

MINUTES OF THE ANNUAL GENERAL MEETING held at 6 p.m. on Monday 27 April 2020, convened at the Offices of the Society, Mutual House, Morton Road Darlington, DL1 4PT, attendance restricted to Society personnel and within the Government Guidance in relation to the Covid19 restrictions relating to meetings, with 5 attendees physically present in the building and adhering to social distancing guidelines, these being Andrew Craddock, Christopher White, Darren Ditchburn, Sarah Horley and Patricia Brown

Present: Jack Cullen in the Chair (JC)
 Bob Cuffe (BC)
 Ian Wilson (IW)
 Angela Russell (AR)
 Christopher Hunter (CH)
 Christopher White (CBW)
 Andrew Craddock (AC)
 Jon Sawyer (JS)
 Jessica Williams (JW)
 Kate McIntyre (KM)

Apologies: None

Members:
 Sarah Horley Darren Ditchburn Patricia Brown

Attendees

Don Bell Kim Flynn

Scrutineers Richard Hall of Civica Election Services (formerly Electoral Reform Services)

Auditors David Heaton, Deloitte's

JC welcomed members to the meeting.

1. **NOTICE OF MEETING** – JC sought and received agreement from members to take the Notice of Meeting as read.
2. **ANNUAL REPORT AND ACCOUNTS, REPORT OF THE DIRECTORS ON REMUNERATION AND RE-APPOINTMENT OF DELOITTE'S AS AUDITORS**

JC advised members that the Annual Accounts, Directors' Report and Annual Business Statement together with the Auditors' report thereon, had been available to members on the website.

JC introduced the meeting and advised that a transcript of the proceedings would be available via the Society website.

AC provided a report on the progress of the Society during 2019 as follows:-

This has to go down as the strangest AGM I have ever attended, as I sit alone in my office, connected by video conference to other Society Directors, a representative from Civica our adjudicators as well as Deloitte's our Auditors.

Rest assured we have checked all of the legalities and we are abiding by all of the rules required to run our AGM.

Last year I stood before you after only being in post a matter of weeks. Now a year later I know I made the right decision and remain immensely proud to be the Chief Executive of Darlington Building Society.

I would now like to comment on the 2019 performance as presented to you in the Annual Report and Accounts and Summary Financial Statement.

In 2019 we experienced a very competitive environment, and although our profit was slightly lower than seen in 2018, this was planned and primarily caused by two factors.

Firstly, we increased the average rate paid to our savings Members and increased savings balances.

We have attempted to support savers with a number of initiatives:

- Increased the average rate payable on our savings account range across the year
- Priced some of our account range in the top ten of the national best buy tables including our Help to Buy ISA, Junior Cash ISA, 90 Day notice account and 2 Year Savings Bond.
- Opened just under 1,500 new Help to Buy ISA accounts

These initiatives led to an increase in savings Members to just under 78,000 and a £52m increase in balances to £561m.

I should acknowledge at this point that in line with recent reductions in Bank Base Rate to an unprecedented low of 0.1%, we have had to make some reductions to our savings rates. But, we have tried to look after our members as much as we can, whilst maintaining the financial security of the Society, by passing on the benefit of rate reductions to our borrowers first, and then delaying the cut to savers rates, and not passing on the entirety of the Base Rate reductions.

And secondly. We invested in the long term future of your Society.

This investment has been into:

- Refurbishing our branches and supporting local high streets
- Providing new IT platforms to enable members and brokers to interact with us digitally
- Recruiting more local staff to service increased business volumes and provide an excellent level of service to our members

With costs increasing at a faster rate than revenue, profit fell slightly to £1.7m pre tax and £1.4m after tax.

As a member owned organisation, we do not seek to maximise profit, but rather optimise profit, by attempting to balance our performance to provide our members with competitive products and services, whilst at the same time investing in the Society for the future, and also ensuring that we maintain, and indeed improve, the financial strength of the business.

Indeed, at the end of 2019, our reserves increased by £1.7m to £45.7m and our capital and liquidity ratios remained well ahead of the requirements of our regulators.

Turning now to the balance sheet, our total assets are now just under £666m, an increase of 9% from the previous year.

Our new mortgage lending in 2019 was £138m, slightly higher than the £127m achieved in 2018.

In 2019, we increased the number of borrowing Members to just over 9,000, and increased residential mortgage balances by £40m to £539m. We continued to choose carefully which segments of the market we wish to compete in, where we can help families get onto the property ladder, where we can achieve an adequate return and where our bespoke manual underwriting can take account of individual circumstances in a way that the high street banks find difficult to do. As a result of this in 2019 we accepted mortgages for 66 First Time Buyers and 442 later life homeowners, two of whose stories you may well have read in the summary financial statement.

We continue to collect ongoing feedback on our service through Smart Money People. I have been delighted with our Net Promoter Scores in 2019 which averaged at +87.6. This is a measure of whether people would recommend us to family or friends so I am extremely proud that many of our reviews show such strong advocacy. Our customer satisfaction score also averaged at 97.5%.

In 2019 we achieved several awards including 'Best Specialist Mortgage Provider' and 'Mortgage Product Innovation' as well as our 90 Day Notice savings account announced as a 'Best Buy' product. We have also recently won the 'Treating Customers Fairly' at the British Bank Awards, highlighting our commitment to providing exceptional customer service across the Society.

I am most proud of the accolades our staff received during 2019. Our Yarm & Stockton Branch Manager received 'Apprentice of the Year' at the NSG Apprenticeships awards and one of our Mortgage Business Development Managers received 'Rising Star' at the British Mortgage Awards, recognising our ongoing commitment to training and support that we aim to offer to every member of staff.

Just under 20,000 people and 48 organisations benefited from the Society's commitment to share 5% of our net profits with the local community in 2019.

One of my personal highlights was joining my staff to help raise over £6,000 for local charity Daisy Chain, which provides support for people and families affected by autism. We scaled the four peaks of Cleveland, walking over 13 miles and it was a very enjoyable day for a fantastic cause.

We also continued to offer each member of staff 2 days volunteering in 2019 and a total of 169 days of volunteering was used for local causes such as foodbanks, litter picks and park clean-ups.

Looking forward, the short-term continues to be characterised by the human and economic uncertainty given Covid-19. Your Board is therefore taking a cautious and prudent approach to ensure we maintain our financial strength and sustainability in these unprecedented times, and continuing to invest where appropriate in the long term future of the Society.

Over the last few weeks we have had to change the way we operate to comply with government guidance, protect our staff and members, whilst at the same time continue to provide an essential public service.

I am delighted to report that we have managed to keep all of our branches open, albeit with reduced opening hours. I would like to thank all of our staff for working tirelessly to look after some of our most vulnerable members and providing them with access to their cash. In addition to reducing the opening hours, we have provided protective equipment, implemented social distancing and installed plastic screens. I would like to thank our members for your consideration during these difficult times.

At Head Office we enabled the vast majority of our staff to operate from their homes via new technology. Again we have managed to continue to provide a good level of service to our members and our brokers who continue to introduce business to us. Again, I would like to thank all of our staff for transitioning to this new way of working so smoothly, and broker partners for continuing to introduce business to us.

I understand that many of you will be anxious about the current situation. We are doing our best to help and support you all. We are continuing to support our saving members by providing access to cash and making special arrangements to provide this access to family members where people are having to self-isolate. We are continuing to support our borrowing members by agreeing payment holidays for those of you who have lost your jobs or are suffering from lower income. We will continue to do what is right for our members, our staff and our Society

Before we encountered this pandemic we had a viable and sustainable Society that was progressing really well. We have been helping people to save and buy their homes since 1856. We have survived two world wars, recessions and pandemics. We remain financially strong and as committed as ever to supporting our members. We will come out the other side of this pandemic with a viable and sustainable Society that will continue to encourage savings and help people buy their own homes. I remain proud to lead Darlington Building Society, and look forward to meeting with you all in person at next year's AGM.

Thank you

A number of members' questions were considered with responses as follows:-

Question 1

I attended the AGM last year and would have attended again this year had the meeting at The Witham been allowed to proceed. In the current climate with restrictions on social gatherings it is inevitable that the meeting will not now take place. At last year's AGM, I asked the question as to whether there were any plans to replace the Darly train and carriages for young savers and was advised something was in the pipeline. We have 4 young grandchildren, who were enrolled in the scheme the day the promotion went live and although they all have the train and carriages for over a year, we continue to make monthly payments into their accounts. It is a great incentive to encourage young savers and having collected them all, they were looking forward to a new promotion for them to be part of. Please advise where we are with regard to Darly's replacement.

Response

The current Darly account remains popular with both our new and existing junior members aged 10 and under. We continue to review how best to enhance this proposition to support encouraging our junior members to get in to that good 'savings habit' at a young age by continuing to save on a regular basis. We are planning to make some changes later this year in conjunction with our numeracy and literacy work supporting local schools.

We are extremely proud of our local heritage and one of the ways in which we are looking to develop this proposition in the future is in conjunction with preparations for the historic 2025 Bi-century anniversary of the Stockton and Darlington Railway, the birthplace of the modern railway system. We look forward to keeping members fully up to date on progress in due course.

We have also been looking into how we strengthen our savings proposition for those aged 11 to 16, holding focus groups with local children in that age group to help us understand what their savings requirements are. The overwhelming feedback from this age group was the importance placed on the ability to service their savings account through modern digital technologies such as mobile apps. Therefore we will be looking to developing this proposition further in line with the Society's exciting digital strategy.

Question 2

Thank you for your annual report and associated documentation. With regard to the section on service excellence, while I have no personal issues with DBS in this regard, I do consider rather more transparency should have been set out in this part of the

report. There is no insight into the overall number of complaints or how this relates to a percentage share of customers (a feature in most other Building Society reports this year), nor what percentage of overall complaints was regarded as justified and what the common theme (other than PPI) has been. One would expect the majority of complaints to be resolved before the need to go to FOS arises, so the information given on the report, which limits itself solely to FOS complaints, does not give members a good insight into complaint trends. While a substantial number of the increased level of complaints apparently related to PPI there is no indication what other complaint trends emerged during the year under review, nor as I say the overall volume of complaints which were regarded as justified. Please address this.

Response

The total number of complaints received by the Society in 2019 was 597 compared to 311 in 2018. In accordance with rules from the Financial Conduct Authority (FCA), the number of these complaints classified as eligible in 2019 was 469, which was 0.54% of members. This compares to 291 eligible complaints in 2018, which was 0.34% of members.

However, the 2019 numbers were increased by an unusually high volume of PPI complaints received prior to the 29 August deadline announced by the FCA. The total number of PPI complaints in 2019 was 310 compared to 115 in the year before. Excluding PPI complaints from our statistics results in 159 eligible complaints in 2019 compared to 176 in 2018, a small reduction year-on-year.

The Society upheld 114 (including PPI) out of 469 eligible complaints in 2019 which is 0.11% of members, compared to 57 out of 291 in 2018, equivalent to 0.06 of members.

The Society strives hard to ensure all complainants are satisfied with the way their complaints are dealt with, and the vast majority are satisfactorily resolved, although a small number of members remain unhappy with our final response and wish to have their complaints independently reviewed by the Financial Ombudsman Service (FOS). In 2019, 20 complaints (5 which did not relate to PPI) were referred to the FOS, and of these 20, only 2 were upheld. In 2018, 20 complaints (2 of which did not relate to PPI) were referred to the FOS, and again, only 2 were upheld.

As you can see from the above statistics, the most common reason by far for complaints last year was PPI. After this, common themes were administrative errors and customer service. All complaints are subject to a root cause analysis and processes have been improved and additional staff training implemented, together with increasing manpower to provide improved levels of service in the Society.

In addition to monitoring complaints, we also collect member feedback on our products and services through other channels in our attempt to continually improve our member proposition. We utilise the services of Smart Money People who independently review the feedback and benchmark our scores with other similar firms. In 2019 our Net Promoter Score averaged +87.6 throughout 2019, compared to +88.9 in 2018. The

Net Promoter Score is a measure of whether people would recommend us to their family and friends. In 2019 our customer satisfaction score averaged 97.5% compared to 97.7% the previous year

Question 3

Also, I see that not all directors are submitting themselves for re-election this year. I imagine you are aware of paragraph 18 of the UK Corporate Governance Code (2018 edition), namely: "All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success."

Could you please advise why only 5 of the 10 board members are submitting themselves for re-election this year and why there has not been any explanation as to why the candidates' contribution has and continues to be important to the long-term success of the Society? While I appreciate the biographies given on pages 22 and 23 of the annual report for all directors this does not actually give insight into their actual achievements in office at DBS.

I imagine your response to the annual election point will be that the rules of the DBS only provide for a percentage of the board to be elected annually. I would have expected the annual report to address why no rule change has been brought forward to the AGM to reflect the 2018 edition of the UK Corporate Governance Code and why the 5 directors who have not submitted themselves for re-election have determined it inappropriate to voluntarily submit themselves for re-election. I would point out, for example, that all directors of the National Counties Building Society are submitting themselves for re-election this year. Please address this point in your reply to me.

Response

The UK Corporate Governance Code (2018) published by the Financial Reporting Council is designed for and mandatory only for large companies that have a premium listing on the London Stock Exchange. In addition, our Memorandum and Rules require the Society to ensure that each year not less than one-third of the Directors should stand for re-election (Rule 26.1). Up to and including our Annual General Meeting in 2019, it had become our practice to comply with this minimum requirement and re-elect one-third of the Directors.

However, the Directors are committed to applying best practice in corporate governance commensurate with our mutual status and our activities, and proportionate to the size of our Society.

During 2019, the Nominations and Governance Committee compared our Corporate Governance arrangements with the new requirements of the 2018 UK Corporate Governance Code and also benchmarked our practice with other building societies of a similar size. Taking due account of this the Committee recommended to the Board that the Society should increase the number of Directors seeking re-election from one-third to one-half, with this to be reviewed again in 2020. The Board accepted this

recommendation, and agreed that it was not necessary at this time to propose an amendment to our rules as they specified a minimum only which could be exceeded by a decision of the Board. The Nominations and Governance Committee will continue to review how we compare to the requirements of the UK Corporate Governance Code and implement changes where considered appropriate.

The skills and experiences of the Directors for election or re-election are drawn out in the Members Review and AGM documentation, although it is acknowledged that their contribution to the Society could be more clearly articulated. All Directors are subject to an on-going appraisal process to ensure their contribution is and continues to be important to the ongoing success of the Society. It was the intention for the Directors seeking election to speak in person to members prior to the 2020 AGM, including details of why their skills and experiences would complement existing Directors and how they would contribute to the Society. Unfortunately, as we have had to cancel the meeting this is no longer possible, but we will review alternative ways for this to be communicated to members.

As there were no further questions, CH moved the formal business before the meeting and he proposed to receive the Annual Report and Accounts for the year ended 31 December 2019, to approve the Report of the Directors on Remuneration, and to re-appoint Deloitte LLP as Auditors. Additionally, Katharine Sarah McIntyre, Angela May Russell and Jessica Abigail Williams being eligible sought election as directors of the Society and John (Jack) Cullen and Christopher David Hunter being eligible sought re-election as directors of the Society, and CH proposed their election/re-election as directors.

After the votes were counted and ratified by Civica Election Services, Richard Hall as an independent scrutineer announced the results of the polls as follows:-

1. To receive the Directors' Report, Annual Accounts and Annual Business Statement together with Auditors' Report

For	Against	Carried
3,387	26	

2. To approve the Report of the Directors' on Remuneration

For	Against	Carried
3,204	187	

3. To re-appoint Deloitte LLP as Auditors

For	Against	Carried
3,312	87	

4. To elect Katharine Sarah McIntyre

For	Against	Carried
3,307	95	

5. To elect Angela May Russell

For	Against	Carried
3,306	98	

6. To elect Jessica Abigail Williams

For	Against	Carried
3,290	107	

7. To re-elect John (Jack) Cullen

For	Against	Carried
3,294	102	

8. To re-elect Christopher David Hunter

For	Against	Carried
3,306	98	

JC confirmed that all resolutions had been passed and directors either elected or re-elected to serve on the Board.

He was delighted to announce that a sum of £1,747.70 had been raised as a result of votes cast which would be presented to MacMillan Cancer Research, Darlington.

JC announced that as there was no further business in accordance with the Rules and Statutes the meeting be declared closed.