Monmouthshire Building Society

Pillar 3 Disclosure Document

30 April 2019

Contents

1. Introduction

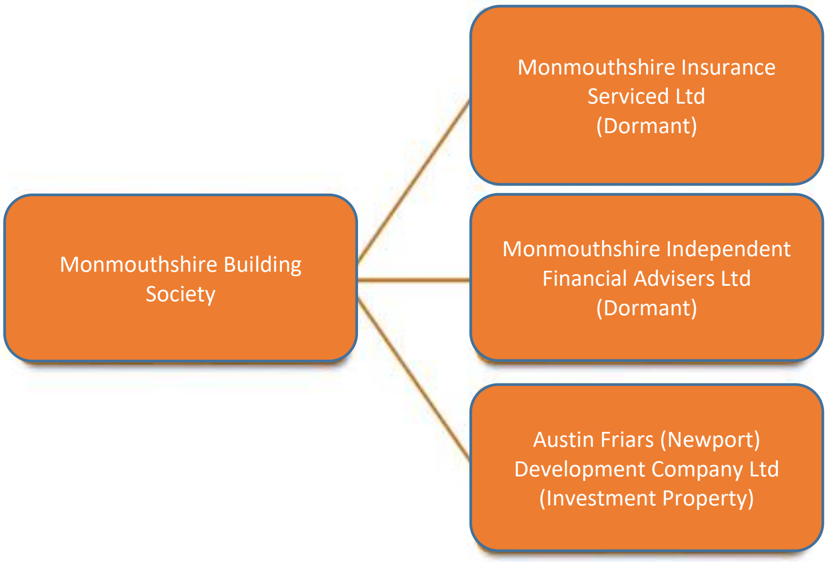
a. Purpose

The purpose of this document is to provide members and other stakeholders with background information on the Society's approach to risk management and the maintenance of its capital strength. As such, it includes details of:

- the Society's approach to risk management, its policies and objectives;
- the governance structure of the Board and Board Committees;
- own funds information (or capital resources);
- regulatory capital requirements; and
- compliance with the EU Capital Requirements Regulation.

b. Coverage

The disclosure document applies to the Monmouthshire Building Society Group:



The information presented is based on the Society's Annual Report and Accounts as at 30 April 2019, but may differ where regulatory requirements differ from the requirements underlying the Annual Report and Accounts. MBS Developments Ltd is dormant.

c. Legislative Framework

European standards for capital and liquidity requirements for banks, building societies and related institutions are set out in the Capital Requirements Directive IV (CRD IV, 2013/36/EU) and the Capital Requirements Regulation (CRR, 575/2013). This legislation came into force on 1 January 2014, and is the European implementation of Basel III, which sets out global standards for capital and liquidity adequacy.

On a national level, prudential supervision with regards to capital and liquidity adequacy is overseen by the Prudential Regulatory Authority (PRA), and CRD IV is implemented in the PRA Rulebook. CRR on the other hand is directly applicable, without implementation in national legislation. CRD IV and CRR are supported by additional guidance and standards defined both on a European and on a national level.

CRR sets out not only capital requirements, but also specifies what the Society must disclose in regard to its risk management policies, procedures, and performance, including the main risks faced by the Society and the governance of those risks. These disclosure requirements are usually referred to as "Pillar 3", being the third pillar of the three-pillar approach which is normally considered for prudential banking regulation.

- Pillar 1 - Minimum capital requirements, on a risk-based approach
- Pillar 2 - Assessment of the adequacy of capital requirements and the risk management system
- Pillar 3 - Disclosure

The information provided is in accordance with the rules laid out in Part 8 of CRR.

d. Review

This document will be reviewed annually by ALCO and approved by the Audit Committee and will be published on the Society's corporate website (www.monbs.com) in conjunction with the Society's 2019 Annual Report.

The Pillar 3 disclosures are intended to explain the basis on which the Society has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. The disclosures do not constitute any form of financial statement and must not be relied upon in making any judgement on the Society.

In the event that a user has comments or requires further information then please contact Iwan Jones, Finance Director at Iwan.Jones@monbs.com.

2. Risk Management Policies and Objectives

Monmouthshire Building Society views risk management as an integral part of good internal control and corporate governance. The Society continuously reviews and enhances its Risk Management processes and further develops its Risk Management Framework.

The Risk Management Framework is the cornerstone for ensuring a risk culture is in operation throughout the Society and that all risks are identified, measured, assessed, monitored, controlled and mitigated within the context of the Society's Risk Appetite, which is set by the Board.

It is acknowledged that risk is inherent in the business activities of the Society and can never be fully eliminated. The framework assists in defining the boundaries within which management is expected to operate when pursuing the Board approved business strategy and to give the best outcomes for customers.

A sound risk culture supporting appropriate risk awareness, behaviours and judgements about risk-taking within a strong governance framework is recognised as a key element in ensuring the successful operation of the Society's framework.

To ensure that the framework operates effectively and efficiently the Society has adopted the three lines of defence model and defined clear governance structures for the operation of the framework.

Risks are assessed using both a qualitative and quantitative approach. The qualitative risk assessments are undertaken through risk reviews whilst a number of risk appetite measures have been defined to represent the quantitative assessments.

All Society risks are categorised into a number of primary and secondary risk types with defined Risk Owners. The Society's risk appetite for each primary risk and for the Society as a whole are defined.

A description of the Society's primary risks, as agreed by the Board and corresponding appetite statements are detailed in the table below:

The Groups Primary Risks and corresponding Risk Appetite Statements are:

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Strategic Risk The risks that affect or are created by the Society's business strategy and strategic objectives. Risks arising from changes to the Society's business model and the risk of the Plan proving inappropriate due to macroeconomic, geopolitical, regulatory or other factors.	Maintain earnings stability over the 5 year business plan to maintain sustainable asset growth and capital reserves.	• Business planning process • Ongoing monitoring of Key Performance Indicators and Risk Appetite Measures • Investment in underlying processes, systems and people to support new business developments • Business planning stress testing • Robust risk management and a corporate governance framework
Credit Risk The risk of losses arising from a debtor's failure to meet its legal and contractual obligations.	A prudent lending approach to mortgage customers and treasury counterparties to minimise default rates and impact on earnings or capital whilst generating an appropriate level of return reflecting the risk.	• Board approved risk appetite and risk limits • Lending Policy • Treasury Policy • Strict underwriting criteria • Counterparty limits and reviews • Stress testing • Mortgage Lending Risk Committee oversight • Capital Planning as part of the Group's Internal Capital Adequacy Assessment Process
Financial Soundness Risk The risk that insufficient funds are available to meet financial obligations as they fall due and/or, insufficient capital resources, resulting in the inability to support business activities, as well as the inability to meet liquidity and capital regulatory requirements.	**Liquidity** Maintain sufficient liquid resources over and above financial minimums to give members confidence on the Group's ability to meet its obligations. **Capital** Maintain sufficient capital to support current and future business initiatives, including stressed losses that arise as a result of plausible but extreme scenarios and to meet regulatory requirements	• Board approved risk appetite and risk limits • Maintaining appropriate levels of High-Quality Liquid Assets • Treasury Policy • The Group's Individual Liquidity Adequacy Assessment Process and Contingency Funding Plan • Stress testing • Assets and Liability Committee oversight

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
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. Financial Crime We will not tolerate operating without the proportionate systems and controls in place designed to detect and prevent Financial Crime and will not knowingly conduct business with individuals or entities that we either suspect or believe to be engaged in behaviour which supports financial crime. Whilst we recognise we cannot eliminate fraud, we have a low appetite for failures in relation to internal staff fraud, and we have zero appetite for failing to comply with the Sanctions Regime.	• Board approved risk appetite limits • Strong and effective internal control environment (Controls Assurance Testing) • Insurances • Operational Risk and Compliance Committee oversight • Continued investment in developing risk management frameworks, systems and processes • Continuous improvement, learning from internal risk events and external events • Trained Risk Champions in each business area, supporting their Executive maintain strong risk management
Conduct Risk The risk of financial or reputational loss as a result of treating customers unfairly, and delivering inappropriate outcomes that lead to customer detriment.	Aim to deliver positive outcomes for customers, maintaining a high degree of customer and public confidence by focusing on the Group's aims and values.	• Board approved risk appetite limits and Conduct Risk Policy • Members are placed at the heart of our decision making, aligned to our Group Values • Operational Risk and Compliance Committee oversight • Strong risk management culture • Enhanced Conduct Risk Dashboard

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
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.	• Defined Benefit Scheme has closed to new members since 2001 • Pension valuation and scheme actuary reports • Investment strategy • Capital planning
Non Primary Risk		
Brexit Risk The UK is in the process of negotiating its exit from the European Union. This was scheduled to occur at the end of March 2019, but it remains unclear as to what form this will take and over what timescales it will proceed. Risks include political instability, disruption to financial markets and a general economic downturn impacting the Society's business model.	Ensure that the Society is well placed to deal with potential adverse impacts of a disorderly Brexit through having appropriate capital resources and management control processes.	The Society has modelled the potential impacts of a disorderly Brexit and believes that it has put in place appropriate management control processes and has adequate capital resources to enable it to withstand such impacts. In assessing the impact of risks the Society has had regard to the Bank of England's published EU withdrawal scenarios,

a. Risk Overview

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

The Board is responsible for ensuring an effective risk management framework is in place, promoting a risk aware culture that ensures all principal risks are identified and mitigated in the pursuit of strategic objectives. Throughout the year the Board has continued to invest in the Group's approach to risk management to ensure it continues to deliver effectively and supports the next stage of the Group's sustainable growth. Specifically, investment has been made in the second line risk oversight. Recognising the regulatory changes and importance of fighting financial crime, further investment has been made into this area. In addition, the Society has engaged third parties to review our approach to managing Cyber Risk and help ensure we are well protected in light of the exponential growth in this risk. The Board reviews the 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 below and are an integral part of a strong culture. An effective risk culture is one of the primary means by which the Group ensures these values are upheld. The Society utilises regular surveys to ensure colleagues can express their view on our culture.

Enterprise Risk Management Framework

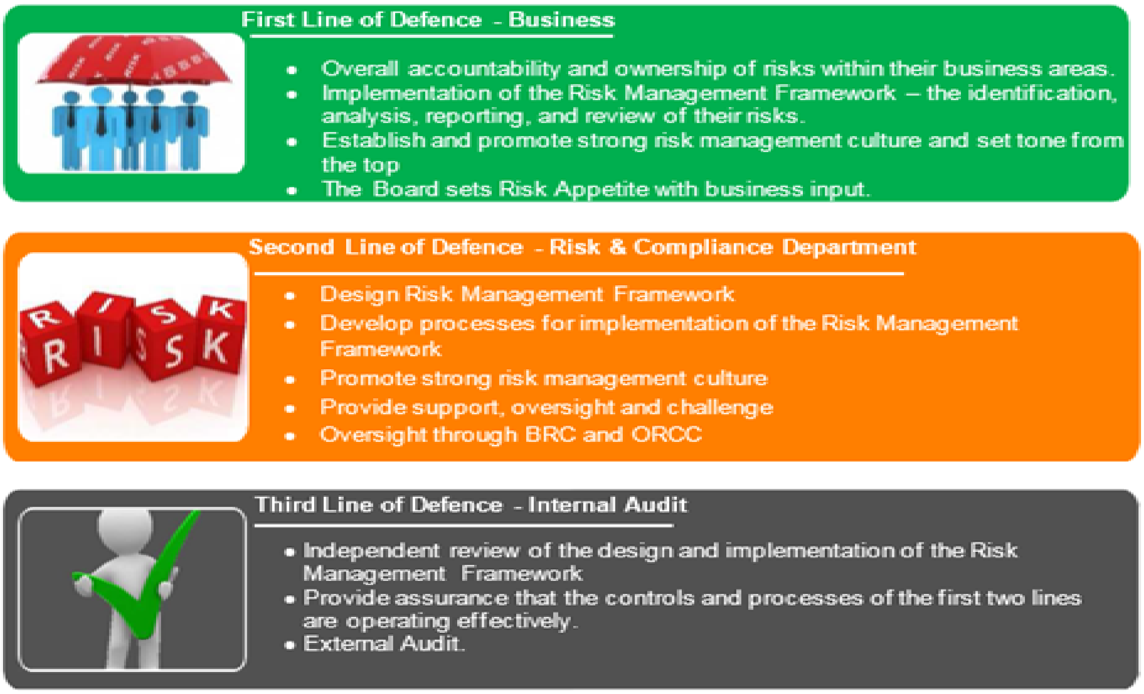
Risk management is an integral part of good internal control and corporate governance. An Enterprise Risk Management Framework has been developed to enable the Group to establish a formal consistent process for the management of risks. The framework is the cornerstone of ensuring a robust risk culture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

The Group has a Three Lines of Defence model approach in the design and implementation of the Enterprise Risk Management Framework. This provides clarity over roles and responsibilities of colleagues whilst enabling the Risk Committee to establish a robust risk management culture and governance structure for the identification, measurement, assessment, monitoring and management of risks.

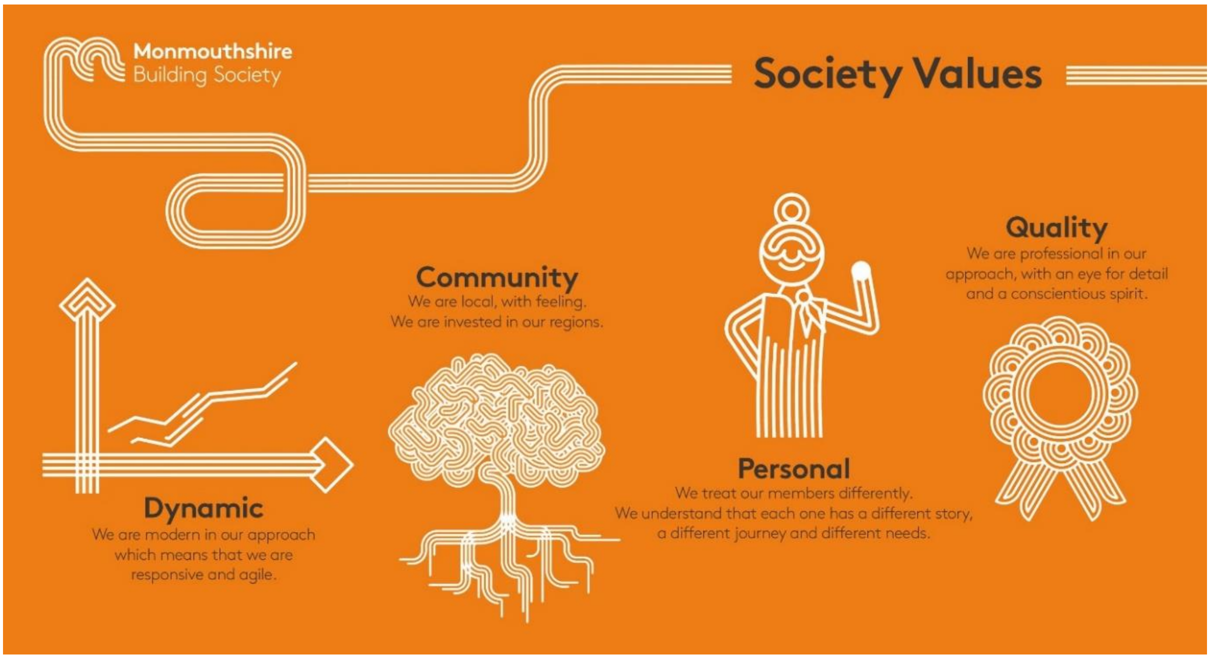
The Risk & Compliance Department are responsible for overseeing the effective engagement of all relevant staff in the implementation of the Risk Management Framework. The Board Risk Committee and all staff are responsible for the development, enhancement and maintenance of an effective risk management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

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

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



The Society's values are below:



b. Risk Governance

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 has overall accountability and ownership of the Enterprise 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 learnings and mitigating actions are in place.

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

3. Board Committees

The current terms of reference of the Group's Board committees are published on the Society's website. A summary of the Board Committees is detailed below.

a. Audit Committee

The Committee comprises three Non-Executive Directors. Representatives from the Society Executive, together with the Society's outsourced Internal Auditor and External Auditor, also attend Committee meetings by invitation. 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. 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:

Audit Committee key responsibilities	
Financial Reporting	• Monitoring the integrity of the Group's financial statements and reviewing critical accounting policies, judgements and estimates. • Reviewing the appropriateness of the going concern basis for preparing the accounts. Providing advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.
External audit	• Reviewing the continued objectivity and independence of external audit, including the level and appropriateness of non-audit services. • Considering the appointment, removal, performance and remuneration of the external audit firm. Considering the planning, scope and findings of the annual external audit, the receipt of, and responses to, the auditor's management letter and reviewing the degree of liaison with internal audit.
Internal Controls and Risk management	• Reviewing the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems in conjunction with reviewing reports produced by internal and external audit. Reviewing the statements to be included in the Annual Report concerning internal controls and risk management.
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.

b. Risk Committee

The Committee comprises three Non-Executive Directors. Representatives from other members of the Society Executive, also attend Committee meetings by invitation.

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:

Board Risk Committee key responsibilities	
Setting risk appetite	• Reviewing and approve the Group's Risk Appetite Statements taking account of the current and future macroeconomic financial and regulatory environment. • Approving the Risk Appetite Measures to be used to monitor the Group's risk management performance.
Monitoring business operation	• Monitoring emerging prudential risks, conduct risks and areas of potential concern, in particular those matters identified or highlighted by the regulatory authorities, and satisfy itself that appropriate reviews are undertaken to identify and manage any impact on the Group and its Members in a timely manner. • Reviewing and challenge the internal control environment. Monitor the Group's current risk exposures, including performance and compliance against high level risk appetite limits and tolerances.
Risk reporting	• Reviewing 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	• Reviewing and approve the Group's Risk Management Framework. • Reviewing the implementation of the Risk Management Framework ensuring all risks are managed with adequate resource and a satisfactory control environment. • Ensuring that the Group's Risk Management Structure is adequately resourced and effective.

c. Remuneration Committee

The Committee comprises three Non-Executive Directors.

The Committee determines terms and conditions of employment together with levels of remuneration in respect of the Society's staff. The key responsibilities of the Committee are set out in the table below.

Remuneration Committee Key Responsibilities	
Directors 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. The report will be presented and be subject to an advisory vote at the Annual General Meeting.
Remuneration policy	• Reviewing the Remuneration Policy annually.

d. Nomination and Corporate Governance Committee

The Committee comprises two Non-Executive Directors and the Chief Executive Officer.

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.

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

4. Capital Resources (at 30 April 2019)

As at 30 April 2019 and throughout the year ended 30 April 2019 the Group complied with its Capital Requirements as laid down by the PRA. The Capital Resources of the Group are calculated under Pillar 1 of Capital Requirements Directive IV. The following shows the breakdown of available capital for the group:

		30 April 2019 £000
Tier 1 Capital		
General Reserves		**65,002**
Less intangible assets		**(1,582)**
Total Tier 1 Capital		**63,420**
Core Tier 1 Capital as a percentage of risk weighted assets		**15.78%**
Tier 2 Capital		
Collective Provisions		**124**
Total Tier 2 Capital		**124**
Total Regulatory Capital Resources		**63,544**
RWA's		401,927
Total regulatory capital as a percentage of risk weighted assets		**15.81%**
Reconciliation of Accounting and Regulatory Capital Resources		**30 April 2019 £000**
Accounting Capital Resources – General Reserves		**65,002**
Adjusted for:		
Collective Provisions		**124**
Intangible assets		**(1,582)**
Regulatory Capital Resources		**63,544**

a. Adequacy of Capital Resources

Underpinning the Society's Corporate Plan is the need to maintain its capital strength above the Board agreed requirement, which is the same as the regulatory required minimum capital. In order to do this, the Society needs to generate, and retain, profits that will add to the general reserves, the main source of capital.

Complementing the Strategic Plan, the Society annually undertakes an Internal Capital Adequacy Assessment Process (ICAAP), to ensure that the Society's capital resources are sufficient to deliver the Strategic Plan objectives in normal as well as stressed conditions.

This process involves reviewing all risks relevant to the Society, and assessing the required capital to mitigate those risks, through analysing the impact of a range of stress scenarios. The key risks that are evaluated as part of the ICAAP are the primary risks identified in Section 2.

The Board assesses relevant information on each of these areas against a clearly defined risk appetite and approves the capital requirements arising from this detailed review. In its challenge of the capital assessments, the Board also takes into account any areas where they feel the models and internal assessments do not adequately capture the full risk exposure by holding extra capital where appropriate.

The Society translates its overall risk appetite for risk into a range of policy limits controlling the exposures taken. These exposures, and other risks, are carefully monitored by the Board and Board committees on a regular basis, as part of the Society's Governance structure.

5. Risk Weighted Exposure Amounts, Operational Risk Capital & Leverage Ratio

a. Risk Weighted Exposure Amounts

The assets of the Society are analysed by risk category and given risk weightings according to the level of risk entailed. The risk weightings are determined by the "standardised approach" to credit risk and "basic indicator approach" to operational risk. The Society's group Pillar 1 capital requirement as at 30 April 2019 based on 8% of its risk-weighted assets is derived as follows:

30 April 2019	Assets £000	Risk Weighted Asset £000	Minimum Capital Required £000
Pillar 1 Capital- Credit Risk			
Central Governments or Central Banks	131,420	-	-
Institutions	34,125	6,825	546
Fully Secured on Residential Property Mortgage assets	910,164	328,275	26,262
Fully Secured on Land Mortgage Assets	24,032	24,032	1,923
Other Items	9,277	9,277	742
Total	1,109,018	368,409	29,473
Off balance sheet exposures	11,756	4,115	329
Pillar 1 Capital –Operational Risk		29,403	2,352
Total Pillar 1 Capital Requirement		401,927	32,154

	£000
Amount of Regulatory Capital Resources	63,544
Total Requirement	(32,154)
Excess of Reserves over Requirement	31,390

The majority of the Society's own funds are in the form of Common Equity Tier 1, and consist of retained earnings. Specific and collective provisions are subtracted from CET 1 capital, but the collective provision is included as part of Tier 2.

Due to the adoption of FRS 102, deferred tax assets that rely on future profit and arise from temporary differences are also required to be deducted from CET 1 capital, but an exemption is applicable as long as the amount is below 10% of total CET 1 capital. The Society has taken advantage of this exemption.

b. Operational Risk

Operational Risk is calculated under the "Basic Indicator Approach" as 15% of the sum of the average net interest after adjusting for other operating income and charges, over the previous three years.

A breakdown of the calculation of capital requirements for Operational Risk is provided below:

Basic Indicator Approach to Operational Risk (£000)	2017	2018	2019
Net interest Income	15,362	15,914	15,020
Other Income/charges	69	768	(88)
Total	15,431	16,682	14,932
Basic Indicator (3 year average)			15,682
Own Funds Requirement (15% of the Basic Indicator)			**2,352**

c. Leverage Ratio

The leverage ratio is defined as ratio between the Tier 1 capital and the total on and off balance sheet asset exposure, without taking in to account any risk weighting. Its objective is to reduce the risk of excessive leverage (i.e. an excessively low amount of own funds compared to total assets), as well as acting as a back stop against the model complexities involved in calibrating risk weights.

The total exposure measure and leverage ratio are shown below based on the total balance sheet exposures at 30th April 2019.

Leverage Ratio Calculation	£000
Capital	
Capital	65,002
Less intangible asset	(1,582)
	63,420
Total Balance sheet exposures	1,109,018
Derivatives adjustment	529
Less intangible asset	(1,582)
Off balance sheet exposures	11,756
	1,119,721
Leverage Ratio	**5.66%**

The Society's calculated leverage ratio at 30 April 2019 was 5.66% (30 April 2018 5.96%).

6. Counterparty Credit Risk

The Society is exposed to counterparty credit risk in relation to its liquid asset investments which are invested in central government, multilateral development banks, banks, building societies and local authorities. The Risk Committee is responsible for recommending to the Board which counterparties should be included on the authorised counterparty list and what the maximum exposure should be for each counterparty. The Risk Committee takes into account the ratings assigned to an entity by Fitch, Moody's and Standard & Poor's credit rating agencies and also considers any other pertinent data that is considered to relate to the creditworthiness of each entity. Current policy for accepting new counterparties is as follows:

- The Society cannot invest in any Counterparty for a duration of more than one year unless it carries a minimum long term credit rating of AA-, or equivalent from each of Fitch, Moody's and Standard & Poor's Rating Agencies.
- The Society can invest in any Counterparty for a duration of up to a maximum of one year if it carries a minimum short term credit rating of F1 or equivalent from each of Fitch, Moody's and Standard & Poor's Rating Agencies.
- The lowest rating of each Agency will be used for assessment purposes.
- Certain established Counterparties with a lower than minimum credit rating can be included on the Society's counterparty list where specifically approved by the Board.

The maturity and credit quality profile of Treasury investments at 30 April 2019 is shown below:

Maturity Profile	< 8 Days £'000	< 1 Month £'000	< 3 Months £'000	> 3 Months £'000	Total £'000
Minimum Credit Rating					
AAA to AA- (including BSoc Covered Bonds & RMBS)	14,374	-	918	10,555	25,847
A+ to A-	1,065	-	-	-	1,065
Building Societies	-	2,020	-	5,013	7,033
Multi-Lateral Development Banks (AAA)	-	-	-	18,065	18,065
Central Governments and Banks	92,073	-	10,861	10,072	113,006
Local authorities	-	-	-	-	-
Total	**107,512**	**2,020**	**11,779**	**43,705**	**165,016**

Exposure Class	Less than 3 months	3 months to 1 year	1 year to 5 years	Greater than 5 years	Total
Central governments or central banks	102,934	10,072	-	-	113,006
Institutions	18,378	3,544	30,088	-	52,010
Secured by mortgages	5,079	4,000	50,638	874,749	934,466
Other items	9,536	-	-	-	9,536
Total Credit Risk	135,927	17,616	80,726	874,749	1,109,018

7. Analysis of Past Due Loans (> 1 month in arrears and by region)

The table below shows an overview of the mortgage portfolio separated by risk characteristics (i.e. owner-occupied residential, buy to let residential, or commercial mortgages), as well as geographical regions as at 30/04/2019.

Mortgage Portfolio	Owner occupied Residential	Buy To Let Residential	Commercial	Total
	£000	£000	£000	£000
Total exposure	738,210	175,176	21,080	934,466
Performing	729,309	172,724	19,959	921,992
Non-performing *	8,901	2,452	1,121	12,474
Collective provision	98	25	1	124
Specific provision	203	50	129	382
Exposure by region	%	%	%	%
Wales	54	69	85	57
South West	13	19	6	14
West Midlands	8	3	1	7
Outer Metropolitan	4	2	8	4
Other South East	5	2	0	5
Greater London	6	2	0	5
North West	3	0	0	3
Other	7	3	0	5
Total	100	100	100	100

*Loans are classified as non performing when they are one month or more in arrears.

8. Provisions for Loans and Advances

Provisions (under CRR referred to as credit risk adjustments) on commercial and residential accounts are made to reduce the value of loans and advances to the amount that is considered to be likely to be ultimately recoverable in the event of the relevant property held as security being sold in possession by the Society.

Throughout the year, and at the year-end, individual assessments are made of all loans and advances which are in possession or are significantly in arrears and a specific credit risk adjustment is made against those cases which are considered to be impaired. In considering the individual provisions for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date. Where, unfortunately a customer has been unable to make their repayments and where the best outcome is for the property to be taken into possession, and where the property is subject to an acceptable offer from a potential purchaser and management are satisfied that commitment to completion of the transaction exists, the individual provision has been made on the basis of the agreed selling price. The Society also looks to mitigate losses through the use of Mortgage Indemnity Guarantee insurance, which is taken out on almost all residential lending over 90% loan to value.

On the basis of the Society's previous experience it is recognised that not all serious arrears cases will ultimately result in possession, and the amounts provided on individual cases either not in possession or seriously in arrears, reflect the estimated propensity for a loss to be realised.

An individual provision is also considered in the case of accounts, which may not currently be in arrears, where the Society has exercised forbearance to work with the customer in the conduct of the account. The provision is based on the propensity of the account to realise a loss, had forbearance not been shown.

No provision is made against the future carrying costs of impaired loans.

A collective provision is also made against those advances for which the Society's experience and the general economic climate would indicate that impairment events have occurred but have yet to be notified and as such could ultimately result in a loss.

The amount charged in the income and expenditure account represents losses written off in the year together with the net change in credit risk adjustments. Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable.

9. Interest Rate Risk in the Banking Book (IRRBB)

Encumbered Assets

The Society has pledged part of its loan book as collateral with the Bank of England, in order to participate in the Bank's Sterling Monetary Framework (SMF). Participation in the scheme provides the Society with a source of funding that diversifies the funding portfolio and reduces the overall funding cost, and allows the Society to optimise mortgage rates for its members. Although the loans remain fully owned and operated by the Society, they are reported as encumbered. Other encumbered assets are collateral posted for the derivative portfolio that supports the management of interest rate risk. Details of the encumbered assets are included below:

	Encumbered Assets		Total Assets	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Assets of the reporting institution	216,156	-	1,109,018	0
Loans on demand	-	-	0	-
Equity instruments	-	-	-	-
Debt securities	-	-	50,145	50,145
Loans and advances other than loans on demand	216,156	-	1,049,337	-
Other Assets	-	-	9,536	-

IRRBB

IRRBB is managed using balance sheet hedging through the use of derivatives. Basis risk is measured and controlled through static and dynamic stress tests against Board approved limits.

Static gap analysis is performed monthly against a 2% parallel shift in interest rates, the Society currently stress tests a downwards shift against a fall of 0.5% in interest rates. The results are reviewed by the ALCO and Risk Committee.

The results of the stress test at 30 April 2019 are as follows:

	Net Gap £000	Impact on net interest income £000
At 30 April 2019	57,664	-
Impact of interest rate shift of +2%	60,240	(2,576)
Impact of interest rate shift of (0.5%)	57,020	644

10. Remuneration

a. Directors

Full details of the Society's remuneration policy and details of Executive Directors' emoluments for 2019 and comparatives for 2018 are set out in the Directors Report in the Annual Report and Accounts, available on the Society's website, which should be read in conjunction with this report.

The Society's objective in setting remuneration policies is to reward Executive Directors and other senior staff through salaries and other benefits, including an incentive scheme designed to recognise the achievement of corporate objectives. Remuneration is set at a level to retain and attract individuals of the calibre necessary to operate in an organisation such as the Society.

No Executive Director holds a contract with a notice period of more than 12 months.

b. Material Risk Takers

The Board has determined that for the year to 30 April 2019, the three Executive Directors of the Society are designated as being subject to the PRA Remuneration Code, as set out in SYSC 19A. These staff are now identified as "Material Risk Takers" under CRD IV.

The remuneration of the Society Executive Directors and other members of senior management is determined by the Remuneration Committee, which consists of three Non-Executive Directors. The terms of reference of the Committee are available on the Society's website.

Rewards are principally in two parts, being basic salary and an annual incentive payment. Payments made as a result of the annual incentive scheme are not pensionable. The annual incentive scheme is linked to key corporate performance measures, such as peer group comparison and the achievement of financial or regulatory compliance targets (e.g. in relation to growth and efficiency). For the year to 30 April 2019, the scheme was designed to deliver a maximum award of 20% of basic salary, following finalisation and approval of the Accounts.

Payments made to material risk takers the year to 30 April 2019 were as follows:

	Total £000
Remuneration	
Fixed	739
Variable	66
	805