Monmouthshire Building Society

Annual Report & Accounts

Year ended 30 April 2019

150

Monmouthshire Building Society

CELEBRATING 150 YEARS

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.

Monmouthshire Building Society

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

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2019 Highlights

Results	2019	2018	2017	2016	2015
Total Assets (£ millions)	1,109.0	1,059.1	1,053.8	1,073.5	1,047.9
Mortgage Assets (£ millions)	934.5	842.2	811.3	806.2	802.1
Lending					
Gross New Lending (£ millions)	233.0	185.5	141.2	139.1	181.4
Net Lending (£ millions)	92.3	31.0	5.2	4.0	65.5
Net Interest Margin					
Net Interest Margin %	1.39	1.51	1.45	1.45	1.38
Capital					
Capital Ratio (% Risk Weighted Assets)	16.19	16.88	16.11	14.72	13.45
Profitability					
Profit After Tax (£ millions)	0.9	3.2	4.6	6.4	4.7
Profit After Tax Ratio (% mean total assets)	0.08	0.30	0.43	0.60	0.47
Management Expenses Ratio (% mean total assets)	1.17	1.16	0.93	0.75	0.67
Cost Income Ratio (%) Pre Impairment of Fixed Assets	84.71	73.68	64.14	50.37	50.00
Cost Income Ratio (%) Post Impairment of Fixed Assets	90.26				

Explanations of how the above ratios are calculated are included in the Annual Business Statement on page 89.

Total Assets were £1,109.0 million

Common Equity Tier 1 ratio of 16.19%

Over £10k contributed to our charity of the year

Profit after tax was £0.9 million

The Society scored 96.4% for Customer Satisfaction

Chairman's Review

I am delighted to introduce the Annual Report for 2019; a period which has seen the Society turn 150 years old. Everybody associated with the Society is extremely proud of its history, but this milestone will mean nothing if we do not build on our very solid foundations and ensure we continue to best serve our membership for generations to come. We are working extremely hard to ensure that this is the case.

During the year, we have delivered further improvements to the business in a period of significant economic and political uncertainty. Mortgage lending has exceeded expectations, with total loans outstanding increasing by over 10% in the year. Profitability was lower than the previous year due to uncertain market conditions and several one-off costs, most notably a provision for loss on the intended sale of our Head Office administration building and movement in the fair value of our derivative financial instruments. The Board is seeking to move the Society's Head Office administration to a modern office facility, which is more conducive to conducting our business efficiently and effectively.

The Society's strategy highlights the Board's commitment to achieve long term sustainable growth and its vision of becoming a modern mutual, underpinned by several key, member-led, strategic priorities and initiatives. Further information is included within the Strategic report on page 6.

Whilst the Board is pleased with progress on implementation of the Society's five-year strategy to date, it is not complacent and recognises that there are still some significant developments required to achieve the ambitious growth aspirations set out in the strategy.

The current market environment remains uncertain given the political chaos that surrounds Brexit. Existing market pressures on net interest margin have been exacerbated as interest rates have remained lower than previously forecast. This pressure is expected to continue over the remainder of the strategic planning period following maturity of the Bank of England Term Funding Scheme and predicted increased funding rates, combined with continued significant competition in the mortgage market, particularly at lower loan to value lending. Our strategy addresses the key strategic risks to the Society of long-term sustainability and risk of obsolescence. Our healthy balance sheet, continued profitability and strong capital position provides the Society with the opportunity to grow and prosper beyond its 150th year. This will be achieved through development of its core business with new, modern propositions that demonstrate the Board's view that the Society remains a relevant, viable, standalone institution for the duration of the strategic planning period and beyond.

We are committed to ensuring that the Board has the right balance of skills and experience to meet the challenges and opportunities that lie ahead. As a result, we review the Board's composition regularly. I would like to welcome Liz McKenzie to the Society. Liz joined the Board in September 2018 and brings with her significant operational improvement, transformation and IT experience from a wide range of industries and businesses, including financial services.

I would like to record my thanks to the Board, the management team and all colleagues at the Society for their continued commitment and enthusiasm in ensuring Monmouthshire Building Society remains successful.

D R Lewis

Debra Lewis
Chairman

17 July 2019

Chief Executive's Report

I am pleased to report another year of significant progress for Monmouthshire Building Society. In what has been a challenging operating environment, our clearly outlined strategy of mortgage growth through a period of investment in people, processes and infrastructure has proven robust. The foundations are now in place to provide a platform for the Society to grow and prosper into the future, fulfilling our purpose of helping members, communities and colleagues to thrive.

An uncertain economic outlook

In broad terms, the message from the Bank of England's latest inflation report was that the Monetary Policy Committee (MPC) remains in wait-and-see mode as far as the timing of the next rise in Bank Rate is concerned. This appears to be largely because of the ongoing period of economic and political uncertainty associated with the extension to the Article 50 process for the UK's withdrawal from the EU.

The consequence of a continuation of loose monetary policy is an economy running above capacity, prompting the Governor of the Bank of England to say that if the Bank's forecasts are correct, more rate rises would be needed than currently implied by markets. However, the overshoot of the inflation target is currently modest, and it is therefore not surprising the MPC has signaled the possibility of more tightening than the market expects further out in the horizon, once some Brexit related uncertainty has been resolved.

Housing market trends are likely to continue to mirror developments in the broader economy, with price growth and transaction levels remaining close to current levels over the coming months. Uncertainty caused by Brexit has led to house prices in Wales falling in the first quarter of 2019. This has impacted the higher end of the market, with first time buyers remaining keen to climb onto the property ladder.

Increased mortgage book growth

The Society achieved strong mortgage book growth during the year, with £92 million (2018: £31 million) of net lending, exceeding initial expectations at the start of the year. At the year end, the Society's total mortgage assets had grown by 10.9% to £935 million (2018: £842 million), whilst our net interest margin fell to 1.39% (2018: 1.51%). This planned, significant increase in mortgage lending reflects the impact of the investment in the Society's operating infrastructure. Gross new mortgage lending was £233 million (2018: £185.5 million). Strong performance on mortgage retentions supported new loan origination, with 74% of maturing mortgages retained during the year. This was above our target retention rate of 65% and was achieved despite high levels of competition in the marketplace. Total mortgage redemptions in the year were £118 million, £44 million lower than the £162 million redemptions in the prior year.

Performance of our mortgage portfolio continues to be strong, with low levels of arrears across all areas despite the material increase in the size of the lending book. The Society has outperformed industry benchmarks on arrears, underpinned by strong quality and underwriting practices for new lending. Loan loss provisions have however been maintained at the same level as the prior year.

Delivering value and service to our loyal members

Through its member-led strategy, the Society is building solutions to address members' needs. Delivering member-led propositions is a key factor that supports the Society's growth ambitions.

The Society continued to reduce its liquidity to support lending and increase its balance sheet efficiency and therefore growth in net assets was 4.8% (2018: 0.4%) lower than the growth in mortgage loans. The Society's liquidity decreased to 15.9% of shares and deposit liabilities from 20.7%.

We remain predominantly retail funded and our future strategy will ensure that this remains the case. Our policy of reducing surplus liquidity has been achieved whilst maintaining competitive savings rates for our loyal investing members. Following the announcement by the Bank of England of the increase in Bank Rate in August 2018, the Society passed the full rise on to its savings members before its mortgage members. The Society's refreshed brand and 150th birthday year presented an opportunity to build loyalty products for members. A number of products have been introduced for our existing members, including the Celebration Regular Saver Bond and our 150th Birthday Bond. These have been extremely well received.

In line with our community values we have also introduced a product range that attracts corporate deposits, charity deposits and solicitors' client accounts, presenting the Society with an opportunity to leverage strong local relationships and provide support to local businesses and charities within our region.

A key initiative this year will be to launch a current account that is opened and serviced via a digital platform. This will enable the Society not only to increase its product range but also enter the digital arena. The service will include a debit card, digital wallets to assist with budgeting and functionality to set up direct debits, standing orders, faster payments and usage abroad. We believe this exciting proposition will attract new membership from a younger demographic, increase existing member loyalty and brand awareness.

The Society is committed to delivering on its purpose to help members thrive in their homes, and in the case of first time buyers the Society has consistently made the purchase of a first home as simple as possible. With competitive, value for money products that are continually available and easier access to a choice of distribution channels, the Society has supported 524 first time buyers onto the property ladder in the current financial year.

Investing in our infrastructure

The Society's commitment to maintaining a presence on the high street is an integral part of its strategy. By constantly reviewing opportunities across the region and building on the success of its agency model the Society can service existing and new members within their communities. The development of a new premises in Risca is underway, moving to a better, new location in the town which will make the branch more accessible to our members. We also continue to work closely with Cardiff City Council to secure a suitable city centre premises to replace the recently closed Birchgrove branch located on the outskirts of the city.

Technology is central to much of what the Society delivers, its interactions with members and management of its products. There have been a number of system enhancements to the Society's core platform delivered by Mutual Vision, including the introduction of an online application that complements the full mortgage range, case tracking tools and dynamic questioning to aid broker introductions.

Focus has also been maintained on enhancing technical resilience. Delivery has continued at pace with the introduction of new technologies, training programmes for all colleagues, enhanced Business Impact Assessments and risk-based exercising of plans. This, in conjunction with robust governance, insurances and incident retainers, plus recruitment of critical roles, safeguards the Society.

Our people are key to the successful execution and implementation of our strategy. We continue to develop a business structure that supports delivery of the overall strategic plan, with structural changes that have translated into the recruitment of additional skilled people and supporting the upskilling of existing colleagues. Enhancements to colleague benefits as a result of the ongoing reward programme have been delivered with positive results. In addition, this year the Society will aim to relocate its Head Office administration base to a new, purpose built modern facility within Newport City centre, providing a working environment more conducive to the dynamic business that we have now become. A buyer for our existing premises within Newport City centre has been found and an impairment for loss against this building has been made in the current year financial statements.

Strong capital position

We have recorded a profit after tax for the year of £0.9 million (2018: £3.2 million). As a mutual, it is first and foremost in our minds that we must 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. Currently, generating profits is the only way that the Society can 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 a result of three key factors. Firstly, competition in the mortgage market remains unprecedentedly high, with retail banks dominating the low loan to value mortgage market and a number of new entrants into more niche areas of lending. This has reduced interest receivable, which in turn has squeezed margin. The second relates to a one-off impairment of £829k made primarily because of a provisional agreement reached to sell the Society's Head Office premises in Newport and a consequent reassessment of the recoverable amount of that building. Thirdly, the Society experienced a negative movement in the fair value of its derivative financial instruments.

Chief Executive's Report (cont)

The Society's cost income ratio increased to 90.26% (84.71% pre impairment of fixed assets) from 73.68% in the prior year. This was predominantly because of the lower net interest income receivable. Further expenditure is required to fully develop the infrastructure, but cost income ratios are budgeted to reduce going forward.

We have continued to focus on ensuring the Society's balance sheet is safe, secure and fit for purpose for both the regulatory environment of today and that of the future. The Society has significant levels of capital above its regulatory requirements, a solid foundation to achieve increased levels of growth for the remainder of the strategic plan. 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 16.19% (2018: 16.88%), comparing favorably with the industry and our leverage ratio which looks at our mean reserves against our mean assets is 6.00% (2018: 5.96%).

Community

As a mutual organisation celebrating its 150th year, the Society remains committed to supporting the local communities in which it operates. This year the Society has enhanced that commitment once again, through increased investment, colleague volunteering, sponsorship of 15 local community groups and region wide sponsorship of events such as the Newport Wales Marathon & 10k, Monmouthshire County Show, Neath Festival and more. In addition, we are pleased to announce that the combined efforts of the team have raised a total of £10,747 for Alzheimer's Society Cymru, our chosen charity of the year, which provides support to those suffering from dementia and their families. The Society's independent Charitable Foundation continues its aim of support for our local communities, awarding £11,652 to 24 great causes during the year.

The Society has also launched a financial education programme to encourage junior school children and their parents to save. Alongside this, the Society has committed to a 3-year business class initiative in conjunction with Careers Wales that initially partners the Society with one high school in the region and it is planned to extend this over time.

Future outlook

At present, Brexit dominates the outlook for the UK economy. Until political uncertainty is resolved and a course of action agreed for Brexit, forecasting the future outlook is very difficult. The Board is alert to the risks of further margin erosion if the market does not change. If a 'perfect storm' of low interest rates, increased funding costs and intense competition for mortgage lending continues, the Board will review and adjust its strategy accordingly, focusing on implementing an efficient structure whilst continuing to embed the right culture and practices within the Society.

Despite the competitive environment, our core values, sustainable business model and continued investment in infrastructure, as previously outlined, means the Society is well placed to grow and deal with challenges that may arise now and in the future.

William Carroll
Chief Executive
17 July 2019

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. A discussion of the business' performance in the year including KPIs is included in the Chief Executive's Report.

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. It has a proud mutual heritage, playing an important part in our communities.

Our Purpose

Helping members, communities and colleagues to thrive.

Our Vision

To build a unique and exciting Society by inspiring and empowering our colleagues to maximise growth and future prosperity.

We aim to deliver an ambitious strategy underpinned with member led propositions. Our profitability will be optimised rather than maximised to support investment in new initiatives that are innovative and exciting, helping delivery of the modern mutual the Society will become.

Our Distinctiveness

The foundations for providing a distinctive customer proposition are:

- our strong regional brand;
- our member-focused 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 values are at the forefront of everything we do:

Dynamic - We are modern in our approach which means that we are responsive and agile;

Community - We are local, with feeling. We are invested in our regions, and welcome members to our branches with open arms;

Personal - We treat our members differently. We understand that each one has a different story, a different journey and different needs;

Quality - We are professional in our approach, with an eye for detail and a conscientious spirit. Members can expect responsible and reliable advice; brokers can expect a responsive and flexible service, focused on their needs.

Our Competitive Strengths

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

- personal service is key to our success. It differentiates us from our competitors, is what our brand represents and results in high levels of customer satisfaction and trust of our members;
- strong balance sheet and operating capacity for growth on a meaningful scale;
- the enthusiasm and knowledge of the Society's colleagues; and
- 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

Our strategy highlights the Board's commitment to achieve long term sustainable growth and its vision of becoming the modern mutual, underpinned by several key, member-led, strategic priorities and initiatives.

Over the last two years significant successes have already been achieved as the Society has invested in its people, processes and infrastructure. This has driven mortgage growth, exceeding our budgeted targets.

Key highlights and successes can be summarised as:

- A vibrant new brand, which has successfully modernised the Society's image and supported an increasing profile of the organisation amongst key stakeholders;
- New member products and propositions;
- Improving distribution channels;
- Significant investment in infrastructure, including;
  - appointment of key personnel at Executive and Senior Management level;
  - development of the Society's IT Capabilities;
  - embedding the Society's Risk Management Framework;
  - moving to the Extended Approach to Treasury Risk Management;
  - organisational redesign of the first and second lines including the establishment of Business Change, Continuous Improvement, and Business Intelligence; and
  - enhanced Operational and Technical Resilience.
- Improvements to culture and colleague engagement.

Strategic Report (cont)

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.

The Society's strategy is proposition led, finding solutions to our members' problems and issues. This will enable the Society to grow the business and its membership.

Lending

The Society has delivered a number of key lending propositions that were planned in the first two years of its strategy and has now reprioritised those remaining and considered several additional possibilities.

Our intention is to deliver propositions that meet members' needs and secure targeted levels of growth for the business. We will:

- continue to offer low rates and compete on price for our core residential products;
- serve our broader community base by offering a wider selection of other lending products, directed at first time buyers, energy efficient mortgages, members requiring lending into later life and buy-to-let products;
- focus on delivering the highest quality service to our members and intermediaries; and
- continue to minimise, as far as possible, the high levels of redemptions that have been experienced in recent years.

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

Funding

The Society is, and will remain, predominantly retail funded via a range of savings and ISA products that are offered to retail customers. To ensure we grow our membership, we will deliver a range of more innovative saving solutions that are attractive and secure loyalty. We will:

- offer competitive savings rates that will help us to engage with different demographic groups, reflecting our brand values;
- focus on delivering the highest quality service to our saving members and retail depositors; and
- supplement our retail funding through access to business and charity accounts, wholesale funding markets and Bank of England secured funding.

Development of Infrastructure

The Board recognises the need to continue to enhance the Society's operating infrastructure to ensure operational resilience and an appropriate platform from which to grow and successfully compete in the digital age. The Society will use sustainable technology to improve services and drive efficiencies, supporting the long-term growth of the business and our ability to complete in the marketplace. Other key changes to infrastructure relate to:

People

There has been significant investment in developing and sustaining our 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

The Society has already committed significant resources to improve its IT infrastructure and cyber defences across all key areas of the business. Efforts will continue to be made to review processes and increase operational efficiency in all areas through a culture of continuous improvement to drive maximum value for our members and enhance the Society's core competences.

Premises

Continued enhancement of our property portfolio 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. This is highlighted by the proposed move of the Society's Head Office in Newport.

Distribution

The Society will distribute its member led products and services via a customer centric multi-channel distribution model. To deliver a multi-channel experience, the Society will continue to invest in technology, find new and innovative ways to enter the digital market, extend its direct to customer offering and extend our partnerships with key broker networks.

By delivering our agreed strategy, the Society will develop a sustainable, scalable business model that is fit for the future. Our plan is not to be regarded as 'set in stone' or allowed to inhibit initiative or innovation. This is extremely important in the fast moving operating environment of today. Given the pace of change, it is not possible to predict today every solution that may be required to enable successful delivery of the plan in the later years. It is therefore our intention to regularly review and if necessary make changes to our plan as part of an ongoing process in line with the Society's risk appetite, broader risk capabilities and underlying control environment. The principal risks to the Society can be found in the Risk Management Report on page 39.

Debra Lewis
Chairman
17 July 2019

Directors' Report

Non-executive directors

Debra Lewis
Chairman

Debra Lewis

Debra joined the Board in 2014 as a Non-executive director and became Society Chairman in April 2018. She is Chairman of the Nominations Committee.

Career
Debra is an independent member of several investment committees for Rothschild & Co. 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.

Skills and Experience
Debra 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. Debra has a wealth of financial and commercial experience in accountancy and financial services. She contributes to the Board financial insight and commercial acumen as well as leadership and boardroom experience.

Tony Morgan
Non-Executive Director

Tony Morgan

Tony was appointed to the Board in 2013. 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.

Career
Tony previously worked for PricewaterhouseCoopers (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 independent adviser. He is also a non-executive director of Power Poles Ltd.

Skills and Experience
Tony is a Fellow of the Institute of Chartered Accountants in England and Wales. He brings to the Board substantial experience in accountancy and audit matters. He holds a BSC (Hons) degree in chemistry from University College Cardiff.

The biographies of the directors are set out here and include specific reasons why their contribution is, and continues to be, important to the Society's long-term sustainable success.

Nina Hingorani-Crain
Senior Independent Director


Nina Hingorani-Crain

Appointed to the Board in August 2015. She is the Senior Independent Director and serves on the Audit and Nomination Committees.

Career
Nina has had a diverse 20 year career in the corporate, public and charity sectors. After a decade in corporate finance and consulting - including 5 years at Ernst & Young - she joined the financial services regulator. Here she spent a varied 10 years in senior roles, including as the Chairman's Principal Private Secretary during the global financial crisis and subsequently as Chief of Staff leading the creation of the new Financial Conduct Authority (FCA). Nina also undertook a 6-month secondment to Age UK to inform the FCA's strategy of placing consumer needs at the heart of its regulatory mandate.

Skills and Experience
Nina embarked on her Non-executive career in 2015, and is today a Director on the Boards of the Charity Commission for England and Wales, Oxleas NHS Foundation Trust (a mental and community health trust) and Achieving for Children (a social enterprise providing children's services).

Nina holds an LL.B. (Hons) degree from King's College London, and a Maîtrise en Droit from the Sorbonne Paris. She also qualified as a Chartered Accountant, and has recently completed the Financial Times Advanced Non-Executive Director Diploma. She has enjoyed a diverse upbringing with spells living and working overseas. Nina brings to the Board substantial and wide ranging executive and non-executive experience in regulation (including conduct), strategy, operational and change management, consumer, audit and corporate finance.

Roger Turner
Non-Executive Director


Roger Turner

Roger was appointed to the Board in September 2015. He is Chairman of the Remuneration Committee and serves on the Risk Committee.

Career
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. Until recently Roger was 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 PricewaterhouseCoopers 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 USA, and his clients have included both corporate bodies and governments.

Skills and Experience
Roger holds a BA (Hons) in Business Studies and an MBA in Finance from City University Business School. He contributes to the Board considerable wide ranging experience in the financial services sector including Treasury, Corporate Finance and regulatory matters.

Directors' Report (cont)

Trevor Barratt
Non-Executive Director

Trevor Barratt

Appointed to the Board in July 2016, Trevor is Chairman of the Risk Committee and a member of the Audit Committee.

Career
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. 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 was a non-executive director of a private bank, with an international clientele.

Skills and Experience
With extensive experience across both small and large entities, Trevor is a specialist in risk, and he brings to the Board experience which spans business risk, governance, and fighting financial crime. Trevor also holds the FT Advanced NED Diploma. He is a Fellow of the International Compliance Association and an Associate of the Chartered Institute of Financial Services, Trevor gained a Postgraduate Diploma before completing a Master of Business Administration from Sheffield Hallam University.

Liz McKenzie
Non-Executive Director

Liz McKenzie

Liz joined the Board on 1st September 2018. She is a member of the Remuneration and Risk Committees.

Career
Liz started her career in manufacturing and held a number of roles with Toyota Motor Manufacturing. She was latterly the Assistant General Manager and a member of the senior leadership team. In a transition from manufacturing to financial services, Liz joined the Wesleyan Assurance Society in 2010. She held a number of senior roles and was latterly Chief Operating Officer from 2015 to 2017. Liz is Chair of IoT start-up Tended, Non-Executive director of the Greater Birmingham Chamber of Commerce, Vice Chair of the West Midlands Growth Company and is a Trustee of the Heart of England Community Foundation.

Skills and Experience
Liz has a degree in Production Engineering and contributes to the Board a wealth of experience of transferring manufacturing best practice into financial services in areas such as operational improvement, transformation and IT, driving cost management and income growth.

Executive directors

William Carroll
Chief Executive Officer

Will joined the Society in 2004 and was appointed to the Board in 2009 as Finance Director. In 2017 he became Chief Executive Officer. Will is accountable to the Board and responsible for leading the development and execution of the Society's long term strategy in the interests of members. Will is responsible for all day-to-day management decisions and for implementing the Society's long and short term plans.


William Carroll

Career
Will previously worked for Deloitte and was involved with a wide range of audit work in a variety of different industry sectors. He has been with the Society for 15 years and in that time has been responsible for various departments including Finance, Treasury, Customer Services and Arrears. He is also a trustee of the Society's Charitable Foundation. Will is the Society's representative on the Board of Mutual Vision Technologies, a technology company that designs software platforms for building societies.

Skills and experience
Will is a Fellow of the Institute of Chartered Accountants in England and Wales. He holds a Masters degree in Leadership and Management from the University of Loughborough. Will has a great understanding of the Society and the building society sector, and significant experience in financial management.

Iwan Jones
Finance Director

Iwan was appointed to the Board as Finance Director in 2018 and is responsible for the Financial Control, Middle Office and Treasury functions within the Society.


Iwan Jones

Career
Iwan started his career with Touche Ross (now Deloitte) and subsequently held various Finance and Risk roles in financial services organisations both in the UK and overseas including Lloyds TSB, Saffron Building Society, Principality Building Society, Barclays, JPMorgan Chase and NatWest.

Skills and experience
Iwan has 28 years' experience within Risk and Finance. He is a member of the Institute of Chartered Accountants in England and Wales. Iwan contributes to the Society considerable broad-based experience in financial management including business development, strategy, corporate finance, product development and risk management.

Dawn Gunter
Chief Operating Officer

Dawn Gunter

Dawn joined the Society in September 2017 initially as Director of Distribution before she moved into the role of Chief Operating Officer. She was appointed to the Board in March 2018. Dawn is responsible for the Operations within the Society and for Distribution.

Career
Dawn was most recently Head of Operational Strategic Design & Delivery at Sainsbury's Bank and before that she held the role of Head of Mortgage Operations. She was contracted for 16 months with the Welsh Government on Executive Projects to create a culture of continuous improvement, drive change and deliver business efficiencies. Dawn spent 11 years with the Principality Building Society in various roles including the Head of Direct Channels and Head of Sales Operations. She has worked in Legal & General's mortgage division and Bank of Wales Plc.

Skills and experience
Dawn has 28 years' experience within financial services, a wide breadth of knowledge across all distribution channels with success delivering a direct to consumer sales and service proposition via telephone and on-line, preceded with delivery of a business to business model to the Intermediary market and most recently, building an outsourced sales and service business.

Directors' Report

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") 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 policy, an external audit tender was conducted in June 2017. As a result of the tender the Audit Committee recommended that KPMG were appointed as the Society's external auditor for a five year period beginning with the current financial year commencing May 2018.

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

- so far as they are aware, there is no relevant audit information of which the Group's auditor is unaware; and
- they have 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 entity 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.

Capital

The Society's latest Pillar 3 disclosures can be obtained from the Society's website. Gross capital as at 30 April 2019 was 6.25% and free capital was 5.71%.

Mortgage Arrears

At 30 April 2019 there were 71 mortgage loans (2018: 85) one month or more in arrears, with total amounts outstanding of £8,787k and 5 mortgage loans (2018: 6) with outstanding payments twelve months or more in arrears, with total amounts outstanding of £1,021k.

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 have been no events since the end of the financial year which would have a significant effect on the financial position of the Group.

Future Developments

Details of future developments can be found in the Strategic Report on pages 6 - 8.

KPIs

Details of the Group's KPIs can be found in the highlights on page 1.

Principal Risks and Uncertainties

The principal risks and uncertainties to achieving the Group's strategic priorities together with our mitigating actions can be found in the Risk Management Section on page 39.

Political Donations and Gifts

The Society has not made any political gifts or donations in the year to 30 April 2019.

Charitable Donations

A total of £10,747 was raised for Alzheimer's Society Cymru, our chosen charity of the year, which provides support to those suffering from dementia and their families. The Society's independent Charitable Foundation continues its aim of support for our local communities, awarding £11,652 to 24 great causes during the year.

Financial Instruments

The Society's use of financial instruments is contained in the Society's Accounting Policy Section on page 63.

Directors' Report (cont)

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 Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), the Group stresses its capital and liquidity plans respectively, under "severe but plausible" stress test scenarios, in line with PRA requirements.

The ICAAP 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.

Brexit could also cause significant disruption to the UK economy and the markets within which the Society operates. However, we remain confident that the Society's high quality balance sheet, robust capital ratios and careful approach to managing risk will continue to underpin its financial strength and place it in a strong position to continue to grow. The Society's ICAAP uses the Bank of England's stress testing Brexit scenarios and has found its capital position to be robust enough to withstand the suggested stressed scenario.

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 9 to 13. In accordance with best corporate governance practice, Roger Turner and Nina Hingorani-Crain are retiring at the Annual General Meeting. Roger Turner and Nina Hingorani-Crain, being eligible, offer themselves for re-election. Liz McKenzie having been appointed to the Board under rule 25, will retire and offer herself for election.

Signed on behalf of the Board

Debra Lewis
Chairman
17 July 2019

Corporate Governance Report

The UK Corporate Governance Code (the Code) defines that 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."

Statement of Compliance with the Code

The Society is not required to fully comply with the Code, however we have regard to it when establishing and reviewing our own corporate and governance arrangements. In 2018 an updated Code was published which will come into effect in the next financial year although the Society has chosen to implement a number of the provisions early in line with good practice.

This report explains to members how the Society applies the principles in the Code so far as its provisions are relevant to Building Societies. As the Code applies to companies with a premium listing of equity shares there are departures from the Code as a result of the business being structured as a building society, rather than a company, and being owned by members, rather than shareholders. Building societies are mutual organisations and operate on a one member one vote principle.

The Building Societies Association states that the role of a Building Society Board is typically seen as one of stewardship, running the Society not just for the benefit of current members, but also for future generations of members. The notion of stewardship demands a long-term perspective on financial stability, customer propositions and investment. Therefore the additional focus in the 2018 Code on Boards promoting long-term sustainable success supports the Society's mutual ethos.

The Board's Focus during the Year

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

150th Year and Current Account

The Board has been kept apprised on the activities that have been underway in relation to the Society's 150th anniversary celebrations and the launch of the current account.

Stakeholder Engagement

The Board recognises that the 2018 Code places considerable emphasis on decision-making and outcomes. It promotes a more inclusive approach to stakeholder engagement and encourages boards to reflect on the way in which decisions are taken and how that might affect the quality of those decisions.

The Board has considered who the Society's stakeholders are and how best to engage with them. Following this review the Board was content the stakeholder map reflected the Society's stakeholders and there were adequate engagement mechanisms in place. The Board will continue to review the Society's stakeholders and methods of engagement on an annual basis seeking to enhance this engagement if required.

Advice was provided by the Company Secretary to those who write Board and Committee Papers to ensure that when drafting proposals stakeholder consequences are included and, where relevant, additional information is provided to ensure the consideration of stakeholders are factored into the Board's decision making.

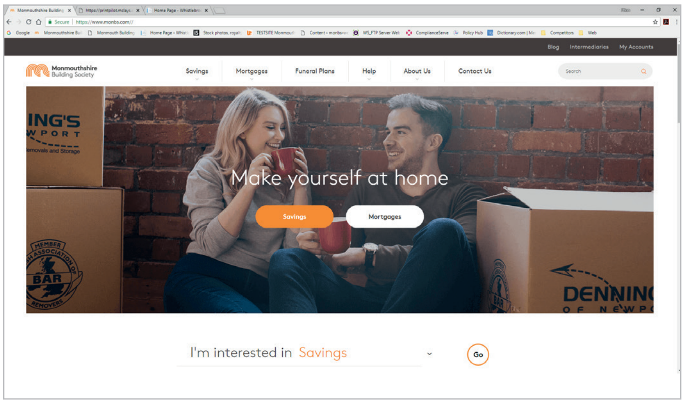
Colleague Engagement

The 2018 Code states that the Board must ensure the views and concerns of colleagues are taken into account by the directors, particularly when they are making decisions that could affect colleagues. During the year the Board agreed that Nina Hingorani-Crain, the Senior Independent Director, would be the designated Non-executive director for Board engagement with the workforce. A working group has been established to support her in this role in order to assist her in:

- Understanding the concerns of the workforce;
- Articulating those views and concerns in board meetings;
- Ensuring the board, and particularly the executive directors, take appropriate steps to evaluate the impact of proposals and developments on the workforce and consider what steps should be taken to mitigate any adverse impact; and
- Providing feedback to the workforce on board plans.

Regular updates are provided to the Board on feedback from colleagues and the culture within the Society, as well as cultural insights such as employee turnover and any work-related absences. The Board received updates on various colleague related matters such as the review of the reward structure, to ensure pay was fair and colleagues were appropriately incentivised. An Employee Assistance Programme is available to colleagues which offers a free and confidential way to resolve issues and provide a personal support programme 24 hours a day 365 days a year. Surveys are used to obtain regular feedback from colleagues on a continuous basis to improve engagement levels and allow management to respond faster to feedback.

The Board ensures that workforce policies and practices are consistent with the Society's values and support its long-term sustainable success. The workforce is able to raise any matters of concern in confidence and anonymously. The Board routinely reviews this process and the reports arising from its operation and ensures that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action if needed. Trevor Barratt, Chair of the Risk Committee and David Mollison, the Head of Risk & Compliance, are the Society's whistleblowing champions.



Internal communications keep colleagues informed regarding the activities and developments within the Society. The Chief Executive holds a monthly meeting with all colleagues to update them on strategy and performance. This gives all colleagues the opportunity to ask questions of him or the executive team. The Board held regular "meet the Board" sessions after Board meetings where a number of colleagues took turns in attending and were able to speak to the Board on an informal basis.

Member Engagement

The Board has maintained oversight of the re-branding exercise to refresh and modernise the Society's brand for the future. In order to best serve the Society's members, the Board continues to review its Lending Policy to align the products the Society offers with the needs of the members, including lending into retirement and offerings to vulnerable customers with the aim of making the Lending Policy clearer and improving the customer experience.

Culture

The Board has considered the aspirational culture for the Society and is focused on setting the right tone from the top. The Board recognises that good governance is more than rules, regulations and frameworks, and the people on the Board, and it extends to embedding the right culture, values and ethics within the Society. The Board considers culture when setting strategy and receives regular reports monitoring the culture within the Society which includes information from colleague surveys, executive reports, HR, Risk & Compliance, Internal and External Audit, conduct matters and quality assurance.

Governance Review

During the year a Society wide governance review took place. This comprised consideration of the Board and Committee structure, the timing of meetings, the sequencing of papers and policies for review and approval, and the structure and content of reporting and papers.

As part of the review the Board:

- Agreed the Board and Committee structure remained appropriate;
- The terms of reference for the Board and Committees were reviewed and updated to reflect any changes in practice as part of the wider governance review and implement some of the changes being brought in by the 2018 UK Code on Corporate Governance;
- Agreed that from 2020 onwards the meeting timetable would be modified to allow the Board to focus on more strategic matters and increase executive bandwidth by reducing the level of routine executive reporting; and
- Enhanced the timing of papers and policies for approval to reduce the risk of agendas being overcrowded, ensuring there was sufficient time available at meetings for discussion and flexibility to deal with emerging issues or opportunities.

New Non-Executive Director

In 2018 the Board agreed to appoint a new non-executive director and, following a formal, rigorous and transparent selection process,

Corporate Governance Report (cont)

Liz McKenzie was chosen. The role was advertised online with the Guardian, Times and Financial Times, in print within the Western Mail and South Wales Argus and on LinkedIn. During the recruitment process the Society undertook an assessment of whether the candidates had the personal characteristics and possessed the level of competence, knowledge and experience required to perform the role effectively.

Liz was selected for the role following her demonstration of a clear understanding of the sector, mutuality and the Society, an excellent understanding of risk operations and the ability to interpret complex financial information. The Nominations Committee recommended that Liz be offered the role of Non-Executive Director and appointed to the Board with effect from 1 September 2018, following completion of a comprehensive induction program.

Liz's induction comprised four stages which included attendance at a number of Board and committee meetings, various pre-reading and meetings with subject matter experts. The main topics included:

- The operation of the Board
- The Society's strategy and structure
- Constitutional, regulatory and governance matters
- Internal and External Audit
- Operational matters including distribution, marketing and IT
- Finance including Treasury and Financial Control
- Remuneration and HR matters
- Risk and Compliance
- The Risk Committee structure and remit

Senior Independent Director

The Board previously took the view that a Senior Independent Director was not needed at the Society for, unlike a company, it had no major shareholders who may need direct access to the Board. The Vice Chairman provided a sounding board for the Chairman and served as an intermediary for the other directors when necessary.

Following recommendations from the Nomination Committee the Board agreed in 2018 to appoint Nina Hingorani-Crain as Senior Independent Director to assist the Board with member and stakeholder matters. Nina provides a sounding board for the Chair and serves as an intermediary for the other directors and members, and appraises the Chair's performance. It has been agreed that the Senior Independent Director role will replace the Vice Chairman role from the date of the next AGM in August 2019. Tony Morgan will remain Vice Chairman until the AGM.

Operational Resilience

The Board has evaluated the operational resilience of the Society though business continuity planning, information technology and infrastructure. The Board has been kept abreast of changes made to processes within the Society to improve resilience, and ensure the Society is compliant with regulatory requirements.

Liquidity and Capital 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 has extensively reviewed the Society's assessment of Capital and Liquidity requirements to ensure the ongoing financial soundness of the Society. The Board continues to monitor the availability of funding markets (retail and wholesale) to enable the Society to achieve its strategic objectives.

Control Environment

In an environment of increasing legal and regulatory requirements there has been increasing complexity and volume on the Board's agenda which is reflected in an increased focus on the governance, risk and control environment.

The Board continues to focus on strengthening the control environment with the embedding of the Enterprise Risk Management Framework and being kept regularly appraised of regulatory changes, developments and emerging risk themes through regular horizon scanning activity.

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

The Board has been kept apprised of the work being performed by a dedicated Business Change Function to manage change programmes within the business and deliver benefits and efficiencies by ensuring there are good processes for change management. Regular reports have been given to the Board on the Change Management Programme managed through this function.

The Board was updated on the restructure within the Risk and Compliance function to enhance oversight within the Society and also recruitment of roles within the business in relation to quality assurance and improving product governance.

The Board receives regular reports on changes to legislation, regulation and best practice to ensure it remains up to date with developments and the Society can react to the significant volume of these changes within an ever challenging market.

A typical Board agenda deals with the strategic items at the start of the meeting to ensure there is sufficient time available for a debate. The Executives provide reports on their areas of the business and the Committee Chairs report on the activity of their committee since the last meeting. Policies and Governance are dealt with towards the end of the agenda and deal with items such as annual reviews of Society policies, updates to terms of references and other matters that are generally of a more routine nature. At the end of the meeting the Board will reflect on emerging risks and opportunities.

The Board and its Members

The Society is led by a Board comprising an independent Non-executive Chairman, five other independent Non-executive directors and three executive directors. The Board is collectively responsible for the long-term success of the Society. There is a clear division of responsibilities at the head of the Society between running the Board and the executive responsibility for running the Society's business.

The roles of Chairman and Chief Executive are held by different people and are set out in writing. Additionally both roles, and certain other roles in the Society, have prescribed responsibilities under the Senior Managers and Certification Regime.

The Chairman is responsible for leading and managing the work of the Board. This is done by setting the Board's agenda and ensuring adequate time is available for discussion of agenda items, demonstrating objective judgement within a culture of openness and debate by facilitating contributions by the non-executive directors at meetings and ensuring constructive relations between the executive and non-executive directors. The Chairman is responsible for promoting good governance and leading the development of the Society's culture. The Chairman holds meetings with the non-executive directors without the executive directors present.

The Board has 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;
- 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 changes in Society terms and conditions;
- approval of certain policies;
- adoption of 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;
- 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;
- 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;
- oversees the assessment of fitness and propriety of those non-executive directors who are not in scope of the Senior Managers and Certification Regime (The Senior Managers and Certification Regime documents regulatory expectations on accountability and governance in relation to individuals who hold key roles and responsibilities in relevant firms) and the related notification requirements to the PRA; and
- leads the development of the firm's culture by the Board.

Corporate Governance Report (cont)

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;
- monitoring 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

- discharging their personal responsibilities under the Senior Managers and Certification Regime for their areas they are accountable for;
- 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 its non-executive directors, including the Chairman, 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.

Induction and Training

All directors receive a comprehensive 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 and ensure they have appropriate knowledge of the Society and access to its operations and colleagues.

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 requirements as they arise. Non-executive directors provide the Chairman with details of training undertaken outside the Society in the year. Non-executive directors can request specific training that they consider to be necessary or useful and can meet with executives and managers within the business.

The Society provides the necessary resources for developing and updating the knowledge and capabilities of its directors. This is done primarily through internal and external presentations and training. During the year, training took place on several areas including: Treasury Supervision, Treasury Regulatory Limits and PRA Guidance, Asset and Liability Management, Interest Rate Risk and Structural Hedging, Cyber Security, Capital, Product Governance, and Future Insights into Payment Platforms among other topics. This was from subject matter experts within the Society and externally. Briefing notes on various matters, including corporate governance, legal and regulatory changes, and best practice are provided throughout the year. Board members complete a programme of online compliance training which covers topics such as conduct risk, data protection, money laundering, cybercrime and fighting fraud. Directors also attend external courses and conferences where relevant. Board members visit branches and departments within Head Office to familiarise themselves with the business and hear feedback from colleagues, and the AGM and other member events to provide opportunities to hear the views of members.

Individual training requirements for executive directors are dealt with through the annual performance evaluation process. The Board supports the development and training of all colleagues within the Society.

Election and Re-election

All directors must meet and maintain the fitness and propriety standards of the PRA 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, subject to continued satisfactory performance. Following individual director performance evaluations, the Chairman confirms that the performance of the directors continues to be effective and they demonstrate commitment to the role. 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 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 Society to discharge their responsibilities effectively. The letters of appointment for non-executive directors set out the minimum time commitment expected for the role. The time commitment may increase during times of significant change in the Society or the market, or when new strategies and developments are under consideration. The time commitment varies depending on whether the non-executive director also chairs a committee in which case it can increase significantly.

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 Chief Executive. The performance of the Chairman is separately assessed by the directors and co-ordinated by the Senior Independent Director.

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 and discharge their duties effectively. Management will provide clarification and amplification where necessary. The Secretary is responsible for advising the Board through the Chairman on all governance matters.

Throughout the year both the executive directors and executives keep the Board informed of key developments in the business through regular reports and updates. These are in addition to the reports and presentations that the Board and Board committees receive as part of their formal meetings.

Evaluation of the Board considers the balance of skills, experience, independence and knowledge of the Society on the Board, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness.

The Chairman and Secretary act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board through an action plan.

Individual evaluation shows whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and committee meetings and any other duties).

In 2019 the annual appraisals took place and it was concluded that each Director continues to make effective and valuable contributions to the Board and to demonstrate commitment to the role.

Formal and rigorous internal performance evaluations of the Board, its committees and individual directors take place annually. The Chairman acts on the results of the evaluation by recognising the strengths and addresses any weaknesses of the Board. Each director engages with the process and takes appropriate action where development needs have been identified.

The Board conducts an external performance evaluation every three years in line with best practice. The last external performance evaluation took place for the year ended 30 April 2018. The Board appointed CMS Cameron McKenna Nabarro Olswang, which had no other connection with the Society, to undertake the external Board effectiveness review and utilised its recommendations to improve performance. Recommendations for improvements were made including the following actions:

- improve the quality of management information and reporting to the Board to include more forward-looking information, less detailed information and better use of graphics and illustrations;
- improvement of the induction process for Non-executive Directors and senior management; and
- improved succession planning and development of senior management.

Actions were taken to address the recommendations including:

- the papers and reporting to the Board and Committees has been streamlined. An online Board Portal is used to improve reporting, collaboration and the accessibility of information to directors;
- a Head of Compliance joined the Society in June 2018;
- the induction process was reviewed and an induction programme was designed for non-executive directors; and
- the Society recognises that a number of recently created senior roles were sourced externally and is

Corporate Governance Report (cont)

committed to building talent internally to ensure there are clear career paths for progression and an internal talent pipeline. There are prospects for colleagues to work in other areas of the business, training opportunities and mentoring if requested to help retain and develop internal talent. The Society provides work experience programmes to undergraduates from a local university. Colleagues have clear objectives to help them to understand their role in assisting the Society to deliver its strategy.

Internal performance reviews are undertaken on an annual basis by the Board and all Committees in the intervening years between the external review. During the year an internal Board Effectiveness review took place, coordinated by the Company Secretary, and built on recommendations from the previous year's external evaluation as well as assessing the Society's progress towards the requirements of the 2018 Code.

Board Authority

The full Board met eleven times in the year with supplemental meetings being held as and when required including a specific meeting to consider strategy. In doing so, 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.

In meeting the requirements of the Code the Board receives regular reports from the Audit Committee, which met 8 times in the year, covering the work of both internal and external auditors. The Risk Committee previously met quarterly, but following their increasing workload have increased the number of meetings for the year 2018/19 to six. The Risk Committee ensures that the Society maintains and develops its Enterprise Risk Management Framework and considers all key risks facing the Society. All relevant issues raised by the Nominations 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.

The directors have full access to the minutes of the committees to ensure transparency, unless it would be inappropriate to do so for example where an executive director's remuneration is being discussed.

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 performance is reviewed. The directors have access to the advice of the Company 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.

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 below. 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 has no other significant commitments and her leadership of the Board has priority over any other commitments she has. There have been no changes to her other commitments during the year.

Board Committee Membership

	Risk	Audit	Remuneration	Nomination
Debra Lewis (Chairman)				Chair
Tony Morgan (Vice Chairman)		Chair	Member	
Trevor Barratt	Chair	Member		
Nina Hingorani-Crain (SID)		Member		Member
Roger Turner	Member		Chair	
Liz McKenzie	Member		Member	
William Carroll				Member

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 2019 has been recorded as follows:

	Board	Risk	Audit	Remuneration	Nomination
T Barratt	11 (11)	8 (8)	6 (6)		1 (1)
W J Carroll^	10 (11)				2 (2)
D Gunter	11 (11)				
N Hingorani-Crain	10 (11)		7 (8)	1 (1)	1 (1)
I Jones	11 (11)				
D R Lewis	11 (11)	1 (1)			2 (2)
L McKenzie+	7 (7)	6 (6)			
A D Morgan	11 (11)		8 (8)	1 (1)	
R Turner	10 (11)	7 (7)	2 (2)	1 (1)	

* In addition to the formal meeting held during the year a number of virtual meetings were held by telephone and email to approve a number of matters.
\+ Liz also attended two additional Board meetings and an additional meeting of the Risk Committee as part of her induction and prior to her becoming a member of the Board and Risk Committee.

^ Will attended all scheduled Board meetings. He was unable to attend a meeting called at short notice as a result of a prior Board commitment for his role as the Society nominated director on the Board of MVT, a software provider that the Society holds a majority shareholding in.
( ) Number of meetings eligible to attend.

Risk Management and Internal Control Systems

The Board is responsible for setting the overall risk strategy for the Society, and for the overall design and implementation of the Enterprise Risk Management Framework, with the support of the Risk Committee. The Board ensures that the Society operates within its constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited.

The system of internal control is designed to enable the Society to achieve its long-term strategic objectives within a managed risk profile, not to entirely eliminate risk. The Three Lines of Defence model included in the Society's Enterprise Risk Management Framework provides assurance that these processes are appropriate and applied effectively. During the year the Society continued to invest in improving risk management capabilities and the robustness of its Enterprise Risk Management Framework. The Board reviews 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 the 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 monitors progress to remedy the weakness and mitigate any issues arising, 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.

Corporate Governance Report (cont)

Communication with Members and the Annual General Meeting

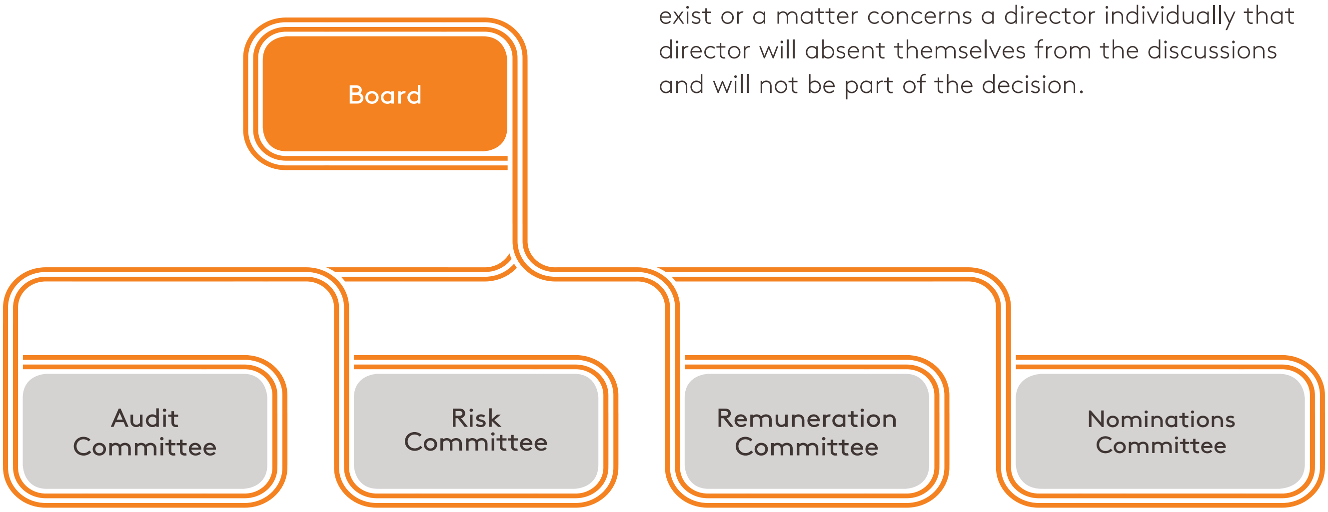
A member newsletter is produced monthly and distributed via email to ensure that Members are kept informed regarding products, services and developments at the Society, with reaction and feedback encouraged. Communication with Members is also conducted via our website and social media channels including Twitter, Facebook and LinkedIn. 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 "Alzheimer's Society Cymru" for every ballot paper returned or completed online. Board members are normally present at the Annual General Meeting and are therefore available to meet with Members, discuss issues and answer questions. The Notice of AGM is sent to members at least 21 clear days before the meeting.

At the AGM the Chairman and Chief Executive will give presentations on the previous year's performance and the strategic plans for the Society. All Members have the opportunity to ask questions at the AGM on the business of the meeting or can pre-register their question by email in advance of the meeting.

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. Through Board Effectiveness Reviews and Succession Planning, 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. The Chairman of each committee reports to the Board meeting following the committee meeting on the matters discussed, decisions taken and makes recommendations to the Board where necessary. The minutes of committee meetings are circulated to all directors unless it would be inappropriate to do so. In addition to the Board committees there are management committees, which report into the Risk Committee, and the Executive Committee which supports the Chief Executive and comprises the three executive directors, Head of Risk & Compliance and Head of People and Culture. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the Society. The Company Secretary maintains a conflicts register, which is a record of actual and potential conflicts. Where a conflict may exist or a matter concerns a director individually that director will absent themselves from the discussions and will not be part of the decision.



A full list of responsibilities is set out in each Committee's terms of reference, details of which 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 Society's financial reporting arrangements, the effectiveness of its internal controls and its risk management framework; and the internal and external audit processes. Through the Committee the Board has established formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of the financial statements. The Committee met eight times during the financial year. 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, T Barratt

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 recent and relevant accounting and audit competence. The Committee as a whole has competence relevant to the financial services sector.

The Committee has reviewed the collective skills of members and concluded that the balance of skills, knowledge and experience of the Committee is appropriate. During the year T Barratt joined the Committee and brought considerable additional Risk expertise. As Chairman of the Risk Committee, his appointment to the Audit Committee has also strengthened the interaction between the two committees.

Audit Committee key responsibilities	
Financial Reporting	• Monitoring the integrity of the Society'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 and provides the information necessary for members to understand the Society's position and prospects, including performance, business model and strategy.
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. • Reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements.
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.
Internal Audit	• Considering and approving the strategic and annual plans of work. • Considering management responses to recommendations. • Monitoring and reviewing the effectiveness of internal audit. • Considering the appointment, removal, performance and remuneration of the internal audit firm.

Audit Committee (cont)

Whistleblowing

At the start of the year the Committee was responsible for reviewing the adequacy and security of the Society's whistleblowing arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. As part of this responsibility the Committee ensured that whistleblowing arrangements allow proportionate and independent investigation of such matters.

In line with the recommendations from the 2018 UK Code on Corporate Governance, the responsibility for whistleblowing moved from the Committee to the Board. The Board will routinely review whistleblowing, and the reports arising from its operation, and any concerns raised by the workforce and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action.

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 61:

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 Society as at 30 April 2019 were £0.51 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 are appropriate.

Effective Interest Rate

Interest income under FRS 102 is required to be recognised on an effective interest rate basis, which requires the inclusion of all directly attributable cashflows to mortgage products to be recognised over the product's behavioural life.

To implement effective interest rate accounting, management are required to make significant judgements and estimates.

The Committee challenged the key estimate made by management which is the behavioural life estimate of current mortgage products.

The Committee is satisfied that the estimate is reflective of the Society's current mortgage book behaviour, and also considered future trends of customer retention.

Retirement Benefit Obligations

The Society makes significant judgements principally in calculating the present value of the retirement benefit obligations. The major assumptions are in respect of mortality, price inflation, discount rates, pension increases and earnings growth. The pension scheme liability recorded at 30 April 2019 was £1.7 million.

The Committee considered the assumptions used by reference to advice received from our actuaries.

The Committee is satisfied that the assumptions used are reasonable.

Impairment of Fixed assets

The Society is in the process of selling its Head office premises in Newport. Although the Head office is not a separate income generating unit, management believe that the negotiated price is a reasonable estimate of the recoverable amount and the Society has taken an impairment charge of £555k in the year.

The Committee is satisfied that the impairment provision is both reasonable and prudent.

Accounting Policies

The Committee examined the Society's accounting policies to ensure they are appropriate and applied consistently. They also confirmed that the policies are in line with applicable Accounting Standards. The Committee considered whether the 2019 Annual Report, when taken as a whole, is fair, balanced and understandable and whether it provides the necessary information for members to assess the Society's performance, business model and strategy. The Committee is satisfied that the 2019 Annual Report meets this requirement, and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. In July 2019, the Committee recommended the approval of the final 2019 Annual Report and Accounts to the Board.

Internal Audit

Internal Audit is outsourced to PwC. During 2018/19, 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 2019, 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.

During the year internal audit reports were received on a wide range of subjects, including:

- Change Management Framework
- Operational Resilience
- ILAAP
- Treasury Policy
- Enterprise Risk Management Framework
- Mortgage Lending and Underwriting

Internal Control and Risk Management

Details of the risk management systems in place are provided within the Risk Management Report on pages 39 to 44. 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 KPMG LLP who were appointed in 2018 following a competitive tender. The tender was designed to implement a robust process to enable the selection of an external auditor that would be the best fit for the Society and provide the appropriate level of assurance to the Society's members. Tenders will be conducted every five years.

The Society has a policy for the use of external auditors for non-audit work. 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.

Assessment of effectiveness

In 2019, the Committee conducted a review of its own effectiveness which was facilitated by the Company Secretary. This process involved 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. The Committee concluded that it continued to operate effectively during the year.

In 2018, an external effectiveness review was performed by CMS. CMS considered that the composition of the Audit Committee was appropriate. They reported, inter-alia, that Tony Morgan chairs the Audit Committee; he has a strong accounting background and has been an auditor for several building societies, and therefore has strong experience to lead the committee. The review further stated that members of the Committee have a background in risk, regulation and compliance and together the committee had strong accounting, risk and financial analysis and reporting skills. Based on the CMS review of Audit Committee papers, and the interviews held, they were satisfied that the Audit Committee was effective and functional, with key issues effectively addressed at meetings which were then fed into discussion at Board meetings. They were also satisfied that the Society had an adequate internal audit function.

Nominations 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. 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:
D Lewis

Committee Members:
N Hingorani-Crain and W J Carroll

Committee composition, skills and experience

The Committee's Chair, Debra Lewis, has considerable experience in financial services and is well placed to lead the Committee. Other members of the Committee are one independent non-executive director and the Chief Executive, providing a wide range of background experience and a balanced view on the best Board composition. During 2018/2019 Nina Hingorani-Crain joined the Committee and brought considerable experience in conduct and consumer areas. Previously she held the role of Chief of Staff at the FSA, and, as Senior Independent Director, she is the nominated non-executive director for stakeholder engagement.

Nominations Committee key responsibilities	
Board Composition	• Ensuring 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. • Considering the length of service of the Board as a whole and membership is regularly refreshed. • Identification and recommendation of 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. • Reviewing the Senior Managers and Certification Regime Responsibilities Map.
Succession Planning	• Considering succession planning for members of the Board and senior management 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. The Board, through the Committee, satisfies itself there are plans in place for the orderly succession of appointments to the Board and senior management so as to maintain an appropriate balance of skills and experience within the Society and on the Board. • 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. • Focusing on the oversight of a diverse pipeline for succession in line with the 2018 Code.

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 in the context of complementing and expanding the skills, knowledge and experience of the Board as a whole. The Committee will consider candidates from a diverse range with regard to background and gender. All appointments are subject to an extensive referencing process and certain roles require advance regulatory approval. During the year Liz McKenzie was appointed to the Board as a non-executive director and details of the process and induction plan can be found on page 18-21. The appointment was made without any assistance from external search consultants. Liz met the tests of fitness and propriety as prescribed by the regulators before taking up her role and subsequently met with the PRA.

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. Liz McKenzie will therefore stand for election at the AGM in August.

Under the requirements of the 2018 Code there was an extension of the role of the Committee to include succession planning for senior management (as well as Board positions) and the need to develop a diverse pipeline for succession. During the year the Committee considered succession plans for the Board and Senior Management. Both appointments and succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

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. The non-executives undertake a self-evaluation annually against these skills so that any gaps in skills and knowledge on the Board can be identified and action taken to address the skills gap through additional training or the recruitment of a non-executive with expertise in that particular area. The Committee recognises that there are some areas of expertise that the Board would not generally deal with such as a very specialist area or constantly evolving discipline. In these cases external advice would be sought from specialists in that particular area.

Diversity

The Board is committed to building a diverse and inclusive workforce and understands that colleagues have different demands and responsibilities in their life. The Committee has previously debated setting targets for gender diversity. The Committee agreed that they were committed to embracing diversity and promoting equality of opportunity in all its forms and not just with respect to gender equality. They agreed that appointments should continue to be made on merit and the skills and experience the individual can bring to the Society. The Committee is supportive of the recruitment, development and retention of talented women at all levels of the Society. Whilst it did not wish to endorse quotas the Committee is committed to ensuring women are represented at all levels in the Society. The Board of the Society is comprised of 44 percent women, the Executive team ratio is 40 percent women and the number of women in management is 56 percent.

Succession Planning

The Committee has considered succession planning in the year. A key focus of the Committee in 2018/19 was to ensure there is appropriate succession planning of Executive Directors and Senior Management in order to successfully deliver the Society's strategy. For the year 2019/20 the Committee will focus on enhancing the succession plans for the non-executive directors.

Other Activities

The Committee is responsible for reviewing the Action Plan resulting from the recommendations of the CMS effectiveness review and tracking progress made against this.

The Committee updated its terms of reference in line with best practice for Nominations Committees from the 2018 UK Code on Corporate Governance. This included more focus on recruitment and succession planning for the long-term success and future viability of the Society, an enhanced role in the early stages of the recruitment process and additional focus on the oversight of developing a diverse pipeline for succession planning.

Following the recruitment of a new non-executive director, the Committee reviewed the recruitment process.

The Committee keeps under review the role profiles and job descriptions for the non-executive and executive directors and the responsibilities map setting out individual responsibilities for those who hold senior management functional responsibility under the Senior Manager and Certification Regime.

Assessment of Effectiveness

In 2019 an internal review of effectiveness was undertaken which concluded the Committee was operating effectively. An external review was undertaken in 2017/18 by CMS who considered that the composition of the Committee was appropriate and, based on the interviews held, the Committee was effective and functional.

Risk Committee

The purpose of the Committee is to monitor the Society's compliance with the Board's approved risk appetite, Risk Management Framework and risk culture. Through the Committee the Board has established procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Society is willing to take in order to achieve its long-term strategic objectives. 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. Six meetings of the Committee were scheduled for 2018 to take into account the increasing volume of work for the Committee and the additional time allocated to risk matters by the Board.

Membership

Committee Chairman:
T Barratt

Committee Members:
R Turner and L McKenzie

Committee Composition, Skills and Experience
The Chair of the Committee, Trevor Barratt, has extensive experience and a strong understanding of risk management. Trevor 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 Society's Enterprise Risk Management Framework. During the year Roger Turner and Liz McKenzie joined the Committee. Roger brings with him extensive Treasury risk management expertise and Liz McKenzie HR, operations and change management experience. Roger and Liz also serve on the Remuneration Committee which provides linkage between the remits of the Committees and the consideration of risk and reward.

The Committee is comprised of independent non-executive directors and is attended by the Head of Risk & Compliance, Executive Directors and other members of management as required.

Risk Committee key responsibilities	
Setting Risk Appetite	• Review and approve the Society's Enterprise Risk Appetite Statements taking account of the current and future macroeconomic financial and regulatory environment. • Review and recommend to the Board the Risk Appetite Measures to be used to monitor the Society'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 Society and its Members in a timely manner. • Review and challenge the internal control environment. • Monitor the Society'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. • Review Strategic Risk reports from the Chief Executive. • Review the quarterly risk reports provided by ALCO, MLRC & ORCC, the management level risk committees.
Risk Management	• Review and approve the Society's Enterprise Risk Management Framework. • Review the implementation of the Enterprise Risk Management Framework ensuring all risks are managed with adequate resource and a satisfactory control environment. • Ensure that the Society's Risk Management Structure is adequately resourced and effective across First and Second Line. Ensure the Second Line has appropriate access to information to enable it to perform its oversight function.

Key Matters Considered in the Year

During the year the Committee has also reviewed the Recovery Plan, Resolution Plan, Operational Resilience Framework, Treasury Policy, Data Protection Policy and Change Management Framework.

Oversight of IT and Cyber Matters

In previous years consideration was given to the establishment of an IT/Cyber Committee. The matter was debated at Board and it was agreed that oversight of IT and Cyber matters would be undertaken at Risk Committee with dedicated focus and deep dives in this area. Over the course of the year continued investment has led to positive progress and significant improvement to the IT and Cyber resilience within the Society. Risk Committee continues to provide oversight and has integrated reporting of IT and Cyber matters into the Committee's standard schedule.

Enterprise Risk Management Framework

The Committee continued to oversee the embedding of the Enterprise Risk Management Framework and ensures it is fit for purpose.

Risk Appetite

The Committee reviewed the Board risk appetite statements setting out the level of risk the Board wishes to accept in pursuit of strategy and recommended the risk appetite to the Board.

Delivery of the business strategy within risk appetite is managed through a comprehensive Enterprise Risk Management Framework. Further details on the Risk Framework can be found in the Risk Management Report on page 39 to 44.

Current and forecast performance against each of the Society's risk appetite measures 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 Society.

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 2018/19 ICAAP, ILAAP and Stress Testing Policy be approved. The stress tests ensure the Society's financial position can withstand the impact of severe economic stress.

Operational Risks

The Committee monitors risks inherent within the Society's operations. This includes areas such as the following:

Cyber Security

The risk posed by cyber-attacks has increased, and financial institutions are a primary target of increasingly sophisticated cyber- crime groups. The Committee reviewed the Society Cyber Security policies and processes to combat cyber crime and will continue to review and update these to ensure they remain up-to-date.

Financial Crime

The Society continues to invest to ensure our framework for the management of Financial Crime to reduce the risks of money laundering, terrorist financing, sanctions and anti-bribery and corruption remains fit for purpose. The Committee reviewed the Fighting Financial Crime Policy and receives reports from the Money Laundering Reporting Officer and the Deputy Money Laundering Officer on a quarterly basis.

Operational Resilience

The failure of the Society's and its suppliers' technology infrastructures are a risk driver for the Society. The increased use of technology and growing demand means that any failure would have an increasing impact on our business. Failure to adequately manage operational resilience may result in disruption to our service which could in turn result in customer detriment. The Committee has oversight of operational resilience activities of the Society such as the Business Continuity Plan, and receives feedback on resilience tests such as the ability to run the Society's systems from the Disaster Recovery Centre.

Risk Management

The Committee is supported by an enhanced Second Line. Following the appointment of a full time Head of Risk and Compliance in 2016, the Society has subsequently recruited further resource in a number of key areas to ensure we are well placed to manage risks in our business in

Risk Committee (cont)

relation to prudential risk, financial crime and now compliance, following the appointment of a Chief Compliance Officer during 2018.

During the later stages of 2018/19 the Second Line underwent a restructure to coincide with the next phase of the Society's business strategy, ensuring the Second Line are well placed to continue to provide effective oversight and challenge to the business alongside advisory support.

The Second Line are supported by a number of First Line Risk Champions. During the year a First Line Customer Quality Assurance function was created to strengthen the Society's approach to risk management.

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. More information can be found on page 21/22 (Board effectiveness review) and the Committee's Terms of Reference can be found at www.monbs.com.

An external review was undertaken by CMS during 2018. CMS considered that the composition of the Committee was appropriate and they were satisfied that the functioning of the Risk Committee was effective, and that meetings effectively addressed key issues which were then fed into discussion of risk at Board meetings. In 2019 an internal review of effectiveness was undertaken which concluded the Committee was operating effectively.

Remuneration Committee

The Committee determines levels of remuneration in respect of the Society's Executive and colleagues. Examples of how it discharged its responsibilities follow. Meetings are held as often as is necessary for the Committee to fulfil its responsibilities. The Committee had one formal meeting during the year and a number of virtual meetings were held outside of this to review and approve a number of matters.

Membership

Committee Chairman:

R Turner

Committee Members:

AD Morgan and L McKenzie

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. Liz McKenzie joined the Committee in 2019 bringing considerable experience in Remuneration and HR 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 the remuneration framework for all employees of the Society and taking this into account when setting executive remuneration.
Remuneration Reporting	• Reporting to members annually in the Annual Report & Accounts and the Report on Directors' Remuneration in 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

Executive and Directors' Remuneration

The Committee reviewed the remuneration for all of the executives and certain non-executive director positions such as the Chairman and Senior Independent Director. Levels of remuneration reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors does not include any performance-related elements. The Committee exercises independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. No director is involved in deciding their own remuneration outcome.

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 policies and practices are designed to support strategy and promote longterm sustainable success.

Workforce Remuneration and Policy

The Committee approved the proposals which followed the review of the reward structure across the Society in 2017/18. During the year, a new banding structure was designed and all colleagues were evaluated against their roles and experience and allocated to the appropriate grading band. All grading bands were benchmarked against peers to ensure they were in line with the market so that the Society was able to retain colleagues and effectively recruit for any new or replacement roles.

The Committee looked at wider colleague benefits and approved the introduction of an all colleague

Remuneration Committee

bonus scheme linked to the Society's strategy and the alignment of the executive schemes. Enhancements to the Society's family policy entitlements for colleagues with dependents, and those on maternity and paternity leave were also agreed by the Committee.

The Committee has been briefed on changes arising from the 2018 UK Code on Corporate Governance and the Code's focus on remuneration to ensure it is proportional and supports the long term success of the Society. The Committee will exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Society and individual performance, and wider circumstances. In this respect, the Committee has considered the rules of the bonus scheme to ensure that it has sufficient flexibility to exercise discretion and override formulaic outcomes. In accordance with its terms of reference, the Committee has regard to remuneration across the wider workforce when determining executive remuneration policy and practices. The Committee updated its terms of reference to include the interaction with the Risk Committee and its role in undertaking oversight of any potential conduct risks that might arise from the bonus incentive schemes in operation across the Society.

Remuneration Reporting

We have provided details of our directors' remuneration on page 36 and ask our Members to approve our Remuneration Report through an advisory vote at the Annual General Meeting.

Our 2018/19 Report includes the key disclosure requirements of the Code and complies with the regulatory requirements including, in particular, the FCA's Remuneration Code.

Remuneration Committee Effectiveness

An internal effectiveness review was conducted in 2019 which concluded that the Remuneration Committee operated effectively and members had a sufficient balance of skills and experience. An external effectiveness review of the Board and Board Committees was conducted in 2018, including the Remuneration Committee. CMS considered that the composition of the Committee was appropriate and, based on the interviews held, the Committee was effective and functional.

DR Lewis

Debra Lewis
Chairman
17 July 2019

Directors' Remuneration Report

On behalf of the Board, I am pleased to present the Remuneration Committee's 2018/19 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 2019. 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	2019 Total	2018 Total
2019	£000	£000	£000	£000	£000	£000
Non-executive Directors:						
D R Lewis	57	-	-	-	57	39
T Barratt	38	-	-	-	38	31
N Hingorani-Crain	33	-	-	-	33	31
L McKenzie	25	-	-	-	25	-
A D Morgan	41	-	-	-	41	39
R D Turner	34	-	-	-	34	35
H Warman (Retired 12.04.2018)	-	-	-	-	-	70
Executive Directors:						
W J Carroll	201	26	30	9	266	249
D Gunter	160	20	23	-	203	38
I Jones	150	20	23	18	211	16
J Bawa (Resigned 31.07.2017)	-	-	-	-	-	178
P Leader (Resigned 19.02.2018)	-	-	-	-	-	91
	739	**66**	**76**	**27**	**908**	**817**

Only the table and emoluments are audited in the Remuneration Report.

Directors' Remuneration Report (cont)

	Fees & salary	Performance related incentive scheme	Increase in accrued pension/ pension contribution	Taxable benefits	2018 Total	2017 Total
2018	£000	£000	£000	£000	£000	£000
Non-executive Directors:						
H Warman	70	-	-	-	70	55
T Barratt	31	-	-	-	31	26
D J Burgess	-	-	-	-	-	9
N Hingorani-Crain	31	-	-	-	31	30
D R Lewis	39	-	-	-	39	37
A D Morgan	39	-	-	-	39	38
D C Roberts	-	-	-	-	-	8
R D Turner	35	-	-	-	35	33
Executive Directors:						
A M Lewis	-	-	-	-	-	242
J Bawa (Resigned 31.07.2017)	167	-	8	3	178	125
W J Carroll	189	27	28	5	249	178
D Gunter (Appointed 08.03.2018)	24	10	2	2	38	-
I Jones (Appointed 01.04.2018)	13	-	1	2	16	-
P Leader (Resigned 19.02.2018)	81	-	2	8	91	138
	719	**37**	**41**	**20**	**817**	**919**

Only the table and emoluments are audited in the Remuneration Report.

Loans to Directors

At 30 April 2019, one director (2018: one director) or persons connected with directors had mortgage loans granted in the ordinary course of business totaling £209k (2018: £217k). 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 2019, the scheme was designed to deliver a maximum award of up to 20% of basic salary, following finalisation and approval of the accounts. The annual incentive scheme is linked to key corporate performance measures such as the achievement of financial or regulatory compliance targets (e.g. in relation to growth and efficiency), combined with demonstration of appropriate behaviours in line with the Society's performance management process.

Pensions and other Benefits

Executive directors are contributory members of the Society Stakeholder pension scheme. 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 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 Chief Executive Officer is subject to a notice period of twelve months. Other executive directors are subject to a notice period of six months.

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, Senior Independent Director 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 2019

The Executive Committee

Responsibility for the day to day management of the business and the implementation of the strategies and policies agreed by the Board has been delegated to the Chief Executive who is supported by the executive team. The Executive Team comprises William Carroll (Chief Executive), Dawn Gunter (Chief Operating Officer), Iwan Jones (Finance Director), David Mollison (Head of Risk & Compliance) and Lucy Burgess (Head of People & Culture).

The Executive team form the Executive Committee, which is chaired by the Chief Executive, and meet on a monthly basis. The responsibilities of the Executive Committee are:

- the development and implementation of strategy, operational plans, policies, procedures and budgets;
- the monitoring of operating and financial performance;
- the assessment and control of risk;
- the prioritisation and allocation of resources;
- monitoring competitive forces in each area of operation;
- people and culture; and
- business development.

The Executive Committee reports to the Board, at each Board meeting, in the form of business reports from the CEO and the Executive team.

Risk Management Report

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

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Strategic Risk The risks that affect or are created by the Society's business strategy and strategic objectives. Risks arising from changes to the Society's business model and the risk of the plan proving inappropriate due to macroeconomic, geopolitical, regulatory or other factors.	Maintain earnings stability over the 5 year business plan to maintain sustainable asset growth and capital reserves.	• Business planning process • Ongoing monitoring of Key Performance Indicators and Risk Appetite Measures • 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 Liabilities 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 Liabilities 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. **Financial Crime** We will not tolerate operating without the proportionate systems and controls in place designed to detect and prevent	• Board approved risk appetite limits • Strong and effective internal control environment (Controls Assurance Testing) • Insurances • Operational Risk and Compliance Committee oversight

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
	Financial Crime and will not knowingly conduct business with individuals or entities that we either suspect or believe to be engaged in behaviour which supports financial crime. Whilst we recognise we cannot eliminate fraud, we have a low appetite for failures in relation to internal staff fraud, and we have zero appetite for failing to comply with the Sanctions Regime.	• Continued investment in developing risk management frameworks, systems and processes • Continuous improvement, learning from internal risk events and external events • Trained Risk Champions in each business area, supporting their Executive maintain strong risk management
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 and Conduct Risk Policy • 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 • Enhanced 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 • Compliance Framework • 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 has closed to new members since 2001 • Pension valuation and scheme actuary reports • Investment strategy • Capital planning
Brexit Risk The UK is in the process of negotiating its exit from the European Union. This was scheduled to occur at the end of March 2019, but it remains unclear as to what form this will take and over what timescales it will proceed. Risks include political instability, disruption to financial markets and a general economic downturn impacting the Society's business model.	Ensure that the Society is well placed to deal with potential adverse impacts of a disorderly Brexit through having appropriate capital resources and management control processes.	The Society has modelled the potential impacts of a disorderly Brexit and believes that it has put in place appropriate management control processes and has adequate capital resources to enable it to withstand such impacts. In assessing the impact of risks the Society has had regard to the Bank of England's published EU withdrawal scenarios.

Risk Management Report (cont)

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 Society. 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 the Second Line risk oversight. 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 Enterprise 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 principles 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 42 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. The Society utilises HIVE surveys to ensure colleagues can express their view on our culture.

Enterprise Risk Management Framework

Risk management is an integral part of good internal control and corporate governance. An Enterprise 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 colleagues 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 a Three Lines of Defence model approach in the design and implementation of the Enterprise Risk Management Framework. This provides clarity over roles and responsibilities of colleagues whilst enabling the 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, collecting risk management information and promoting a strong risk aware culture. The 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 on page 42:

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 and develop processes for implementation of the Risk Management Framework.
- Promote strong risk management culture.
- Provide support, oversight and challenge and report direct through RC and ORCC.
- Support the business in delivering strategy in line with risk appetite.

Third Line of Defence
- Internal Audit

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

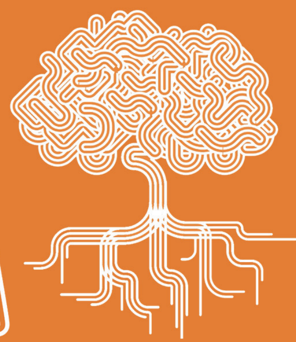
Society Values

Dynamic

We are modern in our approach which means that we are responsive and agile.

Community

We are local, with feeling. We are invested in our regions.



Personal

We treat our members differently. We understand that each one has a different story, a different journey and different needs.

Quality

We are professional in our approach, with an eye for detail and a conscientious spirit.

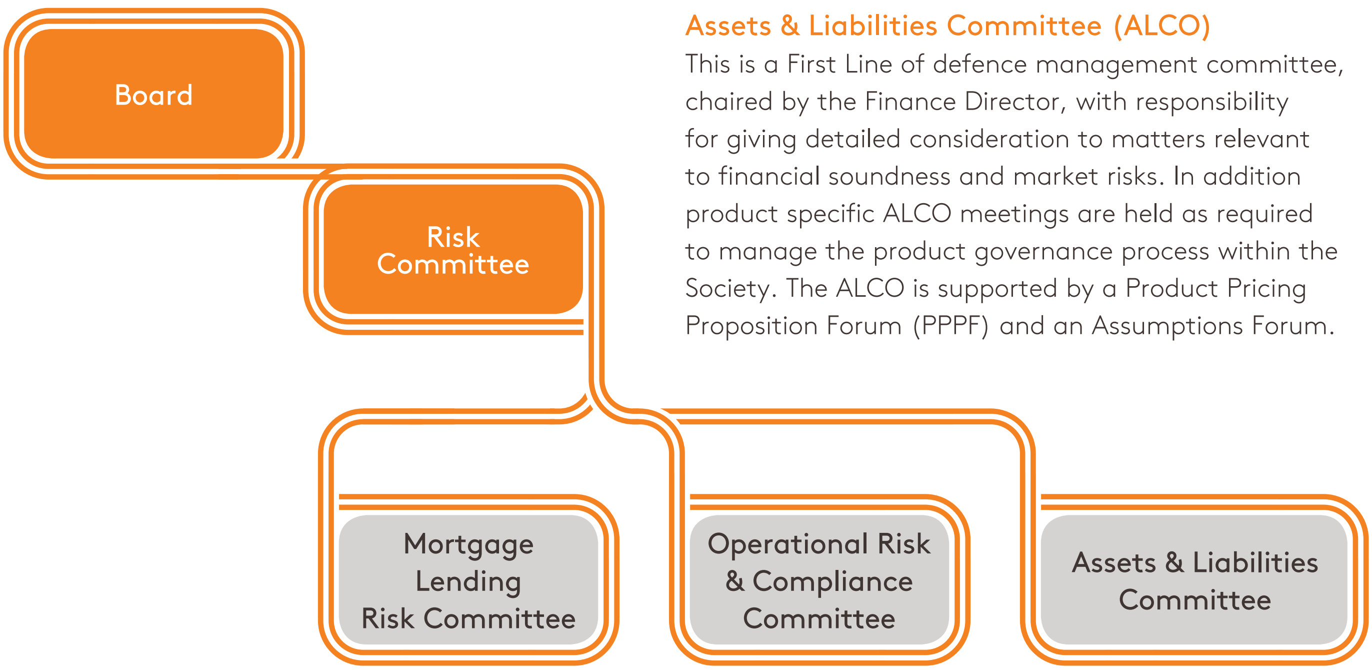
Risk Management Report (cont)

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 the Board have overall accountability and ownership of the Risk Management Framework, and delegate to the Risk Committee to ensure the development, implementation and maintenance of the framework. 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 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 below:



Risk Committee

The Risk Committee is a Board level committee and now meets six times a year. Special meetings are held to undertake deep dives into core risk processes and policies e.g. ILAAP / ICAAP and the ERMF. The Board has delegated certain responsibilities to the Risk Committee as detailed in their Terms of Reference.

The Board is responsible for setting the overall risk strategy for the Society, and for the overall design and implementation of the Enterprise Risk Management Framework, with the support of the Risk Committee. The Risk Committee is 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 (ORCC)

This is 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 risk issues.

Assets & Liabilities Committee (ALCO)

This is a First Line of defence management committee, chaired by the Finance Director, with responsibility for giving detailed consideration to matters relevant to financial soundness and market risks. In addition product specific ALCO meetings are held as required to manage the product governance process within the Society. The ALCO is supported by a Product Pricing Proposition Forum (PPPF) and an Assumptions Forum.

Mortgage Lending Risk Committee (MLRC)

This is a First Line of defence management committee, chaired by the Chief Operating Officer, 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.

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 46 to 53, 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 Building Societies Act 1986 (the "Act") requires the directors to prepare financial statements for each 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under the Act the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Building Societies Act 1986. They are also responsible for safeguarding the assets of the Society and hence 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 financial statements may differ from legislation in other jurisdictions.

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

Our opinion is unmodified

We have audited the Group and Society financial statements of Monmouthshire Building Society for the year ended 30 April 2019 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Statements of Other Comprehensive Income, the Group and Society Statements of Financial Position, the Group and Society Statements of Changes in Members' Interests, the Group Consolidated Cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Group and of the Society as at 30 April 2019 and of the income and expenditure of the Group and of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the Members on 22 August 2018. The period of total uninterrupted engagement is for one financial year ended 30 April 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	**£93,000** 4.4% of normalised Group profit before tax
Coverage	100% of Group profit before tax
Key audit matters	
Recurring risks	Provisions for loan losses Effective interest rate adjustment for interest receivable on loans and advances to customers Valuation of the defined benefit scheme obligation and purchased annuity contracts
Event driven	The impact of uncertainties due to Britain exiting the European Union on our audit

Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

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

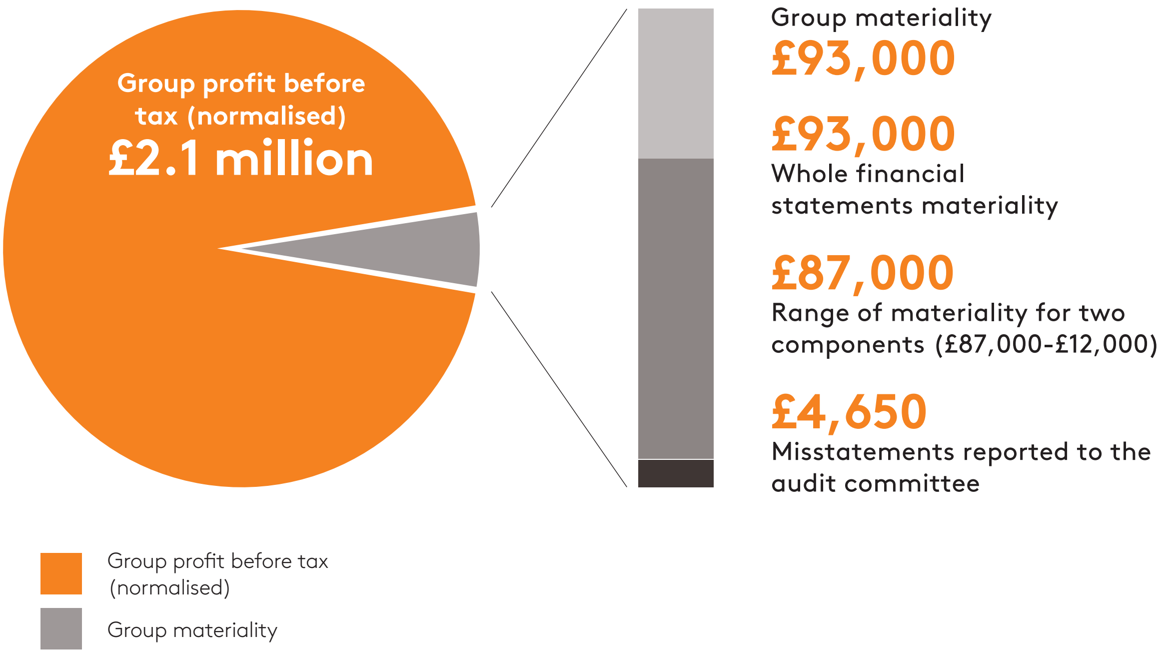
Key audit matter	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to risk management report.	Unprecedented levels of uncertainty: All audits assess and challenge the reasonableness of estimates, in particular as described in provisions for loan losses, effective interest rate adjustment for interest receivable on loans and advances to customers, the valuation of the defined benefit scheme obligation and purchased annuity contracts and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	Our procedures included: We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge**: We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing provisions for loan losses, effective interest rate adjustment for interest receivable on loans and advances to customers, the valuation of the defined benefit scheme obligation and purchased annuity contracts and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency**: As well as assessing individual disclosures as part of our procedures on provisions for loan losses, effective interest rate adjustment for interest receivable on loans and advances to customers, the valuation of the defined benefit scheme obligation and purchased annuity contracts, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. Our results As reported under provisions for loan losses, effective interest rate adjustment for interest receivable on loans and advances to customers, the valuation of the defined benefit scheme obligation and purchased annuity contracts, we found the resulting estimates and related disclosures of sensitivity and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Key audit matter	The risk	Our response
Provisions for loan losses Group and Society - (£506,000 (2018: £483,000)) Refer to Audit Committee report on page 26, accounting policy note and financial disclosures	**Subjective estimate:** The provision for loan losses relating to the Society's loan portfolio requires the directors to make significant judgements and estimates in order to determine incurred losses on loans and advances to customers. In making these judgements and estimates the directors have considered both the Society specific historical data as well as their experience and knowledge of their current mortgage book. Impairment provisions are assessed on an individual and collective basis. The directors judge individual impairments by reference to loans that have current or historical arrears, or are subject to forbearance flagging. The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, external data, adjusted for current conditions. In addition the Society applies management judgement based on the previous loss experience for loans that have become impaired and an assessment of future recoverability of the loan book. There is a risk that the overall provision is not reflective of the incurred losses at the end of the period due to the period of time that it takes for incurred losses to emerge, changes in customer credit quality or other market factors not sufficiently incorporated into the judgement, such as house prices. The effect of these matters is that, as part of our risk assessment, we determined that the provision for loan losses has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.	**Our procedures included:** • **Benchmarking assumptions**: We compared the key assumptions used in the impairment loss model, being probability of default, recovery rates, emergence period and forced sale discounts to external data where available. • **Sensitivity analysis**: We performed sensitivity analysis over the key assumptions in the Society's collective provision of probability of default and forced sale discounts by performing stress testing to help us assess the reasonableness of the assumptions used. • **Historical comparison**: We assessed the key assumptions used in the collective and individual models, including the probability of default and the forced sale discount, against the Society's historical experience. • **Tests of detail**: We identified a selection of loans which includes specific accounts identified based on risk characteristics of current or historical arrears, forbearance flagging and high LTVs to identify individual loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as valuation reports to challenge the completeness and accuracy of the Society's specific impairment provision estimate. We assessed the application of the House Price Index assumption by agreeing it to external data and performing the model calculations to ensure the accuracy of its application. • **Assessing transparency**: We assessed the adequacy of the Society's disclosures in respect of the degree of estimation involved in arriving at the balance. **Our results** We found the resulting estimate of provisions for loan losses to be acceptable.

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

Key audit matter	The risk	Our response
Effective interest rate adjustment for interest receivable on loans and advances to customers Refer to Audit Committee report, accounting policy note and financial disclosures on page 26.	**Subjective estimate:** Accounting standards require interest receivable on loans and advances to customers to be recognised using the effective interest rate (EIR) method. This results in all directly attributable interest, fees and costs being recognised on an even yield basis over the expected life of the loans. The recognition of interest receivable on loans and advances to customers under the effective interest rate method requires the directors to make significant judgements and estimates, with the most critical estimate being the loans' expected life. The directors have determined this estimate with reference to historical customer behaviour and the Society's customer retention strategy. In addition, the directors apply judgement in determining whether or not fees and costs, including early redemption charges, should be included in the methodology. The effect of these matters is that, as part of our risk assessment, we determined that the effective interest rate adjustment for interest receivable on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** • **Historical comparison**: We assessed the reasonableness of the Society's behavioural life assumptions against actual customer behaviour. • **Benchmarking assumptions**: We assessed the key assumptions behind the expected customer lives and profiles of significant loan products against our own knowledge of industry experience and trends, including benchmarking with comparable lenders. • **Sensitivity analysis**: We evaluated the sensitivity of changes to judgemental assumptions, to estimate the impact of alternative assumptions and identify those assumptions most significant to the estimate. • **Test of detail**: We assessed the treatment of directly attributable fees and costs included in the effective interest rate against the requirements of the accounting standard. • **Assessing transparency**: We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the interest income recognised. **Our results** We found the resulting estimate of the effective interest rate adjustment for interest receivable on loans and advances to customers to be acceptable.
Valuation of the defined benefit scheme obligation £15.0 million (2018: £13.8m) **Valuation of purchased annuity contracts** £1.5 million (2018: £1.8m) Refer to Audit Committee report, accounting policy note and financial disclosures on page 26.	**Subjective estimate:** The Group operates a defined benefit pension scheme which has been closed to new members for several years. At year-end, the Group holds a net defined benefit pension scheme liability on the statement of financial position, which includes gross pension obligations. Small changes in the assumptions and estimates used to value the Group's pension obligation (before deducting scheme assets) would have a significant effect on the Group's net defined benefit obligation. Included within the scheme's assets are purchased annuity contracts whose valuation depends on actuarial assumptions used to value the obligations for which it has been purchased.	**Our procedures included:** • **Evaluation of actuary**: We evaluated the competence, independence and objectivity of the Group's actuary in assessing the Directors' reliance upon their expert valuation services. • **Benchmarking assumptions:** We critically assessed, using our own actuarial specialists, the key assumptions applied, such as the discount rate, inflation rate and mortality/ life expectancy against externally derived data and internal experience. • **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to the actuarial assumptions.

Key audit matter	The risk	Our response
	The effect of these matters is that, as part of our risk assessment, we determined that the defined benefit obligation and the annuity valuation have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Society.	**Our results** We found the valuation of defined benefit scheme obligation and the valuation of purchased annuity contracts to be acceptable.



Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £93,000, determined with reference to a benchmark of Group profit before tax, normalised to exclude this year's impairment on the Group's fixed assets as disclosed in note 15 of £829,000 of which it represents 4.4%.

Materiality for the Society financial statements as a whole was set at £87,000, determined with reference to a benchmark of Society profit before tax, normalised to exclude this year's impairment on the Society's fixed assets as disclosed in note 15 of £555,000, of which it represents 4.4%.

The Group team performed procedures on this item excluded from normalised Group profit before tax.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £4,650, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

Our application of materiality and an overview of the scope of our audit (cont)

Of the Group's four reporting components, we subjected two to full scope audits for Group purposes and we subjected two components to specified risk-focused audit procedures over cash. All work was performed at the Group's head office in Newport.

The full scope audits were performed using component materialities, which were £87,000 for the Society and £12,000 for the remaining entity, Austin Friars.

The components for which we performed work other than audits for Group reporting purposes were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results.

We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Society or the Group or to cease their operations, and as they have concluded that the Society's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Society will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Society's business model, including the impact of Brexit, and analysed how those risks might affect the Group's and Society's financial resources or ability to continue operations over the going concern period.

We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year 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.

We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 14, the Directors are responsible for: the preparation of financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related building society legislation), taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Society's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

Through these procedures we became aware of actual or suspected non-compliance and considered the effect as

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

part of our procedures on the related financial statement items. The actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The purpose of our audit work and to whom we owe our responsibilities

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.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snow Hill
Snow Hill Queensway Birmingham
B4 6GH

Income and Expenditure Accounts

Year ended 30 April 2019

	Notes	Group 2019 £000	Group 2018 £000	Society 2019 £000	Society 2018 £000
Interest receivable and similar income	2	25,245	22,953	25,245	22,953
Interest payable and similar charges	3	(10,225)	(7,039)	(10,225)	(7,039)
Net interest receivable		15,020	15,914	15,020	15,914
Income from investments		5	3	5	3
Fees and commissions receivable		351	385	353	364
Fees and commissions payable		(402)	(440)	(402)	(440)
Other operating income		90	82	-	(9)
Other fair value (loss)/gains	4	(132)	738	(132)	738
Total operating income		14,932	16,682	14,844	16,570
Administrative expenses	6	(11,810)	(11,607)	(11,864)	(11,666)
Depreciation and amortisation	14, 15	(839)	(683)	(801)	(673)
Impairment of fixed assets	15	(829)	-	(555)	-
Total operating profit before provisions		1,454	4,392	1,624	4,231
Provisions for bad and doubtful debts	11	(159)	(399)	(159)	(399)
Other provisions	20	(52)	(31)	(52)	(31)
Operating profit		1,243	3,962	1,413	3,801
Profit on ordinary activities before tax		1,243	3,962	1,413	3,801
Tax on profit on ordinary activities	7	(323)	(763)	(293)	(734)
Profit for the financial year		920	3,199	1,120	3,067

The notes on pages 59 to 88 form an integral part of these accounts.

Statements of Other Comprehensive Income
Year ended 30 April 2019

		Group		Society	
	Notes	2019 £000	2018 £000	2019 £000	2018 £000
Profit for the financial year		920	3,199	1,120	3,067
Actuarial (losses)/gains recognised in the pension scheme	21(b)	(638)	360	(638)	360
Loss on revaluation of available for sale assets		(91)	(71)	(91)	(71)
Tax credit/(charge)		123	(50)	123	(50)
Total recognised gains relating to the financial year and recognised since last annual report.		314	3,438	514	3,306

The notes on pages 59 to 88 form an integral part of these accounts

Statements of Financial Position

As at 30 April 2019

Assets	Notes	Group 2019 £000	Group 2018 £000	Society 2019 £000	Society 2018 £000
Liquid assets					
Cash in hand		327	353	327	353
Loans and advances to credit institutions					
Repayable on demand		107,512	114,012	107,379	113,502
Other loans and advances	8	7,032	18,069	7,032	18,069
Debt securities issued by other borrowers	9	50,145	72,655	50,145	72,655
Derivative financial instruments	13	529	1,879	529	1,879
Loans and advances to customers					
Loans fully secured on residential property	10	913,386	819,395	913,386	819,240
Other loans – fully secured on land	10	21,080	22,772	21,080	22,927
Investments	12	18	18	2,224	2,224
Intangible fixed assets	14	1,582	1,436	1,582	1,436
Tangible fixed assets	15	6,267	7,378	4,729	5,527
Other assets		537	584	673	577
Prepayments and accrued income		603	500	603	500
Total assets		1,109,018	1,059,051	1,109,689	1,058,889
Liabilities					
Shares	16	817,942	770,091	817,992	770,091
Amounts owed to credit institutions	17	98,632	95,080	98,632	95,080
Amounts owed to other customers	18	122,717	125,795	122,667	125,795
Derivative financial instruments	13	1,507	514	1,507	514
Other liabilities	19	787	1,308	1,722	1,612
Accruals and deferred income		705	248	705	246
Provisions for liabilities	20	73	101	73	101
Net pension scheme liability	21	1,653	1,226	1,653	1,226
Total equity attributable to members		65,002	64,688	64,738	64,224
Total equity and liabilities		1,109,018	1,059,051	1,109,689	1,058,889

The notes on pages 59 to 88 form an integral part of these accounts.

These financial statements were approved by the Board of Directors and authorised for issue on 17 July 2019.

Debra Lewis **William Carroll** **Iwan Jones**

Statement of Changes in Members' Interests

As at 30 April 2019

Group

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1 May 2018		64,594	94	64,688
Profit for the financial year		920	-	920
Other Comprehensive Income in the Period				
Actuarial Loss recognised in the pension scheme	21(b)	(638)	-	(638)
Loss on revaluation of assets available for sale		-	(91)	(91)
Deferred tax		107	15	123
At 30 April 2019		64,983	18	65,002

Society

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1 May 2018		64,130	94	64,224
Profit for the financial year		1,120	-	1,120
Other Comprehensive Income in the Period				
Actuarial Loss recognised in the pension scheme	21(b)	(638)	-	(638)
Loss on revaluation of assets available for sale		-	(91)	(91)
Deferred tax		107	16	123
At 30 April 2019		64,719	19	64,738

Consolidated Cash Flow Statement

	Group	
	2019 £000	2018 £000
Net cash outflows from operating activities (see below)	(28,240)	(25,747)
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	(711)	(956)
Disposal of tangible and intangible fixed assets	6	10
Disposal of debt securities	22,419	8,690
Net cash inflows from investing activities	21,714	7,744
Net decrease in cash and cash equivalents	(6,526)	(18,003)
Cash and cash equivalents at beginning of the year	114,365	132,368
Cash and cash equivalents at end of the year	107,839	114,365
Cashflows from operating activities		
Profit on operating activities before tax	1,243	3,962
Movements in prepayments and accrued income	(103)	(22)
Movements in accruals and deferred income	457	(82)
Movements in provisions for liabilities	(28)	(122)
Provisions for bad and doubtful debts	159	399
Depreciation and amortisation	839	683
Impairment of fixed assets	829	-
Loans and advances written off	136	942
Net pension costs	(244)	(228)
Net cash flow from operating activities before movement in operating assets and liabilities	3,288	5,532
Movement in operating assets and liabilities		
Loans and advances to customers	(92,299)	(32,155)
Shares	47,851	(45,998)
Amounts owed to credit institutions and other customers	474	50,427
Loans and advances to other credit institutions	11,037	972
Other assets	1,397	(1,861)
Other liabilities	472	(1,277)
Taxation paid	(460)	(1,387)
Net cash outflows from operating activities	**(28,240)**	(25,747)

Notes to the Accounts

Year ended 30 April 2019

1. Accounting Policies

General Information

Monmouthshire Building Society is a building society and is incorporated in Wales. The Society is located within the United Kingdom and its registered office address is Monmouthshire Building Society, John Frost Square, Newport NP20 1PX.

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. The Society has taken advantage of the exemption in FRS102, which provides that where a company is a member of a group and a Consolidated Cash Flow Statement is published, the Society does not have to prepare a Cash Flow Statement. Numbers in the accounts are rounded to £000. Derivative financial instruments have been reclassified in the prior year from Other Assets and Other Liabilities respectively and are now shown separately on the face of the Statement of Financial position. In addition, loans to subsidiaries been reclassified from Investments to Other Liabilities in the Statement of Financial Position.

Going Concern

The Society conducts annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reviews to assess and stress test its capital and liquidity positions respectively, in line with PRA requirements. These requirements include the need to model the impact on the Society of a range of severe but plausible stresses to residential house prices, unemployment, interest rates and funding outflows. Supported by these reviews, the directors are satisfied that the Society's position with respect to its capital, asset credit quality, funding and profitability should ensure that it has adequate resources to continue in business for the foreseeable future. The directors believe this to be the case even in the face of current uncertainties, including those that may arise as a result of the evolving Brexit situation. For this reason, the accounts continue to be prepared on the going concern basis.

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 the reversionary interest, early repayment charges, 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".

Fees and Commissions Receivable

Fees and commissions receivable or payable that are an integral element of the effective interest rate of the financial instrument are recognised as an adjustment to the effective interest rate and recorded within "Interest receivable and similar income". Any other fees and commissions receivable are recognised when the Society has fulfilled all contractual obligations. Fees and commissions payable not included within the effective interest rate are recognised on an accruals basis when the underlying service has been provided.

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.

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 objective evidence that a financial asset or group of financial assets is impaired. Objective 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 evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the net present value of estimated discounted future cash flows. Loans are considered for the specific provision at three or more months in arrears. Loans less than three months are considered for the collective provision.

The resultant provisions are deducted from the related asset values in the Statement of Financial Position and the movement is recorded in the Income and Expenditure Account.

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.

Notes to the Accounts

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 (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.

b) 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; or
- 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. Fixed assets 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 three to seven 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;
- impairment on assets are assessed annually and charged straight to the income statement

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 seven years. Provision is made for any impairment.

Other Income

Other operating income includes rental income paid to the Austin Friars subsidiary and other sundry income. Rental income is recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the leases.

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. Where the application of the group's accounting policy requires elements of both judgement and estimation, the Group considers these assessments to be accounting estimates.

The most significant areas where judgements and estimates are made are as follows and have been reviewed by the Audit Committee as detailed in the Audit Committee Report on page 26.

Impairment Provision on Loans and Advances
The Society reviews its loans to assess impairment. For both specific and collective provisions, judgement is required to be exercised in predicting the length of time before impairments are identified such as the time it takes for a loan to enter into arrears (i.e. emergence period), likely default rates on arrears, and the forced sale discount. On any subsequent sale of property an increase in the forced sale discount of 5% would result in a movement of the provision of £0.1m. Loans are treated as impaired from 1 month in arrears.

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. Judgement is used to assess which mortgage products have similar characteristics which are then grouped to calculate their respective average behavioural lives. Average lives are then estimated based on behavioural repayment data.

Impairment of Fixed Assets
The Society is in the process of selling its Head Office premises in Newport. Although the Head office is not a separate income generating unit, management believe that the negotiated price is a reasonable estimate of the recoverable amount and the Society has taken an impairment charge in the year.

Retirement Benefit Obligations
The Society operates a defined benefit pension scheme. 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. The reported liability, service cost and expected return on pension plan assets can be impacted by changes in the assumptions used. Of these assumptions the most significant in terms of its impact upon the financial statements is the discount rate applied to determine the scheme's liabilities. A decrease of 0.1% in the discount rate applied will increase the deficit by approximately £0.24m

Further details on the assumptions used in valuing retirement benefit obligations can be found in Note 21.

	Group and Society	
	2019 £000	**2018 £000**
2. Interest receivable and similar income		
On loans fully secured on residential property	23,700	22,828
On other loans	1,053	1,158
On liquid assets	1,285	1,066
Net expense on financial instruments	(793)	(2,099)
	25,245	22,953
3. Interest payable and similar charges		
On shares held by individuals	8,642	6,362
On deposits and other borrowings	1,601	712
Net Income on financial instruments	(18)	(35)
	10,225	7,039
4. Other fair value gains and losses		
(Loss)Gain on derivatives	(2,341)	3,642
Gain/(Loss) on hedged items attributable to the hedged risks	2,209	(2,904)
Net (loss)/gain	(132)	738

Notes to the Accounts

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 funding and investment activities.

The Society continues to adopt a prudent stance in the management of its 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 the fair value hedge option to apply the standard.

Unmatured Interest Rate Contracts

	Group and Society	
	2019 £000	2018 £000
Notional principal amount as at 30 April	617,000	461,000
Credit risk weighted amount	-	-
Replacement cost	529	1,879

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.

5. Financial Instruments (continued)

The interest rate gap analysis of the Group as at 30 April 2019 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	150,379	13,000	1,000	-	637	165,016
Loans and advances to customers	340,975	63,300	102,647	424,979	2,565	934,466
Other assets including tangible fixed assets	-	-	-	-	9,536	9,536
	491,354	76,300	103,647	424,979	12,738	1,109,018
Liabilities						
Shares	617,258	59,044	47,987	92,791	862	817,942
Amounts owed to credit institutions and other customers	186,908	23,500	5,574	5,000	367	221,349
Other liabilities	-	-	-	-	4,725	4,725
Capital	-	-	-	-	65,002	65,002
	804,166	82,544	53,561	97,791	70,956	1,109,018
Impact of derivative instruments	429,000	(3,000)	(66,000)	(360,000)	-	-
Interest rate gap at 30 April 2019	116,188	(9,244)	(15,914)	(32,812)	(58,218)	-

The Society uses derivative financial instruments and exposure limits to mitigate the effect of adverse interest rate movements on net interest income. At 30 April 2019 the impact of a 2% parallel increase in interest rates (measured using calculated interest rate gap positions) was £2,576k favourable across the gap report horizon (2018: £1,099k favourable). At 30 April 2019 the impact of a 2% parallel decrease in interest rates (measured using calculated interest rate gap positions) was £2,576k adverse across the gap report horizon (2018: £1,099k adverse).

Notes to the Accounts

5. Financial Instruments (continued)

The interest rate gap analysis of the Group as at 30 April 2018 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	173,367	6,000	25,000	-	722	205,089
Loans and advances to customers	372,989	35,426	69,217	364,380	155	842,167
Other assets including tangible fixed assets	-	-	-	-	11,795	11,795
	546,356	41,426	94,217	364,380	12,672	1,059,051
Liabilities						
Shares	599,252	33,441	70,216	66,205	977	770,091
Amounts owed to credit institutions and other customers	182,847	15,500	22,528	-	-	220,875
Other liabilities	-	-	-	-	3,397	3,397
Capital	-	-	-	-	64,688	64,688
	782,099	48,941	92,744	66,205	69,062	1,059,051
Impact of derivative instruments	371,000	(15,000)	(25,000)	(331,000)	-	-
Interest rate gap at 30 April 2018	135,257	(22,515)	(23,527)	(32,825)	(56,390)	-

5. Financial Instruments (continued)

The table below analyses the fair values of the Society's financial instruments as at 30 April 2019:

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	327	-	-	-	-	327
Loans and advances to credit institutions	-	114,544	-	-	-	114,544
Debt securities	-	-	50,145	-	-	50,145
Loans and advances to customers	-	934,466	-	-	-	934,466
Derivative financial instruments	-	-	-	529	-	529
Total financial assets	327	1,049,010	50,145	529	-	1,100,011
Non-financial assets	-	-	-	-	9,007	9,007
	327	1,049,010	50,145	529	9,007	1,109,018
Liabilities						
Shares	817,992	-	-	-	-	817,992
Amounts owed to credit institutions and other customers	221,299	-	-	-	-	221,299
Derivative financial instruments	-	-	-	1,507	-	1,507
Total financial liabilities	1,039,291	-	-	1,507	-	1,040,798
Non-financial liabilities	-	-	-	-	3,218	3,218
Reserves					65,002	65,002
	1,039,291	-	-	1,507	68,220	1,109,018

Notes to the Accounts

5. Financial Instruments (continued)

The categories of financial instruments as at 30 April 2018 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	353	-	-	-	-	353
Loans and advances to credit institutions	-	132,081	-	-	-	132,081
Debt securities	-	-	72,655	-	-	72,655
Loans and advances to customers	-	842,167	-	-	-	842,167
Derivative financial instruments	-	-	-	1,879	-	1,879
Total financial assets	353	974,248	72,655	1,879	-	1,049,135
Non-financial assets	-	-	-	-	9,916	9,916
	353	974,248	72,655	1,879	9,916	1,059,051
Liabilities						
Shares	770,091	-	-	-	-	770,091
Amounts owed to credit institutions and other customers	220,875	-	-	-	-	220,875
Derivative financial instruments	-	-	-	514	-	514
Total financial liabilities	990,966	-	-	514	-	991,480
Non-financial liabilities	-	-	-	-	2,883	2,883
Reserves	-	-	-	-	64,688	64,688
	990,966	-	-	514	67,571	1,059,051

5. Financial Instruments (continued)

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 carrying and fair values of the Society's financial instruments held at amortised cost at 30 April 2019.

Notes to the Accounts

5. Financial Instruments (continued)

	Group		Society	
	2019 £000	2018 £000	2019 £000	2018 £000
Financial assets				
Debt securities issued by other borrowers	50,145	72,655	50,145	72,655
Derivative financial instruments	529	1,879	529	1,879
Financial liabilities				
Derivative financial instruments	1,507	514	1,507	514

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

a) Debt securities – Level 1

The fair value of debt securities is calculated by reference to market prices.

b) Derivative Financial Instruments – Level 2

The fair value of derivative financial instruments is calculated using observable market data.

Credit risk

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

	Group		Society	
	2019 £000	2018 £000	2019 £000	2018 £000
Loans and advances to credit institutions	114,544	132,081	114,411	131,571
Debt Securities	50,145	72,655	50,145	72,655
Loans and advances to customers	934,466	842,167	934,466	842,167
	1,099,155	1,046,903	1,099,022	1,046,393

Credit risk on loans and advances to customers is shown net of provisions of £506k (2018: £483k).

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	2019 £000	2019 %	2018 £000	2018 %
Banks	41,729	25	64,302	31
Building Societies	9,955	6	19,464	10
Central Government	113,005	69	119,970	59
Local Authorities	-	-	1,000	-
	164,689	100	204,736	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 Lending operations 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.

5. Financial Instruments (continued)

LTV Analysis

Residential

	Group 2019 %	Group 2018 %
The Society's loan book is split between		
0-50%	28	34
50% to 60%	15	14
60% to 70%	16	16
70% to 80%	14	15
80% to 90%	14	14
90% to 100%	13	7
Total	100	100

LTV Analysis

Buy-to-Let

	Group 2019 %	Group 2018 %
0-50%	13	18
50% to 60%	12	21
60% to 70%	27	44
70% to 80%	47	16
80% to 90%	1	1
Total	100	100

LTV Analysis

Commercial

	Group 2019 %	Group 2018 %
0-50%	32	49
50% to 60%	23	18
60% to 70%	23	20
70% to 80%	19	10
80% to 90%	-	3
90% to 100%	-	-
Greater than 100%	3	-
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 50% (2018:49%). 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 2019. This HPI takes into account regional data. The Group uses the index to update the property values of its portfolios on a quarterly basis.

Notes to the Accounts

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:

Geographical Split	Group		Group	
	2019 £000	2019 %	2018 £000	2018 %
Wales	535,169	57	543,943	65
South West	130,124	14	116,603	14
Midlands	66,898	7	51,072	6
Outer London	38,341	4	27,703	3
South East	43,809	5	28,875	3
Greater London	46,540	5	28,004	3
North West	23,943	3	17,210	3
Other	49,642	5	28,757	3
	934,466	100	842,167	100

Arrears Analysis	Group		Group	
	2019 £000	2019 %	2018 £000	2018 %
Neither past due or impaired	921,991	99	835,538	99
Past due up to 3 months	6,903	1	3,662	1
Past due up to 6 months	2,229	-	1,377	-
Past due 6 to 9 months	2,049	-	755	-
Past due over 9 months	1,294	-	835	-
	934,466	100	842,167	100

The above table shows the impairment status of the Society's loan portfolio. 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 0.5% (2018: 0.4%) is greater than three months in arrears. Specific provisions are calculated against impaired balances (see note 11).

6. Administrative Expenses

	Group		Society	
	2019 £000	2018 £000	2019 £000	2018 £000
Staff costs	7,328	6,435	7,328	6,435
Auditor's remuneration:				
Statutory audit of Society	83	60	83	60
Statutory audit of Subsidiary Companies	4	4	4	4
Other services	-	12	-	12
Other expenses	4,395	5,096	4,449	5,155
	11,810	11,607	11,864	11,666

Included in staff costs are defined contribution pension scheme contributions of £489k (2018: £396k) and £244k (2018: £228k) in relation to defined benefit scheme pension costs.

7. Taxation

	Group		Society	
	2019 £000	2018 £000	2019 £000	2018 £000
Current Tax:				
UK corporation tax	375	756	345	727
Adjustments in respect of previous years	(12)	(2)	(12)	(2)
Total current tax	363	754	333	725
Deferred Tax:				
Origination and reversal of timing differences	(57)	19	(57)	19
Adjustment in respect of previous years	11	(8)	11	(8)
Effects of changes in tax rates	6	(2)	6	(2)
Total deferred tax	(40)	9	(40)	9
Total tax per Income and Expenditure Account	323	763	293	734
Equity items				
Deferred tax current year charge/(credit)	(123)	50	(122)	50
Tax Payable	(200)	813	(169)	784

Notes to the Accounts

7. Taxation (continued)

The Society was subject to corporation tax of 19% for the year (2018: 19%).

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

	Group		Society	
	2019 £000	2018 £000	2019 £000	2018 £000
Profit for the period	1,243	3,962	1,413	3,801
Effects of:				
Tax at 19% thereon (2018: 19%)	236	753	268	722
Expenses not deductible	86	29	24	24
Income not taxable	(4)	(7)	(5)	-
Adjustments from previous periods	(1)	(10)	(1)	(10)
Tax rate changes	6	(2)	7	(2)
Tax charge for the period	323	763	293	734
Statement of Financial Position				
Current tax payable	189	338	151	289
Deferred tax (assets)/liabilities:				
Provision at start of period	32	(26)	32	(26)
Adjustment in respect of prior years	11	(8)	11	(8)
Deferred tax (charge)/credit to income statement for the period	(51)	17	(51)	17
Deferred tax (charge)/credit in equity for the period	(123)	50	(123)	49
Provision at end of period	(131)	32	(131)	32
Fixed asset timing differences	170	256	170	256
Short term timing differences - trading	(301)	(224)	(301)	(224)
	(131)	32	(131)	32
Deferred tax (assets) recoverable in 12 months	(301)	(224)	(301)	(224)
	(301)	(224)	(301)	(224)
Deferred tax liabilities recoverable in 12 months	170	256	170	256
	170	256	170	256

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	
	2019 £000	2018 £000
Accrued interest	32	69
Maturing in not more than three months	3,000	7,000
Maturing in more than three months but not more than one year	4,000	11,000
	7,032	18,069

9. Debt Securities Issued by Other Borrowers

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

	Group and Society	
	2019 £000	2018 £000
Accrued interest	124	176
Maturing in not more than one year	22,980	47,593
Maturing in more than one year	27,041	24,886
	50,145	72,655
Analysis of Debt Securities:		
Issued by public bodies	38,229	29,099
Issued by other borrowers	11,916	43,556
	50,145	72,655

Notes to the Accounts

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	
	2019 £000	2018 £000
In not more than three months	5,079	3,396
In more than three months but not more than one year	4,000	2,960
In more than one year but not more than five years	50,638	49,036
In more than five years	875,255	787,258
	934,972	842,650
Provisions for bad and doubtful debts (note 11)	(506)	(483)
	934,466	842,167
Loans fully secured on residential property	913,386	819,395
Other loans – fully secured on land	21,080	22,772
	934,466	842,167

The Society has encumbered £216.2m of mortgage assets through the Bank of England's Sterling Monetary Framework (SMF). The SMF facilities are accessed via the placement of eligible collateral in the form of approved mortgage portfolios. SMF transactions do not involve the transfer of risk on the collateral and hence fail the derecognition criteria under FRS 102. Therefore, for accounting purposes, the underlying collateral is retained on the Balance Sheet.

11. Provisions for Bad and Doubtful Debts

	Group and Society				
	Residential		Commercial		
	Specific £000	Collective £000	Specific £000	Collective £000	Total £000
At 1 May 2018	133	195	127	28	483
Amounts utilised in year	-	-	(136)	-	(136)
Charge/(release) for the year	120	(72)	138	(27)	159
At 30 April 2019	253	123	129	1	506
At 1 May 2017	473	297	-	256	1,026
Amounts utilised in year	(944)	-	-	-	(944)
Charge/(release) for the year	604	(102)	127	(228)	401
At 30 April 2018	133	195	127	28	483

12. Investments

	Group		Society	
	2019 £000	2018 £000	2019 £000	2018 £000
Shares in subsidiaries	-	-	2,206	2,206
Shares in other investments	18	18	18	18
	18	18	2,224	2,224

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	Independent Financial Advisers	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. Mutual Vision Technologies Ltd registered office is Unit 7, Millbank House, Bollin Walk, Wilmslow SK9 1BJ.

Monmouthshire Building Society is registered in the United Kingdom. Its principal place of business is Monmouthshire House, John Frost Square, Newport, South Wales, NP20 1PX.The registered office and principal place of business of each subsidiary is the same as that of the Society.

13. Derivative Financial Instruments

	Contractual Amount	Fair Value Assets	Fair Value Liabilities
	£m	£000	£000
At 30 April 2019			
Unmatched derivatives interest rate swaps	138	68	(27)
Derivatives designated in hedging relationships	479	461	(1,480)
	617	529	(1,507)
At 30 April 2018			
Unmatched derivatives interest rate swaps	117	62	(213)
Derivatives designated in hedging relationships	344	1,817	(301)
	461	1,879	(514)

Notes to the Accounts

14. Intangible Fixed Assets

	Computer Software	Total
	£000	£000
Group and Society		
Cost		
At 1 May 2018	2,417	2,417
Additions	531	531
At 30 April 2019	2,948	2,948
Amortisation		
At 1 May 2018	981	981
Charge for the year	385	385
At 30 April 2019	1,366	1,366
Net Book Value		
At 30 April 2019	1,582	1,582
At 30 April 2018	1,436	1,436

	Computer Software	Total
	£000	£000
Group and Society		
Cost		
At 1 May 2017	1,932	1,932
Additions	485	485
At 30 April 2018	2,417	2,417
Amortisation		
At 1 May 2017	714	714
Charge for the year	267	267
At 30 April 2018	981	981
Net Book Value		
At 30 April 2018	1,436	1,436
At 30 April 2017	1,218	1,218

15. Tangible Fixed Assets

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1 May 2018	6,937	487	3,949	11,373
Additions	6	91	81	178
Disposals	-	-	(1,152)	(1,152)
At 30 April 2019	6,943	578	2,878	10,399
Depreciation				
At 1 May 2018	994	293	2,708	3,995
Charge for the year	113	29	312	454
Impairment	517	-	312	829
Disposals	-	-	(1,146)	(1,146)
At 30 April 2019	1,624	322	2,186	4,132
Net Book Value				
At 30 April 2019	5,319	256	692	6,267
At 30 April 2018	5,943	194	1,241	7,378

Notes to the Accounts

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

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
Society	£000	£000	£000	£000
Cost				
At 1 May 2018	2,507	2,868	3,897	9,272
Additions	6	91	81	178
Disposals	-	-	(1,152)	(1,152)
At 30 April 2019	2,513	2,959	2,826	8,298
Depreciation				
At 1 May 2018	298	791	2,656	3,745
Charge for the year	37	67	310	414
Impairment	243	-	312	555
Disposals	-	-	(1,145)	(1,145)
At 30 April 2019	578	858	2,133	3,569
Net Book Value				
At 30 April 2019	1,935	2,101	693	4,729
At 30 April 2018	2,209	2,077	1,241	5,527

15. Tangible Fixed Assets (continued)

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1 May 2017	6,933	487	3,523	10,943
Additions	4	-	452	456
Disposals	-	-	(26)	(26)
At 30 April 2018	6,937	487	3,949	11,373
Depreciation				
At 1 May 2017	907	261	2,427	3,595
Charge for the year	87	32	297	416
Disposals	-	-	(16)	(16)
At 30 April 2018	994	293	2,708	3,995
Net Book Value				
At 30 April 2018	5,943	194	1,241	7,378
At 30 April 2017	6,026	226	1,096	7,348

Notes to the Accounts

15. Tangible Fixed Assets (continued)

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
Society	£000	£000	£000	£000
Cost				
At 1 May 2017	2,503	2,868	3,471	8,842
Additions	4	-	452	456
Disposals	-	-	(26)	(26)
At 30 April 2018	2,507	2,868	3,897	9,272
Depreciation				
At 1 May 2017	259	721	2,375	3,355
Charge for the year	39	70	297	406
Disposals	-	-	(16)	(16)
At 30 April 2018	298	791	2,656	3,745
Net Book Value				
At 30 April 2018	2,209	2,077	1,241	5,527
At 30 April 2017	2,244	2,147	1,096	5,487

16. Shares

	Group 2019 £000	Society 2018 £000
Held by individuals	**817,942**	770,091

Shares are repayable from Statement of Financial Position date in the ordinary course of business as follows:

	2019 £000	2018 £000
Accrued interest	862	977
On demand	268,473	328,040
In not more than three months	346,792	234,743
In more than three months but not more than one year	107,710	126,973
In more than one year but not more than five years	94,105	79,358
	817,942	770,091

17. Amounts 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 2019 £000	Society 2018 £000
Accrued interest	132	80
In not more than three months	15,500	13,000
In more than three months but not more than one year	24,000	23,000
In more than one year but not more than five years	59,000	59,000
	98,632	95,080

Amounts owed to credit institutions includes £84,081k of Term Funding Scheme and Indexed Long Term Repo funding from the Bank of England. Security for this is given in the form of collateralised mortgages.

18. Amounts 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 2019 £000	Society 2018 £000
Accrued interest	234	131
On demand	76,977	36,779
In not more than three months	14,432	57,068
In more than three months but not more than one year	26,074	31,817
In more than one year but not more than five years	5,000	-
	122,717	125,795

Notes to the Accounts

19. Other Liabilities

	Group		Society	
	2019 £000	2018 £000	2019 £000	2018 £000
Falling Due within One Year:				
Loans from subsidiaries	-	-	816	368
Corporation tax	189	338	151	289
Other creditors	598	970	755	955
	787	1,308	1,722	1,612

20. Provisions for Liabilities

	GC/16 Provision	FSCS Levy	Other Provisions	Total
	£000	£000	£000	£000
Group and Society				
At 1 May 2018	20	34	47	101
Amounts utilised	-	(33)	(47)	(80)
Charge/(credit) for the year	(20)	12	60	52
At 30 April 2019	-	13	60	73

Financial Services Compensation Scheme Levy

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. A provision of £13k for Monmouthshire Building Society's estimated share of the levy remains in force at the Statement of Financial Position date. A provision of £60k has been made in relation to restructuring costs.

21.Information Regarding Directors and Employees

a) Employment

	Group and Society	
	2019	2018
	£000	£000
Costs (excluding non-executive directors):		
Wages and salaries	5,998	5,297
Social security costs	596	533
Other pension costs	734	604
	7,328	6,434

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. From 5 April 2005, members' pensionable salary increases were restricted to the lower of RPI or 5%.

Pension Valuation

The results of an actuarial review consistent with methods described in FRS 102 are as follows:

The amounts recognised in the Statement of Financial Position:	2019 £000	2018 £000
Present Value of Funded Obligations	14,956	13,768
Fair Value of Fund Assets	(13,303)	(12,542)
Deficit	1,653	1,226

The amounts recognised in the Statement of Other Comprehensive Income	2019 £000	2018 £000
Actuarial gain/(loss) on plan assets	254	(407)
Actuarial (loss)/gain on defined benefit obligation	(892)	767
Total (loss)/gain	(638)	360
Actuarial (loss)/gain on defined benefit obligation		
Of which due to demographic assumptions	-	39
Of which due to financial assumptions	(892)	728
Actuarial (loss)/gain on defined benefit obligation	(892)	767

Notes to the Accounts

Pension Valuation (continued)

Changes in the Present Value of the Defined Benefit Obligation:	2019 £000	2018 £000
Liabilities at the beginning of the period	13,768	14,231
Interest cost	397	390
Service cost	211	181
Contributions by members	38	42
Actuarial (gain)/loss	892	(767)
Benefits paid	(350)	(309)
Liabilities at the end of the period	14,956	13,768

Changes in the Fair Value of Plan Assets:	2019 £000	2018 £000
Fair value of plan assets at the beginning of the period	12,542	12,444
Interest income	364	343
Actuarial gain/(loss)	254	(407)
Contributions by the employer	447	491
Contributions by members	46	42
Benefits paid	(350)	(309)
Non investment expenses	-	(62)
Fair value of plan assets at the end of the period	13,303	12,542

Analysis of Return on Plan Assets :	2019 £000	2018 £000
Interest income	364	343
Actuarial gain/loss on plan assets	254	(407)
Return on plan assets	618	(64)

Pension Valuation (continued)

Major Categories of Plan Assets as a Percentage of Total Assets

The fair value of plan assets includes the use of appropriate valuation techniques in accordance with FRS 102. These include publicly quoted indices for assets traded on the open market and investment managers' own, unaudited valuation models for assets that are not publicly traded.

	2019 £000	2019 %	2018 £000	2018 %
Equities	3,032	23	5,768	46
Property	264	2	-	-
Bonds	8,452	63	5,329	43
Cash and Net Current Assets	104	1	30	-
Annuities	1,451	11	1,415	11
	13,303	100	12,542	100

Amounts Recognised in the Income Statement	2019 £000	2018 £000
Service cost (including Guaranteed Minimum Pension Costs)	211	181
Net interest cost	33	47
Total Pension expense	244	228

During October 2018, the High Court made a ruling in the Lloyds Banking Group Pension Scheme GMP (Guaranteed Minimum Pension) equalisation case, which effectively directs defined benefit pension schemes to change their rules to equalise the benefits of male and female members for the effects of GMPs for employees who were, at one time, contracted out of state schemes. The Court did not specify a single method which schemes should employ and hence the impact of this on the plan will not be certain until the Trustee has determined which method should be adopted and detailed calculations have been performed to evaluate the impact, as the impact on members will vary from person to person. For the purposes of the accounts of the Society for the year ending 30 April 2019 this has resulted in an additional charge to profit in the year of £40,000 before tax.

Principal Actuarial Assumptions at the Balance Sheet Date:	2019 %	2018 %
Discount rate	2.6	2.9
RPI price inflation	3.2	3.1
CPI price inflation	2.2	2.1
Rate of increase in salaries	3.2	3.1
Rate of increase in pensions in payment	3.1	3.0
Post retirement mortality	S2NxA CMI 2016 (0.75% M/0.5% F)	S2MxA CMI 2016 (0.75% M/0.5% F)

Notes to the Accounts

Pension Valuation (continued)

Life Expectancies	2019 %	2018 %
Current pensioners age 60 - males	26.7	26.4
Current pensioners age 60 - females	28.5	28.2
Future pensioners age 60 (currently age 40) – males	27.5	27.2
Future pensioners age 60 (currently age 40) - females	29.1	28.9

Employees

	Group		Society	
	2019	2018	2019	2018
Average number employed during the year:				
(i) at the Society's Head Office:				
Full-time	121	106	121	106
Part-time	15	26	15	26
(ii) at Branch Offices:				
Full-time	25	10	25	10
Part-time	38	37	38	37
	199	179	199	179

22. Capital Commitments

Capital commitments contracted for but not provided in these accounts were £nil (2018: £nil).

23. Commitments Under Non-Cancellable leases

The Group has the following commitments in respect of operating lease rentals:	2019 £000	2018 £000
Less than one year	138	81
Between one and five years	279	214
Greater than five years	162	85
	579	380

24. Related Parties

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 36.

Included within other assets is a loan of £352k to Mutual Vision Technologies Ltd. The loan is repayable after a period of twelve months and has an interest rate lower than the market rate. Loans from subsidiaries of £816k (2018: £368k) are included within Other Liabilities

Loans to Directors

There was an aggregate of £209k (2018: £217k) 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:

	2019 £000	2018 £000
Rent paid to Austin Friars (Newport) Development Company Ltd	(60)	(60)
Loan interest from Mutual Vision Technologies Ltd	6	3

25. Country by Country Reporting

- Name, nature of activities and geographical location: the Society has 4 subsidiaries and operates only in the United Kingdom.
- The principal activities of the Society are noted in the Directors' Report.
- The average number of employees is disclosed in note 21 (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 2019.

Annual Business Statement

1. Statutory Percentages

	Percentages at 30 April 2019	Statutory limit
	%	%
Proportion of business assets not in the form of loans fully secured on residential property (the "lending limit")	2.6	25
Proportion of shares, deposits and debt securities in the form of shares not held by individuals (the "funding limit")	21.3	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

	2019	2018
	%	%
As a percentage of shares and borrowings:		
Gross capital	6.25	6.53
Free capital	5.71	5.66
Liquid assets	15.88	20.70
As a percentage of mean total assets:		
Profit after tax	0.08	0.30
Management expenses	1.17	1.16
Cost income ratio Pre-Impairment of Fixed Assets	84.71	73.68
Cost income ratio Post-Impairment of Fixed Assets	90.26	73.68

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 2018 and 2019 figures.
(vi) Management expenses represent the aggregate of administrative expenses and depreciation.
(vii) Cost income ratio represents administrative expenses divided by total operating income.

3. Information Relating to Directors and Other Officers

Name	Occupation	Date of birth	Date of appointment
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
W J Carroll BSc (Hons) FCA	Chief Executive Officer	17.02.77	30.04.09
D M Gunter	Chief Operating Officer	06.01.71	08.03.18
L McKenzie BEng (Hons)	Chief Operating Officer	12.07.65	01.09.18
N Hingorani-Crain LLB (Hons), Maitrise en Droit (Sorbonne), ACA	Chartered Accountant	11.06.73	14.08.15
I J Jones Bsc Econ (Hons) ACA	Finance Director	29.09.68	01.04.18
D R Lewis LLB (Hons) FCA (Chairman)	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 BA (Hons), MBA	Asset Manager Chief Executive Officer	06.07.60	25.09.15

Any notice or other document may be served on the Society under its rules by leaving it addressed to the Secretary or sending it by post to the Secretary at the Society's principle office.

Other Directorships and Appointments:

T Barratt	Omega Consultancy Limited
Mr W J Carroll	Monmouthshire Independent Financial Advisers Ltd Monmouthshire Insurance Services Ltd Monmouthshire Building Society Charitable Foundation Ltd Mutual Vision Ltd Austin Friars Development Company MBS Development Ltd
I J Jones	EHJ Associates Ltd A E Innovations Ltd
L McKenzie	West Midlands Growth Company Greater Birmingham Chamber of Commerce Heart of England Community Foundation Tended Ltd
A D Morgan	Geldards LLP (Independent Adviser) University of South Wales (Governor) Power Poles Ltd
R D Turner	F M Capital Partners Ltd
N Hingorani-Crain	Achieving for Children Community Interest Hingorani-Crain Limited

Officers Name	Occupation
L Burgess MSc, MCIPD	Head of People & Culture
W J Carroll BSc (Hons) FCA	Chief Executive Officer
D M Gunter	Chief Operating Officer
I J Jones Bsc Econ (Hons) ACA	Finance Director
D Mollison BA (Hons) SIRM	Head of Risk & Compliance

At 30 April 2019, W J Carroll had a service contract which is terminable by the Society by giving 12 months notice.
I J Jones and D M Gunter had service contracts which are terminable at 6 month's notice.

Branch Offices and Agencies

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
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 Ltd 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 IFA Ltd 2 The Struet, LD3 7LH	Tel: 01874 611911
CARDIFF	Beacon IFA Ltd 18 Merthyr Road, Whitchurch CF14 1DG	Tel: 02920 618989
CLEVEDON	Newsham Hanson Edinburgh House, Clevedon North Somerset, BS21 7NP	Tel: 01275 878548
COWBRIDGE	Brinsons Ltd 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 10 St Peters Street, HR1 2LE	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, CF64 2AD	Tel: 02920 711340
PORTISHEAD	Brooking, Ruse & Co Ltd 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

Monmouthshire
Building Society

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

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