Questions for the AGM

We only have 3 questions asked at this AGM. The first is an excellent question that has been exercising us for some time and the other two both relate to the impacts of the Corona Virus. I will answer these two together as the answer can then be more structured and hopefully make more sense. Let's start with the first:

SBS seems to have a lack of female board members – why don't you have more?
We would very much like to be able to. When at DVLA, I eventually appointed all 4 deputy directors reporting to me – Business Planning, Finance, Internal Audit and Procurement. The first 3 were female and the 4th male. But I appointed all four because they were the best applicants for the job – two were internal candidates and two were from outside.

For Swansea Building Society, the most recent two NEDs appointed needed to keep a balance of expertise on the Board – a senior retail banker and a surveyor. Paula, who is a partner with Blake Morgan specialising in employment law, chairs our Remuneration and Nominations Committee and leads all senior recruitments.

We tried hard in both last exercises to try to attract female candidates to apply, using external recruitment consultants, even extending the shortlist to include female applicants – but the nature of the specialisms meant less than a handful of female applicants out of 60-80 applicants. We were able to shortlist one female applicant for the surveyor role, but she withdrew prior to the interview. Personally, I would not have felt happy not picking the best people for the roles, but that was never tested.

I would love to have three "Paulas", to be honest - because the few gender-balanced Boards I have been a part of (a small minority of the Boards I have sat on) have actually worked better and provided more diverse perspectives. We are under pressure from PRA to address our gender balance, but have 3 years before we go out again for the next new NED – and unfortunately Paula is the next NED to retire because she reaches the end of her tenure next. This is work in progress.

The other two questions were:

What has been the impact of the Coronavirus epidemic on the Society from both an operational and cost perspective?

and

What effect is the current Covid is having on deposits and mortgages (I imagine the latter will be hard hit), are any of the offices closed/on short hours, are any staff furloughed, etc.?

Before talking about the Covid impacts, I would draw attention to the fact that last year's results and activity continued through the first quarter of the 2020 year and we added another £17m to our total assets, with very healthy liquidity levels that leaves us in a healthy position, even with the BoE interest rate decreases that now sees the major banks offering only one-tenth of a percent on many of their accounts.

There are three main impacts that we have seen so far:

1. The lockdown and Government rules mean there are far fewer people in circulation – so fewer customers turning up at our branches, fewer visits to other people's houses to view them, fewer surveyors prepared to do valuations. The call for new mortgages has slowed significantly, although there are £17m on their way through the processes – a healthy figure. Total savings balances continue to increase: even though we have seen the level of withdrawals increase, the level of savings continue to outstrip that increased outflow.

2. The direct impact on our staff of the Virus itself. The staff are classed as "essential workers" as an important part of national financial infrastructure. Alun has managed this in a really effective way. Many of the "back-office" staff can work from home because of the investment we have made in secure systems, purchases of laptops and security software that means they can work remotely. We have reduced opening hours to 9.30-14.00 (which is still longer opening hours than the big banks) and split our staff into teams working one-week on / one-week off but all 4 branches are open and providing the full range of services. This means we have been able to handle the small number of staff who have needed to self-isolate (for a number of reasons). These steps give us resilience and also allows the rules of Social distancing and hygiene to be observed at our branches. Only one of our staff has contracted Covid-19 so far – all those in contact were sent home to self-isolate and appear to be clear – and is now out of hospital and back home to recuperate. It has been our highest priority to keep our staff safe – both in health and financially.

3. The financial and economic impacts yet to work through because of Government measures – more difficult to estimate. Including the impact of people's livelihoods and the Mortgage holidays announced apparently without consultation with PRA and FCA or any of the institutions impacted. We have seen and approved over 350 applications for such "3-month" holidays. This will impact us for the second quarter and the results for the year 2020, but in the longer term we will turn out well from this. A deeper impact may be a significant slow down in the economy, a major fall in house prices (even greater than 2007/08) – and potential defaults on mortgages. We have run a number of financial scenarios to model the impacts and only extreme changes would give us real problems and what happened in 2007/08 was that the Society came out of it more strongly - as it was well managed and seen as a "safe haven". Our existing position shows extremely strong financial ratios and liquidity.

So what does all this mean to the Society?

The significant growth we have seen over the last 3 years continued into 2020 and the increased total mortgage balances will now stand us in good stead through the interest that will come in.

Our working model means that both our mortgage and savings balances fluctuate together with the bank rate, so operationally we can be flexible and our operating surplus forecast right now still looks feasible. The main danger for our results lies with any cliff edge for house prices linked with extreme impacts on defaults. However, our mortgage policies are prudent and all are assessed individually so we remain cautiously positive in our assessment - but we will monitor this very closely.

The benefits from the investment we have made in the Society in terms of new branches, staff and IT over the last three years puts us in a good position and our costs are being closely monitored.

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