Monmouthshire
Building Society

Annual Report & Accounts

Year ended 30 April 2018

Monmouthshire Building Society

Contents

2018 Highlights

Results	2018	2017	2016	2015 (as restated under FRS102)	2014
Total Assets (£ millions)	1,059.1	1,053.8	1,073.5	1,047.9	975.6
Lending					
Gross new Lending (£ millions)	185.5	141.2	139.1	181.4	157.0
Net Lending (£ millions)	31.0	5.2	4.0	65.5	60.9
Net Interest Margin %	1.51	1.45	1.45	1.38	1.35
Capital					
Capital ratio (% Risk Weighted Assets)	16.88	16.11	14.72	13.45	13.06
Profitability					
Profit after tax (£ millions)	3.2	4.6	6.4	4.7	4.0
Profit after tax ratio (% mean total assets)	0.30	0.43	0.60	0.47	0.43
Management expenses ratio (% mean total assets)	1.16	0.93	0.75	0.67	0.67
Cost income ratio (%)	73.68	64.14	50.37	50.00	49.65

Explanations of how the above ratios are calculated are included in the Annual Business Statement on page 85.

Total Assets were £1059.1 million

Common Equity Tier 1 ratio of 16.88%

Over £9k contributed to our charity of the year

Profit after tax was £3.2 million

The Society scored 93% for Customer Satisfaction

Chairman's Review

As the new Chairman of the Board, I am delighted to introduce the Annual Report for 2018; a period which has seen the Society achieve mortgage growth of 4% and also made significant changes within the business.

In 2017, the Board approved a new five year strategy, the overarching objective of which was to return to sustainable mortgage growth, with modest targets set for the duration of the plan. The strategy was underpinned by the following strategic initiatives:

- A diversified lending strategy;
- Continued investment in the Society's operating infrastructure; and
- A customer centric distribution strategy.

In light of better than budgeted performance during the year, the ever changing macroeconomic environment and the recent Executive restructure, the Society has revised its growth targets upwards for the remaining four year period of the plan and has committed to the following:

- A new brand vision;
- Material enhancement of the Society's product and service propositions;
- Distribution via 'a customer centric multi-channel distribution model';
- Continued investment in the people and culture; and
- Investment in new premises to create a working environment that is fit for purpose and in the correct location.

Further information is included within the Strategic report on page 6.

Changes to the Board

Haydn Warman retired from the Board in April 2018. On behalf of the membership I would like to thank and congratulate Haydn for his outstanding contribution to the Board since he was appointed in 2010. During his time on the Board he has been instrumental in guiding the Society through a challenging period of organisational change and leaves the Society in a strong position.

We are committed to ensuring that the Board has the right balance of skills and experience to meet the challenges and opportunities ahead. As a result, we review the Board's composition regularly. A number of changes were announced during the year to ensure that the Board is well placed for the next phase of the Society's development.

I would also like to express my appreciation to Paul Leader following his resignation from the Board in February 2018 after 10 years of service as a Director. Paul has been with the Society for over 25 years and his long service and contribution to the Society has been invaluable.

I would like to welcome Will Carroll as our new Chief Executive Officer. Will was appointed in October 2017 having been our Finance Director since 2009 after James Bawa resigned on the grounds of ill health. Will had been acting Chief Executive since July 2017. I would also like to welcome our two new executive directors; Dawn Gunter, who joined us as Chief Operating Officer and Iwan Jones, our new Finance Director.

Will, together with his new Executive leadership team have brought the energy and drive to motivate colleagues and successfully implement the Society's updated strategy.

This, combined with our strong balance sheet, continued profitability and improving capital position provides the Society with the opportunity to grow and prosper into its milestone 150th year and beyond through development of its core business with new, exciting propositions that will help ensure the future long term sustainable growth of the Society.

We have made significant progress over the last financial year and I would like to record my thanks to the Board, the management team and all colleagues at the Society for their continued commitment and enthusiasm in ensuring Monmouthshire Building Society remains successful.

D R Lewis

Debra Lewis
Chairman

28 June 2018

Chief Executive's Report

Delivering Strong Performance through a Period of Significant Change

It is with pleasure that in my first Annual Review as Chief Executive Officer I am able to report a year of significant progress for Monmouthshire Building Society. In what has been a challenging operating environment, both internally and externally, our clearly outlined strategy of modest mortgage growth through a period of investment in people, processes and infrastructure has proven robust. The foundations are now in place to provide a platform for the Society to grow and prosper into the future.

Slow Growth Expected in the UK Economy

The UK economy has benefitted from an upturn in the global and Eurozone economies, which has helped to boost UK growth somewhat over the last 12 months, although it has remained relatively low as a whole. Prospects for the UK economy remain subdued and are likely to remain more uncertain than usual for the next few years as a consequence of Brexit negotiations.

The Monetary Policy Committee (MPC) voted to increase The Bank of England Bank Rate by 0.25% at its meeting in November 2017, the first increase in a decade, but has kept rates on hold since then. However, the latest MPC minutes suggest that the next rate rise will come later this year.

The UK housing market has continued to reflect the Brexit uncertainties and is anticipated to grow slowly in the coming years. Regionally, the Welsh housing market continues to grow at a modest, steady rate as homeowners continue to take advantage of historically low borrowing rates. The market is still being driven largely by first time buyers and re-mortgaging with the number of mortgages for first time buyers in Wales growing at twice the rate of the rest of the UK. The Severn Bridge toll fees are due to cease before the end of 2018, making commuting to cities like Bristol much cheaper. This could see a rise in property sales in Monmouthshire and nearby towns and cities across South East Wales.

A Return to Significant Mortgage Book Growth

Despite the challenges and competitive pressure in the market, the Society grew its mortgage book by £31m to £842m (2016: £811m), whilst our net interest margin was 1.51% (2017: 1.44%). This is considered to be a credible performance in a competitive market. We achieved growth in gross lending of £186m in the year (2017: £141m), an increase of 31% on 2017. A key part of the Society's lending strategy is to continue to offer competitive rates for its core residential products. Despite the highly competitive nature of this market, the Society's strong growth in the latter half of the year was primarily due to residential lending. We maintain a flexible underwriting approach which enables us to consider individual cases on their merit. In particular, the Society helped many first time buyers on to the property ladder.

The high levels of competition in our core residential market has led to increased redemption risk within the industry. Our retention performance in the year has improved, with 60% of the £250m loans maturing in the year staying with the Society as we offered competitive rates for our existing members.

Performance of our mortgage portfolio remains strong. There was a reduction in the numbers of loans more than three months in arrears, driven by continued strong performance in the underwriting of new lending. This drove a reduction in balance sheet loan loss provisions.

Delivering Value and Service to our Loyal Members

The Society has continued to reduce its liquidity to support lending and increase its balance sheet efficiency and therefore the size of its balance sheet only grew marginally in the year by 0.4% (2017: reduction of 1.8%). The Society's liquidity decreased to 20.70% of shares and deposit liabilities from 23.60%. We have achieved this policy of reducing surplus liquidity whilst maintaining competitive savings rates for our loyal investing members. Following the announcement by the Bank of England of the increase in Bank Rate in November 2017, we took the decision to increase all of our personal variable savings rates by at least 0.25%, with a maximum increase of 0.45%.

We remain predominantly retail funded and our future strategy will ensure that this remains the case. A range of attractive member led product propositions will be launched in the coming years to grow our membership and support the future growth of the Society. This will ensure the Society continues to offer products tailored to their needs, along with a focus on delivering the best possible service.

Significant progress has also been made in the development of our branch strategy. This helps to ensure the Society's branch and agency network remains a key differentiator from high street banks within the communities in which we operate, and that our members are able to transact with the Society through a wider range of distribution channels, making it easy to buy our products and services. In the current year, we plan to move our Monmouth and Risca branch offices to new locations within each town, making them more accessible for our members.

Investing in our Infrastructure

During the year the Society has created a vibrant new brand that will lend itself to attracting a younger and wider membership. Our website, literature and our branches have now been rebranded with a planned programme for the rebranding of our agency partners already underway.

The Society has committed significant resource to improve its processes and its IT infrastructure. This has included the development of key software solutions, a new telephony system, development of our website, investment in finding new and innovative ways to enter the digital market and strengthening systems to reduce our exposure to the increasing threat of cyber risk.

A business strategy and change function has been established to help the business support the implementation of planned strategic initiatives and enhancements in a controlled manner. We want to ensure that a continuous improvement culture is embedded within the organisation to generate efficiencies and benefit from investment and create a more scalable operating model in the future.

There has been significant investment in our people and culture as we build our team for the future. A new Executive team has been appointed to lead the implementation of the Society's strategy. The Society's culture is evolving, with colleagues empowered to deliver their objectives and senior management seeking to ensure that people are appropriately equipped to successfully perform their roles. The aim is to achieve a dynamic working culture that serves to attract the best talent, retain existing employees and to create an environment which rewards achievement and fosters success.

Enhancing our Capital Position

We have recorded a profit after tax for the year of £3.2m (2017: £4.6m). As a mutual, it is first and foremost in our minds that we have to balance the needs of our savers and borrowers as well as deliver profit for the business which will help us to keep the business secure as regulators within the UK and Europe want financial institutions to hold increased levels of capital to better protect against future shocks. Currently, generating profits is the only way that the Society is able to create more capital to invest in its future and provide essential protection for the Society and our members.

The decrease in profit after tax when compared with the prior year is largely caused by increases in the Society's cost base, some of which is non recurring, offset by fair value gains on the Society's derivatives. During the year the Society's cost income ratio increased to 73.68% from 64.14% in the prior year. This was predominantly as a result of significant investment in the Society's infrastructure. This investment was necessary in order to be able to implement the Society's strategic plan in the current operating environment and cater for future growth. Further expenditure is required to fully develop the infrastructure but cost income ratios are budgeted to reduce going forward.

We have continued to focus on ensuring the Society's balance sheet is safe, secure and fit for purpose for both the regulatory environment of today and that of the future. Our capital position is more than sufficient to meet our regulatory requirements. Our Common Equity Tier 1 ratio, which looks at our capital levels against our risk weighted assets is 16.88% up from 16.11% in 2017, comparing favourably with the industry and our leverage ratio which looks at our mean reserves against our mean assets which is 5.96% (2017: 5.81%).

Community

As a mutual organisation we are committed to going the extra mile to support the local communities in which we operate. I am pleased that this year we have enhanced that commitment once again, investing in our local communities through colleague volunteering and sponsorship. The Society continues to uphold its commitment to the many groups and charities in our communities, giving back through a number of sponsorship programmes. Groups that benefited throughout the financial year include South Wales Shire Horse Society, Cowbridge Music Festival, Newport and District Football

Chief Executive's Report (cont)

League and Scout Council Post. In addition, we are pleased to announce that the combined efforts of the team have raised a total of £9,510 for All Creatures Great and Small, our chosen charity of the year, which provides welfare and medical care for animals. The Society's independent Charitable Foundation continues its aim of support for our local communities, awarding £21k to 41 great causes during the year.

Future Outlook

Overall, the UK banking sector looks set to continue to be very competitive for mortgage business in the forthcoming financial year.

The housing market is predicted to grow slowly as high prices hit demand and supply is held back by homeowners increasingly opting to stay put. Mortgage lending is forecast to rise by 2.4% in the calendar year of 2018; little more than half of last year's 4.2%.

The volume of regulation within financial services remains high as the PRA and FCA continue to implement measures to ensure trust and confidence in the UK's financial services. The Society must remain abreast of regulatory changes and initiatives to ensure that it remains compliant with both prudential and conduct regulations in an ever changing marketplace, as such factors can materially impact upon the Society's strategy. The initial priority of year 2018/19 is to achieve compliance with the General Data Protection Regulation. Other areas of focus over the period of the new plan include the Arrears Remediation Programme, the Mortgage Credit Directive's move to European Standardised Information Sheet, Basel III and Pillar 2A Capital and Liquidity.

Given the current economic outlook and the associated low interest rate environment and increasing competition from non-traditional banking providers, challenging the profitability of many firms, it is important to ensure an efficient structure while still managing to embed the right culture and practices within their organisations.

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

William Carroll
Chief Executive
28 June 2018

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 Vision

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

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

Our Distinctiveness

The foundations for providing a distinctive customer proposition are:

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

Our ambition to serve our members and local community runs through our culture and decision making, and is key to ensuring we are building a safe and sustainable business that our members trust. Our values are at the forefront of everything we do:

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

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

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

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

Our Competitive Strengths

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

- personal service is key to our success. It differentiates us from our competitors, is what our brand represents and results in high levels of customer satisfaction and trust of our members;
- strong balance sheet and operating capacity for growth on a meaningful scale;
- the enthusiasm and knowledge of the Society's colleagues; and
- the Society's branch and agency network, which is largely located in the Society's core operating area, and forms a key part of those communities in which the Society operates.

Our Strategy

In July 2017, the Board committed to a 5 year strategy of achieving long term sustainable growth. This was underpinned by a number of strategic priorities based upon a range of scenarios that had been outlined by the Executive team. In light of stronger than budgeted financial and non-financial performance in year 1 of the plan, coupled with the ever changing macroeconomic environment, and the Executive restructure which took place in 2017, with a new Chief Executive Officer, Finance Director and Chief Operating Officer being appointed, the Society has modified its strategy for the remaining 4 year period of the strategic plan until 2022. Long term sustainable mortgage growth remains a key priority, however growth targets have been increased to capitalise on the infrastructure enhancements that have already been delivered. This will allow more members to benefit from mutuality whilst better utilising the increased cost base without compromising regulatory and operational demands.

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

Strategic Report (cont)

Lending

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

Our intent is to deliver propositions that meet member 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, new and existing members who are on a journey of rehabilitating their finances, and members requiring lending into later life and buy-to-let products;
- focus on delivering the highest quality service to our members and intermediaries; and
- minimise, as far as possible the high levels of redemptions that have been experienced in recent years.

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

Funding

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

- offer competitive savings rates that will help us to engage with different demographic groups, reflecting our brand values;
- focus on delivering the highest quality service to our saving members and retail depositors; and
- supplement our retail funding through the access to 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. Technology is central to much of what the Society delivers, its interactions with members and management of its products. Proliferation of technology is becoming more and more common given the demand from the marketplace and customer behavioural changes. However, given the pace of change and the interconnection of systems and suppliers, the delivery of these services is becoming more complex. The Society will use sustainable technology to improve services and drive efficiencies, supporting the long-term growth of the business and the ability to compete in the marketplace. Other key changes to infrastructure relate to:

People

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

Processes

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 investment in our property portfolio will be made to ensure the Society has a working environment which is modern, fit for purpose and will serve the Society for the duration of the strategic plan and beyond.

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. Key elements of our distribution strategy are described below:

The branch and agency estate is the face of the Society, and remains a critical channel for distribution in the communities in which we operate. We will investigate opportunities to increase our branch presence in South Wales and other identified locations outside our core area.

A digital proposition is essential to provide members with channels to enable them to own the choice of how they interact with the Society and will be a key enabler in the delivery of our member-led strategy.

In order to support our enhanced member propositions, we will support our branch model and provide another channel to market by offering video conferencing and telephone engagement alongside the face-to-face option within key branch locations. We will ensure the right resource is available at the right time to meet member demand.

With increasing regulation and the requirement for customer advice, the intermediary channel is crucial to fulfil the Society's growth ambitions. Maintaining and building strong relationships with key intermediaries will continue to be a key focus, improving business opportunity and reducing risk through network managed compliance functions.

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 of the Society can be found in the Risk Management Section.

DR Lewis

Debra Lewis
Chairman
28 June 2018

Directors' Report

Non-executive directors

Debra Lewis
Chairman

Debra Lewis

Debra joined the Board in 2014. She is the Chairman of the Nominations & Corporate Governance Committee and serves on the Risk Committee. Debra succeeded Haydn Warman as Society Chairman on 12 April 2018.

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.

Tony Morgan
Vice Chairman and Non-Executive Director

Tony Morgan

Tony was appointed to the Board in 2013. He was appointed Vice-Chairman of the Board in August 2016 and is Chairman of the Audit Committee. He also serves on the Remuneration Committee.

Career
Tony previously worked for PricewaterhouseCoopers (PwC) as Senior Partner in Wales and Deputy Chairman of the Wales and West Region. He spent nearly 33 years with PwC including 22 years as a partner of the firm. During his career, he was based in Cardiff, London and Sydney, where he carried out a wide range of accountancy, audit, investigation and governance assignments for PwC clients in the UK and overseas.

Subsequent to his retirement he has undertaken roles at the University of South Wales as Governor, Chair of the Finance & Resources Committee and Member of the Remuneration Committee; at the Welsh Assembly Commission as Independent Adviser and Chairman of the Remuneration Committee; and also at Geldards Law Firm as Chairman of the Audit Committee and 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 in England and Wales. He has substantial experience in accountancy and audit matters. He holds a BSC (Hons) degree in Chemistry from University College Cardiff.

Nina Hingorani-Crain

Non-Executive Director

Appointed to the Board in August 2015. She serves on the Audit and Remuneration Committees.

Nina Hingorani-Crain

Career

Nina began her career in Ernst & Young's Corporate Finance practice, and during her 5 years there advised a number of building society clients. She was subsequently recruited to join the former Financial Services Authority (FSA) and in her 10 years working with the regulator, undertook a variety of roles, initially in international strategy representing the FSA globally alongside supranational bodies including the IMF and World Bank. This was followed by senior management positions, as the Chairman's Principal Private Secretary during the global financial crisis and subsequently as Chief of Staff leading the demerger of the FSA and the creation of the new Financial Conduct Authority (FCA). Whilst at the FCA, Nina also undertook a 6 month strategic secondment to Age UK to inform the regulator's strategy of placing consumer needs at the heart of its mandate.

Skills and Experience

Nina has 20 years' experience in the financial services sector and brings a wide range of knowledge in conduct and consumer areas to the Board.

Nina is also a non-executive director serving on the Board of a multi-award winning social enterprise delivering innovative children's services. She combines her non-executive responsibilities with charitable work focused on children.

Roger Turner

Non-Executive Director

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

Roger Turner

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 and a non-executive director of Shepherds Friendly Society based in Cheshire. His experience is wide ranging, having been a trader in fixed income and derivatives and also as a regulator, in addition to his extensive consultancy experience as a partner in the Financial Services Regulatory Practice of 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 has considerable wide ranging experience in the financial services sector including Treasury, Corporate Finance and regulatory matters. He holds a BA (Hons) in Business Studies and an MBA in Finance from City University Business School.

Directors' Report (cont)

Trevor Barratt
Non-Executive Director

Trevor Barratt

Appointed to the Board in July 2016, Trevor is Chairman of the Risk Committee and a member of the Nominations & Corporate Governance Committee.

Career
Trevor has more than 30 years' experience in retail and business banking with a significant number of years as a senior executive in risk management. He has operated as an Executive Director in the financial services sector. For several years he was the Head of Strategic Risk for the Lloyds TSB Group, working within the Group Risk function, and subsequently he became the Chief Risk Officer of Charities Aid Foundation Bank, before moving to Duncan Lawrie Private Banking Group, prior to taking up his current role. He is the Quality Director at the Fairbanking Foundation. He was a non-executive director of a private bank, with an international clientele until its closure.

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

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 14 years and in that time has been responsible for various departments including Finance, Treasury, Customer Services and Credit Control. 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 has an in depth knowledge of the Society and the building society sector, and significant experience in financial management.

Iwan Jones
Finance Director

Iwan Jones

Iwan has worked with the Society since July 2017. He was appointed to the Board as Finance Director on 1 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 28 years' experience within Risk and Finance. He is a member of the Institute of Chartered Accountants in England & Wales and has considerable broad-based experience in financial management including business development, strategy, corporate finance, product development and risk management.

Dawn Gunter
Chief Operating Officer

Dawn Gunter

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

Career

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

Skills and Experience

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

Directors' Report

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 42 to 48, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement, Strategic Report and Directors' Report.

The Building Societies Act 1986 (the 'Act') requires the directors to prepare financial statements for each financial year. Under the Act the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under the Act the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Building Societies Act 1986. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

In Respect of Accounting Records and Internal Controls

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

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

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

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

Auditor

In line with the Society's Corporate Governance policy, an external audit tender was conducted in June 2017. As a result of the tender Deloitte were re-appointed as the Group's Auditor for the year ended 30 April 2018. The Audit Committee recommended that KPMG are appointed as the Society's external auditors for a five year period beginning with the year commencing 1st May 2018.

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

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

Capital Requirements Directive IV (CRD IV)

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

- All of the Group's activities are undertaken in the United Kingdom only. Monmouthshire Building Society is the parent 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.

Country-by-country Reporting

- The average number of employees is disclosed in note 20 (c) of the accounts.
- Net operating income and profit before tax is set out in the Income and Expenditure Accounts.
- Corporation tax paid is set out in the consolidated cash flow statement.
- No public subsidies were received in the year ended 30 April 2018.

Mortgage Arrears

At 30 April 2018 there were 85 properties (2017: 120) one month or more in arrears and 6 properties (2017: 9) where payments were twelve months or more in arrears.

Supplier Payment Policy

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

Events Since the Year End

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

Future Developments

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

Directors' Report (cont)

Principal Risks and Uncertainties

The principal risks and uncertainties to achieving the Group's strategic priorities together with our mitigating activities can be found in the Risk Management Section on page 37.

Financial Instruments

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

Long Term Viability Statement and Going Concern

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

The directors have assessed the viability of the Group over a three year period taking into account the business strategy and the principal risks as set out in the Strategic Report and the Risk Management Report. The directors have a reasonable expectation that the business can continue in operation and meet its liabilities as they fall due over the three year period of their assessment. The directors have determined that a three year period of assessment is an appropriate period over which to provide its viability statement. The three year period is considered to be most appropriate as it is the longest period over which the Board considers that it can form a reasonable view of the likely macroeconomic environment and associated key drivers of business performance.

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

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

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

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

Directors

The details of the directors are shown on pages 9 to 12. No director, or member of a director's family, has any interest in, or option to subscribe for, any shares or debentures of any associated body of the Society.

In accordance with best corporate governance practice, William Carroll and Debra Lewis are retiring at the Annual General Meeting. William Carroll and Debra Lewis, being eligible, offer themselves for re-election. Iwan Jones and Dawn Gunter having been appointed to the Board under rule 25, retire and offer themselves for election.

Signed on behalf of the Board

Debra Lewis
Chairman
28 June 2018

Corporate Governance Report

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

Statement of Compliance with the Code

The Board is committed to best practice in corporate governance and voluntarily adopts the principles set out in the Code. This report explains 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 the only departures from the Code are as a result of the business being structured as a building society, rather than a company, and being owned by members, rather than shareholders. Building societies are mutual organisations and are run for the benefit of the members and operate on a one member one vote principle. The Board has considered the proposals from the Financial Reporting Council in relation to the update of the Code and, pending the publication of the final Code, has increased the focus on culture, stakeholders and succession planning.

The Board's Focus during the Year

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

New Chairman

During the year, Haydn Warman gave the Board notice of his intention to retire from the Board on the conclusion of the AGM in August 2018. The Board approved the appointment of a new Chairman, Debra Lewis, following recommendations from the Nominations & Corporate Governance Committee, and a handover process was put in place. Due to health reasons, Haydn was forced to retire from the Board in advance of the AGM and Debra took over as Acting Chairman on 12 April 2018.

Senior Independent Director

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

Following recommendations from the Nominations & Corporate Governance Committee the Board agreed to appoint a Senior Independent Director to assist the Board with member and stakeholder matters. It was agreed that the Vice Chairman role remained relevant and would complement the Senior Independent Director role and new role descriptions were drawn up. Tony Morgan remains Vice Chairman.

Executive Restructure

During the year, James Bawa, the Chief Executive Officer 'Chief Executive', resigned on the grounds of ill health. The Board appointed William Carroll, as the new Chief Executive of the Society. Will has served as a director with the Society for 9 years and was formerly the Finance Director.

The restructuring of the executive director team was finalised by Dawn Gunter being appointed Chief Operating Officer and Iwan Jones as Finance Director. The Board has been kept regularly appraised of developments during this period and the progress made on the recruitment of the new executive positions. There have been regular updates on the emerging culture and values within the Society, employee engagement and the management of change through the transitional period.

At the time of writing, the Board is composed of eight directors which include three executive directors and five non-executive directors. A search is underway for a further non-executive director.

Operational Resilience

The Board has evaluated the operational resilience of the Society though business continuity planning, information technology and infrastructure. This has included consideration of cyber security, fraud detection software, financial crime and the upgrading of servers and network firewalls. The Board has been kept abreast of changes made to processes within the Society to improve resilience, and ensure the Society is compliant with new regulatory requirements, in particular compliance in relation to data protection under the General Data Protection Regulation (GDPR).

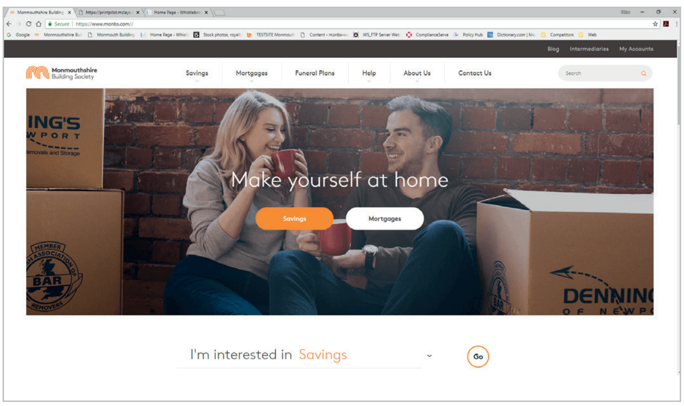
The Board has received regular reports on upgrades to the IT systems, including enhancements to the Broker Online website which has been upgraded to improve the online experience for brokers and improve digital capabilities.

Liquidity Management

In making decisions to ensure the long term success of the Society for the benefit of its members, the Board balances the needs of savings and borrowing to members. Cost effective sources of funding offered by the Bank of England in the form of the Term Funding Scheme and mortgage portfolio collateralisation were also considered.

Member Engagement

The Board has maintained oversight of the development of a new Society website to provide information to current and prospective members in a clearer, more accessible way. The new website is part of a larger re-branding exercise which will refresh and modernise the Society's brand for the future. In order to best serve the Society's members, the Board has reviewed its Lending Policy to align the products the Society offers with the needs of the members, including lending into retirement and offerings to vulnerable customers with the aim of making the Lending Policy clearer and improving the customer experience.



Colleague Engagement

Through a period of change within the Society during the executive restructure and efficiency improvements, the Board listened to and responded to feedback from colleagues. Regular updates were provided on employee turnover and any work-related absences.

Internal communications were enhanced to keep colleagues informed regarding the activities and developments within the Society. The Chief Executive holds a monthly call with all colleagues to update them on strategy and performance. This gives all colleagues the opportunity to ask questions of him or the executive team. The Board has agreed that it will hold regular 'meet the Board' sessions after each Board meeting where colleagues will take turns in attending and be able to speak to the Board on an informal basis.

The Board received updates on various colleague related matters such as the review of the reward structure, to ensure pay was fair and colleagues were appropriately incentivised. An Employee Assistance Programme was communicated to colleagues which offered a free and confidential way to resolve issues and provide a personal support programme 24 hours a day 365 days a year. Surveys were introduced to obtain regular feedback from colleagues on a continuous basis to improve engagement levels and allow management to respond faster to feedback.

The Board is committed to building a diverse and inclusive workforce and understands that colleagues have different demands and responsibilities in their life.

The Board has considered the aspirational culture for the Society and is focused on setting the right tone from the top. The Board recognises that good governance is more than rules, regulations and frameworks, and the people on the Board, and it extends to embedding the right culture, values and ethics within the Society. The Board receives regular reports monitoring the culture within the Society.

Stakeholder Engagement

The Board recognises that the Government wish to create an economy that works for all and one that is focused on governance and stakeholder engagement within businesses. During the year the Board considered who its stakeholders were and how best to engage with the groups identified. This will be brought back for further discussion in 2018/19 along with the formulation of a stakeholder engagement plan.

Corporate Governance Report (cont)

Control Environment

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

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

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

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

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

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

A typical Board agenda would include:

- apologies and conflicts of interest where relevant;
- minutes of the previous Board meeting;
- action tracker updates where the Board hold management to account on actions underway within the business;
- executive reporting including the Chief Executive Report and Strategic Issues, Finance Director's Report, Chief Operating Officer's Report and, if there has not been a Risk Committee meeting that month, the Head of Risk & Compliance Report;
- oral updates from the Chairmen of the Board Committees on their activities since the last meeting;
- policies and Governance which would include reviews and updates to existing policies and new governance and regulatory developments; and
- any other business.

The strategic items are dealt with at the start of the meeting to ensure there is sufficient time available for a debate. 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 and its Members

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

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

The Chairman is responsible for leading and managing the work of the Board. This is done by setting the Board's agenda and ensuring adequate time is available for discussion of agenda items within a culture of openness and debate by facilitating contributions by the non-executive directors at meetings and ensuring constructive relations between the executive and non-executive directors. The Chairman is responsible for promoting good governance and leading the development of the Society's culture.

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 CEO who is supported by an executive team.

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 terms and conditions;
- approval of certain policies;
- adoption and amendments to the Strategic Plan and annual budgets, including any new or discontinuation of business activity;
- the appointment of the external and internal auditors;
- approval of the Annual Report and Accounts;
- changes to the pension scheme; and
- approval of the Society's overall risk appetite statement and risk appetite levels.

Chairman's Principal Responsibilities

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

Non-executive Directors' Principal Responsibilities

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

Executive Directors' Principal Responsibilities

- discharging their personal responsibilities under the Senior Managers Regime for their areas they are accountable for;
- creating and articulating the vision of the future;
- providing clear business and cultural leadership;
- leading the delivery of the Group's strategy; and
- ensuring the Group operates ethically.

Independence of Non-executive Directors

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

Induction and Training

All directors receive an induction on joining the Board which is tailored to the individual. All directors participate in an ongoing programme of training and professional development designed to keep their knowledge and skills up to date and ensure they have appropriate knowledge of the Society and access to its operations and colleagues.

Areas of training are identified through performance evaluations of the Board and its committees, individual reviews conducted by the Chairman with each director and relevant requirements as they arise. Non-executive directors provide the Chairman with details of training undertaken outside the Society in the year. Non-executive directors can request specific training that they consider to be necessary or useful and can meet with executives and managers within the business.

Corporate Governance Report (cont)

Induction and Training (cont)

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: Compliance, Treasury, IT and Cyber, Operational Resilience, Mortgage Portfolio Collateral and Financial Crime among other topics. Briefing notes on various matters, including regulatory changes and best practice, are provided throughout the year. Board members complete a programme of online compliance training which covers topics such as conduct risk, data protection, cybercrime and fighting fraud. 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 colleagues within the Society. During the year the Board received a presentation from a colleague enrolled on the Masters course run in collaboration with Loughborough University and the Building Societies Association on Leadership and Management. The Society places one student per annum on this course.

Election and Re-election

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

Appraisals and Effectiveness

The Board ensures that an annual appraisal is carried out for each director and the Nominations and Corporate Governance Committee considers each individual director's performance and scope of experience to ensure they continue to meet the Society's stringent requirements and they are able to allocate sufficient time to the Group to discharge their responsibilities effectively. The letters of appointment for non-executive directors set out the minimum time commitment expected for the role. The time commitment may increase during times of significant change in the Society or the market, or when new strategies and developments are under consideration. The time commitment varies depending on whether the non-executive director also chairs a committee in which case it can increase significantly.

The performance of the non-executive directors is evaluated by the Chairman who assesses whether the individual's performance continues to be effective and whether they demonstrate commitment to the role. The performance of the Chief Executive is evaluated by the non-executive directors and the performance of the executive directors is evaluated by the CEO. The performance of the Chairman is separately assessed by the directors and co-ordinated by the Vice Chairman who will hand over this aspect of his role to the Senior Independent Director in 2018/19. In 2018 the annual appraisals took place. It was concluded that the respective objectives noted above had been met.

Through the Secretary and Chief Executive, the Chairman ensures that directors receive accurate, timely and clear information to enable them to make effective contributions to Board meetings and discharge their duties effectively. Management will provide clarification and amplification where necessary. The Secretary is responsible for advising the Board through the Chairman on all governance matters.

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

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

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

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

Formal and rigorous internal performance evaluations of the Board, its committees and individual directors take place annually. The Board conducts an external performance evaluation every three years in line with best practice. During the year the Board appointed CMS Cameron McKenna Nabarro Olswang, which has no other connection with the Society, to undertake an external Board effectiveness review and will utilise its recommendations to improve performance. Recommendations for improvements were made including the following actions:

- improve the quality of management information and reporting to the Board to include more forward looking information, less detailed information and better use of graphics and illustrations;
- the recruitment of a new Head of Compliance;
- improvement of the induction process for non-executive directors and senior management; and
- improved succession planning and development of senior management.

Actions are underway to address the recommendations including:

- the Chief Executive, executive and Secretary are working on refreshing and streamlining the papers and reporting to the Board and committees. An online Board Portal was rolled out in January to improve reporting, collaboration and the accessibility of information to directors;
- a Head of Compliance will join the Society in June 2018;
- the Chairman, Chief Executive and Secretary will review the induction process and implement any changes required; and
- the Society recognises that a number of recently created senior roles have been sourced externally and is committed to building talent internally to ensure there are clear career paths for progression and an internal talent pipeline. There are prospects for colleagues to work in other areas of the business, training opportunities and mentoring if requested to help retain and develop internal talent. The Society provides work experience programmes to graduates from a local university. An enhanced performance management process has been introduced to ensure colleagues have clear objectives and help them to understand their role in assisting the Society to deliver its strategy.

Internal performance reviews are undertaken on an annual basis by the Board and all committees in the intervening years between the external review. In meeting the requirements of the Code the Board receives quarterly reports from the Audit committee covering the work of both internal and external auditors. The Risk Committee met quarterly and following their increasing workload have increased the number of meetings for the year 2018/19 to six. The Risk Committee ensures that the Society maintains and develops its Risk Management Framework and considers all key risks facing the Society. All relevant issues raised by the Nominations and Corporate Governance Committee or the Remuneration Committee are dealt with at the next Board meeting. The Risk and Audit Committees liaise closely in areas where there is some degree of overlap within the remit of the committees.

Board Authority

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

Corporate Governance Report (cont)

Strategy

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

Resources

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

Board Reporting and Attendance

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

Board Committee Membership

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

All directors are expected to attend Board meetings. In the event of circumstances that prevent a director from attending a meeting the Chairman makes sure that any views are passed on and are heard in the meeting. Attendance at Board and Committee meetings for the year to 30 April 2018 has been recorded as follows:

	Board	Risk	Audit	Remuneration	Nomination
T Barratt	9 (9)	4 (4)	-	-	3 (3)
W J Carroll	9 (9)	-	-	-	1 (1)
D Gunter~	1 (1)	-	-	-	-
N Hingorani-Crain	7 (9)	-	5 (5)	2 (3)	-
I Jones~	1 (1)	-	-	-	-
D R Lewis	9 (9)	4 (4)	-	-	3 (3)
A D Morgan	8 (9)	-	5 (5)	3 (3)	-
R Turner	9 (9)	-	5 (5)	3 (3)	-
H Warman^	8 (8)	4 (4)	-	-	3 (3)
P Leader+	6 (7)	-	-	-	-
J Bawa*	2 (3)	-	-	-	-

( ) Number of meetings eligible to attend
* Resigned from the Board on 31 July 2017
^ Resigned from the Board on 12 April 2018
+ Resigned from the Board on 19 February 2018

~ Dawn Gunter was appointed an executive director on 9 March 2018 and Iwan Jones was appointed an executive director on 1 April 2018. Both attended additional meetings in their capacity as executives prior to their appointment to the Board.

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

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

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

Communication with Members and the Annual General Meeting

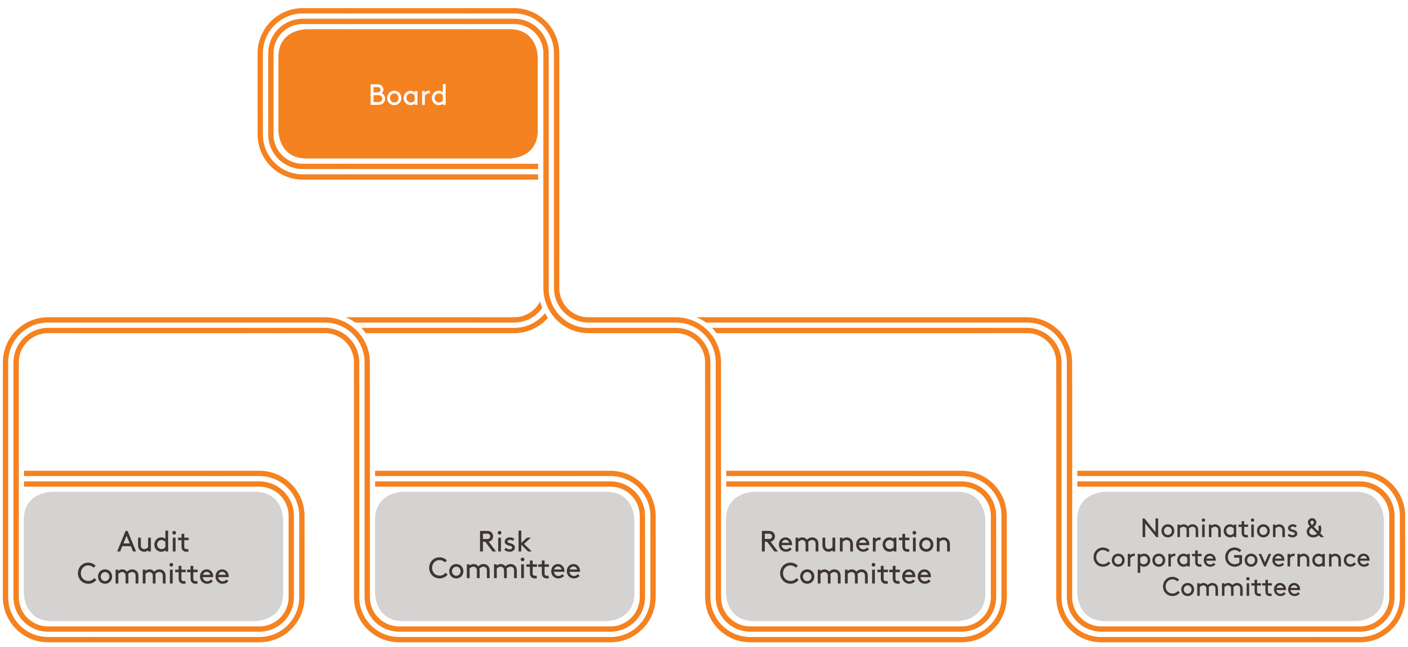
A member newsletter is produced monthly and distributed via email to ensure that Members are kept informed regarding products, services and developments at the Society, with reaction and feedback encouraged. Communication with Members is also conducted via our website and social media channels including Twitter, Facebook and LinkedIn. The Society welcomes approaches from high calibre candidates from its membership to put themselves forward for appointment to the Board. The Society encourages all eligible Members to participate in the Annual General Meeting, either by attending in person, voting by proxy or by voting online. This year, a contribution of twenty pence will also be made to the Monmouthshire Building Society Charity of the Year 'Alzheimer's Society Cymru' for every ballot paper returned or completed online. All Board members are normally present at the Annual General Meeting and are therefore available to meet with members, discuss issues and answer questions. The Notice of AGM is sent to members at least 21 clear days from the final date for receipt of proxies.

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

Corporate Governance Report (cont)

The Role of the Board Committees

The Board is supported by its committees (as set out below) which make recommendations to the Board on matters delegated to them, particularly in relation to internal control, risk management, financial reporting, governance and remuneration matters. This enables the Board to spend a greater amount of time on strategic, forward looking agenda items. Through Board Effectiveness Reviews and Succession Planning, the Board and its committees have the appropriate balance of skills, experience and knowledge to discharge their respective duties effectively. No one other than the committee Chairman and members are entitled to be present at a meeting of the committees but others may attend at the invitation of the committee. The Chairman of each committee reports to the Board meeting following the committee meeting on the matters discussed, decisions taken and makes recommendations to the Board where necessary. The minutes of committee meetings are circulated to all directors unless it would be inappropriate to do so. In addition to the Board committees there are management committees, which report into the Risk Committee, and the Executive Committee which supports the Chief Executive and comprises the three executive directors, Head of Risk & Compliance, Head of HR and Head of Business Strategy and Change. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the Society. The Company Secretary maintains a conflicts register, which is a record of actual and potential conflicts. Where a conflict may exist or a matter concerns a director individually, that director will absent themselves from the discussions and will not be part of the decision.



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

Audit Committee

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

Membership

Committee Chairman:
A D Morgan

Committee Members:
N Hingorani-Crain, R D Turner

Committee Composition, Skills and Experience

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

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

Audit Committee (cont)

Financial Reporting

The Committee considered the following significant judgments and estimates, in light of the reports received from external auditors and discussions with external auditors and management. More detail on the principal judgements and accounting estimates is set out on page 57:

Allowance for Impairment Losses on Loans and Receivables Determining the appropriateness of impairment losses involves judgement and requires management to make a number of assumptions around default rates, likely asset recoveries and other factors. The loan loss impairment provisions recorded by the Group as at 30 April 2018 were £0.48 million.	The Committee considered and challenged the provisioning methodology applied by management, including the results of statistical loan loss models to support the impairment provisions. The Committee was satisfied that the impairment provisions were appropriate.
Hedge Accounting The Society has implemented hedge accounting in line with IAS 39. The designated macro hedges require matching, hedge effectiveness documentation and testing, and fair valuing both the hedged instrument and the underlying hedged item.	The Committee considered the appropriateness of the hedging arrangements and the fair value processes in respect of hedging instruments and the underlying hedged items. The Committee agreed that hedge accounting had been applied in accordance with IAS 39.
Retirement Benefit Obligations The Society makes significant judgements to calculating the present value of the retirement benefit obligations. The major assumptions are in respect of mortality, price inflation, discount rates, pension increases and earnings growth. The pension scheme liability recorded at 30 April 2018 was £1.2 million.	The Committee considered the assumptions used by reference to advice received from our actuaries. The Committee is satisfied that the assumptions used are reasonable.

Accounting Policies

The Committee examined the Group'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 2018 Annual Report, when taken as a whole, is fair, balanced and understandable and whether it provides the necessary information for members to assess the Group's performance, business model and strategy. The Committee is satisfied that the 2018 Annual Report meets this requirement, and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. In June 2018, the Committee recommended the approval of the final 2018 Annual Report and Accounts to the Board.

Internal Audit

Internal Audit is outsourced to PwC. During 2017/18, the Committee monitored the effectiveness of Internal Audit and the Internal Audit programme, approving the audit plan and budget, and confirming that appropriate resources were in place to execute the plan effectively.

In the year ended 30 April 2018, 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:

- Internal Capital Adequacy Assessment Process
- Customer Services and Complaints
- Lending Policy Review and MCOB Compliance
- Cultural Alignment
- Product Governance

Internal Control and Risk Management

Details of the risk management systems in place are provided within the Risk Management Report on pages 37 to 41. The Committee was satisfied that internal controls over year end financial reporting were appropriately designed and operating effectively.

External Audit

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

The current external auditor is Deloitte LLP. The last competitive tender was held during 2017. The tender was designed to implement a robust process to enable the selection of an external auditor that would be the best fit for the Society and provide the appropriate level of assurance to the Society's members. Following completion of this process the Board agreed with the recommendation of the Audit Committee that KPMG LLP should be appointed from the year beginning 1 May 2018. Tenders are now to be conducted every five years.

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

Whistleblowing

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

Assessment of Effectiveness

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

This year, an external effectiveness review was performed by CMS. CMS considered that the composition of the Audit Committee was appropriate. They reported, inter-alia, that Tony Morgan chairs the Audit Committee; he has a strong accounting background and has been an auditor for several building societies, and therefore has strong experience to lead the committee. Roger Turner and Nina Hingorani-Crain also sit on the committee, both of whom have a background in regulation and compliance. The committee has strong accounting, treasury, 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 and Corporate Governance Committee

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

Membership

Committee Chairman:
D Lewis

Committee Members:
T Barratt and W J Carroll

Committee Composition, Skills and Experience
The Committee's Chair, Debra Lewis, has considerable experience in financial services and is well placed to lead the Committee. Other members of the Committee are one independent non-executive director and the CEO, providing a wide range of background experience and a balanced view on the best Board composition.

Nomination and Corporate Governance Committee key responsibilities	
Board Composition	• Endeavour to ensure that the Board and its Committees have the capabilities required to be effective and oversee the Society. This will include an appropriate range and balance of skills, experience, independence, knowledge and behaviours. • Responsible for identifying and recommending candidates for Board approval. • Reviewing the membership and chairmanship of committees to ensure that committee membership is progressively refreshed and that undue reliance is not placed on particular individuals. • Reviewing the Senior Managers Regime Responsibilities Map.
Succession Planning	• Consideration of 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 for appointments to the Board and senior management so as to maintain an appropriate balance of skills and experience within the Society and on the Board. • Reviewing the leadership needs of the Society, both executive and non-executive, with a view to ensuring the continued ability of the Society to perform effectively in the market place.

Appointment of Directors
There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. Our policy is to ensure that there is broad experience and diversity on the Board. The Board is focused upon diversity but without compromising on the calibre of directors who must demonstrate a high level of relevant skills and experience, usually gained at a senior level, to satisfy the requirements of the Board and the regulatory authorities. Appointments to the Board are based on merit against objective criteria and with due regard for the benefits of diversity on the Board in the context of complementing and expanding the skills, knowledge and experience of the Board as a whole. The Committee will consider candidates from a diverse range with regard to background and gender.

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

Diversity

During the year the Committee debated setting targets for gender diversity. The Committee agreed that they were committed to embracing diversity and promoting equality of opportunity in all its forms and not just with respect to gender equality. They agreed that appointments should continue to be made on merit and the skills and experience the individual can bring to the Society. The Committee is supportive of the recruitment, development and retention of talented women at all levels of the Society. Whilst it did not wish to endorse quotas the Committee is committed to ensuring women are represented at all levels in the Society. The Board of the Society is comprised of one third women, the Executive team ratio is half women and the number of women in management is almost three eights at year end.

Succession Planning

The Committee has considered succession planning in the year. As the CEO builds his executive team, members of the Board and Committee have been consulted regarding candidates and are involved in the recruitment process. A key focus of the Committee in 2018/19 is to ensure there is appropriate succession planning of Executive Directors and Senior Management in order to successfully deliver the Society's strategy.

Corporate Governance

The Committee reviewed the proposed changes to the UK Corporate Governance Code, the responsibilities of the Vice Chairman and Senior Independent Director, Committee terms of reference and other key governance developments over the year.

Delegations from the Board to Committees

During the year the Committee considered the introduction of an IT/Cyber Governance Committee to address the increasing risk within this area. It was decided that rather than having a separate Committee to deal with such matters the Risk Committee would oversee these areas and include an IT/Cyber Governance section on its agenda.

Assessment of Effectiveness

CMS considered that the composition of the Committee was appropriate and, based on the interviews held, the Committee was effective and functional. Interviews with Board members evidenced value was derived from having a separate committee to consider nominations and corporate governance matters, as they could be given more attention than if they were to be discussed at Board level.

The Committee reviewed the external report on the effectiveness of the Board and its committees from CMS and the related action plan to address any areas of improvement identified. The Committee conducts an annual review of its own effectiveness and recommends any changes it considers necessary to the Board for approval.

Two executive directors were appointed during the year, Dawn Gunter (Chief Operating Officer) and Iwan Jones (Finance Director). Dawn was appointed with the assistance of Warren Partners, external search consultants. Warren Partners have no connection with the Society other than to provide recruitment services. Warren Partners are signatories to the voluntary code of conduct for executive search firms which promote diversity on boards. Iwan Jones was appointed with the assistance of Seymour John, external search consultants. Seymour John have no connection with the Society other than to provide recruitment services. The newly appointed directors all had to meet the tests of fitness and propriety as prescribed by the regulators and received approval from the FCA and PRA before taking up their role.

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

Nominations and Corporate Governance Committee (cont)

Governance in Action – New Chairman

As part of the Committee's progressive review of the composition of the Board and its committees, and the need to ensure adequate succession planning, the Committee identified the need for a new Chairman as a result of Haydn Warman retiring on conclusion of the AGM in August 2018. The Board, led by the Vice-Chairman, met to consider the factors to consider in the appointment of a successor to the Chairman which included a preference for the candidate to be locally based. In light of the changes to the executive team, an internal candidate for Chairman was preferred to ensure a greater degree of continuity and as a result an external search firm was not used. The Board agreed the candidate should have good knowledge of the Society's operations and strategy to effectively challenge management and lead the Board in its discussions and they must be independent in character and judgement.

The Vice-Chairman spoke with all directors to gauge interest and support for potential candidates to become the Society's next Chairman. The strongest candidate, who had been supported by all other directors in being put forward, was Debra Lewis. Debra is locally based and has been a director of the Society for more than three years. She is a Fellow of the Institute of Chartered Accountants, holds an LLB law degree and has a wide range of professional experience encompassing banking, risk, front office, finance and accounting, and law. She previously served as Vice-Chairman to the Board and was Risk Committee Chairman and therefore had proven experience in effectively chairing meetings, challenging constructively and leading the Board. The Board unanimously agreed that Debra should be nominated as the next Chairman.

Handover meetings were set up including opportunities for Debra to meet with colleagues in the Society and visit branches to build on her already wide-ranging understanding of the Society and its operations.

Due to ill health, Haydn Warman was forced to step down as a director of the Board and Chairman in March 2018 and Debra was appointed Acting Chair, pending FCA approval, on 12 April 2018.

Risk Committee

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

At the end of 2017 it was agreed that six meetings of the Committee would be scheduled for 2018 to take into account the increasing volume of work for the Committee and the additional time allocated to risk matters by the Board.

Membership

Committee Chairman:

T Barratt

Committee Members:

D Lewis (H Warman also served on the Committee for all relevant meetings in the year)

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 Risk Management Framework.

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

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

Key Matters Considered in the Year

Oversight of IT and Cyber Matters

During the year consideration was given to the establishment of an IT/Cyber Committee. The matter was debated at Board and it was agreed that the Risk Committee would include a dedicated section of each meeting for items specifically related to IT and Cyber.

Risk Management Framework

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

Risk Appetite

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

Risk Committee (cont)

Delivery of the business strategy within risk appetite is managed through a comprehensive Risk Management Framework. Further details on the Risk Framework can be found in the Risk Management Report on page 37.

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

Emerging Risks

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

Conduct Risk and Compliance

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

Stress Testing and Capital

The Committee reviewed the results of the application of stress test scenarios and recommended to the Board that the Society's 2017/18 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 Group's operations. This includes areas such as the following:

Cyber Security

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

Financial Crime

The Society has enhanced its framework for the management of Financial Crime to reduce the risks of money laundering, terrorist financing, sanctions and anti-bribery and corruption. The Committee had oversight of the implementation of enhanced checks and methods to verify customers' identities, and training for colleagues to assist them in the prevention of Financial Crime. The importance of protecting our members is a key priority of the Society.

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. Failure to adequately manage operational resilience may result in disruption to our service which could in turn result in customer detriment. The Committee has oversight of operational resilience activities of the Society such as the Business Continuity Plan, and receives feedback on resilience tests such as the ability to run the Society's systems from the Disaster Recovery Centre.

Data Protection and Privacy

From 25 May 2018 data protection laws will be replaced by a single General Data Protection Regulation (GDPR). The Committee has received reports on the impact for the Society which will be significant as a result of increased requirements around monitoring, encryption, anonymization and availability of personal information and the need to have legitimate interest.

Risk Management

The Committee is supported by an enhanced Second line. Following the appointment of a full time Head of Risk and Compliance in 2016, the Society has recruited further resource in a number of key areas to ensure we are well placed to manage risks in our business in relation to Prudential, Credit and Financial Crime as we embark on the next phase of our strategy. Second line are supported by a number of First line risk champions. A First line compliance function is currently in the process of being created. There are three executive committees that look at different risk areas in the business, the Risk Committee oversees the work of these Committees. The Society's approach to Risk Management can be found in the Risk Management Report.

Assessment of Effectiveness

The Committee conducts an annual review of its own effectiveness and recommends any changes it considers necessary to the Board for approval. More information can be found on page 21 (Board Effectiveness Review) and the Committee's Terms of Reference can be found at www.monbs.com.

An external review was undertaken by CMS in the year. 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.

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.

Membership

Committee Chairman:

R Turner

Committee Members:

AD Morgan and N Hingorani-Crain

Committee Composition, Skills and Experience

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

Remuneration Committee key responsibilities	
Remuneration	• Determining remuneration for the Chairman, all executive directors and other members of the executive including pension rights and any compensation payments. The remuneration of non-executive directors is determined by the Chairman and executive directors. • Determining remuneration for all employees of the Society.
Remuneration Reporting	• Reporting to members annually in the Annual Report & Accounts and 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

Directors' Remuneration

The Committee reviewed the remuneration for all of the executives. In 2017/18 the Committee oversaw a review of remuneration for all colleagues within the Society and the remuneration of key positions such as Senior Independent Director.

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.

The Committee received regular updates on the review of the reward structure across the Society. This included a full review of colleague job descriptions followed by a thorough evaluation and benchmarking process to ensure colleagues were paid appropriately for their roles. In addition roles and roles at similar levels were audited to ensure there were no gender pay issues.

The Committee considered the introduction of an all colleague bonus scheme linked to the Society's strategy and the alignment of the executive schemes.

Remuneration Reporting

We have provided details of our directors' remuneration on page 35 and ask our members to approve our Remuneration Report through an advisory vote at the Annual General Meeting.

Our 2017/18 Report includes the key disclosure requirements of the UK Corporate Governance Code and complies with the regulatory requirements including, in particular, the FCA's Remuneration Code.

Remuneration Committee Effectiveness

CMS conducted an external effectiveness review of the Board and Board Committees, 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.

Debra Lewis
Chairman
28 June 2018

Directors' Remuneration Report

On behalf of the Board, I am pleased to present the Remuneration Committee's 2017/18 Report which sets out our Remuneration Policy and provides for our members details of the basic salary, variable pay and benefits earned by directors in the year to 30 April 2018. The Board is committed to best practice in its Remuneration Policy for Directors and in the interests of transparency it has included an advisory vote at the Annual General Meeting on the Directors' Remuneration Report set out below. The Directors' remuneration for the year is as follows:

Individual Directors' Emoluments

	Fees & salary	Performance related incentive scheme	Increase in accrued pension/ pension contribution	Taxable benefits	2018 Total	2017 Total
2018	£000	£000	£000	£000	£000	£000
Non-executive Directors:						
H Warman	70	-	-	-	70	55
T Barratt	31	-	-	-	31	26
D J Burgess	-	-	-	-	-	9
N Hingorani-Crain	31	-	-	-	31	30
D R Lewis	39	-	-	-	39	37
A D Morgan	39	-	-	-	39	38
D C Roberts	-	-	-	-	-	8
R D Turner	35	-	-	-	35	33
Executive Directors:						
A M Lewis	-	-	-	-	-	242
J Bawa (Resigned 31 July 2017)*	167	-	8	3	178	125
W J Carroll	189	27	28	5	249	178
D Gunter (Appointed 8 March 2018)	24	10	2	2	38	-
I Jones (Appointed 1 April 2018)	13	-	1	2	16	-
P Leader (Resigned 19 February 2018)	81	-	2	8	91	138
	719	**37**	**41**	**20**	**817**	**919**

Executive Directors at the year end are members of the Society's defined contribution pension scheme.

* J Bawa resigned as a Director on 31 July 2017. The amount shown above includes £79k of contractual payments following his resignation.

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

Loans to Directors

At 30 April 2018, one director (2017: one director) or persons connected with directors had mortgage loans granted in the ordinary course of business totaling £217K (2017: £223K). A register containing details of loans and transactions between the Society and its directors may be inspected at the Society's Head Office, during normal office hours, in the period of fifteen days expiring on the date of the Annual General Meeting, or at that meeting.

Executive Directors' Emoluments

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

Basic Salaries

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

Incentive Scheme

For the year to 30 April 2018, the scheme was designed to deliver a maximum award of up to 20% of basic salary, following finalisation and approval of the accounts. The annual incentive scheme is linked to key corporate performance measures such as the achievement of financial or regulatory compliance targets (e.g. in relation to growth and efficiency), combined with demonstration of appropriate behaviours in line with the Society's performance management process.

Pensions and Other Benefits

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

The Corporate Governance Code recommends that an executive director's service contract notice period should be set at twelve months or less. The Society meets this requirement. The Chief Executive Officer is subject to a notice period of twelve months. Other executive directors are subject to a notice period of six months.

Non-executive Directors' Remuneration

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

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

Roger Turner
Remuneration Committee Chairman
28 June 2018

Risk Management Report

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

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

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

Risk Overview

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

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

Risk Culture

The Board has established a culture that is guided by strong risk management principles to support and provide appropriate standards and incentives for professional and responsible behaviour. In this regard, it is the responsibility of the Society Chairman and of the Board to ensure that a strong risk management culture continues to exist throughout the Group. The Group's risk culture is represented by the attitudes and behaviour demonstrated by all staff with regard to risk awareness, risk taking and risk management. The Board has created an environment for staff where integrity, ownership, accountability, customer interests, and respect are at the heart of the Group's values and practices. This strong risk culture drives how our staff approach their work and guide decision making. The Group's values are outlined on page 40 and are an integral part of a strong culture. An effective risk culture is one of the primary means by which the Group ensures these values are upheld.

Risk Management Report (cont)

Risk Management Framework

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

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

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

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

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

First Line of Defence - Business

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

Second Line of Defence - Risk & Compliance Department

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

Third Line of Defence - Internal Audit

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

Governance Structure

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

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

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

Risk Management Report (cont)

Risk Committee

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

Operational Risk & Compliance Committee

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

Assets & Liabilities Committee

This is a first line of defence management committee, chaired by the Finance Director, with responsibility for giving detailed consideration to matters relevant to financial soundness and market risks. In addition product specific ALCOs are held as required to manage the product governance process within the Society.

The ALCO is supported by a Product Pricing Proposition Forum (PPPF) and an Assumptions Forum.

Mortgage Lending Risk Committee

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

Stress Testing

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

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

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

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

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

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

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Society's affairs as at 30 April 2018 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 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.

We have audited the financial statements of Monmouthshire Building Society (the 'Society') and its subsidiaries (the 'Group') which comprise:

- the Group and Society income and expenditure accounts;
- the Group and Society statements of other comprehensive income;
- the Group and Society statements of financial position;
- the Group and Society statements of changes in members' interests;
- the Group cash flow statements; and
- the related notes 1 to 24.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our Audit Approach

Key Audit Matters

The key audit matters that we identified in the current year were:

- Loan loss provisioning
- Revenue recognition
- Pension accounting

Within this report the key audit matters which are the same as the prior year identified with*.

We have removed the key audit matter of derivatives and hedge accounting from the current year enhanced auditor's report when assessed against its prior year equivalent. We have removed this key audit matter as we find it not to include significant management judgement, and we find that derivative valuation and hedge accounting is a well-embedded process within the Society's financial reporting cycle.

Materiality

The materiality that we used in the Group financial statements was £218,000 which was determined on the basis of adjusted pre-tax profit.

Scoping

All non-dormant entities in the Group are within our audit scope and audited to a local materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the Group audit team.

Significant changes in our approach

The basis for materiality has been tailored from the use of a non-adjusted profit before tax benchmark to an adjusted profit before tax benchmark when compared to prior year. We have carried out this change following the group incurring one-off expenses in the 2018 financial year which are not reflective of the underlying activity of the group. We have carried out substantive testing on all relevant expenses which have been included in adjusted profit before tax for accuracy and classification as an appropriate one-off expense.

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

Conclusions Relating to Going Concern, Principal Risks and Viability Statement

Going Concern

We have reviewed the directors' statement in the directors' report to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Principal Risks and Viability Statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 37-38 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 14 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 15 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Loan loss provisioning* The Group and Society hold £0.48m of provisions for bad and doubtful debts at year-end (2017: £1.03m) against loans and advances to customers of £842.7m (2017: £812.3m). As a building society it is necessary for management to make significant judgements and estimates in order to determine incurred losses on loans and advances to customers. In making their judgements and estimates, management have considered both Society specific historical data as well as their experience and knowledge of their current mortgage book. Due to the significance of management judgement and estimate within loan loss provisioning, we also determined that there was a potential for fraud through possible manipulation of this balance.	We first obtained an understanding of management's processes for the Group's provisions for bad and doubtful debts balance, and evaluated the design, and assessed the implementation of key internal controls in place. To evaluate management's forced sale discount estimate, we have assessed the estimate applied in provisioning calculations against actual Society forced sale data. We have tested the underlying data of Society forced sales to external documentation in order to obtain assurance over its accuracy. Additionally, we have benchmarked the forced sale discount estimate applied with peer credit institutions.	Based on evidence obtained, we found that the judgements and estimates underpinning the provisioning models were determined and applied appropriately and the recognised provision was reasonably stated.

Key audit matter description	How the scope of our audit responded to the Key audit matter	Key observations
Loan loss provisioning (continued) The expected funds upon collateral realisation is the most significant area of management estimate within the provision for bad and doubtful debts due to the sensitivity of the balance to changes in this estimate. The expected funds are heavily dependent on management's forced sale discount estimate. The significance of this estimate is increased considering the limited number of forced sales the Society have been involved with over recent years. Expected funds upon collateral realisation are also dependent on management's judgement to determine an appropriate collateral valuation methodology. Management use publically available housing market data to determine collateral valuation. The significance of this judgement is increased considering various sources are available to determine collateral valuation, and the Society also hold a concentration of loans and advances situated in Wales. Management's associated accounting policies and judgements are detailed in note 1, and loan loss provisioning balances are disclosed in note 11. The estimates and judgements are discussed by the Audit Committee on page 27 of their report.	**(continued)** We have assessed the appropriateness of management's collateral valuation methodology against comparable practices available to the Society. We have also reviewed and challenged the completeness of management overlays by assessing the Society's exposure against standard overlays measures observed at other credit institutions. We have tested the accuracy and completeness of management's provisioning calculations through independently re-performing the calculation from source data.	
Revenue recognition* The Group and Society recognised interest receivable income on loans and advances to customers of £24.0m during the year (2017: £27.6m). Interest income under FRS 102 is required to be recognised on an effective interest rate basis, which requires the inclusion of all directly attributable cashflows to mortgage products to be recognised over the product's behavioural life. To implement effective interest rate accounting, management are required to make significant judgements and estimates. We have identified that the key estimate made by management is the behavioural life estimate of current mortgage products. This estimate has to be reflective of the Society's current mortgage book behaviour, but also consider future trends of customer retention. Due to the significance of management judgement and estimate within effective interest rate modelling, which is highly sensitive to the behavioural life estimate, we also determined that there was a potential for fraud through possible manipulation of this balance.	We first obtained an understanding of management's processes and key controls round revenue recognition through discussions and walk-throughs. Following identification of the key controls, we evaluated the design and the implementation of such controls. In order to assess and challenge the behavioural life estimate applied in the effective interest rate models, we have developed independent expectations of behavioural lives from historical Society redemptions and product switches. Our independent expectations have been directly compared against those estimates made by management. We have carried out tests of details on historical data used in our independent expectations to obtain assurance over their completeness and accuracy. We have tested the methodology applied by management in which all directly attributable cashflows are recognised over the estimated behavioural life by recalculating a sample of effective interest rate adjustments for loan accounts from corresponding source data inputs.	Based on evidence obtained, we found the revenue balance to be reasonably stated and the underlying methodology used for the calculations of effective interest rate modelling to be appropriate in the context of the Society's accounting policies and the requirements of the relevant accounting standards.

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

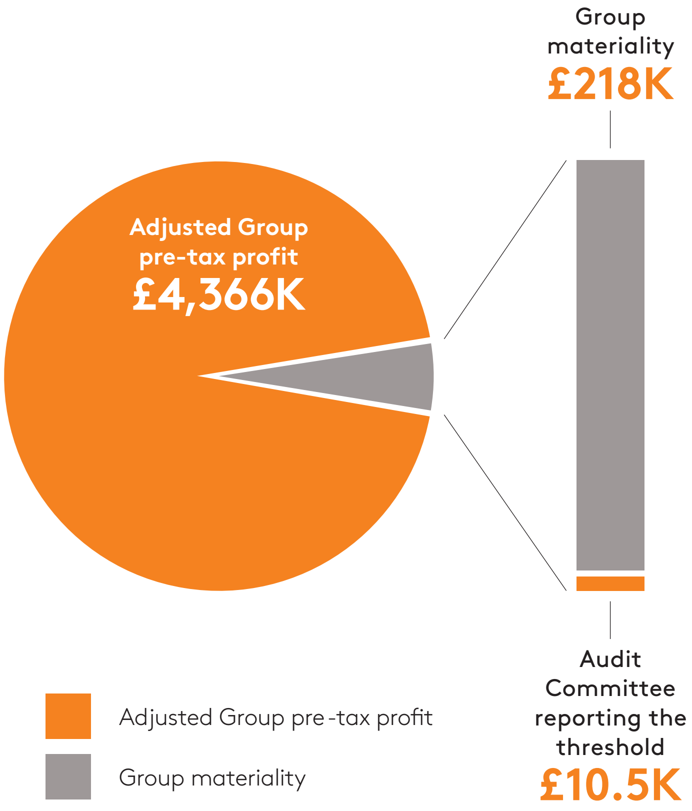
Key audit matter description	How the scope of our audit responded to the Key audit matter	Key observations
Revenue recognition (continued) Management are also required to implement an appropriate methodology to recognise all directly attributable cashflows over the behavioural life in line with the requirements of IAS 39. This methodology can be complex when changes in behavioural life estimate are inputted or the Standard Variable Rate is changed. The impact of recognising all directly attributable cashflows over the behavioural life of mortgage products has increased profit by £0.09m in the year (2017: £0.46m increase). This has been largely driven by the growth in the Society's loans and advances to customers in the year. Management's associated accounting policies and judgements are detailed in note 2 and interest receivable balances are disclosed in note 2. The estimates and judgements are discussed by the Audit Committee on page 27 of their report.	**(continued)** We have also reviewed the completeness of directly attributable fees included in the effective interest rate model against IAS 39 requirements.	
Pension accounting* The Group and Society operates a defined benefit pension scheme which has been closed to new members for several years. At year-end, the society holds a net defined benefit pension scheme deficit on the statement of financial position of £1.23m (2017: £1.78m), which includes gross pension obligations of £13.8m (2017: £14.2m). The defined benefit pension scheme obligations are materially sensitive to key estimates such as discount rate and inflation. The calculation of the scheme's obligations under IAS 19 requirements is carried out by a third party. The third party engaged to calculate the valuation of the scheme's obligations have been newly appointed in the year. Management are responsible for the final key estimates used within the calculation. Due to the complex nature in the derivation and estimation of these variables, this can be subject to high levels of management judgement. Management's associated accounting policies and judgements are detailed in note 1, and the details of the defined benefit pension scheme are disclosed in note 20. The estimates and judgements are discussed by the Audit Committee on page 27 of their report.	We first obtained an understanding of management's processes and key controls in relation to the key judgements and estimates applied in the defined benefit pension scheme obligation calculation. We engaged our actuarial specialists to assess the financial and demographic assumptions in the calculation of the scheme's obligations, including discount rate and inflation. Our specialists also reviewed the consistency in approach with prior year, and compared to benchmark assumptions being seen across peer pension scheme valuations. We have assessed the competency of the third party who calculated the accounting valuation of the obligations, as well as their corresponding AAF 01/06 controls report.	Based on evidence obtained, we find that the pension scheme valuation is appropriately stated after finding that all judgements and estimates applied in the calculation of the defined benefit pension scheme obligation are optimistic but within a reasonable range. No issues have been identified in relation to the competency or controls of the third party who calculated the accounting valuation of the scheme's obligations.

Our Application of Materiality

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

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

	Group financial statements	Society financial statements
Materiality	£218,000 (2017: £290,000)	£210,000 (2017: £280,000)
Basis for determining materiality	5% of adjusted Group pre-tax profit (2017: 5% of Group pre-tax profit). Profit has been adjusted to take into consideration one-off expenses incurred by the Group in the financial year which are not indicative of the Group's activity and are not representative of the Group's future profitability.	5% of adjusted Society only pre-tax profit (2017: 5% of Society only pre-tax profit). Profit has been adjusted to take into consideration one-off expenses incurred by the Society in the financial year which are not indicative of the Society's activity and are not representative of the Society's future profitability.
Rationale for the benchmark applied	The accumulation of profits is critical to maintaining and building capital for regulatory purposes and allowing the Group to invest in activities for its members. We have therefore selected adjusted pre-tax profit as the benchmark for determining materiality.	The accumulation of profits is critical to maintaining and building capital for regulatory purposes and allowing the Society to invest in activities for its members. We have therefore selected adjusted pre-tax profit as the benchmark for determining materiality.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10.5k (2017: £14k) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

All non-dormant entities in the Group are within our audit scope and have been audited to a local materiality for the purpose of individual entity reporting. All balances in the group that that are above our materiality threshold have been audited for the purpose of Group reporting. Our Group audit scope involved performing testing for more than 99% (2017: 99%) of the Group's net assets and pre-tax profit. We have performed testing over the consolidation of group entities. These audits were performed by the Group audit team and executed at levels of materiality to each individual entity which were lower than Group materiality and ranged from £7k to £1k (2017: £7k to £1k).

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

Other Information
The directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Chairman's Review, the Strategic Report, the Directors' Report, the Corporate Governance Report, the Directors' Remuneration Report and the Risk Management Report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Responsibilities of Directors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 the directors 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 for the Audit of the Financial Statements
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 error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our Report
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.

Report on Other Legal and Regulatory Requirements

Opinions on Other Matters Prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- the annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the 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.

In the light of the knowledge and understanding of the group and the society and their environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Opinion on Other Matter Prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 14 for the financial year ended 30 April 2018 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on Which we are Required to Report by Exception

Adequacy of Explanations Received and Accounting Records

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

- adequate accounting records have not been kept by the Society; or
- the Society's 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.

Other Matters

Auditor Tenure

We were first appointed by the board of directors' in 1965 to audit the financial statements for the year ending 30 April 1965 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 53 years, covering the years ending 30 April 1965 to 30 April 2018.

Consistency of the Audit Report with the Additional Report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Kieren Cooper (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
28 June 2018

Income and Expenditure Accounts
Year ended 30 April 2018

	Notes	Group 2018 £000	Group 2017 £000	Society 2018 £000	Society 2017 £000
Interest receivable and similar income	2	22,953	26,862	22,953	26,862
Interest payable and similar charges	3	(7,039)	(11,500)	(7,039)	(11,500)
Net interest receivable		15,914	15,362	15,914	15,362
Income from investments		3	10	3	34
Fees and commissions receivable		385	493	364	492
Fees and commissions payable		(440)	(305)	(440)	(305)
Other operating income		82	91	(9)	(62)
Other fair value gains/(losses)	4	738	(220)	738	(220)
Total operating income		16,682	15,431	16,570	15,301
Administrative expenses	6	(11,607)	(9,345)	(11,666)	(9,379)
Depreciation and amortisation		(683)	(553)	(673)	(541)
Total operating profit before provisions		4,392	5,533	4,231	5,381
(Charge)/Release of provisions for bad and doubtful debts	11	(399)	193	(399)	193
Other provisions (charge)/release	19	(31)	15	(31)	15
Operating profit		3,962	5,741	3,801	5,589
Profit on ordinary activities before tax		3,962	5,741	3,801	5,589
Tax on profit on ordinary activities	7	(763)	(1,176)	(734)	(1,150)
Profit for the financial year		3,199	4,565	3,067	4,439

The notes on pages 55 to 86 form an integral part of these accounts.

Statements of Other Comprehensive Income

Year ended 30 April 2018

		Group		Society	
	Notes	2018 £000	2017 £000	2018 £000	2017 £000
Profit for the financial year		3,199	4,565	3,067	4,439
Actuarial gains/ (losses) recognised in the pension scheme	20 (b)	360	(832)	360	(832)
(Loss) / Gain on revaluation of available for sale assets		(71)	243	(71)	241
Tax (charge)/ credit		(50)	100	(50)	100
Total recognised gains relating to the financial year and recognised since last annual report.		3,438	4,076	3,306	3,948

The notes on pages 55 to 84 form an integral part of these accounts.

Statements of Financial Position

Year ended 30 April 2018

		Group		Society	
Assets	Notes	2018 £000	2017 £000	2018 £000	2017 £000
Liquid assets					
Cash in hand		353	352	353	352
Loans and advances to credit institutions					
Repayable on demand		114,012	132,016	113,502	131,667
Other loans and advances	8	18,069	19,041	18,069	19,041
Debt securities issued by other borrowers	9	72,655	81,416	72,655	81,416
Loans and advances to customers					
Loans fully secured on residential property	10	819,395	785,269	819,240	785,269
Other loans – fully secured on land	10	22,772	25,999	22,927	25,999
Investments	12	370	441	2,208	2,292
Intangible fixed assets	13	1,436	1,218	1,436	1,218
Tangible fixed assets	14	7,378	7,348	5,527	5,487
Other assets		2,111	250	2,104	246
Prepayments and accrued income		500	478	500	478
Total assets		1,059,051	1,053,828	1,058,521	1,053,465
Liabilities					
Shares	15	770,091	816,089	770,091	816,089
Amounts owed to credit institutions	16	95,080	67,020	95,080	67,020
Amounts owed to other customers	17	125,795	103,428	125,795	103,428
Other liabilities	18	1,822	3,701	1,758	3,673
Accruals and deferred income		248	330	246	326
Provisions for liabilities	19	101	223	101	223
Net pension scheme liability	20	1,226	1,787	1,226	1,787
Total equity attributable to members		64,688	61,250	64,224	60,919
Total equity and liabilities		1,059,051	1,053,828	1,058,521	1,053,465

The notes on pages 55 to 86 form an integral part of these accounts.

These financial statements were approved by the Board of Directors and authorised for issue on 28 June 2018.

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

Statement of Changes in Members' Interests
Year ended 30 April 2018

Group

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1 May 2017		61,096	154	61,250
Profit for the financial year		3,199	-	3,199
Other Comprehensive Income in the Period				
Actuarial Gains recognised in the pension scheme	20(b)	360	-	360
Loss on revaluation of assets available for sale		-	(71)	(71)
Deferred tax		(61)	11	(50)
At 30 April 2018		64,594	94	64,688

Society

		General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
At 1 May 2017		60,767	152	60,919
Profit for the financial year		3,066	-	3,066
Other Comprehensive Income in the Period				
Actuarial Gains recognised in the pension scheme	20(b)	360	-	360
Loss on revaluation of assets available for sale		-	(71)	(71)
Deferred tax		(61)	11	(50)
At 30 April 2018		64,132	92	64,224

Consolidated Cash Flow Statement

Year ended 30 April 2018

	Group	
	2018 £000	2017 £000
Net Cash Outflows from Operating Activities (see below)	(25,747)	(32,353)
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	(956)	(1,028)
Disposal of tangible and intangible fixed assets	10	25
Disposal of debt securities	8,690	18,486
Net cash inflows from investing activities	7,744	17,483
Net decrease in cash and cash equivalents	(18,003)	(14,870)
Cash and cash equivalents at beginning of the year	132,368	147,238
Cash and cash equivalents at end of the year	114,365	132,368
Cashflows from operating activities		
Profit on operating activities before tax	3,962	5,741
Movements in prepayments and accrued income	(22)	(31)
Movements in accruals and deferred income	(82)	(51)
Movements in provisions for liabilities	(122)	(289)
Provisions for bad and doubtful debts	399	(193)
Depreciation and amortisation	683	553
Loss on disposal of fixed assets	-	12
Loans and advances written off	942	-
Net pension costs	(228)	(41)
Net cash flow from operating activities before movement in operating assets and liabilities	5,532	5,701
Movement in operating assets and liabilities		
Loans and advances to customers	(32,155)	(4,923)
Shares	(45,998)	(47,522)
Amounts owed to credit institutions and other customers	50,427	24,489
Loans and advances to other credit institutions	972	(8,012)
Other assets	(1,861)	136
Other liabilities	(1,277)	(1,300)
Taxation paid	(1,387)	(922)
Net cash outflows from operating activities	(25,747)	(32,353)

Notes to the Accounts

Year ended 30 April 2018

1. Accounting Policies

Basis of Preparation

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

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

The Accounts have been prepared on the going concern basis as outlined in the Directors' Report on page 13.

The Society has taken advantage of the exemption in FRS 102, 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.

Interest Income and Interest Payable

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

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

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

Fees and Commissions Receivable

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

Taxation

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

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

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

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

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

Financial Assets

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

a) Loans and receivables

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

b) Available-for-sale financial assets

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

c) Financial assets at fair value through profit and loss

These are derivative financial assets initially recognised at fair value on the date on which the derivative contract is entered into. Subsequent movements in fair value are recognised in the Income and Expenditure Account. Gains or losses on early terminated hedges are also recognised in the Income and Expenditure Account. The Group derecognises financial assets when the rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred to another party.

Financial Liabilities

Non-derivative financial liabilities are initially recognised at fair value being the issue proceeds net of premiums, discounts and transaction costs incurred. These are subsequently held at amortised cost using the EIR method. Derivative financial liabilities are recognised at fair value on inception with movements in fair value being recognised in the Income and Expenditure Account. Financial liabilities are derecognised when the obligation is cancelled, discharged or has expired.

Impairment Losses on Loans and Advances to Customers and Credit Institutions

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

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

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

Other Provisions and Contingent Liabilities

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

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

Borrowings

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

Retirement Benefits

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

Actuarial gains and losses (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.

Notes to the Accounts

1. Accounting Policies (continued)

Derivative Financial Instruments and Hedge Accounting

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

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

Fair Value Measurement

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

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

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

Hedge accounting is discontinued when:

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

Tangible Fixed Assets

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

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

Intangible Assets

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

Judgements in Applying Accounting Policies and Critical Accounting Estimates

The Group makes judgements in applying its accounting policies which affect the amounts recognised in the financial statements. In addition to this, critical accounting estimates and assumptions are also made that could affect the reported amounts of assets and liabilities within the following financial year. Where the application of the Group's accounting policy require elements of both judgement and estimation, the Group considers these assessments to be accounting estimates.

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

Impairment Provision on Loans and Advances

The Society reviews its loans to assess impairment. This requires the exercise of a significant degree of judgement. Provisions require judgement to be exercised in predicting future economic conditions such as house price movements and the length of time before impairments are identified (i.e. emergence period). Accounting estimates relate to default rates and forced sale discounts. An increase in the forced sale discount of 5% would result in a movement of the provision of £0.1m.

Fair Value of Derivatives and Available-for-sale Assets

Derivative financial instruments are valued by discounted cash flow models using yield curves that are based on observable market data. The valuation requires estimates to be used to predict the prepayment rate to be applied to mortgages.

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

Changes in the assumptions used can materially affect the fair value calculations.

Effective Interest Rate (EIR)

Under IAS 39, financial instruments carried at amortised cost are accounted for using the EIR method. The EIR method requires the Society to make assumptions regarding the expected lives of financial instruments and the anticipated level of early repayment fees. These assumptions are regularly reviewed to ensure they reflect actual performance. Judgement is used to assess which mortgage products have similar characteristics to then be grouped to calculate their respective average behavioural lives. Average lives are then estimated based on behavioural repayment data. A one month movement in the Society's average behavioural life would result in a movement of £0.4m.

Retirement Benefit Obligations

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

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

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

Hedge Accounting

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

This involves matching and applying fair value measurements to both the hedged instrument and the underlying hedged item.

	Group and Society	
	2018 **£000**	**2017** **£000**
2. Interest Receivable and Similar Income		
On loans fully secured on residential property	22,828	26,246
On other loans	1,158	1,367
On liquid assets	1,066	1,332
Net expense on financial instruments	(2,099)	(2,083)
	22,953	26,862
3. Interest Payable and Similar Charges		
On shares held by individuals	6,327	10,631
On deposits and other borrowings	712	869
	7,039	**11,500**
4. Other Fair Value Gains and Losses		
Gains on derivatives	3,642	808
Losses on hedged items attributable to the hedged risks	(2,904)	(1,028)
Net gains/(losses)	738	(220)

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

Notes to the Accounts

5. Financial Instruments

Derivatives

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

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

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

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

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

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

The interest rate gap analysis of the Group as at 30 April 2018 was as follows:

Unmatured Interest Rate Contracts

	Group and Society	
	2018 £000	2017 £000
Notional principal amount as at 30 April	461,000	317,000
Credit risk weighted amount	-	-
Replacement cost	1,879	108

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

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

5. Financial Instruments (continued)

The interest rate gap analysis of the Group as at 30 April 2018 was as follows:

	3 months or less £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	Non-interest bearing £000	Total £000
Assets						
Liquid assets	173,367	6,000	25,000	-	722	205,089
Loans and advances to customers	372,989	35,426	69,217	364,380	155	842,167
Other assets including tangible fixed assets	-	-	-	-	11,795	11,795
	546,356	41,426	94,217	364,380	12,672	1,059,051
Liabilities						
Shares	599,252	33,441	70,216	66,205	977	770,091
Amounts owed to credit institutions and other customers	182,847	15,500	22,528	-	-	220,875
Other liabilities	-	-	-	-	3,397	3,397
Capital	-	-	-	-	64,688	64,688
	782,099	48,941	92,744	66,205	69,062	1,059,051
Impact of derivative instruments	371,000	(15,000)	(25,000)	(331,000)	-	-
Interest rate gap at 30 April 2018	135,257	(22,515)	(23,527)	(32,825)	(56,390)	-

Notes to the Accounts

5. Financial Instruments (continued)

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

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

5. Financial Instruments (continued)

The categories of financial instruments as at 30 April 2018 were as follows:

Assets/(Liabilities)	At amortised cost £000	Loans and Receivables £000	At fair value through OCI £000	Fair value through profit & loss £000	Non-financial assets £000	Total £000
Assets						
Cash	353	-	-	-	-	353
Loans and advances to credit institutions	-	132,081	-	-	-	132,081
Debt securities	-	-	72,655	-	-	72,655
Loans and advances to customers	-	842,167	-	-	-	842,167
Derivative financial instruments	-	-	-	1,879	-	1,879
Total financial assets	353	974,248	72,655	1,879	-	1,049,135
Non financial assets	-	-	-	-	9,916	9,916
	353	974,248	72,655	1,879	9,916	1,059,051
Liabilities						
Shares	770,091	-	-	-	-	770,091
Amounts owed to credit institutions and other customers	220,875	-	-	-	-	220,875
Derivative financial instruments	-	-	-	514	-	514
Total financial liabilities	990,966	-	-	514	-	991,480
Non financial liabilities	-	-	-	-	2,883	2,883
Reserves	-	-	-	-	64,688	64,688
	990,966	-	-	514	67,571	1,059,051

Notes to the Accounts

5. Financial Instruments (continued)

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

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

5. Financial Instruments (continued)

Carrying and Fair Values of Financial Assets and Liabilities

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arm's length transaction.The Society measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

Where applicable, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments the Society determines fair values using other valuation techniques. The table below analyses the carrying and fair values of the Society's financial instruments held at amortised cost at 30 April 2018.

	Carrying value 2018 £000	Fair value 2018 £000	Carrying value 2017 £000	Fair value 2017 £000
Financial Assets				
Cash in hand	353	353	352	352
Loans and advances to credit institutions	132,081	132,081	151,057	151,057
Debt securities issued by other borrowers	72,655	72,655	81,416	81,416
Loans and advances to customers	842,167	843,552	811,268	811,715
Financial Liabilities				
Shares	770,091	770,310	816,089	815,925
Amounts owed to credit institutions	95,080	95,080	67,020	67,020
Amounts owed to other customers	125,795	125,795	103,428	103,428

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

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

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

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

d) Loans and advances to customers – Level 2
Loans and advances are recorded net of provisions for impairment together with the fair value adjustment as required by FRS 102. The estimated fair value of loans and advances takes into account expected loss provisions, and current market rates.

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

Notes to the Accounts

5. Financial Instruments (continued)

Credit risk

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

	Group		Society	
	2018 £000	2017 £000	2018 £000	2017 £000
Cash	353	352	353	352
Loans and advances to credit institutions	132,081	151,057	131,571	150,708
Debt Securities	72,655	81,416	72,655	81,416
Loans and advances to customers	842,167	811,268	842,167	811,268
	1,047,256	1,044,093	1,046,746	1,043,744

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	2018 £000	2018 %	2017 £000	2017 %
Banks	64,655	32	75,979	33
Building Societies	19,464	9	32,327	14
Central Government	119,970	59	124,519	53
Local Authorities	1000	-	-	-
	205,089	100	232,825	100

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

	Group		Group	
	2018 £000	2018 %	2017 £000	2017 %
BBB	4,212	2	-	-
A	25,077	12	42,112	18
AA	26,689	13	140,885	60
AAA	134,051	66	32,126	14
Unrated	15,060	7	17,702	8
	205,089	100	232,825	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.

LTV Analysis
Residential

	Group 2018 %	Group 2017 %
The Society's loan book is split between		
0-50%	34	35
50% to 60%	14	14
60% to 70%	16	17
70% to 80%	15	15
80% to 90%	14	12
90% to 100%	7	7
Total	100	100

LTV Analysis
Buy-to-Let

	Group 2018 %	Group 2017 %
0-50%	18	16
50% to 60%	21	18
60% to 70%	44	35
70% to 80%	16	28
80% to 90%	1	3
Total	100	100

LTV Analysis
Commercial

	Group 2018 %	Group 2017 %
0-50%	49	39
50% to 60%	18	18
60% to 70%	20	22
70% to 80%	10	16
80% to 90%	3	3
90% to 100%	0	1
Greater than 100%	0	1
Total	100	100

The Society's loan book is comprised of loans fully secured on residential property, buy-to-let loans and commercial loans. The average loan to value on the loan book is 49% (2017:53%). Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held adjusted by a House Price Index. The collateral consists of residential or commercial property. Collateral values are adjusted by the Nationwide price index to derive the indexed valuation at 30 April 2018. This HPI takes into account regional data. The Group uses the index to update the property values of its portfolios on a quarterly basis.

Notes to the Accounts

5. Financial Instruments (continued)

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

Industry Sector	Group		Group	
	2018 £000	2018 %	2017 £000	2017 %
Wales	543,943	65	538,359	67
South West	116,603	14	98,038	12
Midlands	51,072	6	50,625	6
Outer Metropolitan area	27,703	3	26,565	3
South East	28,875	3	24,479	3
Greater London	28,004	3	23,412	3
North West	17,210	2	16,810	2
Other	28,757	4	32,980	4
	842,167	100	811,268	100

Arrears Analysis

	Group		Group	
	2018 £000	2018 %	2017 £000	2017 %
Not Specifically Provided for				
Neither past due or impaired	835,538	99	796,425	98
Past due up to 3 months	3,662	1	7,620	1
Past due up to 6 months	1,377	-	3,662	1
Impaired				
Past due 6 to 9 months	755	-	836	-
Past due over 9 months	835	-	2,725	-
	842,167	100	811,268	100

The above table shows the impairment status of the Society's loan portfolio. The status 'Past due up to 3 months but not specifically provided for' includes any asset where a payment due is received late or missed but no individual provision has been allocated. These loans will then be considered in the collective provision. The amount included is the entire loan amount rather than just the overdue amount. The quality of the Group's mortgage book is reflected in the number and value of accounts in arrears by value. Only 0.4% (2017: 0.9%) is greater than three months in arrears. Specific provisions are calculated against impaired balances (see note 11).

6. Administrative Expenses

	Group		Society	
	2018 £000	2017 £000	2018 £000	2017 £000
Staff costs	6,435	5,661	6,435	5,661
Auditor's remuneration:				
Statutory audit of Society	60	53	60	53
Statutory audit of Subsidiary Companies	4	4	4	4
Other services	12	9	12	9
Other expenses	5,096	3,618	5,155	3,652
	11,607	9,345	11,666	9,379

Included in staff costs are defined contribution pension scheme contributions of £396k (2017: 298k) and £228k (2017: £166k) in relation to defined benefit scheme pension costs.

7. Taxation

	Group		Society	
	2018 £000	2017 £000	2018 £000	2017 £000
Current Tax:				
UK corporation tax	756	1,187	727	1,161
Adjustments in respect of previous years	(2)	(96)	(2)	(96)
Total current tax	754	1,091	725	1,065
Deferred Tax:				
Origination and reversal of timing differences	19	2	19	2
Adjustment in respect of previous years	(8)	88	(8)	88
Effects of changes in tax rates	(2)	(5)	(2)	(5)
Total deferred tax	9	85	9	85
Total tax per Income and Expenditure Account	763	1,176	734	1,150
Deferred tax current year charge/(credit)	50	(100)	50	(100)
Tax Payable	813	1,076	784	1,050

Notes to the Accounts

The statutory rate of corporation was reduced to 19.0% from 20% from 6 April 2017. The Society was subject to corporation tax of 19.0% for the year (2017 : 20%).

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

	Group		Society	
	2018 £000	2017 £000	2018 £000	2017 £000
Profit for the period	3,962	5,741	3,801	5,589
Effects of:				
Tax at 19.00% thereon (2017: 19.92%)	753	1,144	722	1,113
Expenses not deductible	29	37	24	42
Income not taxable	(7)	(5)	-	(5)
Available for sale adjustments	-	12	-	12
Adjustments from previous periods	(10)	(7)	(10)	(7)
Tax rate changes	(2)	(5)	(2)	(5)
Tax charge for the period	763	1,176	734	1,150
Statement of Financial Position				
Current tax payable	338	912	289	889
Deferred tax (assets)/liabilities:				
Provision at start of period	(26)	(11)	(26)	(11)
Adjustment in respect of prior years	(8)	88	(8)	88
Deferred tax charge to income statement for the period	17	(3)	17	(3)
Deferred tax charge in equity for the period	49	(100)	49	(100)
Provision at end of period	32	(26)	32	(26)
Fixed asset timing differences	256	257	256	257
Short term timing differences - trading	(224)	(283)	(224)	(283)
	32	(26)	32	(26)
Deferred tax (assets) recoverable in 12 months	(224)	(283)	(224)	(283)
	(224)	(283)	(224)	(283)
Deferred tax liabilities recoverable in 12 months	256	257	256	257
	256	257	256	257

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	
	2018 £000	2017 £000
Accrued interest	69	41
Maturing in not more than three months	7,000	8,000
Maturing in more than three months but not more than one year	11,000	11,000
	18,069	19,041

9. Debt Securities Issued by Other Borrowers

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

	Group and Society	
	2018 £000	2017 £000
Accrued interest	176	136
Maturing in not more than one year	47,593	35,227
Maturing in more than one year	24,886	46,053
	72,655	81,416
Analysis of Debt Securities:		
Issued by public bodies	29,099	32,127
Issued by other borrowers	43,556	49,289
	72,655	81,416

Notes to the Accounts

10. Loans and Advances to Customers

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

	Group and Society	
	2018 £000	2017 £000
Repayable on demand	-	2,697
In not more than three months	10,231	6,594
In more than three months but not more than one year	23,711	22,374
In more than one year but not more than five years	149,202	138,350
In more than five years	659,506	642,279
	842,650	812,294
Provisions for bad and doubtful debts (note 11)	(483)	(1,026)
	842,167	811,268
Loans fully secured on residential property	819,395	785,269
Other loans – fully secured on land	22,772	25,999
	842,167	811,268

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

11. Provisions for Loan Losses

	Group and Society				
	Residential		Commercial		
	Specific £000	Collective £000	Specific £000	Collective £000	Total £000
At 1 May 2018	473	297	-	256	1,026
Amounts utilised in year	(944)	-	-	-	(944)
Charge/(release) for the year	604	(102)	127	(228)	401
At 30 April 2018	133	195	127	28	483
At 1 May 2016	227	715	-	278	1,220
Amounts utilised in year	(5)	-	-	4	(1)
Charge/(release) for the year	251	(418)	-	(26)	(193)
At 30 April 2017	473	297	-	256	1,026

12. Investments

	Group		Society	
	2018 £000	2017 £000	2018 £000	2017 £000
Shares in subsidiaries	-	-	2,206	2,206
Loans to subsidiaries	-	-	(368)	(355)
Shares in other investments	18	18	18	18
Loans to other investments	352	423	352	423
	370	441	2,208	2,292

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

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

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

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

Monmouthshire Building Society is registered in the United Kingdom. Its principal place of business is Monmouthshire House, John Frost Square, Newport, South Wales, NP20 1PX.The registered office and principal place of business of each subsidiary is the same as that of the Society. Mutual Vision Technologies Ltd registered office is Unit 7, Millbank House, Bollin Walk, Wilmslow SK9 1BJ.

Notes to the Accounts

13. Intangible Fixed Assets

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

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

14. Tangible Fixed Assets

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

Notes to the Accounts

14. Tangible Fixed Assets

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

14. Tangible Fixed Assets (continued)

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

Notes to the Accounts

14. Tangible Fixed Assets (continued)

	Freehold land & buildings	Leasehold improvements	Office equipment & vehicles	Total
Society	£000	£000	£000	£000
Cost				
At 1 May 2016	2,432	2,805	3,196	8,433
Additions	71	63	394	528
Disposals	-	-	(119)	(119)
At 30 April 2017	2,503	2,868	3,471	8,842
Depreciation				
At 1 May 2016	222	654	2,218	3,094
Charge for the year	37	67	240	344
Disposals	-	-	(83)	(83)
At 30 April 2017	259	721	2,375	3,355
Net Book Value				
At 30 April 2017	2,244	2,147	1,096	5,487
At 30 April 2016	2,210	2,151	978	5,339

15. Shares

	Group 2018 £000	Society 2017 £000
Held by individuals	770,091	816,089

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

	2018 £000	2017 £000
Accrued interest	977	721
On demand	328,040	364,386
In not more than three months	234,743	193,361
In more than three months but not more than one year	126,973	187,962
In more than one year but not more than five years	79,358	69,659
	770,091	816,089

16. 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 2018 £000	Society 2017 £000
Accrued interest	80	20
In not more than three months	13,000	4,000
In more than three months but not more than one year	23,000	28,000
In more than one year but not more than five years	59,000	35,000
	95,080	67,020

Amounts owed to credit institutions includes £79,080k 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.

17. 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 2018 £000	Society 2017 £000
Accrued interest	131	13
On demand	36,779	42,299
In not more than three months	57,068	61,116
In more than three months but not more than one year	31,817	-
	125,795	103,428

Notes to the Accounts

18. Other Liabilities

	Group		Society	
	2018 £000	2017 £000	2018 £000	2017 £000
Falling Due within One Year:				
Corporation tax	338	912	289	889
Other creditors	970	126	955	121
Swap Liabilities	514	2,663	514	2,663
	1,822	3,701	1,758	3,673

19. Provisions for Liabilities

	GC/16 Provision £000	FSCS levy (note 22) £000	Other Provisions £000	Total £000
Group and Society				
At 1 May 2017	20	203	-	223
Amounts utilised	-	(153)	-	(153)
Charge/(credit) for the year	-	(16)	47	31
At 30 April 2018	20	34	47	101

The GC/16 provision relates to the fair treatment of mortgage customers in payment shortfall. Like most lenders, the Society is likely to be impacted by the FCA interpretation of mortgage payment recalculation on accounts with an arrears balance as automatic capitalisation. In certain circumstances this may require a small amount of redress. Other provisions relate to other Society obligations which had arisen at the year end. All cash flows relating to the above provisions are expected to be realised within 12 months of 30 April 2018.

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

20.Information Regarding Directors and Employees

a) Employment

	Society 2018 £000	Society 2017 £000
Costs (excluding non-executive directors):		
Wages and salaries	5,297	4,552
Social security costs	533	447
Other pension costs	604	662
	6,434	5,661

b) Other Pension Costs

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

Pension Valuation

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

The Amounts Recognised in the Statement of Financial Position:	2018 £000	2017 £000
Present Value of Funded Obligations	13,768	14,231
Fair Value of Fund Assets	(12,542)	(12,444)
Deficit	1,226	1,787

The Amounts Recognised in the Statement of Other Comprehensive Income	2018 £000	2017 £000
Actuarial (loss)/ gain on plan assets	(407)	2,279
Actuarial gain/(loss) on defined benefit obligation	767	(3,111)
Total gain/(loss) in statement of comprehensive income	360	(832)
Actuarial gain/(loss) on defined benefit obligation		
Of which due to experience	-	(572)
Of which due to demographic assumptions	39	-
Of which due to financial assumptions	728	(2,539)
Actuarial gain/(loss) on defined benefit obligation	767	(3,111)

Notes to the Accounts

Pension Caluation (continued)

Changes in the Present Value of the Defined Benefit Obligation:	2018 £000	2017 £000
Liabilities at the beginning of the period	14,231	12,712
Interest cost	390	446
Service cost	181	131
Contributions by members	42	49
Actuarial (gain)/loss	(767)	3,111
Change in secured pensioners value due to scheme experience	0	127
Benefits paid	(309)	(2,345)
Liabilities at the end of the period	13,768	14,231

Changes in the Fair Value of Plan Assets:	2018 £000	2017 £000
Fair value of plan assets at the beginning of the period	12,444	11,716
Interest income	343	419
Actuarial (loss)/gain	(407)	2,279
Change in secured pensioners value due to scheme experience	0	127
Contributions by the employer	491	210
Contributions by members	42	46
Benefits paid	(309)	(2,345)
Non investment expenses	(62)	(8)
Fair value of plan assets at the end of the period	12,542	12,444

Analysis of Return on Plan Assets :	2018 £000	2017 £000
Interest income	343	419
Actuarial (loss)/gain on plan assets	(407)	2,406
Return on plan assets	(64)	2,825

Pension Valuation (continued)

Major Categories of Plan Assets as a Percentage of Total Assets:	2018 £000	2018 %	2017 £000	2017 %
Equities	5,768	46	5,434	44
Bonds	5,329	43	5,520	44
Cash and Net Current Assets	30	-	34	-
Annuities	1,415	11	1,456	12
	12,542	100	12,444	100

Amounts Recognised in the Income Statement	2018 £000	2017 £000
Service cost	181	131
Administrative costs incurred in the period	-	8
Net interest cost	47	27
Total Pension expense	228	166

Principal Actuarial Assumptions at the Balance Sheet Date:	2018 %	2017 %
Discount rate	2.9	2.8
RPI price inflation	3.1	3.3
CPI price inflation	2.1	2.3
Rate of increase in salaries	3.1	3.3
Rate of increase in pensions in payment	3.0	3.2
Post retirement mortality	S2MxA CMI 2016 (0.75% M/0.5% F)	S2NxA CMI 2017 (0.75% M/0.5% F)

Life Expectancies	2018 %	2017 %
Current pensioners age 60 - males	26.4	26.3
Current pensioners age 60 - females	28.2	28.2
Future pensioners age (currently age 40) – males	27.2	27.2
Future pensioners age 60 (currently age 40) - females	28.9	28.9

Notes to the Accounts

Pension Valuation (continued)

c) Employees

	Group		Society	
	2018	2017	2018	2017
Average Number Employed During the Year:				
(i) at the Society's Head Office:				
Full-time	106	89	106	89
Part-time	26	23	26	23
(ii) at Branch Offices:				
Full-time	10	6	10	6
Part-time	37	39	37	39
	179	157	179	157

21. Capital commitments

Capital commitments contracted for but not provided in these accounts were £nil (2017: £nil).

22. Contingent liability

Financial Services Compensation Scheme (FSCS)

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

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

A provision of £34k for Monmouthshire Building Society's estimated share of the levy remains in force at the Statement of Financial Position date (see note 19).

23. Commitments under Non-cancellable Leases

The Group has the following commitments in respect of operating lease rentals:	2018 £000	2017 £000
Less than one year	81	80
Between one and five years	214	203
Greater than five years	85	27
	380	310

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 35.

Loans to Directors

There was an aggregate of £217k (2017: £223k) 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:

	2018 £000	2017 £000
Rent paid to Austin Friars (Newport) Development Company Ltd	(60)	(60)
Loan interest from Mutual Vision Technologies Ltd	3	9
Dividend received from Monmouthshire Independent Financial Advisers Ltd	-	25

Notes to the Accounts

Annual Business Statement

Year ended 30 April 2018

1. Statutory Percentages

	Percentages at 30 April 2018	Statutory limit
	%	%
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	3.3	25
Proportion of shares, deposits and debt securities in the form of shares not held by individuals (the 'funding limit')	22.3	50

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

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Statement of Financial Position plus provisions for bad and doubtful debts, less fixed assets and liquid assets. Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Statement of Financial Position plus provisions for bad and doubtful debts and interest in suspense.

2. Other Percentages

	2018	2017
	%	%
As a Percentage of Shares and Borrowings:		
Gross capital	6.53	6.21
Free capital	5.66	5.40
Liquid assets	20.70	23.60
As a Percentage of Mean Total Assets:		
Profit after tax	0.30	0.43
Management expenses	1.16	0.93
Cost income ratio	73.68	64.14
Common Equity Tier 1 capital ratio	16.88	16.11
Leverage ratio	5.96	5.81

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 2017 and 2018 figures.
(vi) Management expenses represent the aggregate of administrative expenses and depreciation.
(vii) Cost income ratio represents administrative expenses divided by total operating income.
(viii) Common equity Tier 1 capital is general reserves divided by total risk weighted assets.
(ix) Leverage ratio represents total mean reserves over total mean assets.

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), Maitre 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	Chartered Accountant	09.09.62	01.09.14
A D Morgan BSc (Hons) FCA (Vice Chairman)	Chartered Accountant	21.09.52	01.10.13
R D Turner BA (Hons), M.B.A	Asset Manager Chief Executive Officer	06.07.60	25.09.15

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

Other Directorships and Appointments:

T Barratt	Omega Consultancy Limited
Mr W J Carroll	Monmouthshire Independent Financial Advisers Ltd Monmouthshire Insurance Services Ltd Monmouthshire Building Society Charitable Foundation Ltd Mutual Vision Limited
Mr A D Morgan	Geldards LLP (Independent Adviser) University of South Wales (Governor) Power Poles Ltd
Mr R D Turner	FM Capital Partners Limited Shepherds Friendly Society

Officers Name	Occupation
L Burgess	Head of Human Resources
W J Carroll BSc (Hons) FCA	Chief Executive Officer
D M Gunter	Chief Operating Officer
I J Jones Bsc Econ (Hons) ACA	Finance Director
D Mollison BA (Hons) SIRM	Head of Risk & Compliance
S Rai	Head of Business Strategy & Change

At 30 April 2018, 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	33B Tredegar Street, NP11 6BU	Tel: 01633 613181
SWANSEA	18 Union Street, SA1 3EH	Tel: 01792 657460
USK	25 Bridge Street, NP15 1BQ	Tel: 01291 673347

Monmouthshire Building Society

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Monmouthshire Building Society is authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register Number: 206052

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

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