive Officer in the course of his address included:

- 2016/17 had been a year of large scale economic and political change, which made it particularly pleasing to outline another positive set of results for the Society, as it recorded profit after tax of £4.6m. This was important as generating profits allowed the Society to strengthen its financial position, providing financial security to allow it to invest in its future, meet the capital requirements demanded by regulators and to protect its members. Capital had increased from £57m in 2016 to £61m in 2017.
- Profitability was however down from last year's record level of £6.4m. This was primarily due to current market conditions, record low interest rates, the influx of high growth-driven challenger banks, and the larger high street banks re-entering core residential mortgage markets, causing margin erosion.
- The low interest rate environment, coupled with this competition in the market, had resulted in downward pressures on rates for both borrowers and investors. The Society had resisted reducing savings interest rates for as long as possible, as it had sought to balance the needs of savers against the Society's long term financial security.
- However, this had meant that during the year the Society's product rates became too attractive, when compared to the competition, and they were attracting excessive funds resulting in increased costs, reducing profitability.

- As a result the Society had decreased its savings interest rates which had resulted in a significant outflow of funds. This was regrettable and the Society recognised the impact this had on many of its savers who relied on interest as a source of income. However this move had been necessary to allow the Society to reduce its liquidity and cost of funding, and increase the opportunity to offer more competitive products to members in the future. This was vital as the Society was committed to its savers and would continue to be predominantly retail funded.
- Competition in the market place was at unprecedented levels. However, despite this the Society was able to grow its mortgage book by £5m in the year as it continued to focus on offering competitive mortgage products to allow more people to enjoy the benefits of mutuality. This had included a successful first time buyer campaign as the Society looked to help members in its core regional area onto the property ladder.
- The Society had been recognised for this by being nominated in the 'Regional Lending Provider of the Year' and 'Best Service from a Mortgage Provider' categories at the 2017 Moneyfacts Awards.
- Mortgage business remained high quality, with an average Loan to Value of all lending of 53%, and default rates remaining exceptionally low with only 9 out of nearly 8,000 mortgages being 12 months or more in arrears.
- The Society would look to build upon this mortgage book in future years and aimed to achieve higher levels of growth, with lending strategy being focused on:
 - Continuing to offer low rates, competing on price for core residential products.
 - Better serving the Society's community base by offering a wider selection of niche products.
 - Focusing on the best quality service to members and intermediaries.
 - Building strategic alliances with local businesses.
- As had been outlined in the previous year's AGM presentations, the Society had continued to invest in its infrastructure, in order to develop and improve the management of risk and to prepare the Society for the next period of sustainable mortgage growth. This investment had resulted in increased costs in the year, although costs still remained low overall, when compared with other societies.
- These increased levels of investment were set to continue in the future, with a recognition by the Board that the Society needed to enhance its operating infrastructure to provide operational resilience and an appropriate platform from which to grow and successfully compete in the digital age.
- The Society would achieve this by investment in the Head Office and Branch Network to ensure the Society had a working environment which was modern, fit for purpose and would serve the Society for the duration of the strategic plan and beyond. In addition, the Society was also investing in the ways it reached members as it focused on different ways in which they could benefit from the Society's products and Services.
- The Society had scored highly in customer surveys during the year, with a satisfaction rate of 93.5%. However it would not rest on this and recognised the need to invest in systems and processes to ensure that they supported customer journeys in an efficient, customer friendly and uncomplicated manner.
- In his time at the Society he had seen that a key differentiator was, and would continue to be, the Society's people. Their warmth was the reason that many members and brokers stayed with the Society, referring their friends and family and staying as part of the Society for a lifetime. The increased investment in resourcing and training would help to ensure the Society had the capability at all levels to continue to deliver excellent customer service.

- The Society was currently undertaking a project to ensure pay scales and salaries were appropriate, balancing cost levels with ensuring it could attract and retain the best staff. Whilst the Society was not required to analyse and formally report on any gender pay gap, it was still very important to the Society to be aware of any differences in pay and ensure that it paid equally for equal work. An initial high level review had been conducted and it had identified no gender pay issues.
- A key aim of the Society was to put itself at the heart of the Community, and it was pleasing to note that this year colleagues had once again participated in volunteering and sponsorship. The Society had raised £8,400 for LATCH, its chosen charity of the year, and awarded £21,000 to 41 great causes through the Society's Charitable Foundation. This was a fantastic effort by all involved and would make a real difference to the respective charities' activities.
- The Society's commitment to the community would continue in the future, both through its charitable work and by keeping the Society's Branch and Agency network as a key part of those communities in which the Society operated.
- The Society was proud to confirm that it would be the main sponsor of the Newport Gwent Dragons rugby team for the next three seasons. This was an exciting opportunity and the sponsorship would allow the Society to have a bigger presence, promote its brand in front of a wider audience, and help engagement with local communities.
- The Society had conducted research with members and potential future customers, and the Board had agreed that the Society should look to refresh its brand following the feedback received. The Society needed to stand out amongst competitors on vibrant high streets across South Wales and the West. It was felt that the current branding did not meet this objective and the Society had therefore worked with a local branding agency to revitalise how the Society looked and communicated to existing and new customers.
- Over the coming months members would start to see the refreshed brand within their local branch, on the Society's website and throughout everything the Society did. The Society hoped members would support this exciting transition that would ensure the Society was in the forefront of people's minds as it served the local community for generations to come.

Members' Questions

The Chairman advised the meeting that, as in previous years, the Board had encouraged members to submit questions that they would like answered by the Board, in advance of the meeting.

A number of members had taken advantage of this offer and their questions, and the Board's responses, were presented to the meeting. Questions had been received on the following topics:

- How was director's remuneration determined?
- The Summary Financial Statement showed that expenses were up and profits were down, but it did not explain why. What were the causes?
- Why ISA rates were reduced this year and when could members expect them to increase again?
- Why was James Bawa put forward for election to the Board when he was no longer with the Society?
- How did the Society align employee performance with its strategy?
- The Summary Financial Statement showed that total mortgage balances increased by less than 1% in the year and savings balances reduced by 5.5%. What were the causes of this?

The Chairman asked whether members present had any further questions. Questions were received on the following topics and answers provided by the Chairman, Interim Chief Executive Officer and Remuneration Committee Chairman:

- Whether now was the right time to invest in the Society's infrastructure and increase the number of employees in the light of challenging market conditions and a decline in financial performance?
- If the squirrel logo would be retained as part of the brand refresh? as it was felt that this differentiated the Society from other financial institutions. Appreciation was also given for the support the Society provided to the community and local organisations.
- Whether the Society's employees had been consulted on the brand refresh and were there plans to introduce a loyalty savings product which would be advertised in branch as well as online?
- The cost of the brand refresh exercise?
- Praise was given for the employees in the Portishead agency and the success of the agency within North Somerset.
- When did the Board expect increases in the level of investment to stop and would members expect to see tangible improvement in results from the investment in the business and its infrastructure?

The Chairman advised that details of all questions asked, and the answers provided, would be made available on the Society's website by the end of August (2017 AGM Questions & Answers document, in the 'About us' section).

Voting

There being no further questions, the Chairman invited any members who had not yet voted, to do so.

When all members had registered their votes the scrutineers conducted their final count while a short video presentation of awards made by the Society's Charitable Foundation during recent years was shown.

The Secretary then confirmed that the scrutineers had finished counting the votes and the following results were announced:

Auditors' Report, Directors' Report, Annual Accounts and Annual Business Statement

99.22% in favour (4,221 For, 33 Against and 43 Withheld).

The Chairman declared the Auditor's Report, the Directors' Report, the Annual Accounts and Annual Business Statement for the year ended 30th April 2017 duly adopted.

Re-appointment of Auditors

97.58% in favour (4,156 For, 103 Against and 38 Withheld).

The Chairman declared that Deloitte LLP had been reappointed as Auditors until the conclusion of the next Annual General Meeting.

Directors' Remuneration Report

93.54% in favour (3,956 For, 273 Against and 68 Withheld).

The Chairman declared the Directors' Report on Remuneration for the year ended 30th April 2017 approved.

Appointment of Directors

Re-Election:

- Paul Leader 96.72% in favour (4,099 For, 139 Against and 59 Withheld).
- Anthony Morgan 96.60% in favour (4,095 For, 144 Against and 58 Withheld).

Election:

- Trevor Barratt 96.43% in favour (4,077 For, 151 Against and 69 Withheld).

The Chairman declared the said Directors duly elected and re-elected.

Any Other Business Permitted by the Rules of the Society

None.

Further Questions

The Chairman invited further questions from members and responded to a query on the following topic:

- Why savings rates had been reduced?

The Chairman advised that details of all questions asked, and the answers provided, would be made available on the Society's website by the end of August (2017 AGM Questions & Answers document, in the 'About us' section).

Close of Meeting

There being no further questions, the Chairman declared the 148th Annual General Meeting of the Society closed and thanked those members in attendance and those who had submitted questions to the Board.

A Currie
23 August 2017