Monmouthshire
Building Society

Annual Report & Accounts

Year ended 30th April 2020

Monmouthshire Building Society

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

Monmouthshire Building Society

Contents

2020 Highlights

Results	2020	2019 Restated*	2018 Restated*
Growth			
Total Assets (£ millions)	**1,247.1**	**1,109.0**	**1,059.1**
Total Mortgage Assets (£ millions)	**1,026.7**	**934.5**	**842.2**
Lending			
Gross new lending (£ millions)	252.0	233.0	185.5
Net lending (£ millions)	92.2	92.3	31.0
Net Interest Margin %	1.10	1.39	1.51
Capital			
Capital ratio (% Risk Weighted Assets)	13.81	15.77*	16.70*
Profitability			
(Loss)/Profit after tax (£ millions)	(1.0)	0.9	3.2
Profit after tax ratio (% mean total assets)	(0.08)	0.08	0.30
Management expenses ratio (% mean total assets)	1.02	1.17	1.16
Cost Income Ratio (%) Pre-Fair Value gains/losses	92.53	89.47	77.08
Cost Income Ratio (%) Post-Fair Value gains/losses	103.83	90.26	73.68

Total Assets were £1,247.1 million

Common Equity Tier 1 ratio of 13.81%

Over £12k contributed to our charity of the year

Underlying profit before tax** was £0.2 million

The Society scored 96.1% for Customer Satisfaction

Loss before tax was £1.2 million

* 2018 and 2019 have been restated to account for a prior period adjustment as set out in note 21 to the accounts.

** Underlying profit before tax is profit before tax excluding fair value movements resulting from hedge accounting. The Society uses derivative instruments (swaps) to hedge interest rate risk arising from fixed rate mortgages. These swaps are intended to be held to maturity. As such, any gains or losses arising from fair value movements are timing differences which do not affect underlying cash flows. As a result, they are excluded from the Society's underlying profit or loss.

Chair's Review

I am writing to introduce the Annual Report for 2020; a year consisting mostly of celebration as the Society continued to evolve, adapt and grow beyond its 150th year in line with its vision of becoming the modern mutual. However, the year ended with great uncertainty and sadness, as the coronavirus pandemic struck globally. As the country deals with the impact of the pandemic and UK lockdown, there has been a material shift in activity at the Society, with emphasis and focus on short-term business resilience and continuity of service to our members, whilst protecting the health and wellbeing of our members and colleagues. This includes significant action taken to ensure that our loyal borrowing members were not at risk of losing their home because of COVID-19. Businesses and households must now consider what will be a dramatically different outlook than before the pandemic struck. Monmouthshire Building Society remains committed to supporting its colleagues, members and communities through the crisis. While it is essential that the impact of the pandemic is managed in the short-term, by maintaining focus on the long-term the Board will seek to ensure that the Society will continue to grow and prosper into the future, providing long-term sustainability.

During the year, we have delivered further improvements to our business in a period characterised by economic and political uncertainty, which had started to ease following the general election in December 2019 and the clear Conservative majority that was delivered. This was followed by the UK officially ceasing its EU membership and entering the transitional arrangements period on 31st January 2020. In March 2020 however, the coronavirus pandemic struck in the UK. Latest economic predictions are wide and varied. However, all predict a significant contraction of the UK and global economies, followed by recovery in 2021 onwards. The length of the recovery is dependent upon the length of current lockdown restrictions. Fiscal and monetary stimulus that has been enacted by the Treasury and Bank of England is designed to support any recovery activity.

Despite the macroeconomic downturn caused by the coronavirus pandemic, the Society's position remains robust, reflecting the Society's strong balance sheet and capital position built up over many years. The Board retains the view that the Society remains a relevant, viable, standalone institution for the duration of the strategic planning period and beyond.

As would be expected, the Society's annual results have been adversely affected by the pandemic. However, in the first eleven months of the year mortgage lending performance was strong, exceeding market levels of growth as our focus on providing excellent value to our borrowing and savings members continued. Total mortgage loans outstanding increased by 10% in the year, the Society exceeding the milestone of £1 billion mortgage assets in the period. A net retail funding inflow of £108 million was deposited at the Society in the year, reflecting the value, range and competitiveness of the savings products the Society has on offer. This has contributed to a growth in total assets of 12% for the year. Underlying profitability for the year showed a reduction on the prior year. This is the result of margin squeeze in a competitive environment combined with increased charges resulting from the cost of the pandemic, partially offset by lower administrative costs and the absence of impairment charges in relation to the head office building as experienced in the prior year. Reductions in net interest margin arising from the highly competitive, low interest rate environment in which the Society operates were offset by management of the Society's administration costs, as the strategy of gaining efficiency through growth continued to gather momentum. A one-off increase in the Society's defined pension scheme liability arose following a legal review of the enactment of prior changes to the rules of the scheme. This review was instigated by the Society as part of the closure of the scheme to future accrual for the remaining members. This has not impacted the current year profitability, but has reduced the Society's capital surplus, without impacting upon the long-term sustainability of the organisation. This relates to prior periods so has been adjusted in the 2018/19 opening balance sheet as disclosed in note 21.

Our current strategy addresses the key strategic risks to the Society of long-term sustainability and risk of obsolescence. Our healthy balance sheet and strong capital position provides the Society with the opportunity to grow and prosper into the future. However, the pace of asset growth will slow significantly

Chair's Review (cont)

when compared to previous forecasts until a return to a more normal operating environment is evident.

We continue to develop our One Team Culture, with a focus on diversity and inclusion and improving employee engagement. This enables us to deliver our strategy successfully. 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.

Investment in infrastructure continues, which is seen as critical to the long-term success and relevance of the Society. Investment to date allowed the Society to respond swiftly and effectively to the lockdown from the COVID-19 outbreak and the Society remained resilient and able to continue to serve the needs of members during this time. In last year's annual report we spoke about the decision to move from our existing Head Office premises in Newport to a new premises within the city, more conducive to modern ways of working. This move is currently on hold. The changes to all aspects of the way in which we live following the coronavirus outbreak has led to the requirement to review the Society's strategy. While we must monitor potential downsides of the crisis carefully, there is the potential for opportunities to arise from the current situation which could benefit the Society in both its internal and external environments.

The response to the coronavirus pandemic by all, at a time of great uncertainty and vulnerability in all colleagues' personal and professional lives, highlights the culture and core values of our organisation. I would like to record my thanks to the Board, the management team and all colleagues at the Society for their continued commitment, enthusiasm and dedication in ensuring Monmouthshire Building Society remains successful. I would also like to say thank you to you, our members for your support, understanding and patience at this difficult time.

D R Lewis

Debra Lewis
Chair

24th July 2020

Chief Executive's Report

In March 2020, the world as we know it came to a standstill as the coronavirus pandemic took hold in the UK. We are now operating in the most challenging environment for generations, as the requirement for a fundamental shift in our normal behavior has been necessary to protect the country from a continuing health crisis. As a result, business confidence levels have fallen significantly since the start of 2020 when the December 2019 election of a majority government had started to reduce political uncertainty, despite the challenges remaining over the UK's future relationship with Europe. Until the pandemic becomes more controlled, the vital measures that persist to protect our health will continue to give rise to economic stress and uncertainty. This will impact the short-term performance of the Society, but we will focus on delivering our planned strategic initiatives in order to emerge from the crisis fitter, stronger and ready to continue to provide the excellent service to which new and existing members have become accustomed.

The coronavirus pandemic is undoubtedly the key focus of reporting at the present time, but when we look back at the financial year, I am pleased to report that Monmouthshire Building Society continued to evolve in line with its strategy. Our clearly outlined plans of mortgage growth through a period of investment in people, processes and infrastructure continued to prove robust. This was despite the political uncertainty in existence prior to the December 2019 election, intense competition for lending and low funding costs that remain prevalent in the low interest rate environment in which the Society operates. However, with the foundations now in place, the Society has continued to grow into its cost base, fulfilling our purpose of helping members, communities and colleagues to thrive.

An Uncertain Economic Outlook

The pandemic has led us into unprecedented times. Businesses are preparing for a range of scenarios and continuing change for several years into the future. This report is written while the country is slowly easing out of lockdown, as different countries within the UK move at a different pace. Without clear information about how restrictions will be eased, it is very difficult to anticipate the level of recovery of the UK and global economies. The behaviour of individuals following the lockdown will also impact how the economy recovers. Social distancing measures may lead to a continued strain on those businesses and industries offering consumer experiences, with consumers reluctant to travel and socialise in the same way. We could see a very different economy in the future.

Government intervention has been wide and varied, providing support for individuals, businesses, self-employed and charities in order to protect the economy. This has been backed by monetary policy with intervention by the Bank of England already amounting to an additional £300 billion of quantitative easing, coupled with reductions in the bank rate in March 2020 from 0.75% to 0.25% and subsequently to 0.10%, a historical low. If the crisis persists for longer than anticipated, then the levels of intervention will continue to rise, leading to the potential for negative interest rates in the UK, higher levels of public spending and debt for a longer period. This debt will have to be repaid in future, which could lead to a further period of increased borrowing or higher taxes as the economy recovers to pre-crisis levels.

The full impact of the pandemic on the housing market and consequently house prices remains unknown. Within the UK, the lockdown caused the property market to grind to a halt. People were unable to move to a new house, viewings and physical valuations could not be performed and estate agents had to suspend operations. While such restrictions have now been eased and the market has reopened, some social distancing measures remain in place. Restrictions on people's ability to move and work will present obstacles to housing delivery. Inevitably this means there will be a fall in both the construction of new houses and new build sales during 2020. The pace of recovery depends on the state of the wider economy. If households whose incomes remain stable and secure can take advantage of historically low interest rates, this should support a return to stronger levels of price growth in the medium term. Conversely, Brexit uncertainty may act as a drag on consumer and business confidence and dampen any recovery in house prices and transaction levels.

Increased Mortgage Book Growth

The Society achieved strong mortgage book growth during the year, with £92 million (2019: £92 million) of net lending, falling marginally short of the budget for the year following the shutdown of the housing market in

Chief Executive's Report (cont)

April 2020. At the year end, the Society's total mortgage assets had grown by 10% to £1,027 million (2019: £935 million), whilst our net interest margin fell to 1.10% (2019: 1.39%). This planned, significant increase in mortgage lending reflects the impact of the investment in the Society's operating infrastructure and passing £1 billion mortgage assets represents another important milestone for the Society. Gross new mortgage lending was £252 million (2019: £233 million). Strong performance on mortgage retentions supported new loan origination, with 67% 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 £138 million, £20 million higher than the £118 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 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. However, the change in macroeconomic environment has led to a change in circumstances for many borrowers and loan loss provisions have been revised to reflect the potential losses that could be incurred in the coming years. At the year-end, provisions were assessed as £1 million (2019: £0.5 million), a charge of £0.7 million (2019: £0.2 million) for the year. The increase in provisions in the current year was driven by the COVID-19 pandemic, with approximately £250k relating to a post model adjustment to the collective provision to account for losses and £200k against specific balances. Further detail on provisions is contained in note 11 to the financial statements.

The Society has sought to ensure that people are at less risk of losing their home because of coronavirus. Following an announcement by the Government in March on the granting of payment holidays to borrowers affected by the coronavirus outbreak, the Society responded at pace to develop an online proposition for customers to request payment holidays. It has allowed both residential and buy to let customers to self-certify that they are incurring or expect to incur payment difficulties and apply for forbearance where they have been adversely affected by the coronavirus outbreak. However, in order to ensure the forbearance applied is the most appropriate for each borrower, the Society gives information and choice relating to moving to temporary interest only and reduced payments. At the year-end 863 borrowers with a value of £124 million had requested payment holidays as a result of the pandemic, representing 12% of our mortgage book.

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. Member feedback highlights our success in delivering value and service to our members with 96% members surveyed saying that they would use the Society again and 94% stating that they would recommend the Society to family and friends.

The Society continued to manage its liquidity to support lending and increase its balance sheet. Liquidity increased to 23.8% of shares and deposit liabilities from 20.7% in 2019.

We remain predominantly retail funded and our future strategy will ensure that this remains the case. Our growth in assets has been through maintaining competitive savings rates for our loyal investing members. Retail funding and deposits inflow was £108 million for the year with strong performance across the investment product range. The Society's refreshed brand and 150th birthday year in 2019 presented an opportunity to build loyalty products for members. A number of products were introduced for our existing members, including the Celebration Regular Saver Bond and our 150th Birthday Bonds, sold for limited periods across each branch. These were extremely well received.

The Society still plans 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 and increase existing member loyalty and brand awareness.

We are fully committed to delivering on our 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 712 first-time buyers onto the property ladder in the current financial year. Our performance in this area was recognised by Moneyfacts at its prestigious industry 2020 awards ceremony. The Society won the awards of Best First-Time Buyer Mortgage Provider and Best Service from a Mortgage Provider, a direct reflection of the success in achieving our strategic goals and the way in which our values shine through in everything that we do.

Investing in our Infrastructure

The Society's commitment to maintaining a presence on the high street remains 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 redesign and development of our flagship Newport City branch in August 2019 has provided both colleagues and members with a vibrant, modern, accessible branch where our members can conduct business. The space was also utilised to provide a meeting suite for colleagues and visitors to the Society. The Society completed its branch move in Risca during the year, moving to a better new location in the town and maintained a physical presence in the town of Usk; our existing branch was replaced by a new Agency operation opened in March 2020. We are excited at the prospect of opening our new Cardiff City branch. Premises have been secured on Queen Street in Cardiff and we aim to be operational at the premises in early 2021. Other branch locations are currently being considered and we hope to announce further investment in our region during the current financial year.

Technology is central to much of what the Society delivers, its interactions with members and management of its products. There have been continued enhancements to the Society's core platform delivered by Mutual Vision. In addition, through the introduction of online rate switch portals, members can now securely log in via the Society's website and at the end of the current promotional period can, in just a few clicks, switch to a new mortgage or savings product that's right for them.

Focus has also been maintained on enhancing operational and technical resilience. This became critical as the coronavirus pandemic struck and remote working became a priority. In line with the Society's 'cloud first' principle outlined in the IT strategy, cloud technologies have been implemented and existing on-premises applications transferred to its cloud-based counterpart. In addition to planned delivery, actions for future years have been brought forward to ensure that the Society's systems continue to operate and enable safe and secure remote access, protecting our colleagues and members. Combining this with robust governance, appropriate training, insurances and incident retainers, plus recruitment of critical roles, we have ensured that the Society is appropriately safeguarded against IT risks, enabling first response to COVID.

Investing in our People

Our colleagues are key to the successful execution and implementation of our strategy. In recent years an organisational structure has been developed that supports delivery of the overall strategic plan, with changes requiring both the recruitment of additional skilled people and the upskilling of existing colleagues. Continued enhancements to colleague reward and performance management have been delivered with positive results. A strong focus on learning and development and colleague engagement has led to an environment where a one team culture encouraging innovation and challenge supports the Society's ability and agility to deliver its strategic initiatives.

Throughout the COVID-19 crisis, our colleagues have kept the members at the heart of everything we do. They have shown tremendous strength and courage to ensure our Society continues to operate in line with our values. In May, we launched the 'In Touch' campaign to support any of our members who might be struggling, including calling our members, starting with the most vulnerable to check on their health and wellbeing and setting up a phone line for any members who may be feeling isolated or lonely. This campaign has been extremely well received by our members.

Chief Executive's Report (cont)

Strong Capital Position

We have recorded an underlying profit before tax for the year of £0.2 million (2019: £1.1 million) and a statutory loss before tax of £1.2 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 before tax when compared with the prior year is a result of three key factors. Firstly, as experienced by the whole financial services industry, the coronavirus pandemic has led to an increase in the Society's loan provision costs. An increased charge of £450k has been made against potential losses following the large volume of payment holidays issued to members whose income has been directly affected by the pandemic. Calculating a provision while still operating amidst such uncertainty in the market requires the exercise of judgement, as there is no precedence on the levels of mortgage defaults that will arise following the pandemic. However, the charge is based upon analysis undertaken on the Society's loan portfolio and different levels of stress that may arise. Secondly, for the majority of the year competition in the mortgage market remained unprecedentedly high, with retail banks dominating the low loan to value mortgage market pushing more financial institutions into more niche areas of lending to support margins. This has reduced interest receivable, which in turn has squeezed margin. Lastly, the fair value loss recorded on our derivative instruments in the current year exceeded the prior year by £1.3 million, which is a result of economic conditions and a declining swap curve. These three factors combined are partially offset by savings in administrative costs £0.5 million and a 2019 impairment charge of £0.8 million relating to the head office building

The Society's cost income ratio increased to 103.83% from 90.26% in the prior year. This was predominantly because of the fair value loss during the year and the lower net interest income receivable. Gains or losses arising from fair value movements are timing differences which do not affect underlying cash flows. Cost income ratios are budgeted to reduce going forward. This is because significant amounts have been invested in the Society's infrastructure before the benefits of the investment can be seen. In the current year, it was pleasing to note that the Society has started to grow into its cost basis with the Society's management expense ratio falling to 1.02% mean assets from 1.17% in the prior year.

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 13.81% (2019 restated: 15.77%), and our leverage ratio which looks at our mean reserves against our mean assets is 5.35% (2019 adjusted: 5.90%). These ratios have been impacted by a prior period adjustment relating to a pension scheme issue whereby the service cost was understated over the period of the issue (since 1994). Given that the impact of the issue occurred in prior accounting periods, reserves brought forward at 30th April 2019 have reduced by £1,020k. The details of this adjustment are set out in **note 21**.

Community

As a long established mutual organisation, the Society remains committed to support the local communities in which it operates. This year the Society has enhanced that commitment once again, through increased investment, colleague volunteering and region wide sponsorship of events such as the Newport Marathon, 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 £12,033 for Shelter Cymru, our chosen charity of the year, which provides support to those people in housing need by providing free, independent, expert housing advice and campaigns to overcome the barriers which stand in the way of people in Wales having a decent, secure home. It has been agreed that Shelter Cymru will remain our charity of the year for the next financial year. The Society's independent Charitable Foundation continues its aim of support for our local communities, awarding £35,696 to 30 great causes during the year.

Future Outlook

At present, it is very difficult to look forward at the path of the UK economy. The key discussion surrounds the length of the current lockdown and the subsequent length of recovery and whether that takes the form of a 'V', 'U', or 'L' shaped pattern. The Board is managing the day to day challenges presented by the coronavirus pandemic whilst continuing to focus on the longer term and move forward on delivery of key strategic initiatives to ensure future sustainability of the Society. Future levels of growth will be curtailed in the short-term, however, dependent upon the length of the lockdown, the Board will review and adjust its strategy accordingly.

Despite the current uncertain economic environment, our committed workforce, sustainable business model and continued investment in infrastructure, as previously outlined, means there is light at the end of the tunnel. Our committed colleagues will continue to strive to deliver the best service for current members and generations to come. The Society is well placed to grow and emerge from the crisis, ensuring future sustainability and success.

William Carroll
Chief Executive
24th July 2020

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
- 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 achieving long-term sustainable growth and its vision of becoming the modern mutual, underpinned by several key, member led, strategic priorities and initiatives. Due to COVID-19, the annual update of our strategic plan has been deferred until later this year, given that the economic impact of COVID-19 will be more predictable to enable better informed strategic decisions.

Over the last three-years significant successes have already been achieved as the Society has invested in its people, processes and infrastructure. This has driven strong levels of mortgage growth.

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

- o Moving to the Extended Approach to Treasury Risk Management
- o Organisational redesign of the first and second lines including the establishment of Business Change, Continuous Improvement, and Business Intelligence
- o Enhanced Operational and Technical Resilience
- Improvements to culture and colleague engagement

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 three-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, residential development loans, members requiring lending into later life and buy-to-let products, including holiday-let and portfolio mortgage products
- Focus on delivering the highest quality service to our members and intermediaries; and
- Continue to minimize the level of redemptions

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

Strategic Report (cont)

and beyond. This will be reviewed following a return to normal activities after the current lockdown, as the need for city centre square footage reduces and remote working becomes a more viable alternative.

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 47**.

Debra Lewis
Chair
24th July 2020

Directors' Report

Non-Executive Directors

Debra Lewis
Chair

Debra Lewis

Debra joined the Board in 2014 as a non-executive director and became Society Chair in April 2018. She is the Chair of the Nominations Committee. On 1st May 2020 she became a member of the Remuneration 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. Tony is Chairman of the Audit Committee and 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, Chairman of the Finance & Resources Committee and Member of the Remuneration Committee; at the Welsh Assembly Commission as Independent Adviser and Chairman of the Remuneration Committee; and also at Geldards Law Firm as Chairman of the Audit Committee and as an independent adviser as well as being a non-executive director of Power Poles Ltd.

Skills and Experience
Tony is a Fellow of the Institute of Chartered Accountants. He brings to the Board substantial experience in accountancy and audit matters.

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.

Directors' Report (cont)

Nina Hingorani-Crain

Senior Independent Director

Nina Hingorani-Crain

Nina was 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 has recently taken up a new role with the National Residential Landlords Association (NRLA).

Nina holds an LLB (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 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 was Chair of the Remuneration Committee until 30th April 2020. He is a member of the Remuneration and Risk Committees.

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. 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.

Outside of work, he is a keen golfer and runner having completed both the London and Brighton marathons.

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 LloydsTSB, 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 as an Executive Director, prior to taking up his current role. 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. 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. He is also a Fellow of the International Compliance Association, and the Chartered Institute for Securities & Investment. Trevor also holds the FT Advanced NED Diploma.

Outside of work, he has a keen interest in football and walking and supports a number of charity fundraising endeavours.

Liz McKenzie
Non-Executive Director


Liz McKenzie

Liz joined the Board on 1st September 2018. During the year Liz was a member of the Remuneration Committee and the Risk Committee. On 1st May 2020 she became Chair of the Remuneration Committee, subject to approval from the Regulator.

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 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.

Liz is a mother of two teenagers, a music and travel fan, hill climber, occasional triathlete and gardener.

Executive Directors

William Carroll
Chief Executive Officer


William Carroll

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.

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 16 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. He holds a Master's 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.

Away from the office, Will lives in Neath with his wife and three children.

Iwan Jones
Finance Director


Iwan Jones

Iwan was appointed to the Board as Finance Director on 1st April 2018 and is responsible for the Financial Control, Middle Office and Treasury functions within the Society.

Career
Iwan started his career with Touche Ross (now Deloitte) and 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 Nat West.

Skills and experience
Iwan has 29 years' experience within Risk and Finance. He is a member of the Institute of Chartered Accountants in England & Wales. Iwan contributes considerable broad-based experience in financial management to the Society 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 February 2018. Dawn is responsible for Operations and Distribution within the Society.

Career
Before joining the Society, she 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 also spent 11 years with the Principality Building Society in various roles including the Head of Direct Channels. She has worked in Legal & General's mortgage division and Bank of Wales Plc.

Skills and experience
Dawn contributes to the Society, 30 years' experience within financial services, a wide breadth of knowledge across all operational functions and distribution channels with success delivering both a direct to consumer and business to business sales and service proposition and most recently, building an outsourced sales and service business.

In her spare time Dawn enjoys reading, skiing and European travel.

Directors' Report

In Respect of Accounting Records and Internal Controls

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

- Keep adequate accounting records in accordance with the Companies Act 2006 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

KPMG were appointed as the Society's external auditor commencing 1st May 2018.

During the year a competitive tender process was undertaken. Following that process, the Audit Committee recommended to the Board that BDO LLP be appointed as our new auditors for the year ending 30th April 2021. A resolution to appoint BDO LLP as auditors will be put to members at the Annual General Meeting.

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. The capital ratio at 30th April 2020 was 13.81%.

Mortgage Arrears

At 30th April 2020 there were 139 mortgage loans (2019: 71) one month or more in arrears, with total amounts outstanding of £17,076k and 8 mortgage loans (2019: 5) with outstanding payments twelve months or more in arrears, with total amounts outstanding of £1,714k. Those payment holidays granted under the government scheme have not been treated as arrears in line with Government guidelines.

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 9 - 11**.

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 47**.

Political Donations and Gifts

The Society has not made any political gifts or donations in the year to 30th April 2020.

Charitable Donations

A total of over £12,000 was raised for Shelter Cymru, our chosen charity of the year, which provides help and support to the many people in our nation who are facing the trauma of homelessness. The Society's independent Charitable Foundation continues its aim of support for our local communities, awarding £35,696 to 30 great causes during the year.

Financial Instruments

The Society's use of financial instruments is contained in the Society's Accounting Policy Section on **pages 69-70**.

Long Term Viability 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 tests ensure 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.

The coronavirus pandemic has caused 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 those 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 12-16**. In accordance with best corporate governance practice, William Carroll, Trevor Barratt and Tony Morgan are retiring at the Annual General Meeting all three, being eligible, offer themselves for re-election.

Signed on behalf of the Board

Debra Lewis
Chair
24th July 2020

Corporate Governance Report

This Corporate Governance Report sets out the Society's approach to governance in practice and how decisions are made to promote the long-term success of the Society for the benefit of its stakeholders.

The Society is not required to fully comply with the UK Corporate Governance Code (the Code), however the Board pays due regard to it when establishing and reviewing the Society's own corporate and governance arrangements. This report explains to our 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 you, our 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 focus in the Code on Board's promoting long-term sustainable success supports the Society's mutual ethos.

The Board and its Members

The Society is led by a Board comprising an independent non-executive Chair, five other independent non-executive Directors and three executive Directors. The Board is collectively responsible for promoting the long-term sustainable success of the Society, generating value for members and contributing to wider 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 Chair and Chief Executive are held by different people and are set out in writing. Additionally, both those roles and certain other roles in the Society, have prescribed responsibilities under the Senior Managers and Certification Regime. There is a majority of independent non-executive Directors on the Board such that no one individual or small group of individuals dominates the Board's decision-making.

The Board ensures that the necessary resources are in place for the Society to meet its objectives and measure performance against them. The Board has established a framework of prudent and effective controls, which enable risk to be assessed and managed. More information on this framework can be found within the Risk Committee Report on **page 40**.

In order for the Society to meet its responsibilities to members and stakeholders, the Board ensures effective engagement with, and encourages participation from, these parties. More information on stakeholder engagement can be found within the Corporate Governance Report on **page 23**.

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 key 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

Chair's Principal Responsibilities Debra Lewis

The Chair 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 Chair is responsible for promoting good governance and leading the development of the Society's culture. The

Chair holds meetings with the non-executive Directors without the executive Directors present. The role of Chair also includes:

- Retaining overall responsibility for the leadership of the Board and ensuring its effectiveness
- Leading the annual Board evaluation, with support from the senior independent director as appropriate, and acting on the results
- Encouraging all Board members to engage in Board and Committee meetings by drawing on their skills, experience and knowledge
- Ensuring that Board composition and succession is regularly reviewed regarding skills and numbers
- Ensuring the Directors receive timely and relevant information and
- Overseeing 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

Non-Executive Directors' Principal Responsibilities Trevor Barratt, Nina Hingorani-Crain, Liz McKenzie, Tony Morgan, Roger Turner and Debra Lewis

Non-executive Directors provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. All non-executive Directors have sufficient time to meet their Board responsibilities at the Society. Their principal responsibilities include:

- Appointing and removing executive Directors
- Scrutinising and holding to account the performance of management and individual executive Directors against agreed performance objectives
- 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

Chief Executive Officer William Carroll

- Responsible for the day to day running of the business
- Accountable to the Board for the performance of the Society
- In addition, other principal responsibilities, applicable to all Executive Directors' are listed below

Executive Directors' Principal Responsibilities Dawn Gunter, William Carroll and Iwan Jones

- Discharging their personal responsibilities under the Senior Managers and Certification Regime for the 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

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

Corporate Governance Report (cont)

other than the Committee Chair and members are entitled to be present at a meeting of the Committees but others may attend at the invitation of the Committee. The Chair 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 made available to all Directors unless it would be inappropriate to do so.

The work of the Board Committees are set out in their individual reports to members on **pages 33 to 44**.

In addition to the Board Committees there are three management Committees, which report into the Risk Committee (as illustrated on **page 53**), and the Executive Committee which supports the Chief Executive and comprises the three executive Directors, Chief Risk Officer and Head of People and Culture.

The Executive Committee

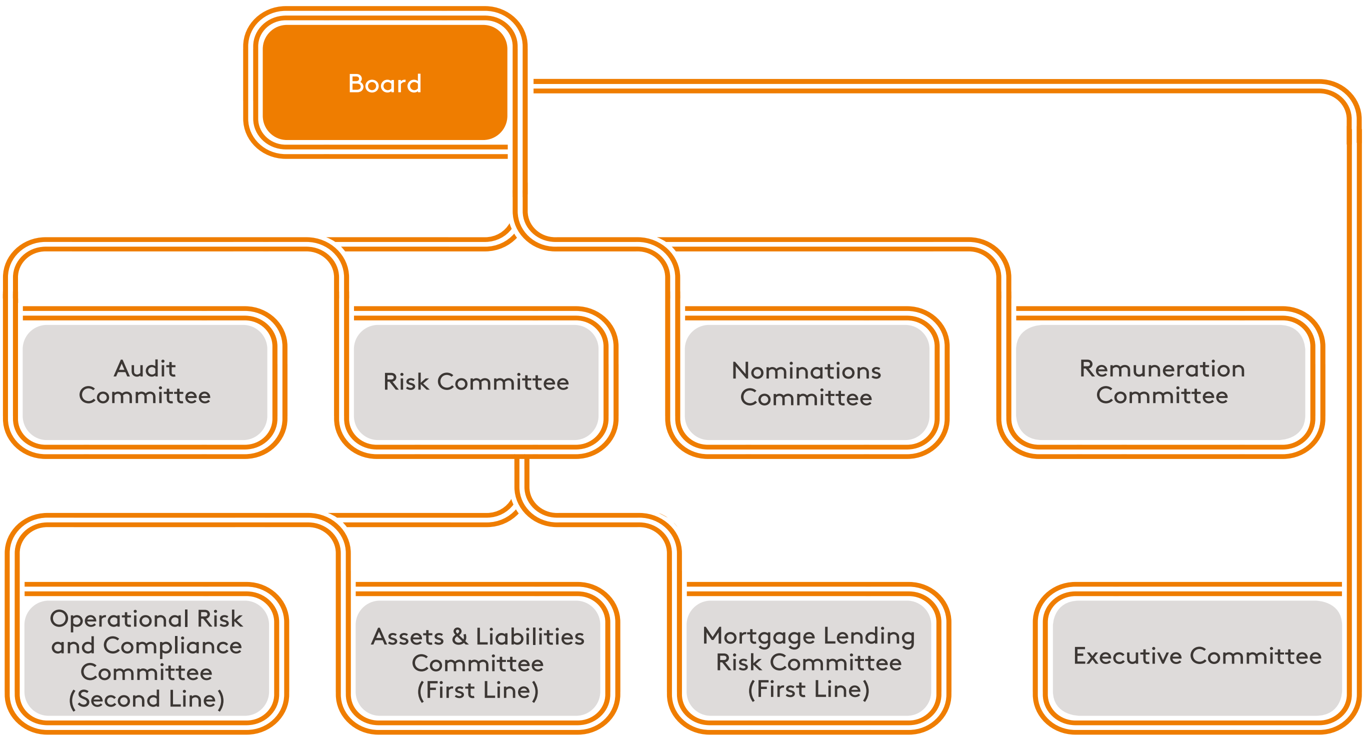
Responsibility for the day to day management of the business and the implementation of the strategies and policies agreed by the Board has been delegated to the Chief Executive who is supported by the executive team.

The Executive Team comprises William Carroll (Chief Executive), Dawn Gunter (Chief Operating Officer), Iwan Jones (Finance Director), David Mollison (Chief Risk Officer) 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.



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.

Engaging with Stakeholders

Section 172(1) statement

Monmouthshire Building Society is not governed by the Companies Act 2006 and section 172 on Directors' duties, however the Directors' duties under building society law are similar. As the Society has due regard to the Code it also considers the duties set out under section 172 of the Companies Act 2016 in so far as they are applicable to building societies. All references to the 'Company' have been replaced by the 'Society'.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Society for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- The likely consequences of any decision in the long-term
- The interests of colleagues
- The need to foster the Society's business relationships with suppliers, customers and others
- The impact of the Society's operations on the community and the environment
- The desirability of the Society maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the Society

The Chair ensures that decision making is supported and informed by the section 172 factors when the Board is discussing proposals. Guidance on writing Board Papers was provided by the Company Secretary to all those within the business who write Board and Committee papers. This guidance set out the 172 factors that need to be included within papers and presentations for discussion when the Board is considering proposals. The Board recognises that in considering a broad range of interests and balancing different perspectives it will not always be possible to deliver every stakeholder's preferred outcome.

The Board has identified its stakeholders and keeps these groups under regular review along with the engagement mechanisms in place for them. The Board recognises its role to promote the long-term sustainable success of the Society, generating value for members and contributing to wider society. During its 2019 strategy session the Board considered the Society's purpose, culture and values and the link to its long-term strategy. This is set out in the Strategic Report on **page 9**.

The Board engages with a number of the Society's stakeholders and this engagement is shown in the table on **page 23**. However, it is not possible for the Board to engage with every stakeholder group and where this is the case engagement takes place at an operational level with key themes reported to the Board.

Engagement in Action

As part of Board discussions the Board takes into account the interests and impact on its stakeholders. The following gives an example of where the Board has had regard to these factors at a strategic level.

- **The likely consequences of any decision in the long-term**
  The Society's strategy is for growth in order to ensure the long-term sustainable success of the Society rather than to maximise short-term profit. The Board has deliberated and approved investment in the Society's infrastructure, such as the provision of a current account, to ensure the Society remains relevant in the digital age and will be here to service future generations of members.

- **The interests of the Society's employees**
  The Board has been kept regularly informed of the proposed sale of the Society's Head Office building which is currently on hold due to the COVID-19 crisis. As part of these deliberations the Board has considered the impact on the interests of the Society's employees from an engagement and wellbeing perspective, following research undertaken by the Executive on employee preferences over the location of its Head Office premises.

  The Board has supported the move to dynamic working by employees as part of the COVID-19 stay at home measures and the need for colleagues to ensure appropriate social distancing in work locations. Colleagues have been able to work flexibly to promote wellbeing, diversity and inclusion. This has empowered colleagues to work in a way to support their lives outside of work and ensure they can support the business and remain flexible and agile to better serve our members.

- **The need to foster the Society's business relationships with suppliers, customers and others**
  The Board has discussed the Society's relationship as a major shareholder and customer of Mutual Vision Technologies (MVT), the software company that (continues on **page 24**)

Corporate Governance Report (cont)

Stakeholder Group	Engagement Methods
Workforce	• Monthly Executive Briefing • Employee forum • Employee survey with employee recognition and 'high fives' • Branch and agency visits, meetings with individual teams and departments in Head Office • Deep dives and presentations to the Board and its Committees • Internal communications through the colleague Hub including blogs and v-logs
Members (present and future)	• Annual General Meeting • Notice of Meeting • Annual Report and Accounts • Member research panel • Social Media including the website • Customer newsletter • Meeting members on branch visits or at other events • 'Ask the CEO' question and answers • Customer surveys and Complaints Procedure • Customer newsletters and member communications • Sponsorship and competitions
Communities	• Sponsorship of the Dragons Pro-14 rugby team • Sponsorship of other local causes and events • Awards through the Society's Charitable Foundation • Branch and Agency network • Community involvement and employee volunteering • Charitable Foundation and Charity of the year • Business class - the Society's initiative with local schools • Supporting local business, students and events • Social media and website
Intermediaries	• Intermediary portal • Mortgage Networks • Attendance at industry events • Broker forum and feedback
Suppliers	• Panel Management • Internal and External Audit Reports • Third Party Framework and Supplier Management Policy • Service level agreements • Supplier conferences and workshops
Regulatory Bodies	• Open dialogue with regular correspondence and meetings • Regulatory returns and reporting
Industry Bodies	• Attendance at seminars and events including the annual Building Societies Association (BSA) conference and UK Finance events • Responses to consultations • Industry meetings, roundtables, conferences and training sessions • Employee presentations at industry events
Financing (Money Market Brokers, Bank of England and Clearing Banks)	• Regular reporting, correspondence and communications • Treasury funding and counterparty limits • Due diligence and audits of data • Annual visits and questionnaires • Legal review • Broker/Bank relationship managers

provides the Society with its core banking software in order to implement its strategy and ensure enhanced governance arrangements at MVT. The intention is to allow the business to implement its strategy by becoming more commercially focused and attract new customers, investment and talent into the business. The Board has supported the Chief Executive Officer in his role as a director on the Board of MVT to implement the revised governance structure and support the implementation of a new management team. The Society's Chief Executive will stand down from the Board of MVT later in 2020, once the new governance arrangements are fully established.

In response to feedback from specialist mortgage brokers the Board approved the development of residential development finance products. The feedback helped shape our propositions and gave valuable insight into the development of this new product for the Society.

- **The impact of the Society's operations on the community and the environment**
  The Society has joined the Green Finance Institute's Coalition for Energy Efficiency of Buildings. The Society is also working with the Royal Institute of Chartered Surveyors, Rightmove and Sero Homes to develop innovative mortgage products that will support energy efficiency in the housing market. The Board is keen to support a new approach to affordability for carbon neutral homes, supporting not only the climate, but making it possible for members to afford these homes. The lower energy costs of energy neutral homes are reflected through mortgage affordability calculators.

  The Society supports its communities and a number of local charities through its Charitable Foundation. In addition to a number of smaller donations within the region, during the year the Charitable Foundation donated £18,000 to provide every Primary School in Monmouthshire with an educational programme around sustainability and the environment. The programme is provided by social enterprise Bee1, and includes a beehive and beekeeper assigned to the school for educational visits, lesson plans and materials for teachers, and wildflower seeds for the children to plant. Bee1 specialise in Corporate Social Responsibility, focusing on environmental, biodiversity, education, community, health and well-being. Bee1 and colleagues from our branches are visiting the schools who have signed up to the programme. They will provide an overview of what the children can expect to learn by taking part in this incredible programme, presenting their dedicated hive and information about the life cycle of a bee. In addition, a Charity of the Year is chosen by Society colleagues in which Society colleagues participate in fundraising activities. In the current year, the chosen charity was Shelter Cymru and over £12,000 was raised for the Charity.

  The Society is working in partnership with Chepstow High School to promote financial education for young people. Our IT department is supporting the University of South Wales with their Cyber Security degree programme. The Society will host students so that they can experience cyber security in a real working environment as part of their Compliance and Governance module.

- **The need for the Society to maintain a reputation for high standards of business conduct**
  During the COVID-19 outbreak the Board oversaw various initiatives which ensured the Society maintained a reputation for high standards of business conduct. Some examples include:
  The Society's retention campaign to offer members flexibility in uncertain times during COVID-19 with products that offer cash back, no switching fees and no early redemption fees. For every member who chooses to switch to one of our flexible retention products, a cash donation is made to Shelter, supporting those less fortunate with no homes of their own.

  The Society continues to offer loyalty products with celebration regular saver rates at 4% and only available to existing Members. We also flexed our Terms and Conditions during the COVID-19 lockdown to continue to pay the annual bonus even where a member had missed a monthly deposit as a result of being unable to visit a branch.

  The 'in-touch' branch and agency campaign operated during the COVID-19 pandemic, helped our most vulnerable customers with personal well-being calls.

Corporate Governance Report (cont)

- **The need to act fairly between members of the Society**
  The Board continues to pursue a member led strategy and 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 members, including lending into retirement and offerings to vulnerable customers with the aim of making the Lending Policy clearer and improving the customer experience.

  The Board has discussed the Society's digital and retention strategy following member feedback on the old paper-based processes to deliver an improved member experience online. In March 2020, the Society launched a portal enabling mortgage customers coming to the end of their deal to switch their rate online. Members will receive their maturity notification letters as normal, and will continue to be able to return instructions in the post as well as getting in touch with our Mortgage Adviser team. The portal delivers on the Society's strategic goal of providing members a greater channel of choice. Following on from the success of the mortgage portal, we have launched a savings portal that will allow members to re-invest with the Society with greater ease. Similar to the mortgage portal, members will be able to securely log in upon receipt of their postal instructions and either fully re-invest or fully withdraw funds. Savings members will continue to be able to benefit from the services currently offered in branches and agencies and Savings and Customer Contact will continue to process postal instructions. These initiatives allow the Society to stand out amongst competitors with our modern, customer-focused and technology-driven approach. The portals also encourage business retention by reducing customer effort and provides support to members during this unprecedented time of COVID-19 by providing an alternative channel through which to communicate with the Society.

Culture

The Board recognises that good governance is more than rules, regulations and frameworks and the people on the Board. It extends to embedding the right culture, values and ethics within the Society. The Board considers purpose, values and culture when setting strategy.

In 2019 the Board agreed the Society's purpose of 'helping members, communities and colleagues to thrive'. This purpose is supported by the Society's values and strategy. The Board has considered the aspirational culture for the Society and is focused on setting the right tone from the top. All Directors are expected to act with integrity, lead by example and promote the Society's culture.

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 assesses and monitors culture through these updates and regular reports from colleague surveys, executive reports, HR, Risk & Compliance, Internal and External Audit, conduct matters and quality assurance reviews that include information to assist the Board in monitoring the culture within the Society.

Commentary on culture is set out in the Chair's statement.

Workforce Engagement

Understanding the View of the Workforce

The Board ensures the views and concerns of colleagues are taken into account by the Directors, particularly when they are making decisions that could affect colleagues.

Nina Hingorani-Crain is the Senior Independent Director and will 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. Nina is the designated non-executive director for Board engagement with the workforce. A working group comprised of the Chief Executive, the Head of People and Culture and the Company Secretary meet regularly to support the Senior Independent Director in her role to:

- Understand the concerns of the workforce and other stakeholders
- Articulate those views and concerns in Board meetings
- Ensure 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

- Provide feedback to the workforce on Board plans

During the year an employee forum was established comprising colleagues from different areas of the business. The purpose of the Society's Colleague Forum is to provide a two-way communication process, involving and engaging colleagues across the Society to seek feedback and ideas on a wide range of Society activities and for this to be shared with the Executive team, Senior Management and the Board. The forum enables colleagues to contribute to the success of the business.

The forum offers management the opportunity to consult over business related issues and gain commitment to change. The colleague forum acts as a communication platform for all colleagues, enabling them to voice their ideas as well as their concerns.

The forum helps strengthen the links with the Board and two-way communication with Board members.

The Board continues to engage with colleagues through a number of other mechanisms. These include Executive briefing sessions where colleagues can submit questions in advance or at the meeting, the Employee Opinion Survey (supported by interim 'pulse' checks) and 'skip level' meetings where the Executive meet with the layer of people below their own direct reports. A number of the non-executive Directors have met with various teams within the business and visited branches to speak with colleagues first hand.

During the year the Board received updates on various colleague related matters. As part of the Board's decision making process it considers the impact of these proposals on the workforce. Examples of the Board's consideration of the workforce from the year include the proposed sale and relocation of Head Office, performance related pay, the funding of the Defined Contribution Pension Scheme and the closure of the Defined Benefit Pension Scheme to new accrual and the impact of technology and automation of processes.

Engaging with the Workforce

Colleagues have been supported to work remotely and dynamically, in particular through the COVID-19 outbreak, to promote colleague engagement. Investment has been made in the Society's infrastructure to improve colleague working environments and the tools and resources needed to enable them to do their roles more effectively. This investment included enhanced IT for colleagues and collaboration tools to make it easier for colleagues to work together as One Team. Internal seminars on personal resilience and positivity have been held to support mental health and colleague wellbeing. Workshops have also been held on other topics such as gender diversity, as part of International Women's Day, and the Society has a programme of activity planned to support diversity and inclusion in its other facets, including LGBT and religion.

An Employee Assistance Programme is available to colleagues which offers a free and confidential way to resolve issues and provide personal support 24 hours a day 365 days a year.

The Board also makes sure it regularly keeps all colleagues up to date on the strategy, performance and progress of the Society through a combination of Executive-led briefings, and digital communication, including blogs, vlogs and internal communications. The Chief Executive also engages directly with colleagues via the Society's intranet on topics of interest and receives comments and views directly back from the workforce.

Workforce Policies and Practices

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 is the Society's whistleblowing champion supported by David Mollison, the Chief Risk Officer and Lucy Burgess, the Head of People and Culture. This forms part of the Society's 'Speak Up' arrangements.

Board Authority

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

Corporate Governance Report (cont)

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 removal of the Company Secretary and Chief Risk Officer is a matter for the whole Board. 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.

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. The Board has had regular updates on the enhancement of the Society's IT infrastructure and information security.

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 governance, risk and the control environment.

The Board continues to focus on strengthening the control environment through the Enterprise Risk Management Framework and being kept regularly appraised of regulatory changes, developments and emerging risk themes through regular horizon scanning activity. The Board has put in place processes for the robust assessment of emerging risks which are explained on **page 61**.

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.

The Board's Focus during the Year

During the year additional areas of focus for the Board included:

- The expansion of sources of retail funding to include savings platforms
- The creation of a current account to support future generations of members in the digital age
- The sale or refurbishment of Head Office
- The launch of Retirement Interest Only mortgages to support borrowing members in retirement
- Closure of the Society's defined benefit pension scheme to new accrual
- The restructure of the management team and governance arrangements for Mutual Vision Technologies
- The transition from LIBOR (London Inter-Bank Offered Rate) to SONIA (sterling overnight risk free reference rate)
- The impact of Brexit
- The development of digital technology to support business processes
- Green home finance working with partners in order to develop industry changing products supporting energy efficient properties
- Managing the impact of COVID-19 on the Society's operations and strategy

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. The Board also reflect on emerging risks and opportunities.

Independence of Non-Executive Directors

The Board considers that all its non-executive Directors, including the Chair, 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. No Directors joined the Board during the year. Liz McKenzie was the last non-executive Director to join the Board in 2018 and her 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 including the Senior Managers and Certification Regime
- Risk and Compliance
- The Risk Committee structure and remit

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 Chair with each Director and relevant requirements as they arise. Non-executive Directors provide the Chair 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:

- IT and Cyber Security
- IT and Operational Resilience
- Mutual Vision Strategic Updates
- Finance and Treasury including key responsibilities, policy documents and measures
- Regulatory and Statutory reporting including the impact of climate change on capital, Brexit planning and the LIBOR transition

The training was delivered by 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 are able to complete a programme of online compliance training which covers topics such as conduct risk, data protection, money laundering, cybercrime and fighting financial crime. 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 Regulator and must be approved by them in order to hold a Senior Management Function. The Code recommends that Directors stand for re-election annually. The Society will continue to comply with the Society Rules which require that all Directors submit themselves for election by the Society's members at the first opportunity after

Corporate Governance Report (cont)

appointment and for re-election every three-years, subject to continued satisfactory performance. The Board agreed that due to the uncertain environment they would not move to annual re-election. Following individual director performance evaluations, the Chair 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. Prior to appointment, significant commitments are disclosed with an indication of the time involved. Additional external appointments cannot be undertaken without prior approval of the Board. No significant appointments have been entered into by any Directors during the course of the year.

The performance of the non-executive Directors is evaluated by the Chair 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 Chair is separately assessed by the Directors and co-ordinated by the Senior Independent Director. The Chair acts on the results of the evaluation by recognising the strengths and addressing any weaknesses of the Board. Each director engages with the process and takes appropriate action where development needs have been identified.

The Board, supported by the Secretary, ensures they have access to policies, processes, information, time and resources they need in order to function effectively and efficiently. Through the Secretary and Chief Executive, the Chair 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 Chair 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.

There is a formal and rigorous annual evaluation of the performance of the Board, its Committees, the Chair and individual Directors. Every three-years the Board evaluation is externally facilitated. Evaluation of the Board considers the balance of skills, experience, independence and knowledge of the Society on the Board, its composition, diversity and how effectively members work together to achieve objectives, and other factors relevant to its effectiveness.

The Chair 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. Each director engages with the process and takes appropriate action where development needs have been identified.

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 2020 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.

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 30th 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. The next external review will be undertaken by 30th April 2021.

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 internal and external evaluations as well as assessing the Society's compliance with the requirements of the 2018 Code.

The main recommendations and actions from this year's review include:

- More forward looking reporting in particular in relation to credit risk
- Greater focus on stakeholders other than members and colleagues at Board level
- Additional time at Board meetings to discuss future challenges and opportunities
- Consideration to be given to communicating the aspirational culture of the Society within the organisation

Board Reporting and Attendance

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

In meeting the requirements of the Code the Board receives regular reports from the Audit Committee, which met nine times in the year, overseeing the work of both internal and external auditors. The Risk Committee met six times in the year. 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.

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 Chair 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.

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.

The Board meets regularly and holds an annual strategy meeting to review the Society's strategic options in the context of the economic, regulatory and competitive environment. Whilst originally scheduled for March 2020, the decision was made to defer this in light of the COVID-19 outbreak. The Board could not physically meet to discuss the strategy due to the social distancing measures introduced by the Government whilst the impact of COVID-19 was so far ranging the effects would be felt across the external economic, regulatory and competitive market. Therefore, under such unprecedented circumstances, the Board agreed to postpone the strategy meeting.

Corporate Governance Report (cont)

Board Committee Membership During the Year

	Risk	Audit	Remuneration	Nomination
Debra Lewis (Chair)*				Chair
Tony Morgan		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 Chair makes sure that any views are passed on and are heard in the meeting. Attendance at Board and Committee meetings for the year to 30th April 2020 has been recorded as follows:

	Board	Risk	Audit	Remuneration	Nomination
Trevor Barratt	12 (12)	6 (6)	9 (9)		
William Carroll	12 (12)				2 (2)
Dawn Gunter	12 (12)				
Nina Hingorani-Crain	11 (12)		8 (9)		2 (2)
Iwan Jones	11 (12)				
Debra Lewis	12 (12)				2 (2)
Liz McKenzie	12 (12)	6 (6)		3 (3)	
Tony Morgan	12 (12)		9 (9)	3 (3)	
Roger Turner	12 (12)	6 (6)		3 (3)	

( ) Number of meetings eligible to attend

* With effect from 1st May 2020, Liz McKenzie took over as Chair of the Remuneration Committee and Roger Turner remains a member of the Committee. Debra Lewis joined the Remuneration Committee as a member and Roger Turner joined the Nominations Committee as a member

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.

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, the 2020 AGM will not take place as normal in light of the COVID-19 outbreak. The Society will follow all government guidance and ensure that Members are able to have their say, even if unable to attend in person. Members are advised to check the Society's website for the latest updates to the AGM.

In previous years Board members are present at the AGM and are therefore available to meet with Members, discuss issues and answer questions. The Chair and Chief Executive 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.

Due to COVID-19 the Board will welcome questions in advance of the meeting and encourages all members to exercise their right to vote. This year, a contribution of twenty pence will also be made to the Monmouthshire Building Society Charity of the Year "Shelter Cymru" for every ballot paper returned or completed online.

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 nine 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 Chair:

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.

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 provide 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

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 in Note 1 to the accounts:

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 30th April 2020 were £1 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 considered the assumptions in our baseline model (pre COVID-19) against historical data and benchmark information and determined that the assumptions were reasonable.

The estimated loan loss provisions in the current year have had to take into account the potential impacts of the COVID-19 pandemic. This is because under the relevant accounting standard (FRS 102), the COVID-19 pandemic is considered to provide observable data of adverse economic conditions and therefore objective evidence that loans could be impaired. Management has produced a series of forecast scenarios to reflect the impact of the pandemic and the potential impairment losses across the major loan categories based on these forecast scenarios. On this basis, management has made a judgemental provision of £450,000 for potential COVID-19 impairment losses based on information available up to the date of approval of these accounts. This is clearly an event that, hopefully, occurs only once in a lifetime and there is no historical data that can be used to support provisions made. As a result, the provisions made may prove to be over or under estimated depending on resultant impacts on employment rates and other factors as compared to estimates made by management.

The Committee recognises that there will also be increased uncertainty around loss provisions going forward.

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 judgements about the expected lives of products, including the reversionary period onto standard variable rate and expected early repayment charges.

The Committee challenged the key judgement made by management concerning the behavioural life estimates of current mortgage products.

The Committee was satisfied that the estimates were reflective of the Society's current mortgage book behaviour, but also considered future trends of customer retention, and the length of time customers were likely to continue with SVR mortgages at the end of product lives.

The Committee is satisfied that the assumptions used are reasonable.

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 30th April 2020 was £4.3 million.

The Committee considered the assumptions used by management in relation to benchmark information and by reference to advice received from our actuaries and concluded that assumptions used to calculate the pension liability were reasonable and our advisers competent to perform the actuarial calculations concerned.

During the year, information came to light about prior year liabilities following a legal review of the scheme. As a result a prior period adjustment has been made to pension liabilities. This is detailed in note 21. The Committee considers that the accounting treatment is in line with FRS 102 requirements and has been properly calculated based on actuarial advice.

Impairment of Fixed Assets

Management considered whether the carrying value of the Society's Head Office building (£3.4 million) was impaired. This involved judgements about the value in use of that building, in particular around cash generating units, forecast future cashflows and the appropriate discount rate to be applied to those cashflows in order to determine recoverable amounts.

The Committee is satisfied that the carrying value of the Head Office building is appropriate based on the judgements made.

Audit Committee (cont)

Accounting Policies, Annual Reporting and Approval

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 2020 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 2020 Annual Report meets this requirement, and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. On 24th July 2020, the Committee recommended the approval of the final 2020 Annual Report and Accounts to the Board.

Internal Audit

Internal Audit is outsourced to PwC. During the period to approval of these accounts, 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 30th April 2020, 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, for example:

- MCOB 11 Compliance
- Management Information (Credit Risk) Financial Control
- Business Continuity/Disaster Recovery/IT Resilience/Operational Resilience
- Health and Safety
- COVID-19 Crisis Management

Due to the unprecedented public health crisis from COVID-19 a number of internal audit reviews were deferred to the 2021 audit plan.

Internal Control and Risk Management

Details of the risk management systems in place are provided within the Risk Management Report on **pages 53 to 62**. 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 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.

During the year a competitive tender process was undertaken. Following that process, the Audit Committee recommended to the Board that BDO LLP be appointed as our new auditors for the year ending 30th April 2021. A resolution to appoint BDO LLP as auditors will be put to members at the Annual General Meeting.

Assessment of Effectiveness

In 2019, the Committee conducted an internal 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.

A recommendation from the 2019 review was that the Audit Committee effectiveness review should be conducted once the year end reporting and auditing process had concluded. This would provide members of the Committee an opportunity to give feedback on the entire annual cycle of Committee activities whilst still fresh in their mind. The Committee agreed that from 2020 the review would be held annually in July or October. Therefore, whilst a review of the effectiveness of the Committee took place in 2019 there has not been a full Committee effectiveness review in the current financial year. However, all members of the Committee have had the opportunity to comment on the effectiveness of the Board and the overall governance structures within the Society as part of the wider Board Effectiveness Review process. Through this process any concerns regarding the Committee's effectiveness could be raised. At the time of writing, the Committee had no concerns regarding its overall effectiveness and was not aware of any matters that would suggest the Committee did not operate effectively. A full review of the Committee's effectiveness would also be carried out in October 2020 and the results of this reported in 2021.

In 2018, an external effectiveness review was performed by CMS. CMS considered that the composition of the Audit Committee was appropriate. They reported, interalia, 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 leading the process for appointments, ensuring plans are in place for orderly succession to both the Board and senior management positions, and oversees the development of a diverse pipeline for succession. The Committee adopts a continuous and proactive process of planning and assessment, taking into account the Society's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Society.

A majority of members of the Committee are independent non-executive Directors. The Chair of the Board does not Chair the Committee when it is dealing with the appointment of her successor. The Committee meets as often as is necessary to fulfil its responsibilities.

Membership

Committee Chair:

D Lewis

Committee Members:

N Hingorani-Crain, W J Carroll and R Turner (from 1st May 2020)

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 include Nina Hingorani-Crain, an independent non-executive director, who is also the Society's Senior Independent Director, and the Chief Executive, providing a wide range of background experience and a balanced view on the best Board composition. Roger Turner joined the Committee on 1st May 2020.

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 that the membership is regularly refreshed • Identification and recommendation of candidates for Board approval • Reviewing the membership and Chairing 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 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 marketplace • Focusing on the oversight of a diverse pipeline for succession

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. When making appointments to the Board, the Nominations Committee will evaluate the skills, experience and knowledge on the Board, the future challenges affecting the business, and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. It will then agree the process to be undertaken to identify, sift and interview suitable candidates. A proper assessment of values and expected behaviours is built into the recruitment process. All appointments are subject to an extensive referencing process and certain roles require advance regulatory approval. No new Directors were appointed during the year.

The Committee is responsible for keeping the skills, experience and knowledge of the Board and its Committees under review. 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 is sought from specialists in that particular area when required.

Consideration is given to the length of service of the Board as a whole and membership is regularly refreshed. During the year the Committee conducted a rigorous review of Tony Morgan's independence as he had served on the Board for six years. Following consideration of the factors which may impair independence, the Committee agreed that Tony Morgan continued to demonstrate independent character and judgement and was free from relationships or circumstances which may affect, or could appear to affect, his judgement.

Diversity

At Monmouthshire Building Society we want to create an environment where our members, the communities we work in, our partners and our colleagues can be themselves. The Society believes in creating a culture where everyone is treated equally and with the same attention, courtesy and respect.

The Board is committed to having a diverse membership, made up of individuals with different skills, knowledge, experience and values to ensure effective decision making and robust challenge. The Board believes that different perspectives and ideas that diversity of thought bring, are essential to reduce the risk of groupthink and improve governance.

Appointments to the Board are based on merit and objective criteria, taking account of the specific skills and experience, independence, and knowledge needed to ensure a well rounded Board composition that can enhance business performance.

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 gender, social and ethnic backgrounds.

The Board is supportive of the recruitment, development and retention of talented women at all levels of the Society. Whilst it does not wish to endorse quotas and tokenism, the Nominations Committee is committed to ensuring women are represented at all levels in the Society and this is reflected in the current number of women on the Board, in the Executive and within management. The Board of the Society is comprised of 44% women, the Executive team ratio is 40% women and the number of women in management is 60%.

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 and therefore targets are not deemed appropriate. They agreed that appointments should continue to be made on merit and the skills and experience the individual can bring to the Society.

Succession Planning

The role of the Committee also includes 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. Like appointments, 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.

Nominations Committee (cont)

A key focus of the Committee during the year has been to enhance the succession plans for the non-executive Directors and executive team. Succession plans are documented and consider the following three time horizons:

- Contingency planning – for sudden and unforeseen departures
- Medium-term planning – the orderly replacement of current Board members and senior executives (e.g. retirement)
- Long-term planning – the relationship between the delivery strategy and objectives to acquire the skills needed on the Board now and in the future

Other Activities

The Committee is responsible for reviewing the Action Plan resulting from the recommendations from the annual evaluation of the performance of the Board and tracking progress made against this.

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.

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.

Assessment of Effectiveness

In 2020 an internal review of effectiveness was undertaken which concluded the Committee was operating effectively. An external review was undertaken in 2018 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, the functioning of the Enterprise Risk Management Framework (ERMF) and embedding of a sound 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 primary 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 held in 2019/20 to consider the increasing volume of work for the Committee and the additional time allocated to risk matters by the Board.

Membership

Committee Chair:

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 ERMF. In the prior year, Roger Turner and Liz McKenzie joined the Committee. Roger brings with him extensive Treasury risk management expertise while Liz contributes broad 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. Trevor also serves on the Audit Committee, maintaining a close working relationship between Audit and Risk.

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

Risk Committee Key Responsibilities	
Setting Risk Appetite	• Review and approve the Society's Risk Appetite Statements, taking account of the current and future macroeconomic financial and regulatory environment against the Society's strategic objectives • 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 • Receive presentations from colleagues across the business , which provide subject matter input into areas of focus, giving assurance over the ongoing operation of controls
Risk Reporting	• Review the quarterly reports provided by the Chief Risk Officer 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 management level risk Committees • Review periodic risk 'deep dives' into specific areas requiring additional risk Committee focus
Risk Management	• Review and approve the Society's ERMF • Review the implementation of the ERMF ensuring all material risks are managed with adequate resource and a satisfactory internal 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

Risk Committee (cont)

Key Matters Considered in the Year

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

Oversight of IT and Cyber Risk

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. The Committee continues to provide oversight and has integrated reporting of IT and Cyber matters into the Committee's standard schedule.

The risk posed by cyber-attacks has increased, particularly as a result of COVID-19, and financial institutions remain a primary target of increasingly sophisticated cyber-crime groups. The Committee reviewed the Society Cyber Security policies and processes to combat cyber-crime and received reports considering their effectiveness.

Coronavirus Response

To ensure an effective and sustainable response to the unprecedented events following the COVID-19 pandemic, the Risk Committee Chair requested with agreement from the Board that our internal auditors (PwC) undertake an inflight audit review to ensure the appropriateness of the Society's response, with prompt application of learnings whilst still managing the crisis.

Review of Internal Controls

The Committee is responsible for ensuring that an effective internal control environment continues to operate within the Society, recognising its importance as a critical component of the ERMF. In assessing whether the control environment is effective, the Committee considers a variety of information:

- The results of internal compliance reviews
- The results of the annual Controls Assurance Testing exercise undertaken by the First line of defence and overseen by the Risk and Compliance Department
- Details of material risk events and actions taken to address the control failure
- Information from the Audit Committee relating to the results of Internal and External Audit activity

Taken as a whole, the information reviewed by the Committee in 2019/20 provided assurance that the internal control environment was operating effectively and that no material breaches of internal control had occurred. Where weaknesses in internal control have been identified, the Committee is satisfied that adequate action plans are in place to address the issue.

Enterprise Risk Management Framework

The Committee continued to oversee the enhancements of the ERMF and ensures it continues to be fit for purpose and effective.

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 in advance of the formal annual Risk Appetite review. As a result of the COVID-19 crisis, the annual review of Risk Appetite, undertaken in conjunction with the Society's strategy refresh, was delayed.

Delivery of the business strategy within risk appetite is managed through a comprehensive ERMF. Further details on the Risk Framework can be found in the Risk Management Report on **pages 47-54**.

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 conduct risk 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 2019/20 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:

Financial Crime

The Society continues to invest to ensure its 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 critical services 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. A continued transition to cloud-based technology has increased the Society's operational resilience, lessening our reliance on physical locations from which to conduct our operations.

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, now Chief Risk Officer, and a Chief Compliance Officer in 2018, the Society has subsequently recruited further resource in a number of key areas to ensure we are well placed to manage our primary business risks.

The Committee recognises it may require additional support to supplement the activities within the second line, for example during 2019 PwC supported the second line with a review of Financial year-end controls.

The Second Line are supported by Risk Champions across the business. The First Line Customer Quality Assurance function has continued to strengthen the Society's approach to risk management.

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 **pages 29-30** (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. During the year an internal review of effectiveness was undertaken, led by the Company Secretary, 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 three meetings during the year and a number of virtual meetings were held outside of this to review and approve a number of matters.

Membership

*Committee Chair:

R Turner

Committee Members:

AD Morgan and L McKenzie

Committee Composition, Skills and Experience

The Committee's Chair during the year, 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.

*Liz McKenzie became Committee Chair on 1st May 2020.

Remuneration Committee Key Responsibilities	
Remuneration	• Determining remuneration for the Chair, 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 Chair 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 reviews the remuneration for the executives and certain non-executive director positions such as the Chair 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 Society 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 long-term sustainable success.

Workforce Remuneration and Policy

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. Due to COVID-19, the decision was taken to suspend the bonus scheme for 2020/2021 and to freeze salaries for all Directors and colleagues for that year.

Remuneration Reporting

We have provided details of our Directors' remuneration on **page 45** and ask our Members to approve our Remuneration Report through an advisory vote at the Annual General Meeting.

Our 2019/20 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.

A recommendation from the 2019 review was that the Remuneration Committee effectiveness review should be conducted once the annual pay cycle had concluded. This would provide members of the Committee an opportunity to give feedback on the entire annual cycle of Committee activities whilst still fresh in their mind. The Committee agreed that from 2020 the review would be held annually in July. Therefore, whilst a review of the effectiveness of the Committee took place in 2019 there has not been a full Committee effectiveness review in the current financial year. However, all members of the Committee have had the opportunity to comment on the effectiveness of the Board and the overall governance structures within the Society as part of the wider Board Effectiveness Review process. Through this process any concerns regarding the Committee's effectiveness could be raised. At the time of writing, the Committee had no concerns regarding its overall effectiveness and was not aware of any matters that would suggest the Committee did not operate effectively. A full review of the Committee's effectiveness would also be carried out in 2020 and the results of this reported in 2021.

Debra Lewis
Chair
24th July 2020

Directors' Remuneration Report

On behalf of the Board, I am pleased to present the Remuneration Committee's 2019/2020 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 30th April 2020. 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

2020	Fees & salary	Performance related incentive scheme	Pension contribution	Taxable benefits	2020 Total	2019 Total
Non-executive Directors:	£000	£000	£000	£000	£000	£000
D R Lewis	57	-	-	-	57	57
T Barratt	39	-	-	5	44	38
N Hingorani-Crain	33	-	-	-	33	33
L McKenzie	31	-	-	4	35	25
A D Morgan	39	-	-	1	40	41
R D Turner	35	-	-	6	41	34
Executive Directors:						
W J Carroll	205	-	31	10	246	266
D M Gunter	163	-	22	1	186	203
I J Jones	153	-	23	19	195	211
	755	**-**	**76**	**46**	**877**	**908**

2019	Fees & salary	Performance related incentive scheme	Pension contribution	Taxable benefits	2019 Total	2018 Total
Non-Executive Directors:	£000	£000	£000	£000	£000	£000
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 April 2018)	-	-			-	70
Executive Directors:						
W J Carroll	201	26	30	9	266	249
D M Gunter	160	20	23	-	203	38
I J Jones	150	20	23	18	211	16
J Bawa (resigned 31st July 2017)	-	-	-	-	-	178
P Leader (resigned 19th February 2018)		-	-	-	-	**91**
	739	**66**	**76**	**27**	**908**	**817**

Only the emoluments set out in the above tables are audited in the Remuneration Report.

Loans to Directors

At 30th April 2020, one director (2019: one director) or persons connected with Directors had mortgage loans granted in the ordinary course of business totaling £202k (2019: £209k). 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 30th April 2020, 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. No payments were made in 2020 because minimum profit targets were not achieved.

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 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 Chair
24th July 2020

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.	Embrace change and explore new opportunities to serve our members in pursuit of sustainable asset growth and accumulation of capital reserves in line with our ambitious 5-year strategy.	• Business planning process • Quarterly strategic updates to Board accompanied by challenge from Risk & Compliance function • 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 enterprise risk management and corporate governance frameworks
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 • Responsible Lending Policy and Underwriting Criteria • Treasury Policy • Robust underwriting criteria • Counterparty limits and reviews • Stress testing • Mortgage Lending Risk Committee & Asset and Liability Committee oversight • Capital Planning as part of the Society's Internal Capital Adequacy Assessment Process (ICAAP) • Credit risk reporting, including layering of risk metrics
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 liquid resources above Board-approved treasury financial minimums to give members confidence on the Society's ability to meet its obligations. **Capital** Utilise capital effectively 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 • Treasury Middle Office reporting and monitoring • The Society's Internal Liquidity Adequacy Assessment Process (ILAAP) • The Society's Internal Capital Adequacy Assessment Process (ICAAP) • Stress testing • Assets and Liabilities Committee oversight • Recovery Plan
Market Risk The risk of losses arising from changes in market rates or prices.	Limit exposure to variation in interest rate and basis risk positions from adverse movements in market rates. Ensure exposures remain within forecast market expectations.	• Board approved risk appetite and risk limits • Stress testing • Assets and Liabilities Committee oversight • Treasury Middle Office reporting and monitoring

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
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 Society's performance.	• Board approved risk appetite limits • Strong and effective internal control environment (Controls Assurance Testing) • Insurances • Operational Risk and Compliance Committee oversight • Continued investment in developing risk management frameworks, policies, systems and processes • Continuous improvement, learning from internal and external risk events, results of Controls Assurance Testing and responding to findings from second line and third line (Internal Audit reviews) • Risk Champions in each business area, supporting their Executive maintain strong risk management practices • Investment in our operational resilience including cyber crime and IT
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.	We aim to deliver positive outcomes for customers, maintaining a high degree of customer and public confidence by focusing on the Society'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 Society Values (Member Led) • Operational Risk and Compliance Committee oversight • Strong risk management culture • Conduct Risk Dashboard • Vulnerable Customer Policy
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 robust controls to ensure compliance with the intent and spirit of relevant laws and regulation	• 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 Society's Defined Benefit Scheme	Ensure the Society'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

Risk Management Report (cont)

Other Material Risks

Other material risks consist of matters of material significance to the Society which are either temporary or not yet sufficiently developed to incorporate into the Primary Risk framework.

Non-Primary Risk	Approach	Key Mitigating Actions
COVID-19 Coronavirus represents a generational disruption to life in the UK, with the true and lasting impact to the UK and global economy not yet known.	The Society is revising its strategy in the face of the challenge presented by COVID-19.	• In the short-term, the Society successfully invoked its crisis management plan and focused efforts on servicing existing members • The Society has commenced recovery planning to ensure we can effectively manage the transition through COVID-19 to any new normal • In the longer term, the Society may need to alter its strategic objectives to weather the immediate economic impacts of COVID-19 and prepare for growth alongside the gradual recovery of the UK economy • The Society's response to COVID-19 and its impact on our strategy is captured within the Strategic Report (**pages 9-11**)
Brexit Risk The UK left the European Union (EU) on 31st January 2020. It is now in a transition period until the end of 2020 during which it is negotiating additional arrangements. It is currently unclear whether COVID-19 will necessitate an extension to the transition period, but the Government's public position is that any request for extension will be refused. Failure to reach an agreement will result in the UK and EU trading on World Trade Organisation terms. 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 maintains adequate capital and liquidity resources to absorb potential adverse impacts of Brexit • 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

Non-Primary Risk	Approach	Key Mitigating Actions
Climate Change The Bank of England, FCA and PRA are continuing to review and update regulatory expectations related to climate change. The Society has identified two primary elements of climate change risk: **Physical Risk** The risk of the Society being impacted by climate and weather-related events, such as heatwaves, droughts, floods, storms and sea level rise. These events can potentially result in large financial losses, impairing asset values and the creditworthiness of borrowers And; **Transition Risk** Risks arising from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and create credit exposures for banks and other lenders as costs and opportunities become apparent.	Ensure the Society develops processes, controls and reporting metrics to assess and manage climate change risk. The climate change elements manifest as increasing credit, market and operational risk for the Society which require effective mitigation and management.	• The Society prepared and submitted a climate change plan to the PRA in October 2019 outlining our approach to embedding climate change risks into our existing risk management processes • In addition, the Society is a member of the Green Finance Institute's Coalition for Energy Efficiency of Buildings (CEEB) which will deliver tangible, scalable new solutions which will enable our members to make their homes radically more energy-efficient, reducing their fuel bills and contributing to a greener climate for the future

Risk Management Report (cont)

Risk Overview

The Society recognises that risk is inherent in the delivery of the Board's strategy. Whilst these risks can never be totally eliminated, through effective risk management they can be mitigated to acceptable levels. The Board has agreed a risk appetite that establishes the amount of risk acceptable to the business in pursuit of its strategy, helping the Society achieve sustainable growth and serving the best interests of our members and customers. This is kept under review as our operating environment may change.

The Board is responsible for establishing procedures to manage risk, oversee the internal control framework and determine the nature and extent of primary risks the Society is willing to take in order to achieve its long-term strategic objectives. The Board meets these responsibilities by ensuring an effective risk management framework is in place, using that framework to promote a risk aware culture that ensures all material risks are identified and mitigated in the pursuit of strategic objectives. Throughout the year, the Board has continued to invest in the Society's Enterprise Risk Management Framework (ERMF) to ensure the ongoing development and enhancement of its risk management capabilities. The Board reviews the Enterprise Risk Management Framework and Risk Appetite statements annually.

Risk Culture

The Board has established a culture that is guided by strong risk management principles and aligned to our values to support and provide appropriate standards and incentives for professional and responsible behaviour. In this regard, it is the responsibility of the Society Chair and of the Board to ensure that a sound risk culture is embedded throughout the Society and all colleagues feel able to 'speak up'.

The Society's risk culture is expressed through the attitudes and behaviours demonstrated by all colleagues regarding risk awareness, risk taking and risk management. The Board has created an environment for colleagues where integrity, ownership, accountability, customer interests and respect are at the heart of the Society's objectives, values and business practices. Our risk culture underpins how our colleagues approach their work and guides decision making. The Society's values are outlined on **page 52** and are an integral part of our risk culture along with our member led strategy and core purpose of helping members, communities and colleagues to thrive.

Enterprise Risk Management Framework

Risk management is the foundation of effective internal control and a critical element of good corporate governance. The Society's ERMF has established a formal, consistent process for the identification, prioritisation and management of risk. The framework is the cornerstone of our risk culture where all colleagues take responsibility for ensuring material risks are identified, measured, assessed, monitored, controlled and mitigated within the context of the Society's Risk Appetite.

The Risk & Compliance Department are responsible for overseeing the effective engagement of colleagues in the operation of the ERMF, providing guidance, training as well as oversight and challenge. The Risk Committee establishes an appropriate tone through clear articulation of its risk appetite and values linked to the Society's strategic objectives. This ensures that risk management forms an integral part of the Society's activities, informing decision making and ensuring the engagement of all colleagues in the implementation of the framework across the Society.

To ensure effective risk management principles outlined within the ERMF remain fully embedded within the way the Society operates, Risk Champions have been nominated within each department. Risk Champions play an essential role within the Society's ERMF, supporting their Executives through the implementation of the ERMF in their departments, the collection and reporting of risk management information and promotion of a risk aware culture.

The Society operates a Three Lines of Defence approach in the design and implementation of the ERMF. This provides clarity over roles and responsibilities for risk management within the Society, enabling the Risk Committee to establish a clear governance structure for the identification, measurement, assessment, monitoring and management of risks. This approach is designed to deliver the strategic objectives in line with the overall risk appetite of the Board.

The 'Three Lines of Defence' approach is outlined on the next page.

First Line of Defence
- Business

- Overall accountability and ownership of risks within their business areas
- Implementation of the Enterprise Risk Management Framework – the identification, measurement, assessment, monitoring, management and reporting 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 the Enterprise Risk Management Framework and develop processes for embedding its principles and practices within the Society's operations
- Promote a sound risk management culture
- Provide support, oversight and challenge to the First Line of Defence and report directly through RC and ORCC
- Support the business in the delivery of the Society's strategy in-line with risk appetite
- The Chair of Risk Committee is responsible for maintaining independence of the second line to ensure there are no barriers to its independent challenge and oversight of first line operations

Third Line of Defence
- Internal & Exernal Audit

- Internal Audit provides independent assurance over the design and operation of the Enterprise Risk Management Framework and gives assurance to the Board that the first two lines of defence and governance are operating effectively
- Provides ongoing assurance to the Audit Committee over the adequacy and effectiveness of control systems operating within the first and second lines
- External Audit expresses an independent opinion as to whether the Society's Financial Statements give a true and fair view of the state of the Society's affairs

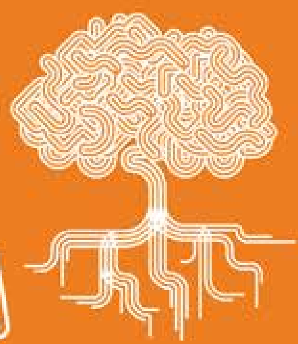
Society Values

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.

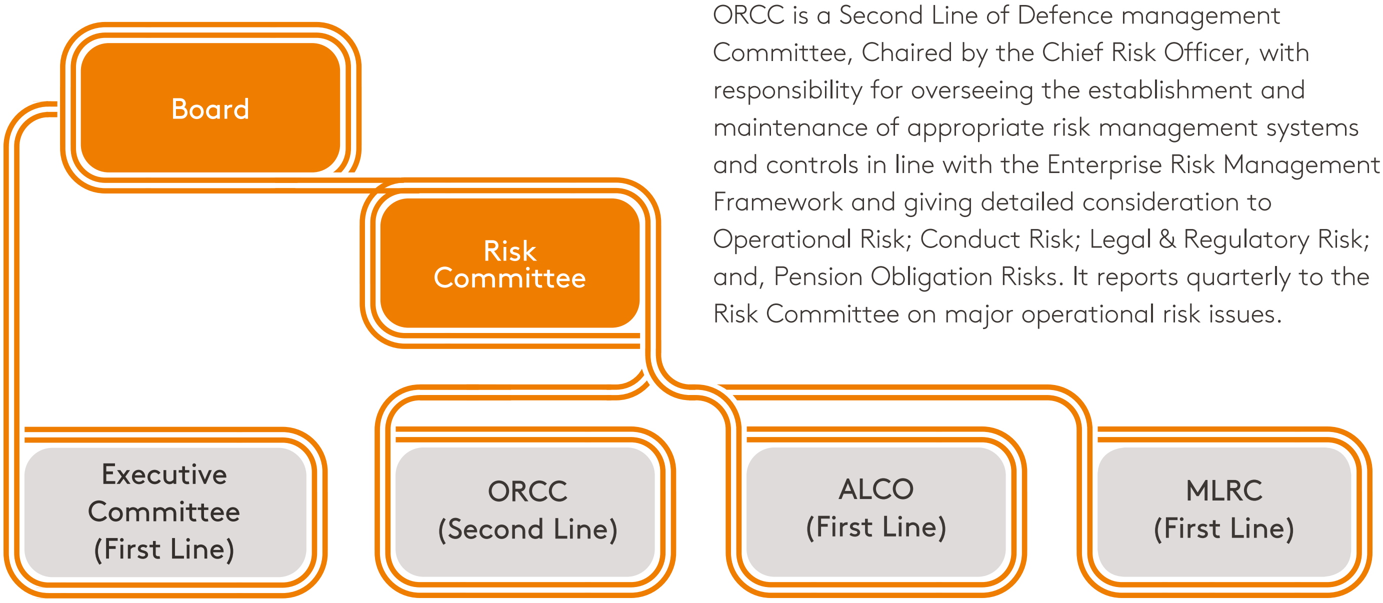
Risk Management Report (cont)

Risk Governance Structure

The Board is ultimately responsible for all aspects of the Society's activities in pursuit of its strategic objectives. The Board retain overall accountability and ownership of the Enterprise Risk Management Framework and delegate to the Risk Committee the responsibility for ensuring the ongoing development, implementation and enhancement of the framework. The governance structure is robust and designed to promote open and constructive challenge. In addition, there is appropriate representation from the Risk & Compliance Department on key governance Committees.

A strong governance framework remains a key priority for the Society, with prompt escalation of risks and issues to ensure appropriate learnings and mitigating actions are established.

The Society operates three management-level risk Committees to ensure there is proactive management and governance of risk and control issues under the Enterprise Risk Management Framework. Clear reporting lines from the management risk Committees to Risk Committee are defined to ensure focus remains on areas that could significantly impact the Society, whilst enabling risk owners and responsible staff to fulfil their accountabilities and responsibilities. The risk governance structure of the Society is outlined below.



In addition to the management-level Committees, the Society also operates an Executive Committee which supports the Chief Executive and comprises the three executive Directors, Chief Risk Officer and Head of People and Culture. The responsibilities of the Committee include the assessment and control of risk, with matters raised at this Committee relating to risk elevated to the relevant management level risk Committee or, if warranted, directly to Risk Committee or Board as appropriate. We undertake annual effectiveness reviews on all Committees to ensure the ongoing reviews and considerations for improvements can be made.

Risk Committee

The Risk Committee is a Board level Committee and now meets quarterly. 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 Society's performance against the defined Risk App measures to ensure it is operating within agreed risk appetites.

Operational Risk & Compliance Committee (ORCC)

ORCC is a Second Line of Defence management Committee, Chaired by the Chief Risk Officer, with responsibility for overseeing the establishment and maintenance of appropriate risk management systems and controls in line with the Enterprise 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.

ORCC is supported by a Change Forum and an Information Security Forum. These forums do not have any form of delegated authority.

Assets & Liabilities Committee (ALCO)

ALCO 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 including margin, liquidity, funding, pricing, capital and financial risk management. In addition, product specific ALCO meetings are held as required to manage the product governance process within the Society.

ALCO is supported by a Product Proposition Forum (PPF), Pricing and Liquidity Group (PLG) and an Assumptions Forum. These forums do not have any form of delegated authority.

Mortgage Lending Risk Committee (MLRC)

MLRC 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 book.

MLRC is supported by a Broker Forum. This forum does not have any form of delegated authority.

Stress Testing

Stress and scenario testing form a key part in the Society's strategy, risk management and capital planning decisions and are a key component of the Enterprise Risk Management Framework (ERMF). Stress tests are carried out on a regular basis for planning and risk management purposes to identify, analyse and manage risks. Stress testing alerts management to adverse unexpected outcomes related to a variety of risks and provides an indication of the level of capital and/or liquidity required to absorb losses should large shocks occur.

Stress testing supplements other risk management approaches and measures. It has 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
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions

Stress testing is especially important after long periods of benign economic and financial conditions, when fading memory of negative conditions can lead to complacency and the under-pricing of risk. It is also a key risk management tool during periods of growth. Growth leads to new products, services and scenarios that grow rapidly and for which limited data or resource may exist.

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

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

Emerging Risks

Emerging Risks are threats or opportunities for which the potential impact upon the Society is not yet possible to reasonably assess. Timely identification and monitoring of these emerging risks can enable the Society to take appropriate steps to begin to mitigate against the emerging threat or move to position the Society in such a way as to be ready to take advantage of an emerging opportunity.

The Society has recently enhanced its internal process for identification and monitoring of emerging risks, incorporating tracking and monitoring of these risks within our core risk management system. All risk sub-committees, the Executive Committee and Risk Committee receive a summary of emerging risks relevant to their respective responsibilities which includes the current approach to either monitoring or mitigating against the evolving risk. When the risk develops to a state where it can be reliably assessed, it is transitioned into active risk management within the ERMF. The Board also discuss emerging risks and opportunities as a standing agenda item.

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 56 to 62**, 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
- 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 30th April 2020 which comprise the Income and Expenditure Accounts, Statements of Other Comprehensive Income, Statements of Financial Position, Statements of Changes in Members' Interests, 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 30th April 2020 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 auditors by the members on 22nd August 2018. The period of total uninterrupted engagement is for the 2 financial years ended 30th April 2020. 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	**£320k (2019: £93k)** 0.5% of Group net assets (2019: 4.4% of normalised Group profit before tax).	
Coverage	100% of Group net assets (2019: 100% of Group profit before tax)	
Key audit matters		vs 2019
Event driven	Going concern	▲
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	▲

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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
Going concern Refer to Directors' Report, and accounting policies.	**Disclosure quality:** The Annual Accounts explain how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and the Society. That judgement is based on an evaluation of the inherent risks to the Group's and the Society's business model and how those risks might affect the Group's and Society's financial resources or ability to continue operations over a period of at least a year from the date of approval of the Annual Accounts. The risk most likely to affect the Group's and Society's available financial resources over this period is an increase in the level of provision for loan losses. This could impact on the Group's and Society's available financial resources, leading to insufficient regulatory capital to meet minimum regulatory capital levels over the course of the next 12 months. There are also less predictable but realistic impacts, such as the impact of COVID-19 on liquidity and operational resilience. The risk for our audit is whether or not those risks are such that they amounted to a material uncertainty that may cast significant doubt on the Group's and Society's ability to continue as a going concern. Should this be the case then that fact would be required to be disclosed. .	**Our procedures included:** **Our sector experience:** We considered the directors' assessment of COVID-19 related sources of risk for the Group's and Society's businesses and financial resources compared with our own understanding of the risks. We assessed the directors' plans to take action to mitigate the risks; **Sensitivity analysis:** We assessed the stressed scenarios used by the Group and Society in forecasting profitability, capital and liquidity taking account of reasonably possible adverse effects that could arise from these risks individually and collectively; **Challenge of assumptions:** We assessed the Group's and Society's forecast profitability, and the Group's capital and liquidity models to identify key assumptions. We challenged the reasonableness of assumptions underpinning the Group's and Society's forecasts; and **Assessing transparency:** We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the financial statements using our knowledge of the relevant facts and circumstances developed during our audit work, considering the economic outlook, key areas of estimation uncertainty, including in particular the level of provision for loan losses, and mitigating actions available to the Society to respond to these risks. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable.

Key Audit Matter	The Risk	Our Response
Provisions for loan losses £1 million (2019: £0.5 million) Refer Audit Committee Report, accounting policy and financial disclosures.	**Subjective estimate:** The impairment provision relating to the 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 Group specific historical data, their experience and knowledge of the current mortgage book. The subjectivity of this estimate has increased as a result of the uncertainties arising from COVID-19. Impairment provisions are assessed on an individual and collective basis. The directors judge individual impairments by reference to loans that are in arrears or in possession or where there is other objective evidence that all cash flows will not be received. The collective impairment is derived from a model that uses a combination of the Group's historical experience and judgement due to the Group's limited loss experience. 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 and the impact of COVID-19. The overall level of provision for loan losses recognised is also sensitive to the application of overlays made by the directors in respect of COVID-19. The effect of these matters is that, as part of our risk assessment, we determined that provisions for loan losses of loans 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:** • **Benchmarking assumptions**: We compared the key assumptions used in the impairment loss model, being probability of default and forced sale discount to external data where available • **Sensitivity analysis**: We assessed the provision for loan losses for sensitivities to changes in the key assumptions by performing stress testing to identify areas of potential focus • **Historical comparison**: We assessed the collective impairment provision against the Group's historical loss 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 LTV's 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 independent valuation reports. We also challenged the key assumptions used in the Group's provision for loan losses estimate • **COVID-19 overlay:** We assessed the COVID-19 adjustment by critically assessing the assumptions used in determining the value of the adjustment recognised and • **Assessing transparency**: We assessed the adequacy of the Group's disclosures in relation to the degree of estimation involved in arriving at the provision **Our results** We found the resulting estimate of provisions for loan losses to be acceptable. (2019: 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 and financial disclosures.	**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 Group'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 Group'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 to be acceptable.
Valuation of the defined benefit scheme obligation £18.2 million (2019 restated: £16.2 million) **Valuation of purchased annuity contracts** £1.4 million (2019: £1.5million) Refer to Audit Committee Report, accounting policy and financial disclosures on **page 96**.	**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 actuarial assumptions:** We critically assessed, using our own actuarial specialists, the key assumptions applied in the Group's pension obligation calculation against externally derived data and internal experience. The key assumptions being the discount rate, inflation rates and mortality rates • **Tests of detail:** We critically assessed the director's conclusion with regards to the issues identified following the review of the scheme deed and rules. This included consideration of the requirements of the accounting standards and engagement of our own pensions specialists who assessed the calculations of the quantified financial impact

Key Audit Matter	The Risk	Our Response
	During the financial year the Group decided to close its defined benefit pension scheme to future accrual. In reviewing the scheme deed and rules, the Group identified two issues. The first relates to the application of the definition of pensionable earnings in the calculation of the Group's pension obligation. The second relates to the drafting of the scheme rules with regards to pension increases. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the defined benefit scheme obligation and the valuation of the purchased annuity contracts 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.	• **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to the actuarial assumptions and the disclosure of the two matters identified in the year **Our results** We found the valuation of defined benefit scheme obligation and the valuation of the purchased annuity contracts to be acceptable. (2019: acceptable).

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union on our audit. However, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the Group financial statements as a whole was set at £320k (2019: £93k), determined with reference to a benchmark of Group net assets of £61,771k, of which it represents 0.5% (2019: 4.4% of normalised Group profit before tax).

Materiality for the Society annual accounts as a whole was set at £300k (2019: £87k), determined with reference to a benchmark of Society net assets of £61,448k, of which it represents 0.5% (2019: 4.4% of normalised Society profit before tax).

We have changed the selected benchmark for calculating materiality to net assets from profit before tax. This reflects the fact that the Group does not seek to maximise profits as its primary objective, and that net assets more closely reflects regulatory capital which is a key area of focus for the regulator.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements for Group exceeding £16k (Society: £15k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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 their 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

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

a material uncertainty in this auditor's report is not a guarantee that the Group and the Society will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, 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.

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 55**, 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 overleaf), 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, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal 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) and taxation 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 part of our procedures on the related financial statement items. The identified 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

24th July 2020

Income and Expenditure Accounts
Year ended 30th April 2020

	Notes	Group 2020 £000	Group 2019 £000	Society 2020 £000	Society 2019 £000
Interest receivable and similar income	2	25,428	25,245	25,428	25,245
Interest payable and similar charges	3	(12,472)	(10,225)	(12,472)	(10,225)
Net interest receivable		12,956	15,020	12,956	15,020
Income from investments		22	5	22	5
Fees and commissions receivable		305	351	305	353
Fees and commissions payable		(387)	(402)	(387)	(402)
Other operating income		66	90	-	-
Other fair value (loss)/gains	4	(1,410)	(132)	(1,410)	(132)
Total operating income		11,552	14,932	11,486	14,844
Administrative expenses	6	(11,212)	(11,810)	(11,272)	(11,864)
Depreciation and amortisation	14, 15	(782)	(839)	(774)	(801)
Impairment of fixed assets	15	-	(829)	-	(555)
Total operating (loss)/ profit before provisions		(442)	1454	(530)	1624
Provisions for bad and doubtful debts	11	(703)	(159)	(703)	(159)
Other provisions	20	(51)	(52)	(51)	(52)
Operating (loss)/profit		(1,196)	1,243	(1,284)	1,413
(Loss)/Profit on ordinary activities before tax		(1,196)	1,243	(1,284)	1,413
Tax on profit on ordinary activities	7	199	(323)	228	(293)
(Loss)/Profit for the financial year		(997)	920	(1,056)	1,120

The notes on **pages 68 to 100** form an integral part of these accounts.

Statements of Other Comprehensive Income

Year ended 30th April 2020

	Notes	Group 2020 £000	Group 2019 restated £000	Society 2020 £000	Society 2019 restated £000
(Loss)/profit for the financial year		(996)	920	(1,056)	1,120
Actuarial (losses)/gains recognised in the pension scheme	21(b)	(1,705)	(744)	(1,705)	(744)
Gain/(Loss) on available for sale assets		121	(91)	121	(91)
Tax credit		370	123	370	123
Total recognised (losses)/gains relating to the financial year and recognised since last annual report		(2,210)	208	(2,270)	408

*2019 has been restated to account for the prior period pension scheme issue as detailed in note 21.

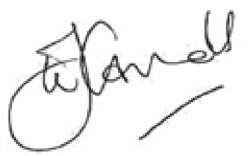
The notes on **pages 68 to 100** form an integral part of these accounts.

Statements of Financial Position
As at 30th April 2020

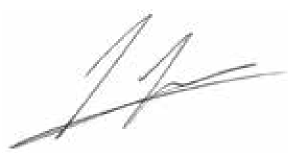
Assets	Notes	Group 2020 £000	Group 2019 restated £000	Society 2020 £000	Society 2019 restated £000
Liquid Assets					
Cash in hand		584	327	403	327
Loans and Advances to Credit Institutions					
Repayable on demand		112,901	107,512	112,901	107,379
Other loans and advances	8	3,528	7,032	3,528	7,032
Debt securities issued by other borrowers	9	93,009	50,145	93,009	50,145
Derivative financial instruments	13	2	529	2	529
Loans and Advances to Customers					
Loans fully secured on residential property	10	1,003,752	913,386	1,003,752	913,386
Other loans – fully secured on land	10	22,927	21,080	22,927	21,080
Investments	12	369	18	2,444	2,224
Intangible fixed assets	14	1,192	1,582	1,192	1,582
Tangible fixed assets	15	6,359	6,267	4,852	4,729
Other assets		1,503	537	1,481	673
Prepayments and accrued income		970	603	970	603
Total assets		1,247,096	1,109,018	1,247,461	1,109,689
Liabilities					
Shares	16	883,355	817,942	883,355	817,992
Amounts owed to credit institutions	17	98,297	98,632	98,297	98,632
Amounts owed to other customers	18	187,590	122,717	187,590	122,667
Derivative financial instruments	13	9,438	1,507*	9,438	1,507
Other liabilities	19	1,596	572*	2,284	1,507*
Accruals and deferred income		623	705	623	705
Provisions for liabilities	20	124	73	124	73
Net pension scheme liability	21	4,302	2,888*	4,302	2,888*
Total equity attributable to members		61,771	63,982*	61,448	63,718*
Total equity and liabilities		1,247,096	1,109,018	1,246,461	1,109,689

*2019 has been restated to account for the prior period pension scheme issue as detailed in note 21.
The notes on **pages 68 to 100** form an integral part of these accounts.
These financial statements were approved by the Board of Directors and authorised for issue on 24th July 2020.

Debra Lewis



William Carroll



Iwan Jones

Statement of Changes in Members' Interests As at 30th April 2020

Group

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1st May 2018 as reported		64,594	94	64,688
Prior year pension liability adjustment		(1,129)	-	(1,129)
Prior year deferred tax adjustment		215	-	215
At 1st May 2018 as restated		63,680	94	63,774
Profit for the financial year		920	-	920
Other comprehensive income in the period				
Actuarial Loss recognised in the pension scheme		(638)	-	(638)
Additional actuarial loss on pension scheme		(106)	-	(106)
Loss on revaluation of assets available for sale		-	(91)	(91)
Deferred tax		107	15	123
At 1st May 2019 as restated		63,963	18	63,982
Loss for the financial year		(997)	-	(997)
Other Comprehensive Income in the Period				
Actuarial Loss recognised in the pension scheme	21(b)	(1,705)	-	(1,705)
Gain on revaluation of assets available for sale		-	121	121
Deferred tax		370	-	370
At 30th April 2020		61,631	139	61,771

Society

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1st May 2018 as reported		64,130	94	64,224
Prior year pension liability adjustment		(1,129)	-	(1,129)
Prior year deferred tax adjustment		215	215	215
At 1st May 2018 as restated		63,216	94	63,310
Profit for the financial year		1,120	-	1,120
Other comprehensive income in the period				
Actuarial Loss recognised in the pension scheme	21	(638)	-	(638)
Additional actuarial loss on pension scheme	21	(106)	-	(106)
Loss on revaluation of assets available for sale		-	(91)	(91)
Deferred tax		107	16	123
At 1st May 2019 as restated		63,699	19	63,718
Loss for the financial year		(1,056)	-	(1,056)
Other Comprehensive Income in the Period				
Actuarial Loss recognised in the pension scheme		(1,705)	-	(1,705)
Gain on revaluation of assets available for sale		-	121	121
Deferred tax		370	-	370
At 30th April 2020		61,308	140	61,448

Refer to note 21 for restatement

Consolidated Cash Flow Statement

	Group	
	2020 £000	2019 £000
Net cash outflows from operating activities (see below)	48,896	(28,240)
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	(719)	(711)
Disposal of tangible and intangible fixed assets	213	6
Disposal of debt securities	(42,743)	22,419
Net cash inflows from investing activities	(43,249)	21,714
Net decrease in cash and cash equivalents	5,647	(6,526)
Cash and cash equivalents at beginning of the year	107,839	114,365
Cash and cash equivalents at end of the year	113,486	107,839
Cashflows from operating activities		
Profit on operating activities before tax	(1,196)	1,243
Movements in prepayments and accrued income	(367)	(103)
Movements in accruals and deferred income	(82)	457
Movements in provisions for liabilities	51	(28)
Provisions for bad and doubtful debts	703	159
Depreciation and amortisation	805	839
Impairment of fixed assets	-	829
Loans and advances written off	(203)	136
Net pension costs	(291)	(244)
Net cash flow from operating activities before movement in operating assets and liabilities	(580)	3,288
Movement in operating assets and liabilities		
Loans and advances to customers	(92,713)	(92,299)
Shares	65,413	47,851
Amounts owed to credit institutions and other customers	64,538	474
Loans and advances to other credit institutions	3,504	11,037
Other assets	(221)	1,397
Other liabilities	9,320	472
Taxation paid	(365)	(460)
Net cash outflows from operating activities	**(48,896)**	(28,240)

Notes to the Accounts

Year ended 30th April 2020

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.

A prior period adjustment has been processed to account for a historical issue relating to the defined benefit pension scheme which dates back to 1994. The decision was made to close the scheme during the current financial year and as a result of a legal review it has been identified that the calculation of pensions did not take into account the amendments to the Pensionable Earnings definition over time in the Scheme's applicable governing trust deed and rules. Given that the impact of the issue occurred in prior accounting periods, the 2018/19 brought forward reserves and liabilities have been restated. For more information see note 21.

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 a period of at least 12 months from the signing date of these financial statements. 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 and COVID-19 situation. In light of the current health crisis, the Society has applied robust stress testing to its 5 year forecasts and prepared a detailed long term viability/going concern document, which considers potential economic effects of the virus on our growth, profit, capital, liquidity, funding and operations. The analysis concluded that the Society remains extremely well placed to be able to withstand the negative consequences of COVID-19. 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

Notes to the Accounts

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.

d) Held to Maturity financial assets

Debt instruments that the Society intends to hold to their maturity date irrespective of changes in market prices or the entity's financial position or performance are categorized as Held-to-maturity (HTM) investments. To qualify as HTM the group must have a positive intent and ability to hold the financial asset to maturity and the financial asset has to be quoted on an active market. When an entity's actions cast doubt on its intent or ability to hold investments to maturity, the entity is prohibited from using the held-to-maturity category for a reasonable period of time. A penalty is therefore effectively imposed for a change in management's intention. The entity is forced to reclassify all its held-to-maturity investments as available-for-sale and measure them at fair value until it is able, through subsequent actions, to restore faith in its intentions. An entity may not classify any financial assets as held to maturity if during the current or preceding two years it has sold or reclassified more than an insignificant amount of held to maturity investments except in very narrowly defined circumstances. Held-to-maturity assets are subsequently carried at amortised cost, and are subject to impairment testing.

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.

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.

Notes to the Accounts

Hedge accounting is discontinued when:

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

Tangible Fixed Assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. 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 3 to 7 years straight-line basis
- Motor vehicles 25% per annum reducing balance basis
- Leasehold improvements over the period of the lease, or expected term if different
- Freehold buildings 50 years straight-line basis
- Impairment of assets is 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 3-7 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 Income and Expenditure Account 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.

Management considered whether any changes to key judgements and estimates were required at 30th April 2020, in light of the COVID-19 pandemic coinciding with the Society's year end; and concluded that changes were required to the provision for bad and doubtful debts. These changes were necessary to account for the increased liability resulting from customers who are facing financial difficulties. The details are included in note 11.

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 33**.

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 £0.01 million. Loans are treated as impaired from 1 month in arrears. Further detail is given in note 11.

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 data. If behavioural lives were to reduce to zero, the impact to profit would be a £720k reduction.

Impairment of Fixed Assets

An impairment charge was made in the prior year in respect of the Society's Head office premises in Newport. The property value was written down to the negotiated selling price at the time. The sale of the Head office premises did not materialise; the building is still being used as the head office and is being depreciated in line with the Society's policy. We performed a value in use calculation at 30th April 2020 to support the carrying value and no further impairment was required.

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. In making these judgements the Group was also required to consider the two issues that were identified through a review of the scheme deed and rules (see note 21) during the year. 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 £0.31 million

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

	Group and Society	
	2020 £000	**2019 £000**
2. Interest receivable and similar income		
On loans fully secured on residential property	24,281	23,700
On other loans	1,028	1,053
On liquid assets	1,470	1,285
Net expense on financial instruments	(1,351)	(793)
	25,428	25,245
3. Interest payable and similar charges		
On shares held by individuals	11,070	8,642
On deposits and other borrowings	1,487	1,601
Net Income on financial instruments	(85)	(18)
	12,472	10,225
4. Other fair value gains and losses		
(Loss) on derivatives	(8,459)	(2,341)
Gain on hedged items attributable to the hedged risks	7,049	2,209
Net (loss)	(1,410)	(132)

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 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. All hedges are supported by comprehensive hedging documentation as per the requirement in FRS 102 with the adoption of IAS39. The Society utilises the derivative instruments for hedging purposes only and no such instruments are used for trading activity or speculative purposes. All fair value hedges are against 3 month LIBOR or SONIA.

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 the Society's 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.

In July 2017, the FCA announced that the regulator would no longer compel banks to sustain LIBOR beyond 2021 (the FCA have received a voluntary agreement from the LIBOR panel banks to continue to submit to LIBOR until end-2021, to enable time for the market to transition away from LIBOR). The group therefore expects that LIBOR will continue to exist as a benchmark rate until 2021. The Group does not anticipate changing hedged risk to a different benchmark. For these reasons, the Group does not consider its fair value hedges of the LIBOR benchmark interest rate to be directly affected by interest rate benchmark reform at 30th April 2020.

In September 2019, the IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 to address uncertainties related to the market wide reform of interbank offered rates. The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS39 or IFRS9. They are effective for periods beginning on or after 1st January 2020. The Society has chosen to adopt the amendments early. Under the reforms LIBOR will not be sustained after the end of 2021. The Working Group on Sterling Risk-Free Reference Rates has proposed the Sterling Overnight Index Average ("SONIA") as the basis of a replacement for LIBOR.

Historically, the variable rate paid or received on interest rate swap contracts used by the Society has been 3 month LIBOR. The Society has therefore commenced a project to transition away from LIBOR to using a compounded SONIA rate on the assumption that this will replace LIBOR as the market standard. This transition will be achieved through the cessation of the use of LIBOR swaps for new hedges, the attrition of existing LIBOR swaps that mature before the end of 2021 and, where necessary, the replacement of existing LIBOR swaps that extend beyond 2021.

It is not anticipated that the Society will have to rely on the fallback clauses within swap contracts that extend beyond 2021 when the LIBOR market becomes illiquid, rather action will be taken well in advance of this to contracutually replace the LIBOR legs of the swaps with SONIA. During August 2019, ALCO had authorised that all new swaps entered into would reference SONIA.

Swaps held that are in hedging relationships

	Group and Society	
	2020 £000	2019 £000
Notional value of LIBOR swap contracts used in hedges	376,000	479,000
Notional value of SONIA swap contracts used in hedges	92,000	-
Total notional value of swap contracts used in hedges held at 30th April	468,000	479,000
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	90,000	247,000
Notional value of LIBOR swap contracts used in hedges which mature after 2021	286,000	232,000

Unmatured interest rate contracts

	2020 £000	2019 £000
Notional principal amount as at 30th April	549,000	617,000
Replacement cost	2	529

Interest Rate Gap analysis

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.

Notes to the Accounts

5. Financial Instruments (continued)

The interest rate gap analysis of the Group as at 30th April 2020 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	197,276	12,500	-	-	246	210,022
Loans and advances to customers	367,983	57,970	57,014	533,795	9,917	1,026,679
Other assets including tangible fixed assets	-	-	-	-	10,395	10,395
	565,259	70,470	57,014	533,795	20,558	1,247,096
Liabilities						
Shares	665,827	42,472	38,444	135,209	1,403	883,355
Amounts owed to credit institutions and other customers	229,051	25,100	13,950	17,246	540	285,887
Other liabilities	-	-	-	-	16,083	16,083
Capital	-	-	-	-	61,771	61,771
	894,878	67,572	52,394	152,455	79,797	1,247,096
Impact of derivative instruments	489,000	(32,000)	(33,500)	(423,500)	-	-
Interest rate gap at 30th April 2020	159,381	(29,102)	(28,880)	(42,160)	(59,239)	-

The Group uses derivative financial instruments and exposure limits to mitigate the effect of adverse interest rate movements on net interest income. At 30th April 2020 the impact of a 2% parallel increase in interest rates (measured using calculated interest rate gap positions) was £233k adverse across the gap report horizon (2019: £2,576k favourable). At 30th April 2020 the impact of a 2% parallel decrease in interest rates (measured using calculated interest rate gap positions) was £233k favourable across the gap report horizon (2019: £2,576k adverse).

5. Financial Instruments (continued)

The interest rate gap analysis of the Group as at 30th 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	-	-	-	-	5,745	5,745
Capital	-	-	-	-	63,982	63,982
	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 30th April 2019	116,188	(9,244)	(15,914)	(32,812)	(58,218)	-

Notes to the Accounts

5. Financial Instruments (continued)

The table below analyses the Society's financial instruments as at 30th April 2020.

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	584	-	-	-	-	584
Loans and advances to credit institutions	-	116,429	-	-	-	116,429
Debt securities	78,018	-	14,991	-	-	93,009
Loans and advances to customers	-	1,026,679	-	-	-	1,026,679
Derivative financial instruments	-	-	-	2	-	2
Total financial assets	78,602	1,143,108	14,991	2	-	1,236,704
Non-financial assets	-	-	-	-	10,393	10,393
	78,602	1,143,108	14,991	2	10,393	1,247,096
Liabilities						
Shares	883,355	-	-	-	-	883,355
Amounts owed to credit institutions and other customers	285,887	-	-	-	-	285,887
Derivative financial instruments	-	-	-	9,438	-	9,438
Total financial liabilities	1,169,242	-	-	9,438	-	1,178,680
Non-financial liabilities	-	-	-	-	6,645	6,645
Reserves					61,771	61,771
	1,169,242	-	-	9,438	68,416	1,247,096

5. Financial Instruments (continued)

The table below analyses the Society's financial instruments as at 30th 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	-	-	-	-	4,238	4,238
Reserves	-	-	-	-	63,982	63,982
	1,039,291	-	-	1,507	68,220	1,109,018

Notes to the Accounts

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 Society's financial instruments at 30th April 2020.

	Group and Society	
	2020 £000	2019 £000
Financial assets		
Debt securities issued by other borrowers	14,991	50,145
Derivative financial instruments	2	529
Financial liabilities		
Derivative financial instruments	9,438	1,507

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	
	2020 £000	2019 £000	2020 £000	2019 £000
Loans and advances to credit institutions	116,429	114,544	116,429	114,411
Debt Securities	93,009	50,145	93,009	50,145
Loans and advances to customers	1,026,679	934,466	1,026,679	934,466
Derivative assets	2	529	2	529
	1,236,119	1,099,684	1,236,119	1,099,684

Credit risk on loans and advances to customers is shown net of provisions of £1,006k (2019: £506k).

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	2020 £000	2020 %	2019 £000	2019 %
Banks	91,989	44	41,729	25
Building Societies	9,521	4	9,955	6
Central Government	107,928	52	113,005	69
	209,438	100	164,689	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.

Notes to the Accounts

5. Financial Instruments (continued)

LTV Analysis
Residential

	Group 2020 %	Group 2019 %
The Society's loan book is split between		
0-50%	26	28
50% to 60%	13	15
60% to 70%	13	16
70% to 80%	11	14
80% to 90%	16	14
90% to 100%	21	13
Total	100	100

LTV Analysis
Buy-to-Let

	Group 2020 %	Group 2019 %
0-50%	12	13
50% to 60%	14	12
60% to 70%	24	27
70% to 80%	47	47
80% to 90%	1	1
90% to 100%	2	-
Total	100	100

LTV Analysis
Commercial

	Group 2020 %	Group 2019 %
0-50%	35	32
50% to 60%	20	23
60% to 70%	25	23
70% to 80%	18	19
80% to 90%	0	-
90% to 100%	0	-
Greater than 100%	2	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 55% (2019:50%). The increase on the prior year is in line with the Society's strategy to offer more first time buyer mortgages. 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. Residential collateral values are adjusted by the Nationwide price index to derive the indexed valuation at 30th April 2020. This HPI takes into account regional data. The Group uses the index to update the property values of its portfolios on a quarterly basis. Commercial property valuations have not been updated since loan origination. Payment holidays have not been included in the above table.

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	
	2020 £000	2020 %	2019 £000	2019 %
Wales	516,389	50	535,169	57
South West	138,613	14	130,124	14
Midlands	89,744	9	66,898	7
Outer London	51,321	5	38,341	4
South East	57,373	5	43,809	5
Greater London	61,607	6	46,540	5
North West	40,148	4	23,943	3
Other	71,484	7	49,642	5
	1,026,679	100	934,466	100

Arrears Analysis	Group		Group	
	2020 £000	2020 %	2019 £000	2019 %
Neither past due or impaired	1,009,602	99	921,991	99
Past due up to 3 months	11,959	1	6,903	1
Past due up to 6 months	2,351	-	2,229	-
Past due 6 to 9 months	653	-	2,049	-
Past due over 9 months	2,114	-	1,294	-
	1,026,679	100	934,466	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% (2019: 0.5%) is greater than three months in arrears. Specific provisions are calculated against impaired balances (see note 11).

Notes to the Accounts

6. Administrative Expenses

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Staff costs	7,310	7,328	7,310	7,328
Auditor's remuneration:				
Statutory audit of Society	135	83	135	83
Overruns from prior year statutory audit	50	-	50	-
Statutory audit of Subsidiary	4	4	4	4
Other services	-	-	-	-
Other expenses	3,713	4,395	3,773	4,449
	11,212	11,810	11,272	11,864

Included in staff costs are defined contribution pension scheme contributions of £527k (2019: £489k) and £156k (2019: £244k) in relation to defined benefit scheme pension costs.

7. Taxation

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Current Tax:				
UK Corporation Tax (credit)/charge	(215)	375	(243)	345
Adjustments in respect of previous years	4	(12)	4	(12)
Total current tax (credit)/charge	(211)	363	(239)	333
Deferred Tax:				
Origination and reversal of timing differences	12	(57)	11	(57)
Adjustment in respect of previous years	(4)	11	(4)	11
Effects of changes in tax rates	4	6	4	6
Total deferred tax charge/(credit)	12	(40)	11	(40)
Total tax per Income and Expenditure Account	(199)	323	(228)	293
Equity items				
Deferred tax current year (credit)	(370)	(123)	(370)	(122)
Total tax (credit)	(570)	(200)	(598)	(169)

7. Taxation (continued)

The Society was subject to corporation tax of 19% for the year (2019: 19%).

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

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
(Loss)/Profit for the period	(1,195)	1,243	(1,284)	1,413
Effects of:				
Tax at 19% thereon (2019: 19%)	(227)	236	(244)	268
Expenses not deductible	28	86	17	24
Income not taxable	(6)	(4)	(6)	(5)
Adjustments from previous periods	(1)	(1)	(1)	(1)
Qualifying charitable donations	1	-	1	-
Tax rate changes	5	6	5	7
Tax (credit)/charge for the period	(200)	323	(228)	293
Statement of Financial Position				
Current tax (receivable)/payable	(1,132)	189	(1,157)	151
Deferred tax (assets)/liabilities:				
Provision at end of period	(346)	32	(346)	32
Prior period adjustment (see note 21)*	-	(215)	-	(215)
Deferred tax (charge)/credit to income statement for the period	15	(51)	15	(51)
Adjustment in respect of prior years	(4)	11	(4)	11
Deferred tax (charge)/credit in equity for the period	(370)	(123)	(370)	(123)
Asset at end of period	(705)	(346)	(705)	(346)
Fixed asset timing differences	159	170	159	170
Short-term timing differences - trading	(864)	(516)	(864)	(516)
	(705)	(346)	(705)	(346)
Deferred tax (assets) recoverable in 12 months	(864)	(516)	(864)	(516)
	(864)	(516)	(864)	(516)
Deferred tax liabilities recoverable in 12 months	159	170	159	170
	159	170	159	170

*The 2019 deferred tax charge relating to the pension scheme prior period restatement as detailed in note 21 has not been restated on the basis of materiality.

Notes to the Accounts

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	
	2020 £000	2019 £000
Accrued interest	28	32
Maturing in not more than three months	1,000	3,000
Maturing in more than three months but not more than one year	2,500	4,000
	3,528	7,032

9. Debt Securities Issued by Other Borrowers

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

	Group and Society	
	2020 £000	2019 £000
Accrued interest	82	124
Maturing in not more than one year	14,988	22,980
Maturing in more than one year	77,939	27,041
	93,009	50,145
Analysis of Debt Securities:		
Issued by public bodies	14,991	38,229
Issued by other borrowers	78,018	11,916
	93,009	50,145

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	
	2020 £000	2019 £000
In not more than three months	6,294	5,079
In more than three months but not more than one year	2,654	4,000
In more than one year but not more than five years	54,306	50,638
In more than five years	964,431	875,255
	1,027,685	934,972
Provisions for bad and doubtful debts (note 11)	(1,006)	(506)
	1,026,679	934,466
Loans fully secured on residential property	1,003,752	913,386
Other loans – fully secured on land	22,927	21,080
	1,026,679	934,466

The Society has encumbered £246.4 million (2019:£216.2 million) 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.

Notes to the Accounts

11. Provisions for Bad and Doubtful Debts

In light of the COVID-19 pandemic, the Society has reviewed its assumptions within the impairment model and has made some additional provisions due to the increased level of uncertainty.

At 30th April 2020, 863 payment holidays had been agreed with a total value of £124 million. Given that payment holiday requests granted represent 12% of the Society's Loan Book, it was appropriate to include a specific overlay. Changes to assumptions included a house price stress and increased probability of default which generated an addition provision of £376k.

A further collective provision was made for COVID-19 to reflect the increased credit risk associated with the whole of the loan book. Currently the collective model includes IBNR (Incurred but not reported) loans where an impairment has been incurred but not reported to the Group. An overlay to this calculation is considered appropriate to reflect the change in the current economic environment due to the pandemic. The changes to assumptions made were a combination of increases to probability of default, an increase in forced sale discounts and a reduction in the emergence period. This resulted in an additional provision of £74K.

These additional COVID-19 provisions (total £450k) are driving the increase from £506k at 30th April 2019 to £1,006k at 30th April 2020 as shown below:

	Group and Society				
	Residential		Commercial		
	Specific £000	Collective £000	Specific £000	Collective £000	Total £000
At 1st May 2019	253	123	129	1	506
Amounts utilised in year	-	-	(203)	-	(203)
Charge/(release) for the year	385	75	244	(1)	703
At 30th April 2020	638	198	170	-	1,006
At 1st May 2018	133	195	127	28	483
Amounts utilised in year	-	-	(136)	-	(136)
Charge/(release) for the year	120	(72)	138	(27)	159
At 30th April 2019	253	123	129	1	506

12. Investments

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Shares in subsidiaries	-	-	2,074	2,206
Shares in other investments (Mutual Vision Technologies)	369	18	369	18
	369	18	2,443	2,224

With the objective to streamline the group structure, the investments in the following non-trading subsidiaries have been written off in preparation for strike off:
Monmouthshire Insurance Services Ltd
Monmouthshire Independent Financial Advisers Ltd
MBS Developments Ltd

During the financial year, the loan issued to Mutual Vision (£351k) was converted to equity. This is reflected in the above table.

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

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

The Group does not account for Mutual Vision Technologies Ltd as an associated company as the Society does not exercise significant influence over the company. 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 Building Society, 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 30th April 2020			
Unmatched derivatives interest rate swaps	94	2	(375)
Derivatives designated in hedging relationships	455	-	(9,063)
	549	2	(9,438)
At 30th April 2019			
Unmatched derivatives interest rate swaps	138	68	(27)
Derivatives designated in hedging relationships	479	461	(1,480)
	617	529	(1,507)

Interest rate swaps are matched to specific issuances of fixed rate retail shares or loans. All hedges are supported by comprehensive hedging documentation as per the requirement in FRS 102 with the adoption of IAS39. The Society utilises the derivative instruments for hedging purposes only and no such instruments are used for trading activity or speculative purposes. All fair value hedges are against 3 month LIBOR or SONIA.

In July 2017, the FCA announced that the regulator would no longer compel banks to sustain LIBOR beyond 2021. More information on the discontinuation of LIBOR is given in note 5.

Notes to the Accounts

14. Intangible Fixed Assets

	Computer Software
Group and Society	£000
Cost	
At 1st May 2019	2,948
Additions	44
Disposals	(561)
At 30th April 2020	2,431
Amortisation	
At 1st May 2019	1,366
Charge for the year	435
Disposals	(561)
At 30th April 2020	1,239
Net Book Value	
At 30th April 2020	1,192
At 30th April 2019	1,582

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

15. Tangible Fixed Assets

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1st May 2019	6,943	578	2,878	10,399
Additions	589	47	39	675
Disposals	(251)	(143)	(1,207)	(1,601)
At 30th April 2020	7,281	482	1,710	9,473
Depreciation				
At 1st May 2019	1,624	322	2,186	4,132
Charge for the year	101	83	186	370
Disposals	(37)	(144)	(1,207)	(1,388)
At 30th April 2020	1,688	261	1,165	3,114
Net Book Value				
At 30th April 2020	5,593	221	545	6,359
At 30th April 2019	5,319	256	692	6,267

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 1st May 2019	2,513	2,959	2,826	8,298
Additions	589	47	39	675
Disposals	(251)	(143)	(1,207)	(1,601)
At 30th April 2020	2,851	2,863	1,658	7,372
Depreciation				
At 1st May 2019	578	858	2,133	3,569
Charge for the year	75	78	186	339
Disposals	(37)	(144)	(1,207)	(1,388)
At 30th April 2020	616	792	1,112	2,520
Net Book Value				
At 30th April 2020	2,235	2,071	546	4,852
At 30th April 2019	1,935	2,101	693	4,729

15. Tangible Fixed Assets (continued)

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1st May 2018	6,937	487	3,949	11,373
Additions	6	91	81	178
Disposals	-	-	(1,152)	(1,152)
At 30th April 2019	6,943	578	2,878	10,399
Depreciation				
At 1st 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 30th April 2019	1,624	322	2,186	4,132
Net Book Value				
At 30th April 2019	5,319	256	692	6,267
At 30th 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 1st May 2018	2,507	2,868	3,897	9,272
Additions	6	91	81	178
Disposals	-	-	(1,152)	(1,152)
At 30th April 2019	2,513	2,959	2,826	8,298
Depreciation				
At 1st 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 30th April 2019	578	858	2,133	3,569
Net Book Value				
At 30th April 2019	1,935	2,101	693	4,729
At 30th April 2018	2,209	2,077	1,241	5,527

16. Shares

	Group 2020 £000	Society 2019 £000
Held by individuals	**883,355**	817,942

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

	2020 £000	2019 £000
Accrued interest	1,372	862
On demand	281,839	268,473
In not more than three months	378,089	346,792
In more than three months but not more than one year	95,757	107,710
In more than one year but not more than five years	126,298	94,105
	883,355	817,942

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 2020 £000	Society 2019 £000
Accrued interest	82	132
In not more than three months	15,500	15,500
In more than three months but not more than one year	47,000	24,000
In more than one year but not more than five years	35,715	59,000
	98,297	98,632

Amounts owed to credit institutions includes £74,029k (2019:84,081k) 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 2020 £000	Society 2019 £000
Accrued interest	488	234
On demand	98,622	76,977
In not more than three months	50,733	14,432
In more than three months but not more than one year	31,215	26,074
In more than one year but not more than five years	6,532	5,000
	187,590	122,717

Notes to the Accounts

19. Other Liabilities

	Group		Society	
	2020 £000	2019 restated £000	2020 £000	2019 restated £000
Falling Due within One Year:				
Loans from subsidiaries	-	-	718	816
Corporation tax payable/(receivable)	25	(26)	-	(64)
Other creditors	1,571	598	1,566	755
	1,596	572	2,284	1,507

The 2019 balances have been restated to account for additional deferred tax relating to the prior year pension adjustment as detailed in note 21.

20. Provisions for Liabilities

	FSCS Levy	Other Provisions	Total
	£000	£000	£000
Group and Society			
At 1st May 2019	13	60	73
Amounts utilised		-	-
Charge/(credit) for the year	(13)	64	51
At 30th April 2020	-	124	124

Other provisions relate to redundancy costs with respect to a former director.

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 were declared in default by the PRA (formerly FSA).

The FSCS provision was fully paid during the financial year.

21.Information Regarding Directors and Employees

a) Employment	Group and Society	
	2020 £000	2019 £000
Costs (excluding non-executive Directors):		
Wages and salaries	5,948	5,998
Social security costs	679	596
Other pension costs	683	734
	7,310	7,328

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 6th April 2019.

This showed that the market value of the scheme's assets at that time was £13.2 million. From 5th April 2005, members' pensionable salary increases were restricted to the lower of RPI or 5%.

The Society has taken the decision to close its defined benefit pension scheme to future accrual. In reviewing the scheme deed and rules, two issues were identified with the calculation of the future liability within the scheme. The first issue relates to the incorrect calculation of pensions. These calculations did not take into account the amendments to the pensionable earnings definition over time in the scheme's applicable governing trust deed and rules. Given that the impact of the issue occurred in prior accounting periods, the amount of the correction as at 1st May 2018 was to increase the pension scheme liability by £1,129k and increase the deferred tax asset associated with that liability by £215k with a corresponding net £914k reduction in reserves. There is a further £106k pension scheme liability increase in 2018/19, resulting in a total impact to reserves of £1,020k as at 30th April 2019. The impact on the results for the year ended 30th April 2019 has been set out in the table below. The second issue relates to the original drafting of the scheme rules dating back to 1994. The directors have considered the impact of this issue and based on legal advice received do not believe there is a material impact on the accounts. The table below sets out the impact of the adjustments on the Group. The adjustments impact both the Group and Society.

Statement of Financial Position:	2019	Adjustments	2019 (as restated)
Present Value of Funded Obligations	14,956	1,235	16,191
Fair Value of Fund Assets	(13,303)	0	(13,303)
Net pension scheme liability	1,653	1,235	2,888
Deferred tax asset	(131)	(215)	(346)
Equity attributable to members	65,002	(1,020)	63,982
Statement of Other Comprehensive Income			
Actuarial (loss) on defined benefit obligation	(892)	(106)	(998)

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:

	Group and Society	
	2020	2019 restated
	£000	£000
Present Value of Funded Obligations	18,179	16,191
Fair Value of Fund Assets	(13,877)	(13,303)
Deficit	4,302	2,888

Notes to the Accounts

Pension Valuation (continued)

The amounts recognised in the Statement of Other Comprehensive Income	2020 £000	2019 restated £000
Actuarial gain on plan assets	144	254
Actuarial (loss) on defined benefit obligation	(1,849)	(998)
Total (loss)/gain	(1,705)	(744)
Actuarial (loss)/gain on defined benefit obligation		
Of which due to experience	(688)	-
Of which due to demographic assumptions	175	-
Of which due to financial assumptions	(1,336)	(998)
Actuarial (loss)/gain on defined benefit obligation	(1,849)	(998)

Changes in the Present Value of the Defined Benefit Obligation:	2020 £000	2019 restated £000
Liabilities at the beginning of the period	16,191	14,897
Interest cost	417	397
Service cost	86	211
Contributions by members	38	38
Actuarial loss	1,849	998
Benefits paid	(402)	(350)
Liabilities at the end of the period	18,179	16,191

Pension Valuation (continued)

Changes in the Fair Value of Plan Assets:	2020 £000	2019 £000
Fair value of plan assets at the beginning of the period	13,303	12,542
Interest income	347	364
Actuarial gain/(loss)	144	254
Contributions by the employer	447	447
Contributions by members	38	46
Benefits paid	(402)	(350)
Fair value of plan assets at the end of the period	13,877	13,303

Analysis of Return on Plan Assets :	2020 £000	2019 £000
Interest income	347	364
Actuarial gain/loss on plan assets	144	254
Return on plan assets	491	618

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.

	2020 £000	2020 £000	2019 £000	2019 £000
Equities	5,949	43	6,096	46
Bonds	6,440	46	5,704	43
Cash and Net Current Assets	99	1	52	0
Annuities	1,389	10	1,451	11
	13,877	100	13,303	100

21. Pension Valuation (continued) Amounts Recognised in the Income Statement	2020 £000	2019 £000
Service cost (including Guaranteed Minimum Pension Costs)	86	211
Net interest cost	70	33
Total Pension expense	156	244

Notes to the Accounts

21 Pension Valuation (continued)

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 30th April 2019 this resulted in an additional charge to profit in the year of £40,000 before tax.

Principal Actuarial Assumptions at the Balance Sheet Date:	2020 %	2019 %
Discount rate	1.7	2.6
RPI price inflation	2.6	3.2
CPI price inflation	1.6	2.2
Rate of increase in salaries	2.6	3.2
Rate of increase in pensions in payment	2.6	3.1
Post retirement mortality	S2NxA CMI 2018 (1.00%)	S2NxA CMI 2016 (0.75%M/0.5%F)

Life Expectancies	2020 years	2019 years
Current pensioners age 60 - males	26.2	26.7
Current pensioners age 60 - females	28.4	28.5
Future pensioners age 60 (currently age 40) – males	27.4	27.5
Future pensioners age 60 (currently age 40) - females	29.6	29.1

Employees

	Group		Society	
	2020	2019	2020	2019
Average number employed during the year:				
(i) at the Society's Head Office:				
Full-time	122	121	122	121
Part-time	16	15	16	15
(ii) at Branch Offices:				
Full-time	25	25	25	25
Part-time	36	38	36	38
	199	199	199	199

22. Capital Commitments

Capital commitments contracted for but not provided in these accounts were £nil (2019: £nil).

23. Commitments Under Non-Cancellable Leases

The Group has the following commitments in respect of operating lease rentals:	2020 £000	2019 £000
Less than one year	184	138
Between one and five years	296	279
Greater than five years	147	162
	627	579

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 45**.

Included within other assets is a loan of £0k to Mutual Vision Technologies (2019:£352k). During the financial year this loan was converted to equity as reflected in note 12. Loans from subsidiaries of £718k (2019: £816k) are included within Other Liabilities.

Loans to Directors

There was an aggregate of £202k (2019: £209k) 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:

	2020 £000	2019 £000
Rent paid to Austin Friars (Newport) Development Company Ltd	(60)	(60)
Loan interest from Mutual Vision Technologies Ltd	6	6

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 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 30th April 2020

Annual Business Statement

1. Statutory Percentages

	Percentages at 30th April 2020	Statutory Limit
	%	%
Proportion of business assets not in the form of loans fully secured on residential property (the "lending limit")	2.5	25
Proportion of shares, deposits and debt securities in the form of shares not held by individuals (the "funding limit")	24.5	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

	2020	2019
	%	%
As a percentage of shares and borrowings:		
Gross capital	5.28	6.16
Free capital	4.83	5.71
Liquid assets	17.96	15.88
As a percentage of mean total assets:		
Profit after tax	(0.08)	0.08
Management expenses	1.02	1.17
Cost income ratio	103.83	90.26

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 2019 and 2020 figures.
(vi) Management expenses represent the aggregate of administrative expenses and depreciation.
(vii) Cost income ratio represents administrative expenses including depreciation 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
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 (Chair)	Chartered Accountant	09.09.62	01.09.14
L McKenzie BEng (Hons)	Chief Operating Officer	12.07.65	01.09.18
A D Morgan BSc (Hons) FCA	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
N Hingorani-Crain	Achieving for Children Community Interest Hingorani-Crain Limited
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) Power Poles Ltd
R D Turner	F M Capital Partners Ltd

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	Chief Risk Officer

At 30th April 2020, 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 months' 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	48 Tredegar Street, NP11 6BU	Tel: 01633 613181
SWANSEA	18 Union Street, SA1 3EH	Tel: 01792 657460

Agency Offices

ABERGAVENNY	Bidmead, Cook & Waldron Estate Agents 15 High Street, NP7 5RY	Tel: 01873 853640
ABERTILLERY	Simon Thompsett Associates Ltd 40 Church Street, NP13 1DB	Tel: 01495 211535
BLACKWOOD	UKTS Ltd 221 High Street, NP12 1AL	Tel: 01495 220003
BRECON	Beacon Independent Advice Ltd 2 The Struet, LD3 7LH	Tel: 01874 611911
CARDIFF	Beacon Independent Advice Ltd 18 Merthyr Road, Whitchurch CF14 1DG	Tel: 02920 618989
CLEVEDON	Newsham Hanson Limited Edinburgh House 1-5 Bellevue Road, Clevedon. North Somerset BS21 7NP	Tel: 01275 878548
COWBRIDGE	Brinsons Fairfax Estate Agents 67 High Street, CF71 7AF	Tel: 01446 774595
GRIFFITHSTOWN	Simon Thompsett Associates Ltd 12 Windsor Road, NP4 5HY	Tel: 01495 757121
HEREFORD	Trivett Hicks Estate Agents 18 Kings Street, HR4 9BX	Tel: 01432 274300
KENFIG HILL	Elite Independent Mortgages Ltd 61 Commercial Street, CF33 6DH	Tel: 01656 745065
NEWBRIDGE	Granville West Chivers & Morgan Solicitors 1 Tynewydd Terrace, NP11 4LS	Tel: 01495 243268
PENARTH	Watts & Morgan Estate Agents 3 Washington Buildings, Stanwell Road CF64 2AD	Tel: 02920 711340
PORTISHEAD	Brooking, Ruse & Co 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
USK	M2 Estate Agents 17 Bridge Street, Usk. NP15 1BQ	Tel: 01291 673347

Monmouthshire
Building Society

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

www.twitter.com/monmouthshirebs www.facebook.com/monmouthshirebs

Telephone calls may be monitored and/or recorded for security and training purposes

To find out how we use your data, please visit www.monbs.com/privacy, pop into a branch, call our Customer Services Department (01633 844340) or email dataprotection@monbs.com

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

AR&A20 (07/20-1)