2023 Annual General Meeting – Q&As and Comments

We received the below questions/comments prior to and during the AGM and set out below our responses.

1. Please could you tell us why management expenses as a percentage of mean total assets has almost doubled from 1.25% in 2014 to 2.34% in 2022?

There have been some fluctuations in total assets (driven primarily by the loan book) and particularly in 2021 when the mortgage book contracted leaving total assets at £295m, but on average total assets have remained at around the £305m level for the period in question and therefore this is largely an increase in costs question. The cost increase of 1.09% (measured as a percentage of total assets) from 2014 to 2022 can be largely explained as follows:

- 0.3% (28% of increase) – Due to general inflation using the annual RPI as a guide.

- 0.6% (55% of increase) – Due to staff costs (excluding the inflation impact) – the increase was due to the following reasons:

    - To meet increasing levels of regulatory requirement since 2014, the Society has had to create specialist teams including a Risk, Treasury and HR function. In addition to this, the Society has also added to its Sales and Operations teams to improve its customer service as it looks to grow its mortgage and deposit products in an increasingly competitive market. This enhanced service includes better intermediary management, faster customer mortgage processing times, and an enhanced product range, which is required in the current more volatile interest rate environment.
    - This has led to an increase in average staff numbers of 55 in 2014 to 84 in 2022. In addition to this, the average cost per employee has also increased, and this is largely as a result of having to create the required specialised teams that are generally more expensive.

- 0.19% (17% of increase) – Due to other administrative expenses (excluding the inflation impact). This is primarily due to the work done to make our IT infrastructure more resilient, including: core system enhancements; use of cloud-based infrastructure; cyber-crime enhancements to the Society's systems and the ongoing required upkeep / licence fees related to these.

- This ratio stabilised in 2022 as total assets started to increase. The Society has sufficient resources to support future growth and, following significant process improvement in 2022, we are starting to see efficiencies emerge.

2. Given the increased staffing levels since 2014, has consideration been given to outsourcing functions or sharing resources with other building societies?

The Society has looked at outsourcing and indeed already outsources its Internal Audit Function. However, there are certain key roles required by the Society either for business or regulatory reasons and these need to be filled by full time employees. Sharing resources between smaller societies could give rise to regulatory issues and increase the personal responsibility of those involved.

3. Do the Society's premises remain fit for purpose notwithstanding the fall in their commercial values?

While some of the branch properties are quite old, both they and the Head Office building remain fit for purpose and serve the Society well. The current business environment has had a marked effect on all commercial property values, and this has led us to record a loss in value in relation to our property portfolio. However, it has nothing to do with the state of the underlying properties. The Society plans to take time to reflect on the optimal business model in relation to its property portfolio.

4. Does the closure of bank branches in the towns where the Society has a branch impact it in any way?

No, the Society will continue to be able to operate notwithstanding the closure of other bank branches, including the Harpenden branch of its own bankers, HSBC. The Society utilizes a cash delivery service and cheque collection agent as well as electronic payment services.

5. There have been a number of staff changes in the Radlett Branch and the customer service has been impacted as a result. In particular, the service received when the Society replaced its basic Cash ISA with a second issue was far from satisfactory.

The Radlett Branch has experienced staff movements in the past couple of years but regrettably this is something that the Society has little control over. However, it is sorry to hear that this may have led to customers experiencing service issues and it will look into these. Where there are any changes to products or rates, the Society writes to customers to make them aware of them and to advise of any action to be taken. The Society is always receptive to customer feedback and will continue to refine its procedures to address any concerns.

21 April 2023