

Monmouthshire Building Society Questions & Answers 2017

In each year's Annual General Meeting (AGM) notice, we encourage members to submit questions of a general nature to the Board, as we appreciate that not all members can attend our AGM.

Where questions are received on a similar topic a representative question from each category is answered. In addition, a number of members attend the AGM and ask their questions in person.

This year, the following questions were answered at the meeting:

1) How is director's remuneration determined?

Directors' remuneration follows the same basic rules as staff salaries. It needs to be sufficient to attract capable individuals who have the skills to perform at the right level. But it also must take into account fairness, particularly as regards members in a mutual organisation.

Non-executive directors receive a single fee whilst executive directors in addition to their salary can earn a performance related bonus as well as benefitting from pension arrangements and other taxable benefits.

We regularly compare the remuneration levels paid to our directors to those of the societies above and below us in terms of size. This analysis shows that year by year the remuneration levels at the Society are comparable with those of our competitors. No director is involved in making decisions over their own fees or salary.

The executive director's bonus scheme enables them to earn a bonus, but the amount is capped and subject to terms agreed by the Board each year. Executive directors are members of the pension scheme arrangements that the Society had open to all staff when they became an employee.

Members have the opportunity to vote on the Remuneration Report at the Annual General Meeting each year.

2) The Summary Financial Statement shows that expenses were up and profits were down, but it does not explain why. What were the causes?

The Summary Financial Statement contained in the customer newsletter highlights the Society's performance over the year in comparison to previous years. This is a summary of the information contained in the full Annual Report and Accounts which is available to all members from every office of the Society and on the Society's website.

In the current highly competitive market the Society has delivered a robust financial performance. Further investment has been made in people and information technology systems as we look to enhance our operational resilience and members' experience. These investments are reflected in an increase in our management expenses which, coupled with a continuing search for greater efficiencies, the Board believes are necessary to support the long-term sustainability of the Society. The Society's level of management expenses is in line with that of similar sized societies.

The decrease in profit after tax when compared with the prior year is also as a result of current market conditions and record low interest rates. The Society however needs to generate only sufficient profit to keep the business secure as demands for capital increase from the regulators. Currently, generating profits is the only way that the Society is able to create more capital to invest in its future and provide essential protection for the Society and our members.

We continue to focus on making sure our financial position is safe, secure and fit for purpose for both the regulatory environment of today and that of the future. Our capital position is more than sufficient to meet our regulatory requirements and has further improved in the last year, comparing favourably with other providers.

3) Why ISA rates were reduced this year and when can members expect them to increase again?

Over the last few years, as interest rates in the market place continued to reduce, we held our savings rates for as long as possible, supporting our savings customers with competitive rates in the low interest rate environment. However, the rates which we offered became best buys as our competitors all cut their rates in line with the market and this would not be sustainable for us in the longer term.

However we remain acutely aware of the challenges facing our saving members in a low interest rate environment and have sought to mitigate the impact by offering fixed rate and loyalty products to existing members. We are currently offering fixed rate ISA's which pay a similar rate to that which was available on our instant access and notice ISA's before the last rate change.

The interest rates on our savings accounts are always monitored closely to ensure they remain competitive.

4) Why was James Bawa put forward for election to the Board when he is no longer with the Society?

James resigned as Chief Executive on grounds of ill health but this was after the AGM documentation had gone to print. We extend our thanks to James for his work for the Society over the past nine months and we wish him well in achieving a good and speedy recovery.

5) How does the Society align employee performance with strategy?

The Society measures the motivation of colleagues predominately through our annual and interim staff surveys which are followed by focus groups with representatives from across the business to discuss any areas for improvement highlighted by the surveys. We also conduct exit interviews with those who are leaving to understand their experiences at the Society and what has led them to leave and why.

In addition we have recently introduced the more proactive 'stay' interviews where our HR team meet individually with their colleagues to understand what motivates them and what keeps them working for the Society. Together all of these help management identify any areas for improvement and ensure the Society is always taking account of the views of colleagues.

To ensure colleagues are fully aligned to the Society's goals, objectives are agreed with each of them at the beginning of the financial year and these are linked to our key strategic drivers.

Within performance reviews colleague behaviours are considered, together with the way they embody the Society's values, coupled with their attainment of business objectives. This helps to ensure that we consider what is achieved, and also how it is achieved.

A large number of colleagues also help inform the Society's strategy through feedback sessions with Executives where their ideas and opinions are considered.

6) The Summary Financial Statement shows that total mortgage balances increased by less than 1% in the year and savings balances reduced by 5.5%. What was the cause of this?

The Society lent more to new mortgage borrowers this year than in the previous year and our mortgage assets grew to £811 million, in a very challenging market. The Society has focused on offering competitive products and services to enable more people to enjoy the benefits of mutuality, while remaining wholly committed to protecting members' interests now and in the future. Our mortgage business remains high quality with an average loan to value of all lending of 53%.

The Society maintains a flexible underwriting approach which enables it to consider individual cases on their merit. In particular, the Society helped many first time buyers on to the property ladder and continued to meet the needs of customers who are largely based in our primary geographical area. We were recognised for this by being nominated for 'Regional Lending Provider of the Year' and 'Best Service from a Mortgage Provider' categories at the 2017 Moneyfacts Awards.

The Society sought to support savings members for as long as possible in accordance with our values by maintaining competitive product rates in a low interest rate environment. However, this led to savings balances increasing too far above the level of mortgage balances. This led to our decision to reduce investment rates which resulted, as we expected, to some retail funding outflows.

The Society recognises the great importance of its savers, and will remain predominately retail funded and continue to support members in the current ultra-low interest rate environment. We recognise that we must do so in a sustainable way, balancing the needs of savers and borrowers. The changes in the year have helped to improve the efficiency of the Society's balance sheet and ensures we remain on a sound financial footing for the future.

7) Is it 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 profitability?

The Society has to invest in its infrastructure in order to develop and improve the management of risk and to prepare the Society for the future. This increased investment is set to continue, with recognition by the Board that the Society needs to enhance its operating infrastructure to provide operational resilience and an appropriate platform from which to successfully compete in the market place. This investment has been scrutinised by the Board and it is confident this is the best way to ensure the long term success of the Society for the benefit of members.

8) Will the squirrel logo be retained as part of the brand refresh, as it differentiates the Society from other financial institutions? Thank you for the support the Society provides to the community and local organisations.

The current squirrel logo will remain on savings literature. The Society needs 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 therefore worked with a local branding agency to revitalise how the Society looks and communicates to existing and new customers.

9) Were the Society's employees consulted on the brand refresh and are there plans to introduce a loyalty savings product which will be advertised in branch as well as online?

A working group of Society employees known as brand ambassadors was formed and their input was sought throughout the process. The Society also conducted research with members and potential future customers, and the Board agreed that the Society should look to refresh its brand following the feedback received.

The Society keeps its savings products under continual review to ensure competitive products are available and may consider, from time to time, the introduction of member loyalty products. The details of new products are made available in branch and agency offices.

10) What was the cost of the brand refresh exercise?

The brand refresh has cost in the region of £18,000 to date.

11) Thank you for the commitment to your agency network, the staff in the Portishead agency are brilliant.

Our commitment to the community will continue in the future, both through our charitable work and by keeping the Society's Branch and Agency network, as a key part of those communities in which the Society operates. The feedback would be passed onto the relevant colleagues.

12) 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 investment is part of the Society's strategic plan for the next five years which will see higher levels of investment in years one and two. During this time the Society is likely to have flat to medium levels of growth. Year's three to five of the strategic plan are likely to see a return to more typical levels of growth.

13) Why have savings rates been reduced?

As interest rates in the market place reduced, we held our savings rates for as long as possible. However, the rates which we offered became best buys as our competitors all cut their rates in line with the market and this would not be sustainable for us in the longer term. We will continued to monitor interest rates on our savings accounts closely to ensure they remain competitive and seek to mitigate the impact by offering fixed rate and loyalty products to existing members.