

Monmouthshire Building Society AGM 2020
List of Members Questions

Question	Response
How does the Society intend to improve the underlying profitability of the Society, which has been in decline since 2016?	The Society will leverage the investment it has made in people, processes and infrastructure over the past few years to deliver its five year business plan for profitable growth. Through the delivery of new products, services and increased distribution for its members, the Society will maximise opportunities whilst effectively controlling the cost base to ensure sustainability and future profits for its members.
Despite the COVID-19 disruption and the wider economic implications is it still the board's intention to offer a full current account and if so when is this likely to be offered to members and the wider general public?	<p>Over the past months, access to banking services have been severely disrupted by the COVID-19 pandemic, with heavy reliance on digital solutions where usual physical operations have been unavailable. The Board believe that by remaining committed to the delivery of a current account that is operated online and via a mobile App we can deliver new solutions to members that complement our existing suite of products and distribution channels.</p> <p>The Board also acknowledges the impact COVID-19 has had on resource availability both within the Society and our selected partners and has taken the decision to review our planned launch for the current account. The Society now feel that it is more appropriate to delay the launch until early 2021 to give time for the impact of COVID-19 to be fully understood, including any further disruption that may result if the predicted second wave of the virus is realised.</p>
<p>1. Please can the Board provide more colour on the Society's work to improve its operational efficiency and remove unnecessary cost to deliver better value for members? Does the Society have an active cost-optimisation plan; and benchmark itself against its peer group? Particularly, given the intent the Board has signalled to invest/expand in its branch network as a differentiator, how does the Society plan to remain cost-competitive particularly given the rise of digital only competitors?</p> <p>2. Please can the Board provide detail on the Society's support for reducing systemic racial inequality; and whether any working groups have been setup internally to promote greater diversity and inclusion within both the Society's colleague base, but also increasing the diversity of our membership base as a whole?</p>	<p>1. As part of the Society's five year strategic plan, it has sub strategies that cover operational efficiency and digital servicing that are currently delivering initiatives such as online mortgage rate switch and online savings bond maturities. The Society has also invested in the development of a Continuous Improvement (CI) function within the business and this is resourced to deliver across a broad range of initiatives including business process re-engineering accompanied by the enhancement of the CI culture within the business. The Society has also recently embarked on a Robotic Process Automation (RPA) programme that looks to deliver wide ranging operational efficiencies to the Society. It continues to benchmark all areas of performance against both peer Societies and the wider industry.</p> <p>2. The Society is committed to embracing diversity and promoting equality of opportunity in all its forms including racial equality. Our Diversity and Inclusion Policy seeks to add value to the Society by contributing to colleague well-being and engagement. Some of our current diversity and inclusion work includes:</p> <ul style="list-style-type: none"> • Our colleague forum which is made up of representatives from across the Society. The forum has a standing agenda item to discuss diversity related ideas at every meeting; these relate to both colleague and member related initiatives. Colleagues are actively encouraged to suggest and feedback on any diversity related initiatives. • We publish relevant articles on our Intranet, recently we posted about the Black Lives Matter movement and included suggested reading materials, videos and podcasts.

Monmouthshire Building Society AGM 2020
List of Members Questions

3. Finally, please can you provide some greater colour on the economic projections the Society has chosen to use when modelling loan-loss reserves, and how this data is obtained?

- As part of our Pride month celebrations we changed our logo to a rainbow version which included black and brown stripes to represent people of colour. Additionally, we published an internal article celebrating influential LGBTQ+ people focusing on several people of colour.
- We are collecting diversity data from our colleagues (although this is optional to complete) including ethnic group or background so we can ensure we are working towards a colleague profile representative of our communities.
- A number of in-house training courses are in development; one of these will be a webinar on unconscious bias and a selection. Unconscious bias will also feature in other appropriate courses.

3. As you will appreciate, we are required to make significant judgements and estimates in order to determine incurred losses on loans and advances to customers and ultimately the provision we hold against these.

In making these judgements and estimates, we have considered:

- Our own specific historical data;
- Our experience and knowledge of the current mortgage book and mortgage market at the time of our calculations; and
- Regulator and internal estimates of house price and unemployment rate movements that could arise during a general or specific period of economic stress and the resultant impact on our book.

This is not out of line with our usual calculations, however the subjectivity of these estimates has increased significantly as a result of the uncertainties arising from COVID-19.

As you may be aware, our provisions are calculated on both an individual and collective basis.

Individual impairments (single property or single borrower) are made by reference to loans that are already in arrears or in possession or where there is evidence that the loan may not be repaid in full.

In general, we tried to maintain our existing models, reviewing and amending where required, and then overlaid on top of those an additional charge to reflect the uncertainty arising from the current situation. Specifically we looked at, for example, the level of payment holidays agreed, included a house price stress and increased our probability of defaults to account for a deteriorating economy (e.g. we'd agreed c.£125m of payment holidays as at our financial year end, which is around 12% of our outstanding book and is generally in line with industry averages). In light of these stresses applied to our models, we generated an additional specific provision of c.£380k.

**Monmouthshire Building Society AGM 2020
List of Members Questions**

	<p>Our collective impairment is derived from a model that combines our historical impairment experience with economic indicators at the time of the calculation, overlaid with our experience and knowledge.</p> <p>A collective provision was made to reflect the increased credit risk associated with the whole of the loan book. Our mortgage book in general is of low loan to value and thus the stresses to house process, increased forced sale discounts and a reduction in the emergence period of payment difficulties did not have a significant effect on our overall provisions, generating an increase of c.£75k.</p> <p>Overall, as a result of the above increases in addition to “normal” yearly model fluctuations, our provision balance increased c.£500k from 2019 financial year end.</p> <p>Given the unprecedented nature of the current crisis, we do very much accept though that this is a point in time estimate and is subject to a high degree of estimation uncertainty and it’s accuracy depends very much on how the economy performs from here on out and the shape of its recovery – we’ve already seen house prices rebound quite strongly but obviously a number of sectors within the economy have been impacted badly with overall GDP tumbling over the period and this impact on employment rates is yet to be seen.</p>
<p>We’ve heard about a current account launch about a year ago – what’s happening?</p>	<p>Over the past months, access to banking services have been severely disrupted by the COVID-19 pandemic, with heavy reliance on digital solutions where usual physical operations have been unavailable. The Board believe that by remaining committed to the delivery of a current account that is operated online and via a mobile App we can deliver new solutions to members that complement our existing suite of products and distribution channels.</p> <p>The Board also acknowledges the impact COVID-19 has had on resource availability both within the Society and our selected partners and has taken the decision to review our planned launch for the current account. The Society now feel that it is more appropriate to delay the launch until early 2021 to give time for the impact of COVID-19 to be fully understood, including any further disruption that may result if the predicted second wave of the virus is realised.</p>
<p>I am a new member and would not know enough to vote this year but I like your donation to charity. Perhaps next year you could send out names and interests of the proposed board members. A little history would help me decide. I do find your staff pleasant and helpful.</p>	<p>Biographical details for the directors are included within the Notice of Meeting which forms part of the InTouch magazine sent to members. These are on pages 14 to 20. We also put biographies for the directors on our website.</p>
<p>Why are you not taking cash?</p>	<p>We are still taking cash within our branches and agencies, nothing has changed in this regard, however we do have limits on how much cash we can receive to ensure we meet out legal and</p>

Monmouthshire Building Society AGM 2020
List of Members Questions

	<p>regulatory obligations and insurance limits regarding how much cash we can have on the premises.</p> <p>Through the peak of the pandemic, to support the ‘stay at home’ messaging from government, transactions allowed at branch were limited, this was only a temporary measure that has now been removed.</p>
<p>Has consideration been given to us merging with another building society to reduce any downsides from our current small size?</p>	<p>Our current strategy addresses the key strategic risks to the Society of long-term sustainability and risk of obsolescence. Our healthy balance sheet and strong capital position provides the Society with the opportunity to grow and prosper into the future. The Society is well placed to grow and emerge from the crisis, ensuring future sustainability and success. A merger with another building society is not currently under consideration.</p>
<p>Could you clarify the difference between a non-executive director and staff?</p>	<p>Non-executive directors are not employees of the organisation in the same way staff and executive directors are. Non-executive director's roles are to provide independent oversight and constructive challenge to the executive directors.</p> <p>Although there is no legal distinction between executive and non-executive directors, non-executive directors are expected to focus on board matters and not stray into the day to day running of the business.</p>
<p>How is the Society looking forward past COVID and supporting, informing and engaging your members?</p>	<p>The foundations for providing a distinctive customer proposition are:</p> <ul style="list-style-type: none"> • our strong regional brand; • our member-focused culture; and • our financial security. <p>Our ambition to serve our members and local community runs through our culture and decision making and is key to ensuring we are building a safe and sustainable business that our members trust. Due to COVID-19, the annual update of our strategic plan has been deferred until later this year, given that the economic impact of COVID-19 will be more predictable to enable better informed strategic decisions. However, members can rest assured that our member led strategy will continue to ensure that the member remains at the heart of the Society’s decision making. Our commitment to personal service will mean that we continue to provide support to our members in whichever way we can. This will help to ensure that positive outcomes are achieved for both Society and member, supporting the Society’s future growth. We will continue to inform and engage our membership through a wide range of different channels and forms including MBS Social Media, our branch and agency network, sponsorship, Member research panels, surveys, Annual Report and AGM, Newsletters and many other member communications and community activities.</p>
<p>What factors make up the “other fair value losses” mentioned in the 2020 accounts?</p>	<p>The main factor that has driven the society to make a loss on its fair value hedges is the continued reduction in LIBOR throughout the year which has had a negative impact on the underlying value of the swaps and the interest received on the swap.</p>

Monmouthshire Building Society AGM 2020
List of Members Questions

<p>Would it be possible to open a branch in North Wales?</p>	<p>The Society is proud to have a branch network and remains committed to the High Street. As a mutual Society, the investment required to increase the branch footprint is carefully considered along with a number of other factors. At this time, North Wales is not in consideration for a new branch due to the practicalities of operating a regional Society branch so far from the core operational units.</p>
<p>I missed putting cash in a Christmas savings account because of lockdown as Risca branch was closed. Do I lose out on a Christmas bonus?</p>	<p>Understanding the challenges faced in accessing branches during the lockdown period, the Society did place an acceptance for bonus payments to be re-added for a period that extended beyond the branch closure; this expired at the end of July. Please speak to a member of staff at the branch to discuss your individual circumstances to understand if we are able to help.</p>