



The **VICTORIA MUTUAL**
Building Society

EXPLANATORY CIRCULAR

Dated: July 19, 2017

To: The Members of The Victoria Mutual Building Society

We thank you for your Membership and continued loyalty to the Society as we continue to serve you. We look forward to a future of continued growth as we create new opportunities to better enable you to achieve your goal of financial independence.

A series of Town Hall Meetings were held in the USA, UK and Jamaica during 2016 to obtain feedback from you, our Members. We have reviewed your feedback regarding new products and services required to better meet your needs and with increased flexibility and dynamism in mind, we propose a revised set of Rules as summarized in this Circular.

Re: Modernisation of the Rules of the Society

1. The Rules of your Society were last updated in 1989. Since then, there have been two (2) major developments. First, the internet age has impacted everything we do and it is now common place for customers of financial institutions to access services electronically and through multiple devices. The second major development is the promulgation of the Banking Services Act, 2014 (“BSA”). The BSA brought commercial banks, building societies and merchant banks under one common regulatory regime and in doing so, made fundamental changes to the deposit-taking environment.
2. Your Directors responded by commissioning a legal review of the Society’s Rules. This culminated in the new set of draft Rules which we are presenting to you today. Prior to presenting these to you, we also took the prudent measure of ensuring that these Rules are acceptable to the Bank of Jamaica. The Rules are modernized so that the Society may better serve you, providing greater flexibility and responsiveness to your changing needs and ensuring the long term sustainability of the Society. So if adopted, there is no danger of your Society not being in compliance with the regulatory requirements established by the BSA.
3. As Chairman of your Society, I take pleasure in recommending these Rules to you for adoption by the Society. This Explanatory Circular provides a brief summary of the changes in the constitution of the Society which will arise if the new Rules are adopted.

(1) Rules of Modernisation

4. The existing Rules of the Society contemplate that Members with deposit accounts will operate their accounts using the old passbook system. In fact, that has been replaced by electronic banking where depositors may access their accounts and move funds by “on-line” banking facilities. Your Society wants to always deliver services to you through modern facilities and with ease of convenience. Accordingly, a new set of amendments are proposed in the new Rules to recognize and facilitate “on-line” banking and other forms of electronic transactions.

5. These include:

- (a) redefining “pass book” to include an electronic record of a Member’s account or virtual pass book. (See Rules 1 and 10);
- (b) recognising the use of debit cards and other electronic devices by which a member may transact business on his account. (See Rules 1, 19, 24 and 101);
- (c) recognising the validity of notices given by the Society to its Members by email, website postings or other electronic means, or in electronic form. (See Rules 1, 67, 68 and 77); and
- (d) stipulating the terms upon which minors (persons under 18 years) may become Members of the Society.
- (e) expanding the range of products and services offered.

(2) Changes prompted by the New Banking Services Act, 2014

6. A number of changes have been made in direct response to the BSA. They include the following:

- (a) Authorising the Society to Issue Funding Shares – One of the principal objectives of the BSA is to promote an environment whereby a deposit-taking institution can effectively raise capital to protect its depositors, especially in a time of financial stress. As a mutual society, the Members of VMBS are its owners. This ownership is not like stocks (equity) held in a company, where stocks can be sold to raise capital. However, the Society can be authorised to issue shares which, though not equity in the true sense, will rank after depositors. Such shares called “Funding Shares” may be preference shares, deferred shares or any other class of non-voting shares. (See Rules 1, 6(4) and 90).
- (b) Listing of Funding Shares on Stock Exchange – To create liquidity for any class of Funding Shares, the new Rules permit such shares to be listed on a recognised stock exchange. (Rule 6(4)).
- (c) Appointment of Agent- The BSA permits a deposit-taking institution to extend its service reach by appointing agents. For example, a supermarket in a community could be an agent of a bank to receive deposits and loan repayments and to dispense cash on withdrawal, among other primary functions. (See Rule 14(1)).
- (d) Directors “fit and proper” persons – Under the BSA, a Director must be approved by the Bank of Jamaica as a “fit and proper” person. An amendment has been made at Rule 63 to provide that a Director who ceases to be “fit and proper” may be removed from the Board.

(3) Administrative Efficiency

7. A number of amendments have been made in the interest of administrative efficiency. Under the current Rules:

- (a) the Society cannot lend more than 75% of the value of a mortgaged property;
- (b) the Society must follow certain strict valuation procedures in approving a mortgage loan;
- (c) a mortgage loan cannot be made until the relevant title is approved by an Attorney-at-Law.

8. By hard-coding such provisions in the Rules, the Directors cannot adopt more flexible mortgage processing practices when current market conditions allow. Accordingly, those provisions have been deleted from the new Rules but will be given consideration within the Society’s Operating Policies and Procedures which the Board may prudently adjust from time to time in accordance with best practices and regulatory requirements. The Directors believe that flexibility to respond to market conditions is important in order to provide products and services that are relevant to your needs.

(4) Safeguard Against Predatory Demutualisation

9. Your Society has existed for over 138 years as a “mutual” owned by you, the Members. The business philosophy of the Society is to ensure that customers can become Members and own the Society, so that the interest of Members as customers are always the highest priority and not second to a smaller set of shareholders, as is the situation with regular companies. In a number of cases, mutual building societies in the UK and other Commonwealth countries have been demutualised and converted to companies. The experience in those countries where that event occurs is that many times the existing members/customers are disadvantaged as a flood of non-members join a mutual building society for no other reason than to share in any cash distribution or equity shares given to members. These newcomers (commonly called “carpetbaggers”) deprive the genuine long-standing members of their full benefits.
10. Your Directors believe in the protection of the long-standing Members of the Society from the fate which has befallen other members of mutual building societies in those countries. For the foregoing reason, your Directors have proposed a new regime which is designed to ensure that in the unlikely but possible event of a future attempt to force a demutualization of the Society, the current Members (and not carpetbaggers) will reap any benefit.
11. Rule 33 deals with this matter. What follows is a brief summary of how this Rule will work.
12. The Rule introduces some key concepts such as “Incumbent Directors”, “Mutuality Trustee” and “Predation Events”. An Incumbent Director is one who has served on the Board of the Society for at least three (3) years before the start of any attempt to demutualise the Society. “Predation Event” means any person whose intent is to take control of the built up value of 138 years in the Society and then attempt to demutualise the Society for the benefit of another company or set of individuals or to take control of its assets. They include, for instance, launching a plan to elect a new batch of Directors to the Board, soliciting Members to give proxies or to vote for a plan to demutualise the Society or to sell the business of the Society.
13. If the Incumbent Directors shall declare that a Predation Event has occurred or started, then only Qualified 2-year Members of the Society (i.e. persons who have been Members of the Society for at least two (2) years) will be allowed to vote at any general meeting of the Society. That means that newcomers (some of which may be carpetbaggers) will have no say in any voting on the predation transaction.
14. If the Predation Event is successful, then any benefit offered to Members to entice them to vote for the plan will be automatically assigned to the Mutuality Trustee to be held for the general benefit of all Members. So, for instance, if the Society was forced to demutualise under a scheme whereby shares of another company are issued to the Members, those shares would go to the Mutuality Trustee which would hold them for the benefit of all the Members. The Mutuality Trustee is the Victoria Mutual Foundation, a charitable foundation formed by the Society in order to undertake community and nation building projects.
15. Alternatively, the Mutuality Trustee has a right to purchase for J\$1.00 all the benefits paid out to Members to “break-up” the Society. The Mutuality Trustee would then hold those benefits as trustee on behalf of the Members so that mutuality would continue for the benefit of the Members.
16. The above regime would only apply in a case where the demutualisation is being forced on the Society by outsiders. Provision is made for the Incumbent Directors who have been serving on the Board for greater than three (3) years before the adoption of these new Rules (to the exclusion of newly-appointed Directors) to waive the regime and to demutualise or convert the Society into a company or other corporate body on terms acceptable to the Incumbent Directors if they believe it is in the best interests of all Members.

17. The Directors of the Society unanimously support the proposed amendments to the Rules. As Chairman I solicit your support for the amendments. I hope you will be able to attend the Annual General Meeting ("AGM") of the Society to be held on August 31, 2017 and that you will vote for the adoption of the new Rules. If you are not able to attend the AGM then you may sign a Proxy Form appointing me or any Director or other person as your proxy to attend and vote on your behalf. A Proxy Form may be obtained:

- (a) by downloading same for our website www.vmbs.com
- (b) from our Head Office or any branch office; or
- (c) by calling /email

Member Engagement Centre

- **Tel:** (876) 754-VMBS (8627)
- **Toll Free (from Jamaica):** 1-888-YES-VMBS (937-8627)
- **Toll Free (from USA/Canada):** 1-866-967-VMBS (8627)
- **Free Phone (from UK):** 0-800-068-VMBS (8627)
- **E-mail:** manager@vmbs.com

Opening days and hours

Mon. - Fri. 7:00 a.m. - 8:00 p.m.

Sat. 10:00 a.m. - 6:00 p.m.

Sun. 10:00 a.m. - 3:00 p.m.

and providing an e-mail or fax number at which it can be sent to you.

Yours truly,

Michael McMorris

Chairman