monmouthshire
building society






Annual Report & Accounts

Year ended 30 April 2017

Customer Policy

Our aim is to provide a friendly, personal and efficient service, coupled with a range of highly competitive products and total financial security.

At all times we will pursue the concept of mutuality by balancing the interests of both investing and borrowing members as equitably as possible within the framework of market forces.

Front cover images depict recipients of donations from Monmouthshire Building Society Charitable Foundation and the Society's participation in Wales Action Week and Give & Gain Day.

Top left A group of Society colleagues taking part in the BITC Give and Gain Day 2017 at Porthkerry Beach in Barry

Top centre Our Cardiff 10k team running for Latch, our 2016/17 charity of the year

Top right Llanrumney RFC Minis and Juniors received £733 for essential equipment

Bottom left Colleagues visiting All Creatures Great and Small Animal Sanctuary, our 2017/18 charity of the year

Bottom centre The Society for the Welfare of Horses and Ponies received £396 to purchase a new horse weighing scale

Bottom right Cwmbran Stroke Support Group received £236 to purchase a digital camera and new whiteboards

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Monmouthshire House
John Frost Square, Newport, South Wales, NP20 1PX.
Established 1869. Registered No 377B
Telephone: 01633 844 444

A presentation at our Cwmbran branch to celebrate the achievement of every branch colleague across 11 branches in South Wales having received Dementia Friendly awareness accreditation.

2017 Highlights

Results	**2017**	**2016**	**2015** (as restated under FRS102)	**2014**	**2013**
Growth					
Total Assets (£ millions)	1,053.8	1,073.5	1,047.9	975.6	885.1
Capital					
Common Equity Tier 1 capital ratio (% Risk Weighted Assets)	16.11	14.72	13.45	13.06	12.79
Profitability					
Profit after tax (£ millions)	4.6	6.4	4.7	4.0	3.1
Profit after tax ratio (% mean total assets)	0.43	0.60	0.47	0.43	0.36
Management expenses ratio (% mean total assets)	0.93	0.75	0.67	0.67	0.70
Cost income ratio (%)	64.14	50.37	50.00	49.65	54.23

As with other UKGAAP reporters, in the prior year the Society was required to change its accounting framework to implement Financial Reporting Standard 102 (FRS 102) and as part of this transition the Society chose to adopt International Accounting Standard 39 – Financial Instruments - Recognition and Measurement (IAS 39). The financial statements for the year ended 30 April 2015 have been restated for the transition to FRS 102. Explanations of how the above ratios are calculated are included in the Annual Business Statement on page 64.

Total Assets were £1053.8 million

Common Equity Tier 1 ratio of 16.11%

Over £8k contributed to our charity of the year

Profit after tax was £4.6 million

The Society scored 93.5% for Customer Satisfaction

Haydn Warman – Chairman

Chairman's Review

I am pleased to report that the Society has completed a year which has seen a sound financial performance and also considerable change. This performance has to be seen in the context of our mission to achieve long-term sustainable mortgage growth. We have continued to pursue the concept of mutuality by balancing the interests of both investing and borrowing members as equitably as possible within the framework of market forces.

Results overview

The last year has seen a significant increase in competition in the mortgage market with retail banks keen to improve their market share, coupled with an increased number of competitors as challenger banks enter the market. This has resulted in rates in the mortgage market being at historically low levels, a trend furthered by the cut in the Bank of England rate, to 0.25%. There has also been low levels of house purchases, resulting in high levels of re-mortgage business and high redemption levels across the industry. Despite the challenges in the market, the Society was able to grow its mortgage book by £5.2m (2016:£4.0m). We have also continued to increase investment in the Society's infrastructure, increasing the Society's operational resilience and helping to further embed its risk management framework as we prepare the Society for its next phase of sustainable growth.

Enhancing our capital position

We have recorded a profit after tax for the year of £4.6 million (2016: £6.4 million). As a mutual it is first and foremost in our minds that we have to balance the needs of our savers and borrowers as well as deliver profit for the business which will help us to keep the business secure as demand for capital increases from regulators both in the UK and Europe. Currently, generating profits is the only way that the Society is able to create more capital to invest in its future and provide essential protection for the Society and our members.

The decrease in profit after tax when compared with the prior year is as a result of the current market conditions, increased costs and the record low interest rates, and banks re-entering the core residential mortgage markets causing margin erosion.

In 2017 we continued to focus on making sure our Statement of Financial Position is safe, secure and fit for purpose for both the regulatory environment of today and that of the future. Our capital position is more than sufficient to meet our regulatory requirements. Our Common Equity Tier 1 ratio which looks at our capital levels against our risk weighted assets is 16.11% up from 14.72% in 2016, comparing favourably with the industry and our leverage ratio is 5.81% (2016: 5.34%).

Over £8,000 contributed to our charity of the year

Delivering growth in an unprecedented market

We have grown our mortgage assets to £811.3 million (2016: £806.2 million). Gross lending for the period increased in the year to £141.2 million (2016: 139.1 million) and our net residential mortgage balances have increased by £10.1 million to £785.3 million (2016: £775.2 million) as the Society focused on offering competitive products and services to enable more people to enjoy the benefits of mutuality, while remaining wholly committed to protecting members' interests now and in the future. Our mortgage business remains high quality with an average loan to value of all lending of 53% (2016: 53%) with our buy-to-let loan portfolio remaining at 17% of total mortgage lending. Default rates for both owner occupied and buy-to-let properties remained low in the year.

In line with our strategy we reduced our commercial lending book from £31 million in 2016 to £26 million. The Society maintains a flexible underwriting approach which enables it to consider individual cases on their merit. In particular, the Society helped many first time buyers on to the property ladder and continued to meet the needs of customers who are largely based in our primary geographical area. We were recognised for this by being nominated for 'Regional Lending Provider of the Year' and 'Best Service from a Mortgage Provider' categories at the 2017 Moneyfacts Awards.

Delivering value to our loyal members

The Society has sought to support its savings membership for as long as possible in accordance with its values by maintaining competitive product rates in a low interest rate environment. However, increasing pressure on margins, the impact of an unbudgeted reduction in the Bank of England rate and continuing high retail inflows leading to excess liquidity levels have led to investment rate decreases during the year. These cuts have resulted in a significant retail funding outflow, reduction in liquidity and have led to an overall improvement to the efficiency of its balance sheet.

The Society is currently performing a review of its member experience from initial onboarding right through the entire product life cycle. This will ensure the Society continues to offer its members products tailored to its members needs, along with a focus on delivering the best possible service.

Community

The Society has always supported the local communities in which it operates. I am pleased that this year we have enhanced that commitment once again investing in our local communities through staff volunteering and sponsorship. The Society continues to uphold its commitment to the many groups and charities in our communities, giving back through a number of sponsorship programmes. Groups that benefited throughout the previous financial year include Monmouth Rowing Club, Gwent Chorale, South Wales Shire Horse Show and Pontypool Rugby Club. In addition, we are pleased to announce that the combined efforts of the team has raised a total of £8,400 for LATCH, our chosen charity of the year, which provides essential services for children with cancer. The Society's independent Charitable Foundation continues its aim to further support our local communities, awarding £21k to 41 great causes during the year.

Investing in our infrastructure

The Society has continued to embed its risk management framework in the period. There has been further investment in its people and information technology systems as it looks to enhance its operational resilience. The Society is committed to investing and developing its information technology systems in conjunction with our partners and fellow shareholders in Mutual Vision Technologies Limited (MVT). The Society has identified areas of focus in relation to improving its information technology needs with a priority of enhancing our members' experience. These investments will be reflected in an increase in our management expenses and which, coupled with continuing search for greater efficiencies, the Board believes are necessary to support the long-term sustainability of the Society.

Riverside Rovers Junior Football Club received £604 for new kit for training and matches from the Monmouthshire Building Society Charitable Foundation

Future outlook

It is now ten years since the start of the global financial crisis. The ramifications of recent political shocks have led commentators to question how vulnerable the global economy is to a renewed downturn.

The Monetary Policy Committee's reduction in the Bank of England rate, additional quantitative easing and the introduction of the Term Funding Scheme for financial institutions, was a direct result of a significant reduction in market confidence following the vote for Brexit on 23 June 2016. These measures had the objectives of providing a stimulus to the market and preventing the country falling back into recession, encouraging households and businesses to continue to spend and invest in the UK economy.

Prospects for the UK economy are subdued and likely to remain more uncertain than usual for the next few years as a consequence of the vote for Brexit. Projections therefore carry more uncertainty than usual, as the timing and outcome of any negotiations surrounding the UK's membership of the European Union vary. However, we do expect the bank rate to remain low this year and competition to intensify in our core markets. Despite this, our core values, sustainable business model and investment in infrastructure means the Society is well placed to deal with challenges that may arise now and in the future.

Haydn Warman
Chairman
17 July 2017

The Society scored 93.5% for Customer Satisfaction

Colleagues in our Caerleon Road branch celebrating St David's Day 2017

Strategic Report

The Strategic Report seeks to provide a fair, balanced and understandable review of the Group's business model and strategy, and the environment in which it operates.

Our business model

Monmouthshire Building Society is a strong regional building society which is primarily focused on providing residential mortgages and is funded substantially by members' savings accounts.

Our vision

Our mission is to maintain the Group as an independent and vibrant provider of competitive loans, savings, insurance and other financial products and to achieve long-term sustainable growth.

At all times we will pursue the concept of mutuality by balancing the interests of both investing and borrowing members as equitably as possible within the framework of market forces.

Our distinctiveness

The foundations for providing a distinctive customer proposition are:

- our strong regional brand;
- our member-focussed culture; and
- our financial security.

Our ambition to serve our members and local community runs through our culture and decision making, and is key to ensuring we are building a safe and sustainable business that our members trust.

Our competitive strengths

Our strategy is underpinned by the Group's core business strengths:

- Flexibility and experience in relation to mortgage underwriting;
- Excellent customer service resulting in high levels of customer satisfaction;
- Trust of its members;
- Strong balance sheet and operating capacity for growth on a meaningful scale;
- The enthusiasm and knowledge of the Society's colleagues;
- The Society's Branch and Agency network, which is largely located in the Society's core operating area, and forms a key part of those communities in which the Society operates.

Our strategy

In May 2016, the Board committed to a five year strategy focused on developing the Society's infrastructure and achieving long-term sustainable mortgage growth. In light of significant changes in the competitive environment in which the Society operates, together with the appointment of a new CEO in November 2016, the Board is in the process of reviewing the existing plan. The Board has already agreed modifications to that plan which are set out in the following paragraphs.

Approach

We will utilise the advantages of our mutual status to provide mortgage and savings products on the most competitive terms compatible with prudent management and financial security.

Lending

In order for the Society to reach its targeted levels of growth, enabling more members of the community to benefit from mutuality, while increasing margins and maintaining its strong capital position, the Society's lending strategy is to:

- Continue to offer low rates and compete on price for its core residential products;
- Serve its broader community base by offering a wider selection of niche products;
- Focus on delivering the highest quality service to its members and intermediaries;
- Minimise, as far as possible the high levels of redemptions that have been experienced in recent years; and
- Build strategic alliances with local businesses.

The above strategy will help to bring greater stability to a fluid mortgage book, as the Society aims for a period of steady sustainable net mortgage growth.

Development of Infrastructure

The Board recognises the need to enhance the Society's operating infrastructure to provide operational resilience and an appropriate platform from which to grow and successfully compete in the digital age.

In this respect further work is being performed to enhance the newly developed Risk Management Framework and its associated governance processes. Key changes to infrastructure relate to:

People

Underpinning the development and successful execution of the Society's strategy are the people in the business, the culture and their values and capability. There has been significant investment in developing and sustaining the culture, which encourages the Society's core values to be central to business activities, with colleagues empowered to deliver their objectives and senior management ensuring that people are equipped to successfully perform their roles. Ongoing investment in training and resourcing will ensure that there is the right capability at all levels within the business to successfully implement the strategy.

Processes and systems

The Society will commit significant resources to improve its IT infrastructure and cyber defences across all key areas of the business. As part of the changes, efforts will be made to review processes and increase operational efficiency in all areas, to drive maximum value for its members and enhance the Society's core competences.

A business strategy and change function will be established in the new financial year to assist in this goal to ensure that the business effectively prioritises, implements and obtains maximum benefits from strategic and regulatory change.

Premises

Additional resource is planned during the life of the strategy, with the number of colleagues expected to increase significantly over the period. Investment at Head Office and the Branch Network will be made to ensure the Society has a working environment which is modern, fit for purpose and will serve the Society for the duration of the strategic plan and beyond.

Distribution

The Society's distribution will be aligned to the entire 'customer experience'. 'Customer experience' relates to all forms of engagement between the Society and its customers, including both sales and non-sales outputs.

Today, consumers often use multiple channels to conduct their business and having 'fit for purpose' channels that match consumer choice is critical to on-going success. The speed of adoption of digital technologies is rapidly changing consumer behaviour and organisations are having to respond accordingly. The Society will focus on how our members wish to consume our products, services and information, and this customer experience will drive the distribution strategy.

In order to support the core lending strategy, our marketing, branches and agencies, direct sales and intermediaries, online and digital capabilities will be developed over the life of the plan to enhance the service to members in line with the development of infrastructure included within the Society's strategy.

Funding

The Society is, and will remain, predominantly retail funded via a range of fixed and variable rate savings and ISA products that are offered to retail customers. Retail funding products are offered through the branch and agency network and online via the website. The Society attracts funding by offering attractive rates and terms to customers. The Society recognises the great importance of its savers, and will continue to support its retail members in the current ultra-low interest rate environment, but recognises that it must do so in a sustainable way, balancing the needs of savers against the Society's long-term financial security.

Haydn Warman
Chairman
17 July 2017

Directors' Report

Non-executive directors


Haydn Warman

Haydn Warman

Appointed to the Board in 2010, Haydn has 32 years senior management experience in the building society sector. Cardiff born, he graduated from Aberystwyth University with an LLB Honours degree. He qualified as a solicitor and became a partner in a private practice before joining the Legal Division of the Welsh Office. He subsequently became a senior executive with Principality Building Society, being appointed Society Secretary and later a director of the Society, until retiring from executive office in 2010. During that period he was also a member of the Building Societies Association Legal Panel.

Haydn has served as Deputy Chairman of the University of South Wales and chaired the University's Remuneration Committee. He is a governor of Christ College Brecon. He has served as a director of Royal Welsh College of Music and Drama Limited and a non-executive member of the Audit and Risk Management Committee of the Wales Audit Office. He was appointed Chairman of the Board in August 2014, having previously served as Vice Chairman.

Haydn is Chairman of the Nominations and Corporate Governance Committee and serves on the Risk Committee.


Tony Morgan

Tony Morgan

A Fellow of the Institute of Chartered Accountants who was appointed to the Board in 2013, Tony previously worked for Pricewaterhouse Coopers ("PwC") as Senior Partner in Wales and Deputy Chairman of the Wales and West Region.

He spent nearly 33 years with PwC including 22 years as a partner of the firm. During his career, he was based in Cardiff, London and Sydney, where he carried out a wide range of accountancy, audit, investigation and governance assignments for PwC clients in the UK and overseas.

Subsequent to his retirement he has undertaken roles at the University of South Wales as Governor, Chair of the Finance & Resources Committee and member of the Remuneration Committee; at the Welsh Assembly Commission as Independent Adviser and Chairman of the Remuneration Committee; and also at Geldards Law Firm as Chairman of the Audit Committee and as an independent adviser as well as being a non-executive director of Power Poles Ltd. He was appointed Vice-Chairman of the Board in August 2016 and is Chairman of the Audit Committee. He also serves on the Remuneration Committee.


Debra Lewis

Debra Lewis

Debra joined the Board in 2014 and is an independent member of several investment committees for Rothschild & Co. She grew up in South Wales, is a Fellow of the Institute of Chartered Accountants in England and Wales, and holds an LLB law degree from University College Cardiff.

She qualified as a Chartered Accountant with Ernst & Young and worked with them in both London and Sydney. She then spent over 18 years in the City with Rothschild & Co, initially in internal audit and then held a variety of roles in lending, debt advisory and latterly as Head of Credit, overseeing lending activities before assuming her current role as a consultant.

Debra is Chairman of the Risk Committee and serves on the Nominations and Corporate Governance Committee.


Nina Hingorani-Crain

Nina Hingorani-Crain

Appointed to the Board in August 2015, Nina has 20 years' experience in the financial services sector. After graduating from King's College London with an LLB Honours degree, and from the Sorbonne Paris with the French equivalent, she qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales. She then spent five years working for Ernst & Young in its Corporate Finance practice, where a number of her clients were building societies, before being recruited to join the former Financial Services Authority ("FSA"). In her 10 years working with the regulator she undertook a variety of roles, initially in international strategy representing the FSA globally alongside the IMF and World Bank.

This was followed by management positions, as the Chairman's Principal Private Secretary during the global financial crisis and subsequently as Chief of Staff leading the demerger of the FSA and the creation of the new Financial Conduct Authority ("FCA").

Whilst at the FCA, Nina also undertook a six month strategic secondment to Age UK to inform the regulator's strategy of placing consumer needs at the heart of its mandate. She brings a wide range of knowledge in conduct and consumer areas to the Board and combines her non-executive responsibilities with charitable work focused on children. She is Chief Operating Officer of the charity Children's Hospices across London.


Roger Turner

Roger Turner

Appointed to the Board in September 2015, Roger has some 30 years' experience in the financial services sector, most recently as the Head of Group Capital and Treasury at Schroders plc and now CEO of an asset management firm in London and a non-executive director of Shepherds Friendly Society based in Cheshire.

His experience is wide ranging, having been a trader in fixed income and derivatives and also as a regulator, in addition to his extensive consultancy experience as a partner in the Financial Services Regulatory Practice of PwC from 1997 to 2009.

Roger has worked predominantly in the UK but has substantial experience of working for organisations overseas, most notably in the Far East and the USA, and his clients have included both corporate bodies and governments. He holds a BA (Hons) in Business Studies and an MBA in Finance from City University Business School. He is Chairman of the Remuneration Committee and serves on the Audit Committee.


Trevor Barratt

Trevor Barratt

Appointed to the Board in July 2016, Trevor has more than 25 years' experience as a senior executive in governance and risk management, with the majority of this time spent in mainstream retail and commercial banking. Trevor is a specialist in risk, and his experience spans business risk, governance, and fighting financial crime.

An Associate of the Chartered Institute of Financial Services, he gained a Postgraduate Diploma before completing an MBA from Sheffield Hallam University. For several years he was the Head of Strategic Risk for Lloyds Bank, working within the Group Risk function, and subsequently he became the Chief Risk Officer of Charities Aid Foundation Bank, before moving to Duncan Lawrie Private Banking Group, prior to taking up his current role. He is the Quality Director at Fairbanking Foundation.

He is a non-executive director of a private bank, with an international clientele. He is also a member of the International Compliance Association, and the Chartered Institute for Securities & Investment. Trevor also holds the FT Advanced NED Diploma. He serves on the Risk and Nomination Committees.

Executive directors


James Bawa

James Bawa

James was appointed as Chief Executive of the Society in November 2016 and has extensive experience of the financial services sector. He was formerly the Chief Executive of Teachers Building Society, which he joined in 2002. Prior to joining Teachers, he worked as Chief Executive at Scottish Legal Life following senior management posts at LV, Friends Provident and NM Schroders.

James is a member of the Financial Conduct Authority's Smaller Business Practitioner Panel and previously sat on the Financial Services Authority's Regulatory Decisions Committee for six years. He is fully committed to mutuality and the benefits it offers to members. He is a member of the Nominations and Corporate Governance Committees.


William Carroll

William Carroll

A fellow of the Institute of Chartered Accountants, William joined the Society in 2004, having previously worked for Deloitte LLP, and was appointed to the Society's Board in 2009 as Finance Director. In 2017 he was appointed the Society's Finance and Change Director having assumed responsibility for Business Change, Strategy & Projects within the Society. He is Chairman of the Society's Assets & Liabilities Management Committee. In addition, he is a Trustee of the Society's Charitable Foundation.


Paul Leader

Paul Leader

Appointed to the Board as an executive Director in 2008 Paul is the Society's Information Services Director & Secretary. He graduated from Cardiff University with a BSc Honours degree in Computer Science and started at the Society in 1991 as IT Manager.

In 2003 he was appointed Assistant General Manager and in 2005 General Manager (Customer & Information Services). He serves on the Risk Sub-Committee, is a Director of Mutual Vision Technologies (the Society's prime IT supplier) and is a Trustee of the Society's employee pension scheme.

Directors' Report

Statement of Directors' Responsibilities in Respect of the Annual Accounts

The following Statement, which should be read in conjunction with the Independent Auditor's Report on pages 27 to 32, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement, Strategic Report and Directors' Report.

The directors are required by the Building Societies Act 1986 (the "Act") to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of the affairs of the Group and the Society as at the end of the financial year, and of the income and expenditure of the Group and the Society for the financial year. Under the Act the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing the Accounts, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed; and
- prepare the Accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the Accounts, the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its subsidiary undertakings.

In Respect of Accounting Records and Internal Controls

The directors are responsible for ensuring that the Society and its subsidiary undertakings:

- keep accounting records in accordance with the Act; and
- take reasonable care to establish, maintain, document and review systems of control as are appropriate to the business in accordance with the rules made by the Prudential Regulation Authority ("PRA") (formerly Financial Services Authority) under the Financial Services and Markets Act 2000.

They have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Auditor

In line with the Society's Corporate Governance policy, an external audit tender was conducted in June 2017. As a result of the tender Deloitte were re-appointed as the Group's Auditor for the year ended 30th April 2018. Deloitte have expressed their willingness to continue in office as auditor to the Group and a resolution for their re-appointment will be proposed at the Annual General Meeting. Deloitte continue to exhibit independence and objectivity in accordance with professional and regulatory requirements. In addition they have not provided any material non-audit services and consequently auditor objectivity and independence is safeguarded. The Audit Committee recommended that KPMG are appointed to be the Society's external auditors for a five year period from the year ended 30th April 2019.

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the director has taken all the steps that should be taken by a director in order to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Capital Requirements Directive IV (CRD IV)

In compliance with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting we disclose the following information:

- All of the Group's activities are undertaken in the United Kingdom only. Monmouthshire Building Society is the parent Society and a list of its subsidiaries can be found in note 12 of the accounts. The principal activities of the Group can be found in the Strategic Report.

Country-by-Country Reporting

- The average number of employees is disclosed in note 20 (c) of the accounts.
- Net operating income and profit before tax is set out in the Income and Expenditure Accounts.
- Corporation tax paid is set out in the consolidated cash flow statement.
- No public subsidies were received in the year ended 30 April 2017.

Mortgage arrears

At 30 April 2017 there were 120 properties (2016: 128) properties one month or more in arrears and 9 properties (2016: 4) where payments were twelve months or more in arrears.

Supplier payment policy

The Group will discharge suppliers' invoices within agreed terms when they fully conform to the terms and conditions of the purchase.

Events since the year end

The directors consider there has been no event since the end of the financial year which would have a significant effect on the financial position of the Group.

Long term viability statement and going concern

The UK Corporate Governance Code requires a longer term viability statement. Provision C.2.2. of the Financial Reporting Council's UK Corporate Governance Code requires the directors to explain how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

The directors have assessed the viability of the Group over a three year period taking into account the business strategy and the principal risks as set out in the Strategic Report and the Risk Management Report. The directors have a reasonable expectation that the business can continue in operation and meet its liabilities as they fall due over the three year period of their assessment. The directors have determined that a three year period of assessment is an appropriate period over which to provide its viability statement. The three year period is considered to be most appropriate as it is the longest period over which the Board considers that it can form a reasonable view of the likely macroeconomic environment and associated key drivers of business performance. As part of the annual Group ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process), the Group stresses its capital and liquidity plans respectively, under "severe but plausible" stress test scenarios, in line with PRA requirements.

The ICAAP test ensures that the plan projections for capital requirements and capital generation are resilient to stresses should the environment deteriorate beyond the levels currently envisaged in the Strategic Plan. A capital buffer is held to ensure the Group can deal with any erosion in its capital and meet its capital requirements at all times. The ILAAP test ensures that the Group holds sufficient liquid assets to meet its liquidity needs not only under normal circumstances but if the Group were to enter into a period of stress.

In making this long term viability statement the Board has taken into account its current position, and performed a robust assessment of the principal risks and uncertainties that would threaten the business model, future performance, solvency or liquidity of the Group. These risks are described in the principal risks and uncertainties section of the Risk Management Report. The Group's Risk Management Framework and governance structure in place to deal with these risks are described in the Risk Management Report.

After considering the Group's capital and liquidity positions, the Board has a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the next three years.

Directors

The details of the directors are shown on pages 7 to 8. No director, or member of a director's family, has any interest in, or option to subscribe for, any shares or debentures of any associated body of the Society.

In accordance with best corporate governance practice, Paul Leader and Tony Morgan are retiring at the Annual General Meeting. Paul Leader and Tony Morgan, being eligible, offer themselves for re-election. Trevor Barratt and James Bawa having been appointed to the Board under rule 25, retire and offer themselves for election.

Corporate Governance Report

The UK Corporate Governance Code (the Code) defines the purpose of governance is "to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. It is based on the underlying principles of all good governance: accountability, transparency, probity and focus on the sustainable success of an entity over the longer term."

The Board is committed to best practice in corporate governance. This report explains how the Society applies the principles in the Code so far as its provisions are relevant to building societies. Any departures from the Code are disclosed and subject to comment together with explanations for reasons for the code not being followed.

The Board's focus during the year

During the year the Board focused its activity on a number of areas which included the following:

Executive Restructure

During the year the Board concluded the search for a new Chief Executive Officer "CEO", which was led by the Nominations and Corporate Governance Committee. James Bawa was identified as the most suitable candidate and joined the Society in November 2016 as CEO. He brought with him a wealth of experience in the building society and mutual sector.

He led a review and restructure of the senior management team and as a result new executive roles were identified (Director of Distribution and Chief Operating Officer) to provide improved reporting lines and more effectively manage the business. The Board has been kept regularly appraised of developments during the restructure and the progress made on the recruitment of the new executive positions. There have been regular updates on the emerging culture and values within the Society, employee engagement and the management of change through the transitional period.

Operational Resilience

The Board has evaluated the operational resilience of the Society though business continuity planning, information technology and infrastructure. This has included considering cyber security, fraud detection software, financial crime and the upgrading of servers and network firewalls.

Liquidity Management

In making decisions to ensure the long term success of the Society for the benefit of its members the Board balances the needs of savings and borrowing members. The Board debated interest rate changes in response to the Bank of England reducing its rate of interest and the need to reduce liquidity and ensure the Society has a more balanced portfolio. Cost effective sources of funding offered by the Bank of England in the form of the Term Funding Scheme and mortgage portfolio collateralisation were also considered.

Member Engagement

In order to best serve the Society's members, the Board has considered the Lending Policy and aligning the products the Society offers with the needs of the members, including longer term fixed rate lending, the extension of the geographical area for higher loan to value lending, lending into retirement and vulnerable customers.

Control Environment

The Board continues to focus on strengthening the control environment with the embedding of the Risk Management Framework and keeping regularly appraised of regulatory changes, developments and emerging risk themes.

Improvements to the governance of the Society have been made by reducing the size of the meeting packs to ensure the Board and committees focus on key areas of importance within the business and discharge their duties effectively.

During the year, the Board undertook a review of delegations to Board committees and as a result certain changes took place to the remit and membership of some of the committees. The Risk Committee, Remuneration Committee and Nominations and Corporate Governance Committee reduced their membership from all non-executive directors to a smaller number to ensure a more focussed debate at committee level. The remit of the Remuneration Committee and Nominations and Corporate Governance Committee widened to deal with more policy and governance matters at committee level in order to increase the time available for the Board to focus on strategic matters.

The Board and its members

The Group is led by a Board comprising an independent non-executive Chairman, four non-executive directors and three executive directors. The Board is collectively responsible for the long-term success of the Group. There is a clear division of responsibilities at the head of the Group between running the Board and the executive responsibility for running the Group's business. The Chairman is responsible for leading and managing the work of the Board.

Responsibility for the day to day management of the business has been delegated to the CEO who is supported by an Executive Team.

The Board maintains a schedule of retained powers in order to maintain control over the Group's affairs whilst other matters are delegated to the Executive Team or committees.

Board's Retained Powers

- Appointment or dismissal of any Executive Director;
- Staff, Director and Executive terms of appointment (not including remuneration);
- Approval of products outside of the Society's agreed strategic plan, investment rate changes that do not mirror a Bank of England rate change and terms and conditions;
- Approval of certain policies;
- Adoption and amendments to the Strategic Plan and annual budgets, including any new or discontinuation of business activity;
- The appointment of the external and internal auditors;
- Approval of the Annual Report and Accounts;
- Opening or closing any branches including the purchase or sale of any premises;
- Changes to the pension scheme; and
- Approval of the Society's overall risk appetite statement and risk appetite levels.

Chairman's Principal Responsibilities

- Overall responsibility for the leadership of the Board and ensuring its effectiveness on all aspects of its role;
- Sets the Board's agenda and ensures adequate time for discussion of all agenda items;
- Promotes a culture of openness and debate by facilitating and encouraging active engagement and challenge by directors;
- Ensures constructive relations between executive and non-executive directors;
- Ensures the directors receive timely and relevant information;
- Oversee the assessment of fitness and propriety of those non-executive directors who are not in scope of the Senior Managers Regime (The Senior Managers Regime documents regulatory expectations on accountability and governance in relation to individuals who hold key roles and responsibilities in relevant firms)
- The related notification requirements to the PRA; and
- Leading the development of the firm's culture by the Board.

Non-Executive Directors' Principal Responsibilities

- Bringing objectivity and independence of view to Board deliberations;
- Constructively challenging and helping develop proposals on strategy;
- Helping provide effective leadership in relation to the Society's strategy, performance and risk management;
- Monitor the continuing effectiveness of the Board, its committees and the Executive Management Team; and
- Ensuring high standards of probity and corporate governance.

Executive Directors' Principal Responsibilities

- Creating and articulating the vision of the future;
- Providing clear business and cultural leadership;
- Leading the delivery of the Group's strategy; and
- Ensuring the Group operates ethically.

Independence of Non-Executive Directors

The Board considers that all of its non-executive directors are independent and free of any relationship which could materially interfere with the exercise of their judgement. Under the terms of the Code, factors to be taken into account when assessing independence include the length of service and whether the director has recently been an employee of the Group.

The Board takes the view that a Senior Independent Director is not needed at the Society for, unlike a company, it has no major shareholders who may need direct access to the Board. The Vice Chairman will provide a sounding board for the Chairman and serve as an intermediary for the other directors when necessary. The Chairman and non-executive directors meet regularly without the executives present.

Induction and Training

All directors receive an induction on joining the Board which is tailored to the individual. All directors participate in an ongoing programme of training and professional development designed to keep their knowledge and skills up to date.

Areas of training are identified through performance evaluations of the Board and its Committees, individual reviews conducted by the Chairman with each director and relevant topics as they arise. During the year training took place on a number of different areas including: Corporate Treasury, the Senior Managers Regime, Financial Crime and a briefing on Conduct Risk from Grant Thornton among other topics. Briefing notes on various matters, including regulatory changes and best practice, are provided throughout the year. The Board members visit branches and departments within Head Office.

Election and Re-election

All directors must meet and maintain the fitness and propriety standards of the PRA and and must be approved by them in order to hold a Senior Management Function. The Society Rules require that all directors submit themselves for election by the Society's members at the first opportunity after appointment and for re-election every three years. After nine years' service they are subject to annual re-election in line with corporate governance best practice.

Appraisals and Effectiveness

The Board ensures that an annual appraisal is carried out for each director and the Nominations and Corporate Governance Committee considers each individual director's performance and scope of experience to ensure they continue to meet the Society's stringent requirements and they are able to allocate sufficient time to the Group to discharge their responsibilities effectively. The performance of the non-executive directors is evaluated by the Chairman who assesses whether the individual's performance continues to be effective and whether they demonstrate commitment to the role. The performance of the Chief Executive is evaluated by the non-executive directors and the performance of the executive directors is evaluated by the CEO. The performance of the Chairman is separately assessed by the directors and co-ordinated by the Vice Chairman.

Through the Secretary and Chief Executive, the Chairman ensures that directors receive accurate, timely and clear information to enable them to make effective contributions to Board meetings.

Internal performance evaluations of the Board and committees take place annually. In 2014, the Board appointed Bvalco, which has no other connection with the Society, to undertake an external Board effectiveness review and has utilised its recommendations to improve performance. A further external review will be undertaken in the financial year ending 30 April 2018 and will be extended to include Risk, Nominations and Governance and Remuneration Committees.

The Board also appointed Mazars during 2014 to review the effectiveness of the Audit Committee and the Committee has utilised their recommendations to improve practice. Internal performance reviews are undertaken on an annual basis by the Board and all Committees. In meeting the requirements of the Code the Board receives quarterly reports from the Audit Committee covering the work of both internal and external auditors. The Risk Committee meets quarterly, ensuring that the Society maintains and develops its Risk Management Framework and considers all key risks facing the Society. All relevant issues raised by the Nominations and Corporate Governance Committee or the Remuneration Committee are dealt with at the next Board meeting. The Risk and Audit Committees liaise closely in areas where there is some degree of overlap within the remit of the committees.

Board Authority

The full Board meets ten times a year with supplemental meetings being held as and when required. In so doing, the Board retains full and effective control over the Society, agreeing policy, strategy and taking decisions on all high-level issues which impact on the organisation whilst closely monitoring management activities.

Strategy

The Society's Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of the Society within an effective control framework which enables risk to be assessed and managed.

Resources

The Board ensures that the necessary financial and human resources are in place for the Group to meet its objectives and that business and management performances are reviewed. The directors have access to the advice of the Secretary and, if necessary, are able to take independent professional advice at the Group's expense. The Society has arranged appropriate insurance cover in respect of legal actions against its directors. All directors have access to the Society's operations and colleagues.

Internal control

The Board ensures that the Group operates within the Society's constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited.

Board Reporting and Attendance

The Board has a formal schedule of matters which are reserved for its consideration. Proceedings of all the Committees are formally recorded and the key points arising from each meeting are subsequently considered by the Society's full Board. Additionally, a number of Board Committees have been established as detailed on page 16. Each director allocates sufficient time to their role in order to discharge their duties effectively. They attend Board and Board committee meetings, ensuring they are well prepared for each meeting and have a good understanding of the business. They also complete ongoing training and meet with executives and other colleagues within the Society, regulators and others as required. The Chairman's role and his leadership of the Board has priority over any other commitments he has and there have been no changes to his other commitments during the year.

Board Committee Membership

		Risk	Audit	Remuneration	Nomination
Haydn Warman (Chairman)		Member			Chair
Tony Morgan (Vice Chairman)			Chair	Member	
Trevor Barratt		Member			Member
Nina Hingorani-Crain			Member	Member	
Debra Lewis		Chair			Member
Roger Turner			Member	Chair	

All directors are expected to attend Board meetings. In the event of circumstances that prevent a director from attending a meeting the Chairman makes sure that any views are passed on and are heard in the meeting. Attendance at Board and Committee meetings for the year to 30 April 2017 has been recorded as follows:

	Board	Audit	Risk	Remuneration	Nomination
T Barratt+	9 (9)	-	3 (3)	-	1 (1)
J Bawa^	5 (5)	-	-	-	-
D J Burgess*	3 (3)	-	1 (1)	-	1 (1)
W J Carroll	11 (11)	-	2 (2)	-	-
N Hingorani-Crain	11 (11)	3 (3)	2 (2)	3 (4)	1 (1)
P Leader	11 (11)	-	2 (2)	-	-
A M Lewis	5 (5)	-	2 (2)	-	1 (1)
D R Lewis	11 (11)	-	3 (3)	-	2 (2)
A D Morgan	11 (11)	5 (5)	2 (2)	4 (4)	1 (1)
D C Roberts*	3 (3)	2 (2)	1 (1)	-	1 (1)
R Turner	11 (11)	5 (5)	2 (2)	4 (4)	1 (1)
H Warman	11 (11)	-	4 (4)	-	2 (2)

( ) = number of meetings eligible to attend.
+ Appointed to the Board in July 2016.
^ Appointed to the Board in November 2016.
* Retired from the Board on 16 August 2016.

Risk Management and Internal Control Systems
The Board is responsible for determining a framework for risk management and control. Senior management is responsible for designing, operating and monitoring risk management and internal control processes whilst the Risk Committee, on behalf of the Board, is responsible for reviewing the adequacy and effective operation of such processes.

The system of internal control is designed to enable the Society to achieve its corporate objectives within a managed risk profile, not to entirely eliminate risk. The three lines of defence model included in the Society's Risk Management Framework provides assurance that these processes are appropriate and applied effectively. During the year the Society continued to invest heavily in improving the robustness of its Risk Management Framework. The Board has reviewed the effectiveness of internal control systems and risk management processes, taking account, particularly, of the findings of internal and external auditors and other reports on risk management, internal controls and compliance presented to our Risk Committee.

During the year there were no material breaches of control or regulatory requirements and the Society maintained adequate systems and control. Where weaknesses in controls are identified, the Board monitor progress to remedy the issues and mitigate any issues, helping to ensure the Society avoids adverse conduct outcomes for our members.

The Board is satisfied that appropriate action is being taken in response to any matters identified.

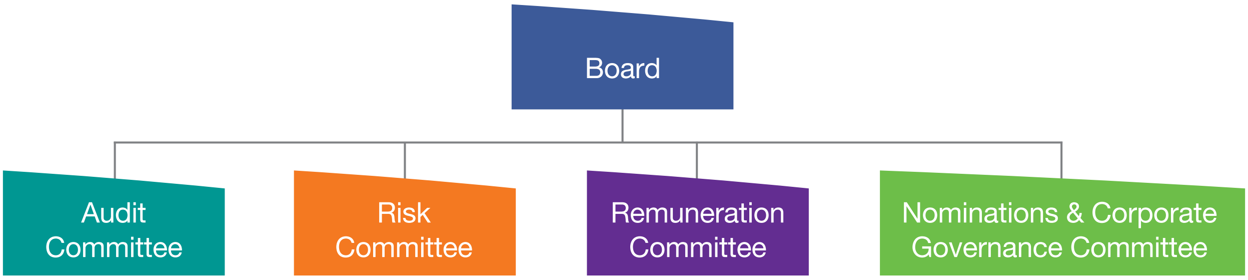
Communication with Members and the Annual General Meeting

Periodic customer newsletters are produced to ensure that members are kept informed regarding developments at the Society, with reaction and feedback encouraged. Communication with members is also conducted via our website, Twitter and Facebook pages. Member forums are held on an ad hoc basis. The Society welcomes approaches from high calibre candidates from its membership to put themselves forward for appointment to the Board.

The Society encourages all eligible members to participate in the Annual General Meeting, either by attending in person, voting by proxy or by voting online. This year, a contribution of twenty pence will also be made to the Monmouthshire Building Society Charity of the Year "All Creatures Great and Small" for every ballot paper returned or completed online. All Board members are normally present at the Annual General Meeting and are therefore available to meet with members, discuss issues and answer questions.

The Role of the Board Committees

The Board is supported by its Committees (as set out below) which make recommendations to the Board on matters delegated to them, particularly in relation to internal control, risk management, financial reporting, governance and remuneration matters. This enables the Board to spend a greater amount of time on strategic, forward looking agenda items. The Board and its Committees have the appropriate balance of skills, experience and knowledge to discharge their respective duties effectively. No one other than the committee chairman and members are entitled to be present at a meeting of the committees but others may attend at the invitation of the committee.



A full list of responsibilities is detailed in each Committee's terms of reference.
Details can be found on our website at **www.monbs.com.**

Audit Committee

The purpose of the Committee is to consider all audit related matters, in particular, to review the Group's financial reporting arrangements, the effectiveness of its internal controls and its risk management framework, the internal and external audit processes and the Group's whistleblowing procedures. The Committee reports to the Board on its activities and makes recommendations to the Board. The key responsibilities of the Committee are set out below together with examples of how it discharges its duties.

Membership

Committee Chairman

A D Morgan

Committee Members

N Hingorani-Crain, R D Turner

Committee Composition, Skills and Experience

The Committee acts independently of the executive to ensure that the interests of members are properly protected in relation to financial reporting and internal control. All of the current members of the Committee are independent non-executive directors. The Chair of the Committee is a Chartered Accountant with significant accounting and audit competence. The Committee has reviewed the collective skills of members and concluded that the balance of skills, knowledge and experience of the Committee is appropriate.

Audit Committee key responsibilities	
Financial Reporting	• Monitoring the integrity of the Group's financial statements and reviewing critical accounting policies, judgements and estimates. • Reviewing the appropriateness of the going concern basis for preparing the accounts. • Providing advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.
External Audit	• Reviewing the continued objectivity and independence of external audit, including the level and appropriateness of non-audit services. • Considering the appointment, removal, performance and remuneration of the external audit firm. • Considering the planning, scope and findings of the annual external audit, the receipt of, and responses to, the auditor's management letter and reviewing the degree of liaison with internal audit.
Internal Controls and Risk Management	• Reviewing the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems in conjunction with reviewing reports produced by internal and external audit. • Reviewing the statements to be included in the Annual Report concerning internal controls and risk management.
Whistleblowing	• Reviewing the adequacy and security of the Group's whistleblowing arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. • Ensuring that whistleblowing arrangements allow proportionate and independent investigation of such matters.
Internal Audit	• Considering and approving the strategic and annual plans of work. • Considering management responses to recommendations. • Considering the appointment, removal, performance and remuneration of the internal audit firm.

Financial Reporting

The Committee considered the following significant judgments and estimates, in light of the reports received from external auditors and discussions with external auditors and management. More detail on the principal judgements and accounting estimates is set out on page 38:

Effective interest rate ("EIR") The application of the EIR method of accounting requires judgement and the accounting entries involve estimates based on key assumptions, particularly around behavioural life of products and requires management to make a number of assumptions. The Statement of Financial Position as at 30 April 2017 includes the recognition of a deferred EIR asset of £1.5 million.	The Committee spent time understanding and challenging the judgements made and the EIR methodology applied by management in determining the EIR. The Committee agreed that management's judgements were appropriate in respect of the year ended 30 April 2017.
Allowance for impairment losses on loans and receivables Determining the appropriateness of impairment losses involves judgement and requires management to make a number of assumptions around default rates, likely asset recoveries and other factors. The loan loss impairment provisions recorded by the Group as at 30 April 2017 were £1.03 million.	The Committee considered and challenged the provisioning methodology applied by management, including the results of statistical loan loss models to support the impairment provisions. The Committee was satisfied that the impairment provisions were appropriate.
Hedge accounting The Society has implemented hedge accounting in line with IAS 39. The designated macro hedges require matching, hedge effectiveness documentation and testing, and fair valuing both the hedged instrument and the underlying hedged item.	The Committee considered the appropriateness of the hedging arrangements and the fair value processes in respect of hedging instruments and the underlying hedged items. The Committee agreed that hedge accounting had been applied in accordance with IAS 39.
Retirement benefit obligations The Society makes significant judgements to calculating the present value of the retirement benefit obligations. The major assumptions in respect of mortality, price inflation, discount rates, pension increases and earnings growth. The pension scheme liability recorded at 30 April 2017 was £1.79 million.	The Committee considered the assumptions used by reference to advice received from our actuaries and independent challenge from our external auditors. The Committee is satisfied that the assumptions used are reasonable.

Accounting Policies

The Committee examined the Group's accounting policies to ensure they are appropriate and applied consistently. They also confirmed that the policies in line with applicable Accounting Standards. The Committee considered whether the 2017 Annual Report, when taken as a whole, is fair, balanced and understandable and whether it provides the necessary information for members to assess the Group's performance, business model and strategy. The Committee is satisfied that the 2017 Annual Report meets this requirement, and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. In June 2017, the Committee recommended the approval of the final 2017 Annual Report to the Board.

Internal Audit

Internal Audit is outsourced to PwC. During 2016/17, the Committee monitored the effectiveness of Internal Audit and the Internal Audit programme, approving the audit plan and budget, and confirming that appropriate resources were in place to execute the plan effectively.

In the year ended 30 April 2017, Internal Audit carried out a significant number of audits of varying size and complexity. The findings from each individual review are presented to the Audit Committee including management responses. The Audit Committee considers the adequacy of management responses and the implications of significant findings on the effectiveness of the overall internal control system and the risk management framework.

Internal Control and Risk Management

Details of the risk management systems in place are provided within the Risk Management Report on pages 23 to 26. The Committee was satisfied that internal controls over year end financial reporting were appropriately designed and operating effectively.

External Audit

The Audit Committee is responsible for assessing the effectiveness of the annual audit process, for monitoring the independence and objectivity of the external auditor and for making recommendations to the Board in relation to the appointment of the external auditor. Both the Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor.

The current external auditor is Deloitte LLP. They were reappointed as a result of a competitive tender exercise held in 2010. Tenders are conducted every seven years and the next competitive tender will be held during 2017. Performance is reviewed annually.

The Society has updated its policy for the use of external auditors for non-audit work in line with new legislative requirements. The Society would not consider the appointment of the external auditor for the provision of other services that might impair independence. Fees for non-audit work are disclosed in note 6 to the accounts.

Whistleblowing

The Committee reviewed the Group's "whistleblowing" procedures and is satisfied that arrangements are in place to enable individual employees to raise concerns about possible improprieties on a confidential basis. The Group maintains a fraud policy and the Audit Committee receives an update at each meeting in relation to any material fraud and associated action taken. No internal frauds were reported in the period.

Assessment of Effectiveness

The Committee conducts an annual review of its own effectiveness. This process involves a collective review by members of the Committee of its own procedures; resources available to the Committee and the means by which the Committee performs its role.

Nominations and Corporate Governance Committee

The Committee is responsible for succession planning for both executive and non-executive director positions. The Committee meets as often as is necessary to fulfil its responsibilities. During the year the Committee extended its remit to include corporate governance matters. The Committee annually reviews the Conflicts Register to ensure there are no potential or actual conflicts that could affect a director's ability to act in the best interests of the Society.

Membership

Committee Chairman

H Warman

Committee Members

T Barratt, D Lewis and J Bawa

Committee Composition, Skills and Experience

The Committee's Chair, Haydn Warman, has considerable experience as both a Building Society executive and non-executive director and is well placed to lead the Committee. Other members of the Committee are independent non-executive directors and the CEO, providing a wide range of background experience and a balanced view on the best Board composition.

Nomination and Corporate Governance Committee key responsibilities	
Board Composition	• Endeavour to ensure that the Board and its Committees have the capabilities required to be effective and oversee the Society. This will include an appropriate range and balance of skills, experience, independence, knowledge and behaviours. • Responsible for identifying and recommending candidates for Board approval. • Reviewing the membership and chairmanship of committees to ensure that committee membership is progressively refreshed and that undue reliance is not placed on particular individuals.
Succession Planning	• Consideration of succession planning for members of the Board in the course of its work, taking into account the challenges and opportunities facing the Society, its leadership needs and what skills and expertise are therefore needed on the Board in the future. • Reviewing the leadership needs of the Society, both executive and non executive, with a view to ensuring the continued ability of the Society to perform effectively in the market place.

Appointment of Directors

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. Our policy is to ensure that there is broad experience and diversity on the Board. The Board is focused upon diversity but without compromising on the calibre of directors who must demonstrate a high level of relevant skills and experience, usually gained at a senior level, to satisfy the requirements of the Board and the regulatory authorities. Appointments to the Board are based on merit against objective criteria in the context of complementing and expanding the skills, knowledge and experience of the Board as a whole. The Society does not set diversity targets and the Committee will consider candidates from a diverse range with regard to background and gender. The Committee maintains that diversity is not just about gender and considers diversity in all of its forms.

The Committee uses a skills matrix to identify competencies, skills and experience within the Board which informs new appointments and determines a timeline for proposed appointments to the Board.

Succession Planning

The Committee has considered succession planning in the year. As the CEO builds his executive team members of the Board and Committee have been consulted regarding candidates and are involved in the recruitment process. A key focus of the Committee in 2017/18 will be to ensure that key people are in place to deliver the new strategy.

Assessment of Effectiveness

The Committee conducts an annual review of its own effectiveness and recommends any changes it considers necessary to the Board for approval.

Trevor Barratt a non-executive director and James Bawa the CEO were appointed during the year with the assistance of Warren Partners, external search consultants. Warren Partners have no connection with the Society other than to provide recruitment services. Warren Partners are signatories to the voluntary code of conduct for executive search firms which promote diversity on boards.

The newly appointed directors all had to meet the tests of fitness and propriety as prescribed by the regulators and received approval from the FCA and PRA as an Approved Person before taking up their role.

In addition, the Society's Rules require that new directors must stand for election no later than at the Annual General Meeting in the year following the financial year in which they are appointed. Trevor Barratt and James Bawa will both stand for election at the AGM in August.

Governance in Action – New Non-Executive Director

As part of the Committee's progressive review of the composition of the Board and its Committees, and the need to ensure adequate succession planning, the Committee identified the need for a new non- executive director. A non-executive director role profile was prepared outlining the skills and experience needed. Warren Partners were engaged to conduct a search for a candidate with relevant financial services and risk experience. They identified and held initial interviews with a "long list" of candidates and provided feedback to the Committee. Those shortlisted were invited to interview by a selection panel comprised of the Chairman and two non-executive directors. The panel had considered the candidates CVs and agreed the areas to be explored prior to the interviews. Following the interviews, the Panel through the Committee then provided their recommendations to the Board on the candidates based on their relevant skills and experience and the need to complement and expand the existing Board skills matrix.
`Trevor Barratt was appointed in July 2016.

Risk Committee

The purpose of the Committee is to monitor the Group's compliance with the Board's approved risk appetite, risk management framework and risk culture. The key responsibilities of the Committee are set out in the table below. Examples of how it discharged its responsibilities follow. Meetings are held not less than four times per year.

Membership

Committee Chairman
D R Lewis

Committee Members
T Barratt and H Warman

Committee Composition, Skills and Experience

The Chair of the Committee, Debra Lewis, has extensive experience and a strong understanding of risk management. Debra is supported on the Committee by members who have a great deal of experience of the financial services sector. They bring a detailed level of scrutiny to the Group's Risk Management Framework.

Risk Committee key responsibilities	
Setting Risk Appetite	• Review and approve the Group's Risk Appetite Statements taking account of the current and future macroeconomic financial and regulatory environment. • Approve the Risk Appetite Measures to be used to monitor the Group's risk management performance.
Monitoring Business Operation	• Monitor emerging prudential risks, conduct risks and areas of potential concern, in particular those matters identified or highlighted by the regulatory authorities, and satisfy itself that appropriate reviews are undertaken to identify and manage any impact on the Group and its Members in a timely manner. • Review and challenge the internal control environment. • Monitor the Group's current risk exposures, including performance and compliance against high level risk appetite limits and tolerances.
Risk Reporting	• Review the quarterly reports provided by the Head of Risk & Compliance on the activities of the Risk Department and its assessment of risk within the organisation.
Risk Management	• Review and approve the Group's Risk Management Framework. • Review the implementation of the Risk Management Framework ensuring all risks are managed with adequate resource and a satisfactory control environment. • Ensure that the Group's Risk Management Structure is adequately resourced and effective.

Key matters considered in the year

Risk Management Framework

The Committee continued to oversee the embedding of the risk management framework and ensures it is fit for purpose.

Risk Appetite

The Committee reviewed the Board risk appetite statements and recommended the risk appetite to the Board.

Delivery of the business strategy within risk appetite is managed through a comprehensive risk management framework. Further details on the Risk Framework can be found in the Risk Management Report on page 23.

Current and forecast performance against each of the Group's risk appetite metrics was considered by the Committee.

Emerging Risks

The Committee received regular updates and provided challenge on the status of emerging risks. Further details of the mitigating actions taken by management in respect of strategic risks and on the emerging risks considered by the Committee can be found in the Risk Management Report.

Conduct Risk and Compliance

The Committee received regular updates on regulatory developments and assessed the impact of those developments on the Group.

Stress Testing and Capital

The Committee reviewed the results of the application of stress test scenarios and recommended to the Board that the Society's 2016/17 ICAAP and Stress Testing Policy be approved.

Operational Risks

The Committee monitors risks inherent with the Group's operations. This includes areas such as information security and financial crime.

Risk Management

The Committee is supported by an enhanced Risk function. Following the appointment of a full time Head of Risk and Compliance last year there have been subsequent appointments to further strengthen the function including a Prudential Risk Manager, Financial Crime Specialist and Credit Risk Manager. There are three executive committees that look at different risk areas in the business, The Risk Committee oversees the work of these Committees. The Society's approach to risk management can be found in the Risk Management Report.

Assessment of Effectiveness

The Committee conducts an annual review of its own effectiveness and recommends any changes it considers necessary to the Board for approval.

Remuneration Committee

The Committee determines levels of remuneration in respect of the Society's Executive. During the year the Committee extended its remit to include remuneration matters for all colleagues in the Society. Examples of how it discharged its responsibilities follow. Meetings are held as often as is necessary for the Committee to fulfil its responsibilities.

Membership

Committee Chairman

R Turner

Committee Members

T Morgan and N Hingorani-Crain

Committee Composition, Skills and Experience

The Committee's Chair, Roger Turner, has considerable experience as a non-executive director and on remuneration governance. The Committee is comprised of non-executive directors who provide a balanced and independent view on remuneration matters.

Remuneration Committee key responsibilities	
Remuneration	• Determining remuneration for the Chairman, all executive directors and other members of the executive including pension rights and any compensation payments. The remuneration of non-executive directors is determined by the Chairman and executive directors. • Determining remuneration for all employees of the Society.
Remuneration Reporting	• Reporting to members annually in the Annual Report & Accounts and a Summary Report on directors' Remuneration will be produced as part of the Summary Financial Statement. The report will be presented and be subject to an advisory vote at the Annual General Meeting.
Remuneration Policy	• Reviewing the Remuneration Policy annually.

Key matters considered in the year

Directors' Remuneration

The Committee reviewed the remuneration for all of the executives. In 2017/18 the Committee will oversee a review of remuneration for all colleagues within the Society.

Remuneration Policy

The Committee reviewed and approved the Remuneration Policy in the year. Our Remuneration Policy aims to align executive remuneration with the delivery of the Board's strategy of achieving long term sustainable mortgage growth, as outlined in the Strategic Report.

Remuneration Reporting

We have provided details of our directors' remuneration on page 21 and ask our members to approve our Remuneration Report through an advisory vote at the Annual General Meeting.

Our 2016/17 Report includes the key disclosure requirements of the UK Corporate Governance Code and complies with the regulatory requirements including, in particular, the FCA's Remuneration Code.

H Warman

Haydn Warman
Chairman
17 July 2017

Directors' Remuneration Report

On behalf of the Board, I am pleased to present the Remuneration Committee's 2016/17 Report which sets out our Remuneration Policy and provides for our members details of the basic salary, variable pay and benefits earned by directors in the year to 30 April 2017. The Board is committed to best practice in its remuneration policy for directors and in the interests of transparency it has included an advisory vote at the Annual General Meeting on the Directors' Remuneration Report set out below. The directors remuneration for the year is as follows:

Individual Directors' Emoluments

	Fees & salary	Performance related incentive scheme	Increase in accrued pension/ pension contribution	Taxable benefits	2017 Total	2016 Total
2017	£000	£000	£000	£000	£000	£000
Non-Executive Directors:						
H Warman	55	-	-	-	55	48
P Sheppard	-	-	-	-	-	9
D J Burgess	9	-	-	-	9	29
N Hingorani-Crain	30	-	-	-	30	23
D R Lewis	37	-	-	-	37	32
A D Morgan	38	-	-	-	38	32
D C Roberts	8	-	-	-	8	27
R D Turner	33	-	-	-	33	20
T Barratt (Appointed 13 July 2016)	26	-	-	-	26	-
S Nowell	-	-	-	-	-	2
Executive Directors:						
A M Lewis (resigned 18 November 2016)*	230	11	-	1	242	218
J Bawa (appointed 18 November 2016)^	100	12	12	1	125	-
P Leader	99	30	2	7	138	113
W J Carroll	120	35	18	5	178	128
	785	**88**	**32**	**14**	**919**	**680**

*A M Lewis stepped down as a Director following his retirement on 18 November 2016. The amount shown above includes £130,597 of contractual payments following his retirement.

A M Lewis was a member of and P Leader remains a member of the Society's defined benefit pension scheme. J Bawa and W J Carroll are members of the Society's defined contribution pension scheme.

H Warman's salary included a £7,500 payment in respect of additional work required to be performed during the year.

Loans to Directors

At 30 April 2017, one director (2016: two directors) or persons connected with directors had mortgage loans granted in the ordinary course of business totalling £223K (2016: £407K). A register containing details of loans and transactions between the Society and its directors may be inspected at the Society's Head Office, during normal office hours, in the period of fifteen days expiring on the date of the Annual General Meeting, or at that meeting.

Executive Directors' Emoluments

The level of remuneration for executive directors' is reviewed each year. The Society's remuneration policy is to reward executive directors through salaries and other benefits, including an incentive scheme designed to recognise the achievement of corporate objectives. Reward packages include basic salary, an annual incentive payment, benefits in kind and pensions. Payments made as a result of the annual incentive scheme are not pensionable.

Basic Salaries

Basic salaries are normally reviewed annually by reference to performance, jobs carrying similar responsibilities in comparable financial organisations and in the light of market conditions generally.

Incentive Scheme

For the year to 30 April 2017, the scheme was designed to deliver a maximum award of 35% of basic salary, following finalisation and approval of the accounts. The annual incentive scheme is linked to key corporate performance measures, such as peer group comparison and the achievement of financial or regulatory compliance targets (e.g. in relation to growth and efficiency).

Pensions and other Benefits

Executive directors are contributory members of the Society pension schemes. Executive directors are eligible to receive other optional taxable benefits including a car and healthcare provision. They are also eligible to receive concessionary mortgage facilities on terms which are available to all staff.

The Corporate Governance Code recommends that an executive director's service contract notice period should be set at twelve months or less. The Society meets this requirement. The executive directors are subject to a notice period of six months with the exception of the Chief Executive Officer who is currently working through his probationary period.

Non-Executive Directors' Remuneration

The fees for non-executive directors were determined by the executive directors and the Chairman. The Chairman's remuneration is determined by the Committee in the absence of the Chairman. Additional fees are paid to the Vice Chairman and the Risk, Remuneration and Audit Committee Chairmen to reflect their increased responsibility. The level of fees is regularly compared with fees for non-executive directors' remuneration in comparable organisations.

There are no bonus schemes or other benefits for non-executive directors and they are not entitled to any pension. They are subject to written terms and conditions of employment and to re-election every three years in line with the Society Rules. After nine years they are subject to annual re-election in line with best corporate governance practice.

Roger Turner
Remuneration Committee Chairman
17 July 2017

Risk Management Report

We outline below the principal risks and uncertainties to achieving the Group's strategic priorities together with our mitigating activities:

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Business Risk The risk arising from changes to the Group's business model and the risk of the Plan proving inappropriate due to macroeconomic, geopolitical, regulatory or other factors.	Maintain earnings stability over the business plan to maintain sustainable asset growth and capital reserves.	• Business planning process • Ongoing monitoring of Key Performance Indicators and Risk Appetite • Investment in underlying processes, systems and people to support new business developments • Business planning stress testing • Robust risk management and a corporate governance framework
Credit Risk The risk of losses arising from a debtor's failure to meet its legal and contractual obligations.	A prudent lending approach to mortgage customers and treasury counterparties to minimise default rates and impact on earnings or capital whilst generating an appropriate level of return reflecting the risk.	• Board approved risk appetite and risk limits • Lending Policy • Treasury Policy • Strict underwriting criteria • Counterparty limits and reviews • Stress testing • Mortgage Lending Risk Committee oversight • Capital Planning as part of the Group's Internal Capital Adequacy Assessment Process
Financial Soundness Risk The risk that insufficient funds are available to meet financial obligations as they fall due and/or, insufficient capital resources, resulting in the inability to support business activities, as well as the inability to meet liquidity and capital regulatory requirements.	**Liquidity** Maintain sufficient liquid resources over and above financial minimums to give members confidence on the Group's ability to meet its obligations. **Capital** Maintain sufficient capital to support current and future business initiatives, including stressed losses that arise as a result of plausible but extreme scenarios and to meet regulatory requirements.	• Board approved risk appetite and risk limits • Maintaining appropriate levels of High Quality Liquid Assets • Treasury Policy • The Group's Individual Liquidity Adequacy Assessment process and Contingency Funding Plan • Stress testing • Assets and Liability Committee oversight
Market Risk The risk of losses arising from changes in market rates or prices.	Minimise potential losses on interest rate and basis risk positions from adverse movements in market rates to ensure they remain within forecast market expectations.	• Board approved risk appetite and risk limits • Stress testing • Assets and Liability Committee oversight
Operational Risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Develop robust processes and controls to optimise resources and reduce the impact of operational risks on the Group's performance.	• Board approved risk appetite limits • Strong and effective internal control environment (Controls Assurance Testing) • Insurance • Operational Risk and Compliance Committee oversight • Continued investment in developing risk management frameworks, systems and processes • Continuous improvement, learning from internal risk events and external events

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Conduct Risk The risk of financial or reputational loss as a result of treating customers unfairly, and delivering inappropriate outcomes that lead to customer detriment.	Aim to deliver positive outcomes for customers, maintaining a high degree of customer and public confidence by focusing on the Group's aims and values.	• Board approved risk appetite limits • Members are placed at the heart of our decision making, aligned to our Group Values • Operational Risk and Compliance Committee oversight • Strong risk management culture • Conduct Risk Dashboard
Legal and Regulatory Risk The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK or EU legal and regulatory requirements.	Maintain a robust risk management culture to ensure compliance with legal and regulatory requirements.	• Regulatory horizon scanning • Board approved risk appetite limits • Strong compliance culture • Operational Risk and Compliance Committee oversight • Open and transparent relationship with all regulatory bodies
Pension Obligation Risk The risk of a material financial deficit in the Group's Defined Benefit Scheme.	Ensure the Group's contractual and regulatory obligations are met.	• Scheme closed to new members from 2001 • Pension valuation and scheme actuary reports • Investment strategy • Capital planning

Risk Overview

The Society recognises the delivery of the Board's strategy gives rise to a number of potential risks that are inherent in the business activities of the Group. Whilst these risks can never be completely eliminated, through careful management they can be mitigated. The Board has agreed a risk appetite that seeks to limit the amount of risk accepted by the business in pursuit of its long term strategy, helping the Group achieve sustainable growth and serving the best interests of our members and customers.

The Board is responsible for ensuring an effective risk management framework is in place, promoting a risk aware culture that ensures all principal risks are identified and mitigated in the pursuit of strategic objectives. Throughout the year the Board has continued to invest in the Group's approach to risk management to ensure it continues to deliver effectively and supports the next stage of the Group's sustainable growth. Specifically, investment has been made in Credit and Prudential Risk oversight along with recognising the regulatory changes and importance of fighting financial crime, further investment has been made into this area. In addition, the Society has engaged third parties to review our approach to managing Cyber Risk and help ensure we are well protected in light of the exponential growth in this risk. The Board reviews the Risk Management Framework and Risk Appetite statement annually as a minimum.

Risk Culture

The Board has established a culture that is guided by strong risk management to support and provide appropriate standards and incentives for professional and responsible behaviour. In this regard, it is the responsibility of the Society Chairman and of the Board to ensure that a strong risk management culture continues to exist throughout the Group. The Group's risk culture is represented by the attitudes and behaviour demonstrated by all staff with regard to risk awareness, risk taking and risk management. The Board has created an environment for staff where integrity, ownership, accountability, customer interests, and respect are at the heart of the Group's values and practices. This strong risk culture drives how our staff approach their work and guide decision making. The Group's values are outlined on page 25 and are an integral part of a strong culture. An effective risk culture is one of the primary means by which the Group ensures these values are upheld.

Risk Management Framework

Risk management is an integral part of good internal control and corporate governance. A Risk Management Framework has been developed to enable the Group to establish a formal consistent process for the management of risks. The framework is the cornerstone of ensuring a robust risk culture for the governance of risks, where all staff take responsibility for managing risks effectively and efficiently and all risks are identified, measured, assessed, monitored, controlled and mitigated within the context of the Group's Risk Appetite.

The Group has adopted a three lines of defence model approach in the design and implementation of the Risk Management Framework. This provides clarity over roles and responsibilities of staff whilst enabling the Board Risk Committee to establish a robust risk management culture and governance structure for the identification, measurement, assessment, monitoring and management of risks.

The Risk & Compliance Department are responsible for overseeing the effective engagement of all relevant staff in the implementation of the Risk Management Framework. The Board Risk Committee and all staff are responsible for the development, enhancement and maintenance of an effective risk management culture.

To ensure risk management is fully embedded Risk Champions have been nominated for each department. Risk Champions play an essential role within the Society supporting their Executives, and are responsible for supporting the implementation of the Risk Management Framework in their departments and collecting risk management information.

The Board Risk Committee will set an appropriate tone through clear articulation of its risk appetite and values linked to the Group's strategic objectives. This will ensure that risk management forms part of key Group activities, informing decision making and ensuring the engagement of all staff in the implementation of the framework across the Group. The 'three lines of defence' model is outlined below:

First Line of Defence
- Business

- Overall accountability and ownership of risks within their business areas
- Implementation of the Risk Management Framework - the identification, analysis, reporting and review of their risks
- Establish and promote strong risk management culture and set tone from the top
- The Board sets Risk Appetite with business input

Second Line of defence
- Risk & Compliance Department

- Design Risk Management Framework
- Develop processes for implementation of the Risk Management Framework
- Promote strong risk management culture
- Provide support, oversight and challenge
- Oversight through BRC and ORCC

Third Line of Defence
- Internal Audit

- Independent review of the design and implementation of the Risk Management Framework
- Provide assurance that the controls and processes of the first two lines are operating effectively
- External Audit

Governance Structure

The Board is ultimately responsible for all aspects of the Group's activities in pursuit of the Strategy. The Group has a formal structure for managing risks and to assist the Board, the Board Risk Committee considers all risk matters relating to the Group and has overall accountability and ownership of the Risk Management Framework, including ongoing development and maintenance. A robust governance structure is designed to promote open challenge. In addition, there is appropriate risk representation on key governance committees.

A strong governance framework remains a key priority for the Group, with prompt escalation of risks and issues, ensuring appropriate mitigating actions are in place.

There are three management risk committees to ensure there is proactive management and governance of risk and control issues under the Risk Management Framework and the operation of a robust risk culture across the Group. Clear reporting lines and structures to the management risk committees and the Board Risk Committee are defined to ensure their focus remains on areas that could significantly impact the Group, whilst enabling risk owners and responsible staff to fulfil their accountabilities and responsibilities. The risk governance structure of the Group is outlined opposite:

Our Values

monmouthshire building society

Board Risk Committee

The Board is responsible for setting the overall risk strategy for the Society, and for the overall design and implementation of the Risk Management Framework, with the support of the Board Risk Committee. They are also responsible for monitoring the Group's performance against the defined risk appetite measures to ensure it is operating within agreed risk appetites.

Operational Risk & Compliance Committee

A second line of defence management committee, chaired by the Head of Risk & Compliance, with responsibility for overseeing the establishment and maintenance of appropriate risk management systems and controls in line with the Risk Management Framework and giving detailed consideration to Operational Risk; Conduct Risk; Legal & Regulatory Risk; and, Pension Obligation Risks. It reports quarterly to the Risk Committee on major operational issues.

Assets & Liabilities Committee

The Assets & Liabilities Committee is responsible for identifying, managing and controlling the Group's Statement of Financial Position risks in executing the chosen business strategy, and supporting the Chief Executive Officer in developing, reviewing and approving key risk indicators in its area of responsibility as delegated by the Board Risk Committee. In addition Product ALCOs are held to ensure effective product governance arrangements are in place across the Group.

This is a first line of defence management committee, chaired by the Finance Director, with responsibility for giving detailed consideration to matters relevant to margin, liquidity, funding, pricing, capital and financial risk management. It reports quarterly to the Risk Committee on the major strategic issues which have arisen and where appropriate makes recommendations to manage Financial Soundness risk, Market Risk and Credit Risk (Treasury Counterparties).

Mortgage Lending Risk Committee

A first line of defence management committee, chaired by the Head of Broker Sales, with responsibility for giving detailed consideration to Credit Risks relevant to the Society's mortgage lending and to receive reports considering the emerging risks within the mortgage backbook. It reports quarterly to the Risk Committee and where appropriate, makes recommendations to manage credit risk.

Stress Testing

Stress testing is recognised by the Group as an essential risk management tool. The stress testing framework is widely used across the Group, testing the Group's capital and liquidity requirements along with business planning. Stress testing is undertaken by the Group to understand any vulnerabilities in our business plans, allowing senior management to develop mitigating actions or adapt business strategy accordingly.

Stress testing supplements other risk management approaches and measures. It plays a particularly important role in:

- providing forward-looking assessments of risk;
- overcoming limitations of models and historical data;
- supporting internal and external communication of risks;
- feeding into capital and liquidity planning procedures;
- informing the setting of the Society's risk tolerance; and
- facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.

Stress testing also helps ensure the Group has a sustainable business model and it is a key component of the Group's Internal Capital Adequacy Assessment Process and Individual Liquidity Adequacy Assessment Process.

Reverse stress testing considers situations which could result in the Group's business model becoming unviable. The Group will consider these extreme adverse events and use the information to help improve contingency and recovery plans.

Independent Auditor's Report to the Members of Monmouthshire Building Society

Opinion on financial statements of Monmouthshire Building Society

In our opinion the financial statements:

- **give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", of the state of the Group's and the Society's affairs as at 30 April 2017 and of the Group's and the Society's income and expenditure for the year then ended;**
- **have been prepared in accordance with the requirements of the Building Societies Act 1986.**

The financial statements that we have audited comprise:

- Group and Society Income Statements
- Group and Society Statements of Other Comprehensive Income
- Group and Society Statements of Financial Position
- Group and Society Statements of Changes in Members' Interests
- Consolidated Cash Flow Statement
- Related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Summary of our audit approach

Key Risks

The key risks that we identified in the current year were:

- Loan loss provisioning
- Revenue recognition
- Derivatives and hedge accounting
- Pension accounting

Within this report, any new risks are identified with and any risks which are the same as the prior year identified with.

Materiality

The materiality that we used in the current year was £290,000 which was determined on the basis of pre-tax profit.

Significant changes in our approach

We have continued to refine and pin-point our significant risks and have increased our use of data analytics throughout the audit. The only significant change to our audit approach was to identify a significant risk in relation to the defined contribution pension scheme.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the Group contained within the strategic report.

We are required to state whether we have anything material to add or draw attention to in relation to:

- The directors' confirmation on page 9 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 23-24 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in page 10 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation on page 10 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

The 2017 financial year-end is the third year of involvement Kieren Cooper has had with the audit of the Group.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Besides the addition of one new key risk, these key risks are to do with the same areas of focus as identified in the prior year. However, they have been adjusted to be more specific. This is driven by a continued process of risk assessment and understanding key drivers that impact the Group's accounts in the most material way.

Risk description	How the scope of our audit responded to the risk	Key observations
Loan loss provisioning The Society holds £1.03 million of impairment provisions at year-end (2016: £1.22m) against loans and advances to customers of £812.3 million (2016: £807.4 m). As a building society it is necessary for management to make significant judgements in order to estimate incurred losses within the mortgage book. In making this judgement, management have considered both Society specific historic data as well as their experience and knowledge of their current mortgage book. The significance of these judgements is increased as a result of the Society having been involved in a limited number of forced sales over recent years. This also increases the significance of the judgement involved as to whether or not management overlays are necessary, and if so, how to estimate the amount required. Additionally, recent macro-economic events regarding the future of the UK in the European Union have increased uncertainty and reinforce the challenge to management as to whether historic experience and models currently used by the Society will be indicative of future behaviour in the book. The assumptions that are most judgemental and have the most significant impact on the provision are the forced sales discount, sales costs and the threshold for determining whether an incurred loss event has happened. Management's associated accounting policies and critical judgements are detailed in note 1. This is discussed in the report from the audit committee on page 17, and note 1.	We understood management's lending and loan loss provisioning business cycle by undertaking a walk-through to identify the key controls, data flows and input sensitivities. This allowed us to evaluate management's use of historic data to inform assumptions and make judgements as to the future behaviour of the mortgage book. As a result of the Society's limited forced sales data, we benchmarked significant judgements and model outputs including Management's use of overlays against internal and external data. Where possible we agreed data used to form Management's assumptions, such as agreeing forced sales to external documentation such as incoming cashflows received by the Society. We also tested the application of the Nationwide House Price Index on collateral valuations, considered historical write-offs, and performed sensitivity analysis to determine the assumptions that were most significant. We also tested the accuracy and completeness of the provision calculations through independently re-performing management's provision calculation. We considered the completeness of management overlays applied.	We did not identify any material uncorrected misstatements in relation to loan provision and are satisfied that the loan loss provisions are reasonable.
Revenue recognition Total mortgage income is £26.3 million (2016: £29.0 million). Under FRS 102 implementation in 2016, an effective interest rate adjustment was appropriately added to the Society's revenue accounting policy which requires certain revenue streams to be accounted for using the effective interest rate method. To implement effective interest rate accounting management must make certain significant judgements, especially in relation to the behavioural lives of the assets and which fees are relevant for the purpose of effective interest rate accounting. The estimated behavioural lives of mortgages requires significant estimates to be made of the future behaviour of mortgage customers.	We understood management's process for recognising revenue using the effective interest rate method by undertaking a walk-through to identify the key controls, data flows and input sensitivities. As part of that work, we engaged our IT specialists to test the automated calculation of the interest receivable on all mortgage products. We challenged the key assumptions and calculations behind management's estimates of behavioural lives of mortgage assets, and the relevance of historic data to estimate future customer behaviour. We did this by considering supporting documentation where appropriate.	We are satisfied that revenue recognition is materially in compliance with accounting standards.

Risk description	How the scope of our audit responded to the risk	Key observations
Revenue recognition (continued) The impact of the spreading of mortgage interest income and fees has increased profit by £0.46m in 2017 (2016: £0.12m increase). This movement is largely driven by the change in base rate and subsequent changes in expected future interest rates and changes to expected mortgage prepayment rates and reversionary periods. We note that in the financial year under audit the Society updated the way that effective interest rate accounting was modelled compared to last year, and now engage with an external information technology services provider. Management's associated accounting policies and critical judgements are detailed in note 1. This is discussed in the report from the audit committee on page 17, and note 1.	We considered all fees charged by the Society to mortgage customers and formed a view on whether they were required to be accounted for under the effective interest rate method. We tested the mechanical accuracy of the effective interest rate model and reconciled the current balances and fee inputs to underlying data that we had tested, and that the behavioural life run-off curves used for each product had been allocated correctly.	
Derivatives and hedge accounting The Society uses interest rate swaps and hedge accounting to manage interest rate risk arising on fixed rate mortgage and savings products. At the year end the fair value of interest rate swaps held within assets was a net liability of £2.3million (2016: £3.1m). The application of macro hedge accounting requires significant judgement and the precise application of complex rules. Additionally, a small change in hedge effectiveness could result in a material impact in a number of other areas within the financial statements and key ratios therein. The hedge effectiveness testing is dependent upon the valuation of the derivatives. Derivatives and hedge accounting is presented together this year to better align with the way they are considered and tested as part of the audit process. Management's associated accounting policies and critical judgements are detailed in note 1. This is discussed in the report from the audit committee on page 17, and note 1.	We performed a walk-through of the Society's treasury and hedge accounting processes to understand management's process for trading in derivatives and the data flows that underpin and inform hedge accounting and valuation decisions. We assessed management's application of hedge accounting by testing hedge documentation for compliance with the requirements of the accounting standards, and independently re-performing a sample of hedge effectiveness tests conducted by management during the year. We independently calculated the fair value of a sample of interest rate swaps, assessing the use of unobservable inputs and hedged items. We also reviewed the completeness and appropriateness of the disclosures related to the use of unobservable inputs. We also challenged the Society's consideration of and approach to credit valuation adjustments (primarily by verifying the existence of appropriate collateral) for derivative asset positions and tested the amortisation that needs to be recorded on de-designated hedge items and the pre-hedge adjustment at designation date to meet IAS 39 requirements.	We agree that the implementation of hedge accounting requirements, and specifically the designation of derivatives into hedge relationships and the assessment of the effectiveness of hedge relationships, are appropriate and are in line with supporting documentation. We are also satisfied that the valuation of the derivatives is reasonable.

Risk description	How the scope of our audit responded to the risk	Key observations
Pension accounting The Society operates a defined benefit pension scheme and contributes to defined contribution schemes. We identified a key risk in relation to inappropriate assumptions potentially being used in the calculation of the net pension liability in the defined contribution scheme. We did not identify any key risks that directly related to the defined contribution schemes. This has been newly identified as a key risk as a result of the increasing significance of the net pension liability and a change in circumstances that have increased the challenge management have in forming their judgements. At the year end the net pension liability was £1.78 million (2016: £1.00m), compared to a defined benefit obligation of £14.2 million (2016: £12.7m). In the current year the macroeconomic uncertainties caused by the United Kingdom's decision to leave the European Union has significantly impacted the valuation of pension asset investments, even more than it has impacted the value of the defined benefit pension obligation. Furthermore, this, and other factors, have impacted on certain key assumptions, such as the relevant discount rate, retail price index and consumer price index. Significant management judgement is also required in relation to projected future changes in mortality rates. Management's associated accounting policies and critical judgements are detailed in note 1. This is discussed in the report from the audit committee on page 17, and note 1.	We engaged our actuarial audit specialist team to review the key assumptions and judgements applied. They carried out a review of assumptions and methodology, and this specifically included performing benchmarking activities and assessing the Society's application of the technical requirements of the relevant accounting standards. As part of this, our specialist team performed an in-depth review of the methodology applied in estimating the appropriate discount rate. We also obtained external confirmations to allow us to independently value a sample of pension fund assets and we reviewed the Legal & General AAF 01/06 and ISAE 3402 reports for any audit implications.	We have concluded that all assumptions applied in the calculation of the defined benefit obligation are within a reasonable and acceptable range. Notwithstanding the above conclusion, we have identified that, in combination, the assumptions applied are at the upper-end of the range that we consider to be acceptable. We are also satisfied that the valuation of the assets held within the defined contribution scheme is reasonable.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality: £290,000 (2016: £381,850).

Basis for determining materiality: 5% (2016: 5%) of pre-tax profit.

Rationale for benchmark applied:
The accumulation of profits is critical to maintaining and building capital for regulatory purposes and allowing the Group to invest in activities for its members. We have therefore selected profit before tax as the benchmark for determining materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £14,000 (2016: £18,750), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Our group audit scope involved performing full audits on the Society and its main subsidiaries which accounted for more than 99% (2016: 99%) of the Group's net assets and profit before tax. These audits were performed directly by the group audit team and executed at levels of materiality which were lower than group materiality, and ranged from £1,500 to £280,000 (2016: £2,048 to £375,000).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the subsidiary not subject to audit.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- The Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- The information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Opinion on other matters prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 9 for the financial year ended 30 April 2017 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Society;
- the Society financial statements are not in agreement with the accounting records
- We have not received all information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements;
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit
- Otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Kieren Cooper (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
17 July 2017

Income and Expenditure Accounts

Year ended 30 April 2017

	Notes	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Interest receivable and similar income	2	26,862	30,224	26,862	30,224
Interest payable and similar charges	3	(11,500)	(15,108)	(11,500)	(15,108)
Net interest receivable		15,362	15,116	15,362	15,116
Income from investments		10	6	34	6
Fees and commissions receivable		493	857	492	305
Fees and commissions payable		(305)	(290)	(305)	(289)
Other operating income		91	259	(62)	169
Other fair value losses	4	(220)	(145)	(220)	(145)
Total operating income		15,431	15,803	15,301	15,162
Administrative expenses	6	(9,345)	(7,488)	(9,379)	(7,291)
Depreciation and amortisation		(553)	(472)	(541)	(429)
Total operating profit before provisions		5,533	7,843	5,381	7,442
Release of provisions for bad and doubtful debts	11	193	333	193	333
Other provisions	19	15	(244)	15	(134)
Operating profit		5,741	7,932	5,589	7,641
Profit on ordinary activities before tax		5,741	7,932	5,589	7,641
Tax on profit on ordinary activities	7	(1,176)	(1,557)	(1,150)	(1,495)
Profit for the financial year		4,565	6,375	4,439	6,146

The notes on pages 38 to 63 form an integral part of these accounts.

Statements of Other Comprehensive Income

Year ended 30th April 2017

		Group		Society	
	Notes	2017	2016	2017	2016
		£000	£000	£000	£000
Profit for the financial year		4,565	6,375	4,439	6,146
Actuarial losses recognised in the pension scheme	20 (b)	(832)	(891)	(832)	(891)
(Loss) / Gain on revaluation of available for sale assets		243	(282)	241	(282)
Tax		100	141	100	141
Total recognised gains relating to the financial year and recognised since last annual report.		4,076	5,343	3,948	5,114

The notes on pages 38 to 63 form an integral part of these accounts.

Statement of Financial Position

Year ended 30th April 2017

	Notes	Group 2017 £000	Group 2016 £000	Society 2017 £000	Society 2016 £000
Assets					
Liquid assets					
Cash in hand		352	309	352	309
Loans and advances to credit institutions:					
- Repayable on demand		132,016	146,929	131,667	146,682
- Other loans and advances	8	19,041	11,029	19,041	11,029
Debt securities issued by other borrowers	9	81,416	99,658	81,416	99,658
Loans and advances to customers					
- Loans fully secured on residential property	10	785,269	775,200	785,269	775,200
- Other loans – fully secured on land	10	25,999	30,952	25,999	30,952
Investments	12	441	441	2,292	2,509
Intangible fixed assets	13	1,218	915	1,218	915
Tangible fixed assets	14	7,348	7,212	5,487	5,339
Other assets		250	387	246	124
Prepayments and accrued income		478	447	478	433
Total assets		1,053,828	1,073,479	1,053,465	1,073,150
Liabilities					
Shares	15	816,089	863,611	816,089	863,611
Amounts owed to credit institutions	16	67,020	-	67,020	-
Amounts owed to other customers	17	103,428	145,959	103,428	145,959
Other liabilities	18	3,701	4,847	3,673	4,743
Accruals and deferred income		330	380	326	379
Provisions for liabilities	19	223	512	223	491
Net pension scheme liability	20	1,787	996	1,787	996
Total equity attributable to members		61,250	57,174	60,919	56,971
Total equity and liabilities		1,053,828	1,073,479	1,053,465	1,073,150

The notes on pages 38 to 63 form an integral part of these accounts.

These financial statements were approved by the Board of Directors and authorised for issue on 17 July 2017.

Haydn Warman | **William Carroll** | **Tony Morgan**

Statement of Changes in Members' Interests

Year ended 30th April 2017

Group		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1 May 2016		57,222	(48)	57,174
Profit for the financial year		4,565	-	4,565
Other Comprehensive Income in the Period				
Actuarial losses recognised in the pension scheme	20(b)	(832)	-	(832)
Gain on revaluation of assets available for sale		-	243	243
Deferred tax		141	(41)	100
At 30 April 2017		61,096	(154)	61,250

Society		General Reserve	Available for Sale Reserve	Total
At 1 May 2016		57,019	(48)	56,971
Profit for the financial year		4,439	-	4,439
Other Comprehensive Income in the Period				
Actuarial losses recognised in the pension scheme	20(b)	(832)	-	(832)
Gain on revaluation of assets available for sale		-	241	241
Deferred tax		141	(41)	100
At 30 April 2017		60,767	152	60,919

Consolidated Cash Flow Statement

Year ended 30 April 2017

	Group	
	2017 £000	2016 £000
Net cash (outflow) / inflow from operating activities (see below)	(32,353)	22,014
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	(1,028)	(674)
Disposal of tangible and intangible fixed assets	25	12
Disposal of debt securities	18,486	12,135
Net cash flows from investing activities	17,483	11,473
Net increase / (decrease) in cash and cash equivalents	(14,870)	33,487
Cash and cash equivalents at beginning of the year	147,238	113,751
Cash and cash equivalents at end of the year	132,368	147,238
Cashflows from operating activities		
Profit on operating activities before tax	5,741	7,932
Movements in prepayments and accrued income	(31)	(93)
Movements in accruals and deferred income	(51)	(196)
Movements in provisions for liabilities	(289)	(401)
Provisions for bad and doubtful debts	(193)	(332)
Depreciation and amortisation	553	477
Loss on disposal of fixed assets	12	-
Impairment write down	-	29
Loans and advance written off	-	170
Net pension costs	(41)	(475)
Net cash flow from operating activities before movement in operating assets and liabilities	5,701	7,111
Movement in operating assets and liabilities		
Loans and advances to customers	(4,923)	(3,857)
Shares	(47,522)	43,055
Amounts owed to credit institutions and other customers	24,489	(22,686)
Loans and advances to other credit institutions	(8,012)	4
Other assets	136	(135)
Other liabilities	(1,300)	(109)
Taxation paid	(922)	(1,369)
Net cash flow from operating activities	(32,353)	22,014

Notes to the Accounts

Year ended 30 April 2017

1. Accounting policies

Basis of preparation

The Annual Accounts have been prepared in accordance with Financial Reporting Standard 102, IAS 39 Financial Instruments: Recognition and Measurement and the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended).

The accounts have been prepared under the historical cost convention as modified to include the revaluation of financial assets and liabilities held at fair value through profit or loss and available-for-sale financial assets.

The Accounts have been prepared on the going concern basis as outlined in the Directors' Report on page 9.

Interest income and interest payable

Interest receivable and interest payable, for all interest bearing financial instruments held at amortised cost, are recognised in the Income and Expenditure Account using the Effective Interest Rate (EIR) method. This method calculates the amortised cost of a financial instrument and allocates the interest income or expense over the expected average life.

The EIR Method includes all fees received and costs borne by the Society that are an integral part of the yield of the financial instrument. The main impact for the Society relates to mortgages where fees are incorporated in the calculation.

Interest income on available-for-sale instruments, derivatives and other financial assets accounted for at fair value is included in "Interest receivable and similar income".

Taxation

Current and deferred tax is provided on the Society's taxable profits at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the date of the accounts.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the financial year end where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the financial year end. Timing differences are differences between the Society's results as stated in the financial statements and its taxable profits. These arise from where there are gains and losses in tax assessments in periods other than those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Where tax becomes chargeable to or deductible for tax purposes, the resulting tax expense or income is presented in the same component of comprehensive income or equity as the transaction that resulted in the tax expense or income.

Tax assets and liabilities are offset only if the Society has a legally enforceable right to set off such assets and liabilities.

Financial assets

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Group classifies its financial assets into the following categories:

(a) Loans and receivables
These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Society's loans and receivables are measured at amortised cost using the EIR method less provisions for impairment. In accordance with the EIR method, directly attributable costs and fees are deferred and recognised over the expected life of mortgage assets.

1. Accounting policies (continued)

(b) Available-for-sale financial assets
These are non-derivative assets, that are intended to be held for an indefinite period of time and which may be sold in response to changes in liquidity requirements or interest rates. Available-for-sale assets are measured at fair value with unrealised gains or losses recognised in Other Comprehensive Income. On sale or impairment of the asset, the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified to profit or loss. The fair values of quoted investments in active markets are based on current bid prices. Premiums and discounts on available-for–sale assets are amortised until maturity.

(c) Financial assets at fair value through Profit and Loss
These are derivative financial assets initially recognised at fair value on the date on which the derivative contract is entered into. Subsequent movements in fair value are recognised in the Income and Expenditure Account. Gains or losses on early terminated hedges are also recognised in the Income and Expenditure Account.

The Group derecognises financial assets when the rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred to another party.

Financial liabilities
Non-derivative financial liabilities are initially recognised at fair value being the issue proceeds net of premiums, discounts and transaction costs incurred. These are subsequently held at amortised cost using the EIR method.

Derivative financial liabilities are recognised at fair value on inception with movements in fair value being recognised in the Income and Expenditure Account. Financial liabilities are derecognised when the obligation is cancelled, discharged or has expired.

Impairment losses on loans and advances to customers and credit institutions
At each year end the Group performs an assessment as to whether there is evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include: indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the debt being restructured to reduce the burden on the borrower, any breach of contract, and other overall economic conditions.

If there is subjective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the net present value of estimated discounted future cash flows.

The resultant provisions are deducted from the appropriate asset values in the Statement of Financial Position.

Other provisions and contingent liabilities
The Group recognises provisions when a legal or constructive obligation exists as a consequence of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Where it is not probable that the obligation will be settled and / or it cannot be reliably estimated, a contingent liability is disclosed in the Notes to the Accounts.

Borrowings
Commissions and other costs incurred in the raising of borrowings are amortised over the period to maturity.

Retirement benefits
For the defined benefit scheme, the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments are included as part of staff costs. The net interest cost on the net defined benefit liability is included within finance costs in the Income and Expenditure Account.

Actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in Other Comprehensive Income. The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Society, in separate trustee administered funds. The actuarial valuations are obtained at least triennially and are updated at each financial year end.

For the defined contribution scheme, pension costs are charged to the Income and Expenditure Account. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

Derivative financial instruments and hedge accounting
The Society uses derivatives only for risk management purposes. The Society does not hold or issue derivative financial instruments for trading purposes.

a) Derivative financial instruments
Derivatives are initially measured at fair value, at the date the derivative contract is entered into, with subsequent movements in fair value recognised in the Income and Expenditure Account.

Fair Value Measurement
Fair values are calculated by applying yield curves, to a discounted cash flow model. Derivatives with a positive fair value are classified as assets with derivatives that have a negative value being classified as liabilities.

a) Hedge accounting
Where the transactions meet the criteria specified in IAS 39, the Group uses hedge accounting. Hedge relationships are formally designated and documented at inception.

Changes in the fair value of the derivatives are recognised in the Income and Expenditure Account and are matched with changes in the fair value of the hedged item that are attributable to the hedged risk.

Hedge accounting is discontinued when:

- the hedge no longer meets the criteria for hedge accounting
- the derivative expires, is sold or is terminated,
- the hedged item matures, is sold or repaid.

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Freehold buildings are considered for impairment on an annual basis. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset over its estimated useful economic life as follows:

- Office equipment 3 to 7 years straight-line basis.
- Motor vehicles 25% per annum reducing balance basis.
- Leasehold improvements over the period of the lease.
- Freehold buildings 50 years straight-line basis.

Intangible assets
Purchased computer software, which is not an integral part of the related hardware, is recognised as an intangible asset at cost and amortised on a straight line basis over the estimated useful life of 7 years. Provision is made for any impairment.

Judgements in applying accounting policies and critical accounting estimates
The Group makes judgements in applying its accounting policies which affect the amounts recognised in the financial statements. In addition, the Group makes estimates and assumptions based on historical experience and other relevant factors, such as future expectations that are believed to be reasonable.

The most significant areas where estimates, assumptions and judgements are made are as follows and have been reviewed by the Audit Committee as detailed in the Audit Committee Report on pages 16 and 17.

Impairment provision on loans and advances
The Society reviews its mortgage advances portfolio to assess impairment. This requires the exercise of a significant degree of judgement. Provisions require judgement to be exercised in predicting future economic conditions such as house price movements, default rates, forced sale discounts and the length of time before impairments are identified (i.e. emergence period).

Fair value of derivatives and available-for-sale assets
Derivative financial instruments are valued by discounted cash flow models using yield curves that are based on observable market data.

Available-for-sale assets are valued using market prices or, where market prices are not available, using discounted cash flow models or recent arms length transactions.

Changes in the assumptions used could affect the fair value calculations.

Effective interest rate (EIR)
Under IAS 39, financial instruments carried at amortised cost are accounted for using the EIR method. The EIR method requires the Society to make assumptions regarding the expected lives of financial instruments and the anticipated level of early repayment fees. These assumptions are regularly reviewed to ensure they reflect actual performance.

Retirement benefit obligations
The Group makes significant judgements to calculate the present value of the retirement benefit obligations in respect of mortality, price inflation, discount rates, pension increases and earnings growth.

Further details on the assumptions used in valuing retirement benefit obligations can be found in Note 20.

The reported liability, service cost and expected return on pension plan assets can be impacted by changes in the assumptions used.

1. Accounting policies (continued)

Hedge accounting

The Society has implemented hedge accounting in line with IAS 39. The designated macro hedges are complex and require a number of assumptions.

This involves matching and fair valuing both the hedged instrument and the underlying hedged item.

2. Interest receivable and similar income

	Group and Society	
	2017 £000	2016 £000
On loans fully secured on residential property	26,246	29,052
On other loans	1,367	1,529
On liquid assets	1,332	1,617
Net expense on financial instruments	(2,083)	(1,974)
	26,862	30,224

3. Interest payable and similar charges

	Group and Society	
	2017 £000	2016 £000
On shares held by individuals	10,631	13,576
On deposits and other borrowings	869	1,532
	11,500	15,108

4. Other fair value gains and losses

	Group and Society	
	2017 £000	2016 £000
Gains / (Losses) on derivatives	808	(238)
Gains / (Losses) on hedged items attributable to the hedged risk	(1,028)	93
	(220)	(145)

Other fair value gains and losses represent the difference between changes in the fair value excluding interest flows of the hedging derivatives and the changes in fair value excluding interest flows of the underlying hedged items.

5. Financial Instruments

Derivatives

The Society makes use of derivative instruments to mitigate the effect of changing interest rates. The principal derivatives which can be used in risk management are interest rate swaps, forward rate agreements, caps, floors and interest rate options which can be used to hedge exposures arising from the interest rate risk on fixed rate mortgage lending and savings products, and fixed rate funding and investment activities.

The Society continues to adopt a prudent stance in the management of its Statement of Financial Position, ensuring that there are no disproportionate mismatch positions.

The derivative instruments currently utilised by the Society are interest rate swaps. These are used to protect the Society from interest rate risk relating to fixed rate mortgage lending.

Under an interest rate swap, the Society agrees with an approved counterparty to exchange at specified intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal does not represent its exposure to credit risk which is assessed by reference to its replacement cost if the counterparty defaulted.

The Society has decided to implement the requirements of IAS 39 allowing the Society to use macro hedging to reduce the volatility in the Income and Expenditure Accounts by allowing the Society to offset fair value movements on derivatives by applying fair value adjustments to the underlying hedged items.

The Society uses using the fair value hedge option to apply the standard. In order to apply hedge accounting it is also necessary to identify specific hedged item(s) and hedging instrument(s) and link them via designation in individual hedging relationships.

Unmatured interest rate contracts	2017 £000	2016 £000
Notional principal amount as at 30 April	317,000	259,000
Credit risk weighted amount	-	-
Replacement cost	108	9

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset.

The directors are satisfied that the Group was within its exposure limits and that assets and liabilities are well matched.

The interest rate gap analysis of the Group as at 30 April 2017 was as follows:

	3 months or less £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	Non-interest bearing £000	Total £000
Assets						
Liquid assets	200,725	9,500	22,000	-	600	232,825
Loans and advances to customers	498,076	37,009	76,435	198,070	1,678	811,268
Other assets including tangible fixed assets	-	-	-	-	9,735	9,735
	698,801	46,509	98,435	198,070	12,013	1,053,828
Liabilities						
Shares	685,387	43,003	30,842	56,137	721	816,090
Amounts owed to credit institutions and other customers	151,416	4,500	13,500	1,000	32	170,448
Other liabilities	-	-	-	-	6,040	6,040
Capital	-	-	75	-	61,175	61,250
	836,803	47,503	44,417	57,137	67,968	1,053,828
Impact of derivative instruments	267,000	(38,000)	(44,000)	(185,000)	-	-
Interest rate gap at 30 April 2017	128,998	(38,994)	10,018	(44,067)	(55,955)	-

5. Financial Instruments (continued)

The interest rate gap analysis of the Group as at 30 April 2016 was as follows:

	3 months or less £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	Non-interest bearing £000	Total £000
Assets						
Liquid assets	213,868	19,000	18,127	5,894	1,036	257,925
Loans and advances to customers	472,436	26,346	64,909	241,463	998	806,152
Other assets including tangible fixed assets	-	-	-	-	9,402	9,402
	686,304	45,346	83,036	247,357	11,436	1,073,479
Liabilities						
Shares	680,299	28,669	58,236	94,908	1,499	863,611
Amounts owed to credit institutions and other customers	145,874	-	-	-	85	145,959
Other liabilities	-	-	-	-	6,735	6,735
Capital	-	-	10,000	78	47,096	57,174
	826,173	28,669	68,236	94,986	55,415	1,073,479
Impact of derivative instruments	216,000	(10,000)	(13,500)	(192,500)	-	-
Interest rate gap at 30 April 2016	76,131	6,677	1,300	(40,129)	(43,979)	-

The categories of financial instruments as at 30 April 2017 were as follows:

Assets/(Liabilities)	At amortised cost £000	Loans and Receivables £000	At fair value through OCI £000	Fair value through profit & loss £000	Non-financial assets £000	Total £000
Assets						
Cash	352	-	-	-	-	352
Loans and advances to credit institutions	-	151,057	-	-	-	151,057
Debt securities	-	-	81,416	-	-	81,416
Loans and advances to customers	-	811,268	-	-	-	811,268
Derivative financial instruments	-	-	-	110	-	110
Total financial assets	352	962,325	81,416	110	-	1,044,203
Non financial assets	-	-	-	-	9,625	9,625
	352	962,325	81,416	110	9,625	1,053,828
Liabilities						
Shares	816,089	-	-	-	-	816,089
Amounts owed to credit institutions and other customers	170,448	-	-	-	-	170,448
Derivative financial instruments	-	-	-	2,663	-	2,663
Total financial liabilities	986,537	-	-	2,663	-	989,200
Non financial liabilities	-	-	-	-	3,378	3,378
Reserves	-	-	-	-	61,250	61,250
	986,537	-	-	2,663	64,628	1,053,828

5. Financial Instruments (continued)

The categories of financial instruments as at 30 April 2016 as restated were as follows:

Assets/(Liabilities)	At amortised cost £000	Loans and Receivables £000	At fair value through OCI £000	Fair value through profit & loss £000	Non-financial assets & liabilities £000	Total £000
Assets						
Cash	309	-	-	-	-	309
Loans and advances to credit institutions	-	157,958	-	-	-	157,958
Debt securities	-	-	99,658	-	-	99,658
Loans and advances to customers	-	806,152	-	-	-	806,152
Derivative financial instruments	-	-	-	7	-	7
Total financial assets	309	964,110	99,658	7	-	1,064,084
Non financial assets	-	-	-	-	9,395	9,395
	309	964,110	99,658	7	9,395	1,073,479
Liabilities						
Shares	863,611	-	-	-	-	863,611
Amounts owed to credit institutions and other customers	145,959	-	-	-	-	145,959
Derivative financial instruments	-	-	-	3,094	-	3,094
Total financial liabilities	1,009,570	-	-	3,094	-	1,012,664
Non financial liabilities	-	-	-	-	3,641	3,641
Reserves	-	-	-	-	57,174	57,174
	1,009,570	-	-	3,094	60,815	1,073,479

Carrying and Fair values of financial assets and liabilities

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arm's length transaction.

The Society measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: valuation techniques for which all significant inputs are based on observable market data.
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

Where applicable, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments the Society determines fair values using other valuation techniques. The table below analyses the book and fair values of the Society's financial instruments held at amortised cost at 30 April 2017.

	Carrying value 2017 £000	Fair value 2017 £000	Carrying value 2016 £000	Fair value 2016 £000
Financial assets				
Cash in hand	352	352	309	309
Loans and advances to credit institutions	151,057	151,057	157,958	157,958
Debt securities issued by other borrowers	81,416	81,416	99,658	99,658
Loans and advances to customers	811,268	811,715	806,152	806,512
Financial liabilities				
Shares	816,089	815,925	863,611	864,851
Amounts owed to credit institutions	67,020	67,020	-	-
Amounts owed to other customers	103,428	103,428	145,959	145,959

The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:-

a) Cash in hand – Level 1
The fair value of cash in hand is the amount repayable on demand.

b) Loans and advances to credit institutions – Level 2
The fair value of overnight deposits is the amount repayable on demand.

c) Debt securities – Level 1
The estimated fair value of debt securities is calculated by reference to market prices.

d) Loans and advances to customers – Level 2
Loans and advances are recorded net of provisions for impairment together with the fair value adjustment as required by FRS102. The estimated fair value of loans and advances takes into account expected loss provisions, and current market rates.

e) Shares, deposits and borrowings – Level 2
The fair value of shares, deposits and other borrowings with no stated maturity is the amount repayable on demand. The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based prevailing market rates for items of similar remaining maturity.

5. Financial Instruments (continued)

Credit risk

The Group's maximum exposure to credit risk exposure is detailed in the table below:

	Group		Society	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash	352	309	352	309
Loans and advances to credit institutions	151,057	157,958	150,708	157,711
Debt Securities	81,416	99,658	81,416	99,658
Loans and advances to customers	811,268	806,152	811,268	806,152
	1,044,093	1,064,077	1,043,744	1,063,830

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The Group's treasury policy permits lending to central government (which includes the Bank of England), UK local authorities, banks with a high credit rating and building societies. The Group performs regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

An analysis of the Group's treasury asset concentration is shown in the table below:

	Group		Group	
Industry Sector	2017 £000	2017 %	2016 £000	2016 %
Banks	75,979	33	143,416	56
Building Societies	32,327	14	26,674	10
Central Government	124,519	53	87,835	34
	232,825	100	257,925	100

The table below shows the Society's treasury exposures broken down by credit ratings:

	Group		Group	
	2017 £000	2017 %	2016 £000	2016 %
A	42,112	18	65,421	25
AA	140,885	60	149,318	58
AAA	32,126	14	32,169	13
Unrated	17,702	8	11,017	4
	232,825	100	257,925	100

b) Loans and advances to Customers

The Society adopts a prudent lending approach to our mortgage customers which helps ensure that our default rates are low. For new customers, the Society relies upon adherence to its Responsible Lending Policy. For existing customers who subsequently apply for additional lending, the same process is adopted. All mortgage applications are overseen by the Mortgage Underwriting team who ensure that all information submitted within the application is validated and loans are approved in line with appropriate lending mandate levels. Credit risk management information is comprehensive and is monitored by the Mortgage Lending Risk Committee.

LTV Analysis
Residential

	Group 2017 %	Group 2016 %
The Society's Loan book is split between		
0-50%	35	30
50% to 60%	14	13
60% to 70%	17	20
70% to 80%	15	17
80% to 90%	12	14
90% to 100%	7	6
Total	100	100

LTV Analysis
Buy-to-Let

	Group 2017 %	Group 2016 %
0-50%	16	14
50% to 60%	18	18
60% to 70%	35	36
70% to 80%	28	29
80% to 90%	3	3
Total	100	100

LTV Analysis
Commercial

	Group 2017 %	Group 2016 %
0-50%	39	36
50% to 60%	18	17
60% to 70%	22	27
70% to 80%	16	20
80% to 90%	3	-
90% to 100%	1	-
Greater than 100%	1	-
Total	100	100

The Society's loan book is comprised of loans fully secured on residential property, buy to let loans and commercial loans. The Average loan to value on the loan book is 53% (2016:53%). Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held adjusted by a house price index. The collateral consists of residential or commercial property. Collateral values are adjusted by the Nationwide price index to derive the indexed valuation at 30 April 2017. This HPI takes into account regional data. The Group uses the index to update the property values of its portfolios on a quarterly basis. Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% of the value of the property at the point of application.

5. Financial Instruments (continued)

The Society, as a regional building society, has a geographical concentration in Wales. An analysis of the Society's loan portfolio is provided below:

	Group		Group	
	2017 £000	2017 %	2016 £000	2016 %
Wales	538,359	68	547,471	68
South West	98,038	12	95,322	12
Midlands	50,625	6	52,607	7
Outer Metropolitan area	26,565	3	24,409	3
South East	24,479	3	20,006	2
Greater London	23,412	3	22,057	3
North West	16,810	2	16,923	2
Other	32,980	3	27,357	3
	811,268	100	806,152	100

Arrears analysis

	Group		Group	
	2017 £000	2017 %	2016 £000	2016 %
Not specifically provided for				
Neither past due or impaired	796,425	98	781,698	97
Past due up to 3 months	7,620	1	20,324	3
Past due up to 6 months	3,662	1	2,270	-
Impaired				
Past due 6 to 9 months	836	-	376	-
Past due over 9 months	2,725	-	1,484	-
	811,268	100	806,152	100

The above table shows the impairment status of the Society's loan portfolio. The status 'Past due up to 3 months but not specifically provided for' includes any asset where a payment due is received late or missed but no individual provision has been allocated. These loans will then be considered in the collective provision. The amount included is the entire loan amount rather than just the overdue amount. The quality of the Group's mortgage book is reflected in the number and value of accounts in arrears by value. Only 0.9% (2016: 0.4%) is greater than three months in arrears.

Specific provisions are calculated against impaired balances (see note 11).

6. Administrative Expenses

	Group		Society	
	2017 £000	2016 £000	2017 £000	2016 £000
Staff costs	5,661	4,432	5,661	4,210
Auditor's remuneration:				
FRS 102 transition	-	15	-	15
Statutory audit of the Group Financial Statements	53	38	53	38
Statutory audit of subsidiary companies	4	4	-	-
Other services	9	4	9	-
Other expenses	3,618	2,995	3,656	3,028
	9,345	7,488	9,379	7,291

7. Taxation

Tax on profit of ordinary activities

	Group		Society	
	2017 £000	2016 £000	2017 £000	2016 £000
Current tax:				
UK corporation tax	1,187	1,627	1,161	1,565
Adjustments in respect of previous years	(96)	(52)	(96)	(52)
Total current tax	1,091	1,575	1,065	1,513
Deferred tax:				
Credit for the period	(3)	(18)	(3)	(18)
Adjustment in respect of previous years	88	-	88	-
Total deferred tax	85	(18)	85	(18)
Total tax per Income and Expenditure Account	1,176	1,557	1,150	1,495
Other comprehensive income items	(100)	(101)	(100)	(101)
Tax payable	1,076	1,456	1,050	1,394

7. Taxation (continued)

The charge for the year can be reconciled to the profit in the Income and Expenditure Account as follows:

	Group		Society	
	2017 £000	2016 £000	2017 £000	2016 £000
Profit for the period	5,741	7,932	5,589	7,641
Effects of:				
Tax at 19.92% thereon (2016: 20%)	1,144	1,586	1,113	1,528
Expenses not deductible	37	23	42	19
Income not taxable	(5)	-	(5)	-
Available for sale Adjustments	12	-	12	-
Adjustments from previous periods	(7)	(52)	(7)	(52)
Tax rate changes	(5)	-	(5)	-
Tax charge for the period	1,176	1,557	1,150	1,495
Statement of Financial Position				
Current tax payable	(912)	(817)	(889)	(743)
Deferred Tax (assets) liabilities brought forward	(11)	90	(11)	90
Adjustment in respect of prior years	88	-	88	-
Deferred tax charge to Income and Expenditure Account for the period	(3)	(18)	(3)	(18)
Deferred tax charge in OCI for the period	(100)	(83)	(100)	(83)
Deferred Tax (assets) carried forward	(26)	(11)	(26)	(11)

8. Other Loans and Advances to Credit Institutions

Other loans and advances to credit institutions mature from the date of the Statement of Financial Position as follows:

	Group and Society	
	2017 £000	2016 £000
Accrued interest	41	29
Maturing in not more than three months	8,000	2,000
Maturing in more than three months but not more than one year	11,000	9,000
	19,041	11,029

9. Debt Securities Issued by Other Borrowers

Debt securities, mature from the date of the Statement of Financial Position as follows:

	Group and Society	
	2017 £000	2016 £000
Accrued interest	136	325
Maturing in not more than one year	35,227	39,328
Maturing in more than one year	46,053	60,005
	81,416	99,658
Analysis of debt securities:		
Issued by public bodies	32,127	32,071
Issued by other borrowers	49,289	67,587
	81,416	99,658

10. Loans and Advances to Customers

The contractual maturity of advances secured on residential property and other advances secured on land from the date of the Statement of Financial Position is as follows:

	Group and Society	
	2017 £000	2016 £000
Repayable on demand	2,697	821
In not more than three months	6,594	6,544
In more than three months but not more than one year	22,374	21,581
In more than one year but not more than five years	138,350	131,671
In more than five years	642,279	646,755
	812,294	807,372
Provisions for bad and doubtful debts (note 11)	(1,026)	(1,220)
	811,268	806,152
Loans fully secured on residential property	785,269	775,200
Other loans – fully secured on land	25,999	30,952
	811,268	806,152

It should be noted that the above maturity analysis may not reflect actual experience of repayments since many mortgage loans are repaid early.

11. Provisions for Loan Losses

	Group and Society				
	Residential		Commercial		
	Specific £000	Collective £000	Specific £000	Collective £000	Total £000
At 1 May 2016	227	715	-	278	1,220
Amounts utilised in year	(5)	-	-	4	(1)
Charge/(release) for the year	251	(418)	-	(26)	(193)
At 30 April 2017	473	297	-	256	1,026
At 1 May 2015	283	943	100	397	1,723
Amounts utilised in year	(170)	-	-	-	(170)
Charge/(release) for the year	114	(228)	(100)	(119)	(333)
At 30 April 2016	227	715	-	278	1,220

12. Investments

	Group		Society	
	2017 £000	2016 £000	2017 £000	2016 £000
Shares in subsidiaries	-	-	2,206	2,274
Loans to subsidiaries	-	-	(355)	(206)
Shares in other investments	18	18	18	18
Loans to other investments	423	423	423	423
	441	441	2,292	2,509

Investments are held at the lower of cost and net realisable value. The loan to other investments is repayable after a period of twelve months and has an interest rate lower than that of a market rate.

The Society holds directly the following interests in subsidiaries and other investments:

	Country of registration and of incorporation	Principal activity	Class of shares held	Interest of Society
Austin Friars (Newport) Development Company Ltd	England & Wales	Property Company	Ordinary	100%
Monmouthshire Insurance Services Ltd	England & Wales	Dormant	Ordinary	100%
Monmouthshire Independent Financial Advisers Ltd	England & Wales	Dormant	Ordinary	100%
MBS Developments Ltd	England & Wales	Dormant	Ordinary	100%
Mutual Vision Technologies Ltd	England & Wales	Computer Software Developer	Ordinary	33.87%

The Group does not account for Mutual Vision Technologies Ltd as an associated company as the Society does not exercise significant influence over the company.

13. Intangible Fixed Assets

	Computer Software £000	Total £000
Group and Society		
Cost		
At 1 May 2016	1,432	1,432
Additions	500	500
At 30 April 2017	1,932	1,932
Amortisation		
At 1 May 2016	517	517
Charge for the year	197	197
At 30 April 2017	714	714
Net book value		
At 30 April 2017	1,218	1,218
At 30 April 2016	915	915

	Goodwill £000	Computer Software £000	Total £000
Group			
Cost			
At 1 May 2015	200	1,205	1,405
Additions	-	227	227
Disposals	(200)	-	(200)
At 30 April 2016	-	1,432	1,432
Amortisation			
At 1 May 2015	153	388	541
Charge for the year	18	129	147
Impairment	29	-	29
Disposals	(200)	-	(200)
At 30 April 2016	-	517	517
Net book value			
At 30 April 2016	-	915	915
At 30 April 2015	47	817	864

13. Intangible Fixed Assets (continued)

	Computer Software	Total
	£000	£000
Society		
Cost		
At 1 May 2015	1,205	1,205
Additions	226	226
At 30 April 2016	1,431	1,431
Amortisation		
At 1 May 2015	388	388
Charge for the year	128	128
At 30 April 2016	516	516
Net book value		
At 30 April 2016	915	915
At 30 April 2015	817	817

14. Tangible Fixed Assets

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1 May 2016	6,814	472	3,247	10,533
Additions	119	15	394	528
Disposals	-	-	(118)	(118)
At 30 April 2017	6,933	487	3,523	10,943
Depreciation				
At 1 May 2016	822	232	2,267	3,321
Charge for the year	85	29	242	356
Disposals	-	-	(82)	(82)
At 30 April 2017	907	261	2,427	3,595
Net book value				
At 30 April 2017	6,026	226	1,096	7,348
At 30 April 2016	5,992	240	980	7,212

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
Society				
Cost				
At 1 May 2016	2,432	2,805	3,196	8,433
Additions	71	63	394	528
Disposals	-	-	(119)	(119)
At 30 April 2017	2,503	2,868	3,471	8,842
Depreciation				
At 1 May 2016	222	654	2,218	3,094
Charge for the year	37	67	240	344
Disposals	-	-	(83)	(83)
At 30 April 2017	259	721	2,375	3,355
Net book value				
At 30 April 2017	2,244	2,147	1,096	5,487
At 30 April 2016	2,210	2,151	978	5,339

14. Tangible Fixed Assets **(continued)**

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1 May 2015	6,778	472	2,893	10,143
Additions	36	-	414	450
Disposals	-	-	(60)	(60)
At 30 April 2016	6,814	472	3,247	10,533
Depreciation				
At 1 May 2015	737	206	2,092	3,035
Charge for the year	85	26	214	325
Disposals	-	-	(39)	(39)
At 30 April 2016	822	232	2,266	3,321
Net book value				
At 30 April 2016	5,992	240	981	7,212
At 30 April 2015	6,041	266	799	7,106

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
Society				
Cost				
At 1 May 2015	2,425	2,776	2,852	8,053
Additions	7	29	404	440
Disposals	-	-	(60)	(60)
At 30 April 2016	2,432	2,805	3,196	8,433
Depreciation				
At 1 May 2015	185	590	2,058	2,833
Charge for the year	37	64	200	301
Disposals	-	-	(40)	(40)
At 30 April 2016	222	654	2,218	3,094
Net book value				
At 30 April 2016	2,210	2,151	978	5,339
At 30 April 2015	2,240	2,186	794	5,220

15. Shares

	Group 2017 £000	Society 2016 £000
Held by individuals	816,089	863,611

Shares are repayable from the year end date in the ordinary course of business as follows:

	2017 £000	2016 £000
Accrued interest	721	1,479
On demand	364,386	292,710
In not more than three months	193,361	363,486
In more than three months but not more than one year	187,962	117,570
In more than one year but not more than five years	69,659	88,366
	816,089	863,611

16. Amount Owed to Credit Institutions

Amounts owed to credit institutions are repayable from the Statement of Financial Position date in the ordinary course of business as follows:

	Group 2017 £000	Society 2016 £000
Accrued interest	20	-
In not more than three months	4,000	-
In more than three months but not more than one year	28,000	-
In more than one year but not more than five years	35,000	-
	67,020	-

17. Amount Owed to Other Customers

Amounts owed to other customers are repayable from the Statement of Financial Position date in the ordinary course of business as follows:

	Group 2017 £000	Society 2016 £000
Accrued interest	13	84
On demand	42,299	69,738
In not more than three months	61,116	76,137
	103,428	145,959

18. Other Liabilities

	Group		Society	
	2017 £000	2016 £000	2017 £000	2016 £000
Falling due within one year:				
Income tax	-	684	-	684
Other creditors	1,038	1,069	1,010	965
Swap Liabilities	2,663	3,094	2,663	3,094
	3,701	4,847	3,673	4,743

19. Provisions for Liabilities

	Subsidiary disposal £000	FSCS levy (note 22) £000	Other Provisions £000	Total £000
Group				
At 1 May 2016	21	491	-	512
Amounts utilised	(21)	(253)	-	(274)
Charge/(credit) for the year	-	(35)	20	(15)
At 30 April 2017	-	203	20	223
Society				
At 1 May 2016	-	491	-	491
Amounts utilised	-	(253)	-	(253)
Charge/(credit) for the year	-	(35)	20	(15)
At 30 April 2017	-	203	20	223

Other provisions relate to GC/16 - The fair treatment of mortgage customers in payment shortfall. Like most lenders, the Society is likely to be impacted by the FCA interpretation of mortgage payment recalculation on accounts with an arrears balance as automatic capitalisation. In certain circumstances this may require a small amount of redress.

20. Information Regarding Directors and Employees

a) Employment

	Group		Society	
	2017	2016	2017	2016
	£000	£000	£000	£000
Costs (excluding non-executive directors):				
Wages and salaries	4,552	3,754	4,552	3,565
Social security costs	447	373	447	355
Other pension costs	662	305	662	290
	5,661	4,432	5,661	4,210

b) Other pension costs

The Society operates both a defined contribution scheme and a defined benefit final salary pension scheme. The assets of the scheme are held separately from those of the Society, and are invested by the scheme fund manager. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent full actuarial valuation was at 6 April 2016. This showed that the market value of the scheme's assets at that time was £10,504,558 and that the actuarial value of those assets represented 85% of the benefits that had accrued to members after allowing for expected future increases in earnings. From 5 April 2005, members' pensionable salary increases were restricted to the lower of RPI or 5%.

Pension valuation

An actuarial review consistent with methods described in FRS 102 has been performed.

The results are as follows:	2017	2016	2015
	£000	£000	£000
Assets	12,444	11,716	12,378
Present value of scheme liabilities	(14,231)	(12,712)	(12,958)
Deficit	(1,787)	(996)	(580)
Percentage funding	87%	92%	96%

Changes in the value of assets over the year:	2017	2016
	£000	£000
Value of assets at beginning of year	11,716	12,378
Net interest on assets	419	455
Gain/(Loss) on net return on assets	2,279	(1,084)
Employer contributions (gross)	210	528
Employee contributions	46	173
Increase/(Decrease) in secured pensioners' value due to scheme experience	127	(116)
Benefits paid	(2,345)	(618)
Expenses paid by scheme	(8)	-
Bid value of assets at end of year	**12,444**	**11,716**

20. Information Regarding Directors and Employees (Continued)

b) Other pension costs (continued)

Changes in the value of liabilities over the year:	2017 £000	2016 £000
Value of liabilities at beginning of year	12,712	12,958
Current service cost before employee contributions	180	205
Interest cost	446	476
Experience loss on scheme liabilities	572	(87)
Increase/(Decrease) on changes in assumptions	2,539	(106)
Increase/(Decrease) in secured pensioners value due to scheme experience	127	(116)
Benefits paid	(2,345)	(618)
Value of liabilities at end of year	**14,231**	**12,712**

	2017 £000	2016 £000	2015 £000
At 30 April the full value of assets held by the Scheme was as follows:			
Bonds	5,520	5,257	5,455
Equities	5,434	5,132	5,561
Cash	34	41	3
Annuities	1,456	1,286	1,359
	12,444	11,716	12,378

The major assumptions used by the actuary were:	2017 %	2016 %	2015 %
Rate of increase in salaries	3.3	2.9	3.0
Discount rate	2.8	3.7	3.7
Inflation assumption	3.3	2.9	3.0
Rate of increase in pensions	3.2	2.9	2.8

Mortality assumptions

Investigations have been carried out into the mortality experience of the Group Defined Benefit Scheme. Allowance has been made for the improvement in mortality rates. The assumed life expectations on retirement at age 60 are:

	2017 Years	2016 Years
Retiring today:		
Male	26.9	26.4
Female	28.6	28.5
Retiring in 20 years:		
Male	27.7	27.4
Female	29.2	29.3

	2017 £000	2016 £000	2015 £000
Movement in deficit during the year:			
At beginning of year	(996)	(580)	(347)
Current service cost	(131)	(32)	(87)
Employer net contributions	202	528	336
Net interest	(27)	(21)	158
Actuarial losses	(832)	(891)	(640)
At end of year	(1,784)	(996)	(580)

The agreed future funding rate is 31.5%.

	2017 £000	2016 £000
Within operating profit:		
Current service cost before employee contributions	(180)	(205)
Employee contributions	49	173
Net current service cost	(131)	(32)
Within the statement of comprehensive income:		
Actual return less expected return on scheme assets	2,279	(1,084)
Experience losses arising on scheme liabilities	(572)	87
Changes in assumptions underlying the present value of scheme liabilities	(2,539)	106
Total	(832)	(891)

c) Employees

The average number employed during the year was as follows:

	Group		Society	
	2017	2016	2017	2016
(i) at the Society's Head Office:				
Full-time	89	78	89	73
Part-time	23	24	23	22
(ii) at Branch Offices:				
Full-time	6	7	6	7
Part-time	39	36	39	36
	157	145	157	138

21. Capital Commitments

Capital commitments contracted for but not provided in these accounts were £nil (2016: £nil).

22. Contingent Liability

Financial Services Compensation Scheme (FSCS)

Based on its share of protected deposits, the Society pays levies to the FSCS to enable the FSCS to meet claims against it. Since 2008, a number of institutions have been declared in default by the PRA (formerly FSA).

The FSCS has met, or will meet, the claims by way of loans received from HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired rights in the realisation of assets of those financial institutions in which claims have been triggered. The FSCS is liable to pay interest on these loans and has a further liability because there are insufficient funds from the realisation of the assets of the banks to fully repay these loans from HM Treasury. A contingent liability has been recognised in relation to these potential claims as the amounts cannot currently be reliably estimated.

A provision of £203k for Monmouthshire Building Society's estimated share of the levy remains in force at the Statement of Financial Position date (see note 19).

The Society also has a potential exposure to future levies resulting from the sale of assets in relation to Bradford & Bingley. The quantification and timing of such losses has yet to be determined and hence, no provision has been recognised.

23. Commitments Under Non Cancellable Operating Leases:

The Group has the following commitments in respect of operating lease rentals:

	2017 £000	2016 £000
Less than one year	80	80
Between one and five years	203	264
Greater than five years	27	47
	310	391

24. Related Party Transactions

The remuneration of the directors (including Non-Executive Directors), who are the key management personnel of the Group, is set out in the Directors' Remuneration Report on page 21.

Loans to Directors

There was an aggregate of £223k (2016: £407k) outstanding at the end of the financial year in respect of secured advances made prior to or during the year to Directors. As required by the Society's Rules, each Director has a share account.

The year end positions in relation to related party companies are disclosed in note 12 of these accounts. In addition the Society undertook the following transactions with Group companies during the year:

	2017 £000	2016 £000
Rent paid to Austin Friars (Newport) Development Company Ltd	(60)	(60)
Loan interest from Mutual Vision Technologies Ltd	9	6
Dividend received from Monmouthshire Independent Financial Advisers Ltd	25	-

Annual Business Statement

Year ended 30 April 2017

1. Statutory Percentages

	Percentages at 30 April 2017	Statutory limit
	%	%
Proportion of business assets not in the form of loans fully secured on residential property (the "lending limit")	3.2	25
Proportion of shares, deposits and debt securities in the form of shares not held by individuals (the "funding limit")	17.28	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by sections 6 and 7 of the Building Societies Act 1986 as substituted by the Building Societies Act 1997 and are based upon the consolidated Statement of Financial Position.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Statement of Financial Position plus provisions for bad and doubtful debts, less fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Statement of Financial Position plus provisions for bad and doubtful debts and interest in suspense.

2. Other Percentages

	2017	2016
	%	%
As a percentage of shares and borrowings:		
Gross capital	6.21	5.66
Free capital	5.40	5.00
Liquid assets	23.60	25.55
As a percentage of mean total assets:		
Profit after tax	0.43	0.60
Management expenses	0.93	0.75
Cost income ratio	64.14	51.30
Common Equity Tier 1 capital ratio	16.11	14.72
Leverage ratio	5.81	5.34

Note: The above ratios have been calculated from the Group Statement of Financial Position.

(i) Gross capital represents total reserves.
(ii) Free capital represents gross capital and collective provision for bad and doubtful debts, less tangible fixed assets.
(iii) Shares and borrowings represent the aggregate shares, amounts owed to credit institutions and amounts owed to other customers.
(iv) Liquid assets represent the total of cash in hand, loans and advances to credit institutions and debt securities issued by other borrowers as shown in the Statement of Financial Position.
(v) Mean total assets is the average of the respective 2016 and 2017 figures.
(vi) Management expenses represent the aggregate of administrative expenses and depreciation.
(vii) Cost income ratio represents administrative expenses divided by total operating income.
(viii) Common equity Tier 1 capital is general reserves divided by total risk weighted assets.
(ix) Leverage ratio represents total mean reserves over total mean assets.

Annual Business Statement (Continued)

Year ended 30 April 2017

3. Information Relating to Directors and Other Officers

Name	Occupation	Date of birth	Date of appointment
H Warman LLB (Hons) (Chairman)	Non-practising Solicitor	19.03.50	01.10.10
T Barratt MBA, FT Post Dip NED, ICA Post Dip AML, Post Dip Fin, Dip FS, ACIB	Risk Specialist and Director	28.04.60	13.07.16
J Bawa ACII	Chief Executive Officer	13.07. 65	02.11.17
W J Carroll BSc (Hons) FCA	Finance & Change Director	17.02.77	30.04.09
N Hingorani-Crain LLB (Hons), Maitre en Droit (Sorbonne), ACA	Chartered Accountant	11.06.73	14.08.15
P Leader BSc (Hons)	Corporate Governance Director & Secretary	19.11.68	30.04.08
D R Lewis LLB (Hons) FCA	Chartered Accountant	09.09.62	01.09.14
A D Morgan BSc (Hons) FCA (Vice Chairman)	Chartered Accountant	21.09.52	01.10.13
R D Turner B.A.(Hons.), M.B.A	Asset Manager Chief Executive Officer	06.07.60	25.09.15

Documents may be served on the above named directors c/o Deloitte LLP at the following address:
5 Callaghan Square, Cardiff, CF10 5BT, United Kingdom.

Other Directorships and Appointments:

T Barratt	Duncan Lawrie Private Bank Omega Consultancy Limited
Mr W J Carroll	Monmouthshire Independent Financial Advisers Ltd Monmouthshire Insurance Services Ltd Monmouthshire Building Society Charitable Foundation Ltd
Mr P Leader	Mutual Vision Technologies Ltd Monmouthshire Independent Financial Advisers Ltd
Mr A D Morgan	Geldards LLP (Independent Adviser) University of South Wales (Governor) Power Poles Ltd
Mr R D Turner	FM Capital Partners Limited Shepherds Friendly Society
Mr H Warman	University of South Wales (Governor) Christ College Brecon (Governor)

Officers

Name	Occupation
J Bawa ACII	Building Society Chief Executive
P Leader BSc (Hons)	Building Society Corporate Governance Director & Secretary
W J Carroll BSc (Hons) FCA	Building Society Finance Director
D Mollison BA (Hons) SIRM	Building Society Head of Risk & Compliance

At 30 April 2017, none of the directors had a service contract except the Chief Executive J Bawa. Mr Bawa has an employment contract which is terminable by the Society by giving 6 months notice.

Branch Offices and Agencies

Year ended 30 April 2017

Head Office and Main Branch Office

NEWPORT	Monmouthshire House, John Frost Square, Newport, NP20 1PX	Tel: 01633 844444 Fax: 01633 844445 www.monbs.com

Branch Offices

CAERLEON ROAD	183 Caerleon Road, NP19 7HA	Tel: 01633 254891
CALDICOT	27 Newport Road, NP26 4BG	Tel: 01291 437722
CARDIFF	87 Caerphilly Road, Birchgrove, CF14 4AE	Tel: 029 2052 4290
CHEPSTOW	19 High Street, NP16 5LQ	Tel: 01291 629306
CWMBRAN	8 The Parade, NP44 1PT	Tel: 01633 833933
HANDPOST	234 Stow Hill, NP20 4HA	Tel: 01633 213276
MONMOUTH	10 Agincourt Square, NP25 3DY	Tel: 01600 713383
RISCA	33B Tredegar Street, NP11 6BU	Tel: 01633 613181
SWANSEA	18 Union Street, SA1 3EH	Tel: 01792 657460
USK	25 Bridge Street, NP15 1BQ	Tel: 01291 673347

Agency Offices

ABERGAVENNY	Bidmead, Cook & Waldron Estate Agents 15 High Street, NP7 5RY	Tel: 01873 853640
ABERTILLERY	Simon Thompsett Associates Ltd 40 Church Street, NP13 1DB	Tel: 01495 211535
BLACKWOOD	UKTS Ltd 221 High Street, NP12 1AL	Tel: 01495 220003
BRECON	Beacon Independent Advice Ltd 2 The Struet, LD3 7LH	Tel: 01874 611911
CAERPHILLY	Howells Solicitors 72 – 74 Cardiff Road, CF83 1JQ	Tel: 02920 851477
CARDIFF	Beacon Independent Advice Ltd 18 Merthyr Road, Whitchurch CF14 1DG	Tel: 02920 618989
CARDIFF	Kelvin Francis & Co 364 Cyncoed Road, Cyncoed,Cardiff CF23 3SA	Tel: 02920 765677
CINDERFORD	Bidmead Cook Estate Agents 21 High Street Cinderford, Gloucestershire GL14 2SE	Tel: 01594 825078
CLEVEDON	Newsham Hanson Limited Edinburgh House 1-5 Bellevue Road, Clevedon. North Somerset BS21 7NP	Tel: 01275 878548
COWBRIDGE	Brinsons Fairfax Estate Agents 67 High Street CF71 7AF	Tel: 01446 774595
GRIFFITHSTOWN	Simon Thompsett Associates Ltd 12 Windsor Road, NP4 5HY	Tel: 01495 757121
HEREFORD	Trivett Hicks Estate Agents 18 Kings Street, HR4 9BX	Tel: 01432 274300
KENFIG HILL	Elite Independent Mortgages Ltd 61 Commercial Street, CF33 6DH	Tel: 01656 745065
NEWBRIDGE	Granville West Chivers & Morgan Solicitors 1 Tynewydd Terrace, NP11 4LS	Tel: 01495 243268
PENARTH	Watts & Morgan Estate Agents 3 Washington Buildings, Stanwell Road CF64 2AD	Tel: 02920 711340
PORTISHEAD	Brooking Ruse & Co Limited 108 High Street, Portishead, Bristol. BS20 6AJ	Tel: 01275 845451
ROSS ON WYE	Trivett Hicks Estate Agents 53 Broad Street, HR9 7DY	Tel: 01989 764183

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building society

Monmouthshire House, John Frost Square, Newport, South Wales, NP20 1PX.

Tel: 01633 844 444 **www.monbs.com**

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