

5. QUESTIONS

We asked for members to submit questions ahead of the AGM so that we could provide answers to them at the meeting tonight. As a reminder please do send any further questions to the address on the website page and we will respond to you as soon as we can.

We have received the following questions:

1. From Kevan Wylie

Could the board please confirm that digital access remains a key priority for the Board and is one of the corporate objectives for the next year. This will ensure the membership has easy access to all of their accounts with the society. Could you outline the current progress towards reaching this goal? The absence has been highlighted at a time when travel to the branches and access by telephone is limited.

Response:

As a Board we are committed to continuing to offer our members genuine choice in how they manage their money and interact with the Society.

We remain committed to offering access to personalised, face to face service, through our branch network which we know a great deal of our members value; despite the fact that in recent years the trend for other providers has been to direct customers towards digital channels rather than provide genuine choice.

We have consistently maintained access to our branches throughout the Pandemic, albeit operating on slightly reduced opening hours for a period of time, and we have invested in a range of measures to ensure branches are a safe place for both members and colleagues. From last weekend, we are pleased to say we reopened our branches on Saturdays to further improve accessibility.

We appreciate that members have not been able, or indeed might not have wanted, to visit a branch in person over the last 12 months and as a result we have been proactively contacted members over the telephone, as well as redirecting calls from our central telephone team through to our branch teams to ensure calls were answered as quickly as possible. We plan to continue with this approach even as we emerge from the Pandemic, which means that members will be able to speak to their local branch on the telephone and receive the same level of local, personalised service that they would benefit from in person.

We believe this commitment to maintaining local, personalised service – in person or by telephone – is what a significant number of our members value and is the right thing to do, and is indeed becoming increasingly differentiated as more providers seek to proactively move their customers online, irrespective of customer preference or choice.

We do of course recognise that there is a segment of our members who wish to manage their money digitally, and that for some this has been stimulated by the Pandemic. We also know that to be relevant to a new and younger demographic to support the ongoing growth of the Society, we need to offer access to our propositions digitally. It will come as no surprise that a significant investment in digital technology is a key part of our strategy to reinvent the Society to ensure we continue to be relevant in the future.

We currently offer digital savings through our Beehive Money brand, as well as access to a Lifetime ISA savings account under the Nottingham brand. Later this year we will be relaunching Beehive Money as the digital arm of The Nottingham.

Initially we will be offering a range of digital savings accounts, with a particular emphasis on tax free savings, with the ambition to broaden the offering to include a broader range of digitally enabled products and services in future, starting with whole of market mortgage and financial advice. The new and improved Beehive Money will be available via desktop, as today, and also via a mobile app to deliver improved accessibility and ease of use. Existing digital savers will be the first to be migrated to the new digital savings platform and we will be contacting members well in advance to ensure the transition is as seamless as possible.

We have made a conscious decision to focus investment on providing access to our services based on member behaviour and choice. Members who value personalised, individual service can do so through our branch network, in person and by telephone. Members who want to manage their savings digitally and have more control to self-serve can do so through Beehive Money. Members who want both, can choose to open as many accounts as they wish across both brands. They will however have to service the accounts through the channel in which they were opened.

As a Board we have decided not to digitise our whole savings membership base, to enable both branch and digital access, as this is a very complex and costly activity. The cross over between our current branch savings and digital savings customer bases is minimal, suggesting that our members are happy to engage with us through one channel or another. As a mutual we have a responsibility to invest our members' money in the most appropriate

way, and it is our strong belief that maintaining a well located, well serviced branch network complemented with access to digital savings through Beehive Money for those members who want to deal with us in that way is the right model for the Society and our members.

2. From Mr O'Brien

In 2020 the Society made a loss. Can you explain why this was not referred to in the text of the summary financial statement until the 6th page? When you made profits, it was more prominent and mentioned much earlier.

Response:

To be honest I was surprised at this question and I had to go and check the Summary Financial Statements as I thought the loss would have been mentioned earlier than that, but as Mr O'Brien already knows he is correct.

I'm not sure what else to say as there is no particular reason in the positioning of the initial mention of the statutory and underlying loss in 2020. I searched the document and the word loss is used 27 times so it is hardly hidden. I think there was strong desire to explain how the Society had responded to the Covid pandemic, the transformational digital developments taking place and also the branch restructuring which has impacted on members - but I take the point that maybe, with the benefit of hindsight, mentioning earlier might have been a good idea.

I suppose it is also worth saying that the Summary Financial Statements are just that – a summary. Much more detail about the financial and non-financial performance of the Society in 2020 can be found in the full Annual Report which is on the website and downloadable. I would recommend it to all members as it gives a very full account of what has been an eventful year for the Society and members.

3. From Mr O'Brien

In both 2019 and 2020, when the Society made a loss, you used the term 'underlying profit, i.e. the accounting loss adjusted for certain items, which then showed a positive result, although it was only £0.4m in 2020. It was not used in the profit-making year of 2018. I fully understand that there is a place for 'underlying profit' that may help indicate the progress of the Society. However, it has to be designed carefully. The largest adjustment in 2020 was £4.5m net strategic investment costs. Can you explain what these costs were and what they were net of?

Response:

As Mr O'Brien indicates it is common nowadays for companies of all kinds and Building Society's to show both a Statutory Profit & Loss Account and an Underlying Profit & Loss.

The definition in the Annual Report Glossary explains it far better than I could.

Underlying profit

A measure which aims to present management's view of the Group's underlying performance for the reader of the Annual Report & Accounts with like for like comparisons of performance across years without the distortion of one-off volatility and items which are not reflective of the Group's ongoing business activities.

The addition of the Underlying P&L is designed to help members and other readers of the Accounts better understand the Financial Statements and avoid the distortion of one-off items or volatility which don't reflect the underlying performance of the Society. I checked and the Society seems to have been giving both P&L measures since 2016 so it is not a new thing.

Turning specifically to the £4.1m "net strategic investment costs" in 2020 it comprises two items.

- Firstly, during the year, the Group exited the Estate Agency market and sold its Lettings portfolio of managed properties receiving £0.2m. This is obviously a one-off.
- Secondly, the costs of discovery and design phases of the Society's digital platform reinvention cannot be capitalised under accounting regulations and have been taken to P&L in the year. Whilst this is certainly prudent it does significantly distort the P&L which is why they have been shown as an adjustment between the Statutory P&L and the Underlying P&L.

4. From Mr O'Brien

It is important to be consistent in the design of 'underlying profit'. While I appreciate that the directors cannot fetter the discretion they will have when they assess the 2021 underlying profit, can you indicate if it is expected to exclude:

- *movements in the value of derivative financial instruments, whether positive or negative; and*
- *the return, or planned return, from the net strategic investment costs omitted from underlying profit in 2019 and 2020 (£1.1m and £4.5m)?*

I have in mind that it is inappropriate to omit movements in derivative values when they are negative without also omitting them when they are positive; and similarly regarding omitting strategic costs without also omitting the planned benefits from incurring such costs.

Response:

I couldn't agree more that consistency is required in all accounting matters, including the derivation and reporting of Underlying Profit.

I think the Society has been consistent (I have only just joined but I did look back over the past few years to check) and aims to remain so.

I understand the point about future benefits from the strategic investments also being adjusted in the Underlying Profit calculation but fear the judgements and heroic assumptions required in doing so over the expended life of the digital infrastructure being built (not to mention the costs of then auditing it) mean that this is simply not practicable.

5. From Mr O'Brien

The Society made a loss in each of 2019 and 2020. Looking at the top 10 building societies (from the latest BSA Yearbook) the only instances of a society making a loss in 2018, 2019 or 2020, using Group results, were Nottingham BS's losses in 2019 and 2020. I understand that the Society does not have an objective of maximising profits, and that its directors are not responsible for other societies' results. However, it would be helpful, given this context, if the directors could give some assurance to members about the prospects for the Society.

Response:

I am very confident about that the Society will continue to deliver for both its saving and borrowing members going forward but will nevertheless happily pass this question to David or Andrew.

(Back to the Chair)