Monmouthshire Building Society

Pillar 3 Disclosure Document

30 April 2021

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MONMOUTHSHIRE BUILDING SOCIETY GROUP
PILLAR 3 DISCLOSURE DOCUMENT
30 APRIL 2021

1. Introduction

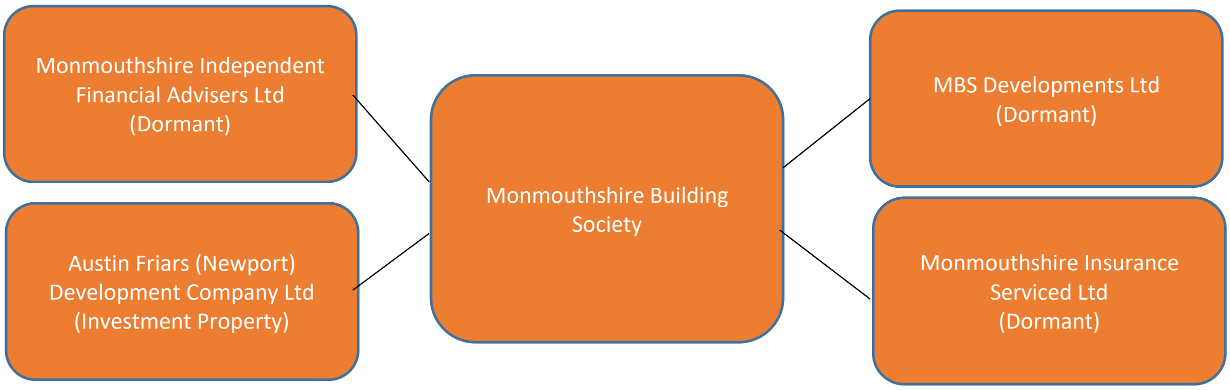
a. Purpose

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 2021, although may differ where regulatory requirements differ from the requirements underlying the Annual Report and Accounts.

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) as well as BIPRU chapter 11. 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 Requirements

The information provided is in accordance with the rules laid out in Part 8 of the CRR and BIPRU Chapter 11.

d. Review

This document will be reviewed annually by the Assets and Liabilities Committee (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 2021 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 the interim CFO Julian Bill at Julian.bill@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.	Embrace change and explore new opportunities to serve our members in pursuit of sustainable asset growth and accumulation of capital reserves in line with our ambitious 5-year strategy.	• Business planning process • Quarterly strategic updates to Board accompanied by challenge from Risk & Compliance function • Ongoing monitoring of Key Performance Indicators and Risk Appetite Measures • Investment in underlying processes, systems and people to support new business developments • Business planning stress testing • Robust enterprise risk management and corporate governance frameworks
Credit Risk The risk of losses arising from a debtor's failure to meet its legal and contractual obligations.	A prudent lending approach to mortgage customers and treasury counterparties to minimise default rates and impact on earnings or capital whilst generating an appropriate level of return reflecting the risk.	• Board approved risk appetite and risk limits • Responsible Lending Policy, Commercial Lending Policy • Treasury Policy • Treasury Management System • Robust underwriting criteria • Counterparty limits and reviews • Stress testing • Mortgage Lending Risk Committee & Asset and Liability Committee oversight • Capital Planning as part of the Society's Internal Capital Adequacy Assessment Process (ICAAP) • Credit risk reporting, including layering of risk metrics
Financial Soundness Risk The risk that insufficient funds are available to meet financial obligations as they fall due and/or, insufficient capital resources, resulting in the inability to support business activities, as well as the inability to meet liquidity and capital regulatory requirements.	**Liquidity** Maintain liquid resources above Board-approved treasury financial minimums to give members confidence on the Society's ability to meet its obligations. **Capital** Utilise capital effectively to support current and future business initiatives, including stressed losses that arise as a result of plausible but extreme	• Board approved risk appetite and risk limits • Maintaining appropriate levels of High Quality Liquid Assets • Treasury Policy • Treasury Middle Office reporting and monitoring • The Society's Internal Liquidity Adequacy Assessment Process (ILAAP) • The Society's Internal Capital Adequacy Assessment Process (ICAAP) • Stress testing

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
	scenarios and to meet regulatory requirements.	• Assets and Liabilities Committee oversight • Recovery Plan
Market Risk The risk of losses arising from changes in market rates or prices.	Limit exposure to variation in interest rate and basis risk positions from adverse movements in market rates. Ensure exposures remain within forecast market expectations.	• Board approved risk appetite and risk limits • Stress testing • Assets and Liabilities Committee oversight • Treasury Middle Office reporting and monitoring
Operational Risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Develop robust processes and controls to optimise resources and reduce the impact of operational risks on the Society's performance.	• Board approved risk appetite limits • Strong and effective internal control environment (Controls Assurance Testing) • Insurances • Operational Risk and Compliance Committee oversight • Continued investment in developing risk management frameworks, policies, systems and processes • Continuous improvement, learning from internal and external risk events, results of Controls Assurance Testing and responding to findings from second line and third line (Internal Audit reviews) • Risk Champions in each business area, supporting their Executive maintain strong risk management practices • Investment in our operational resilience including cyber-crime and IT
Conduct Risk The risk of financial or reputational loss as a result of treating customers unfairly and delivering inappropriate outcomes that lead to customer detriment.	We aim to deliver positive outcomes for customers, maintaining a high degree of customer and public confidence by focusing on the Society's aims and values.	• Board approved risk appetite limits and Conduct Risk Policy • Members are placed at the heart of our decision making, aligned to our Society Values (Member Led) • Operational Risk and Compliance Committee oversight • Strong risk management culture • Conduct Risk Dashboard • Vulnerable Customer Policy

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Legal and Regulatory Risk The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK or EU legal and regulatory requirements.	Maintain robust controls to ensure compliance with the intent and spirit of relevant laws and regulation.	• Regulatory horizon scanning • Board approved risk appetite limits • Strong compliance culture • Operational Risk and Compliance Committee oversight • Compliance Framework • Open and transparent relationship with all regulatory bodies
Pension Obligation Risk The risk of a material financial deficit in the Society's Defined Benefit Scheme	Ensure the Society's contractual and regulatory obligations are met.	• Scheme closed to new members in 2001 and closed to future accrual in 2020 • Pension valuation and scheme actuary reports • Investment strategy • Capital planning

Other Material Risks

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

Non-Primary Risk	Approach	Key Mitigating Actions
COVID-19 Coronavirus represents a generational disruption to life in the UK, with the true and lasting impact to the UK and global economy not yet known.	The Society has responded effectively to the challenges of COVID-19, ensuring our members and colleagues are safe and supported throughout. We continue to monitor and assess the longer-term impacts the pandemic may bring.	The Society continued to respond constructively to the pandemic over the past 12 months, capitalising on the successes of our early response to support future growth. For example, steps taken to enable remote working have improved our operational resilience and allowed us to introduce an agile working approach to the benefit of current and future colleagues. From a macroeconomic perspective, the true impact of the pandemic remains unclear as government support schemes remained in place throughout the fiscal year. Regardless of the outcome, the Society took steps to assess its arrears management strategies to ensure they are fit for purpose in the event of an increase in payment difficulties for our members.

Non-Primary Risk	Approach	Key Mitigating Actions
Climate Change The Bank of England (BoE), Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) are continuing to review and update regulatory expectations related to climate change. The Society recognises two primary elements of climate change risk: *Physical Risk* The risk of the Society being impacted by climate and weather-related events, such as heatwaves, droughts, floods, storms and sea level rise. These events can potentially result in large financial losses, impairing asset values and the creditworthiness of borrowers And; *Transition Risk* Risks arising from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and create credit exposures for banks and other lenders as costs and opportunities become apparent.	Ensure the Society develops processes, controls and reporting metrics to assess and manage climate change risk. The climate change elements manifest as increasing credit, market and operational risk for the Society which require effective mitigation and management.	The Society has established and is tracking a formal climate change project which is considering the requirements of the PRA's SS3/19, the recommendations made by the Task Force on Climate Related Financial Disclosures (TCFD) as well as increasing expectations on Environmental, Social and Corporate Governance arising from various sources. The potential financial impact of climate change on the Society has been considered within our most recent ICAAP, whilst disclosures relating to climate change within this annual report have also been enhanced. As part of the climate change project, we continue to assess the impacts and potential mitigations for credit, market and operational risks which may transpire.

a. Risk Overview

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

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

Risk Culture

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

The Society's risk culture is expressed through the attitudes and behaviours demonstrated by all colleagues regarding risk awareness, risk taking and risk management. The Board has created an environment for colleagues where integrity, ownership, accountability, customer interests and respect are at the heart of the Society's objectives, values and business practices. Our risk culture underpins how our colleagues approach their work and guides decision making. The Society's values are outlined on page 9 and are an integral part of our risk culture along with our member led strategy and core purpose of helping members, communities and colleagues to thrive.

Enterprise Risk Management Framework

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

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

To ensure effective risk management principles outlined within the ERMF continue to embed and mature throughout the Society, Risk Champions have been nominated within each department. Risk Champions play an essential role within the Society's ERMF, supporting their Executives through the implementation of the ERMF in their departments, the collection and reporting of risk management information and promotion of a sound risk culture.

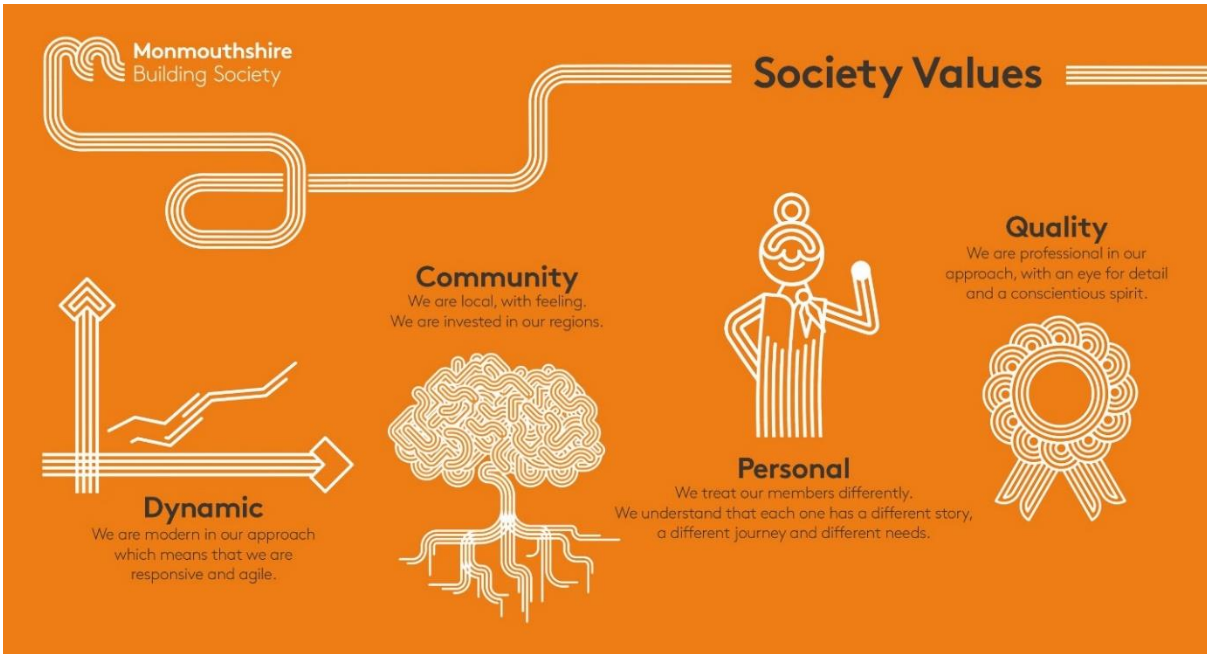
The Society operates a typical Three Lines of Defence approach in the design and implementation of the ERMF. This provides clarity over roles and responsibilities for risk management within the Society, enabling the Risk Committee to establish a clear governance structure for the identification, measurement,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

The first line of defence retains overall accountability and ownership of risks within their business area. They are responsible for implementing the requirements of the ERMF, including the identification, measurement, assessment, monitoring, control and mitigation of their risks within the Society's risk appetite. The first line is also responsible for promoting and reinforcing a sound risk culture.

The second line of defence is responsible for the design and administration of the ERMF and assuring its successful implementation in the first line. They provide support, oversight and challenge to the first line, and report directly through governance committees, including the Board.

The third line of defence is the Society's internal audit team which provides independent assurance over the effective operation of the first two lines of defence and the design and appropriateness of systems of internal control implemented throughout the business.

The Society's Values are outlined below:

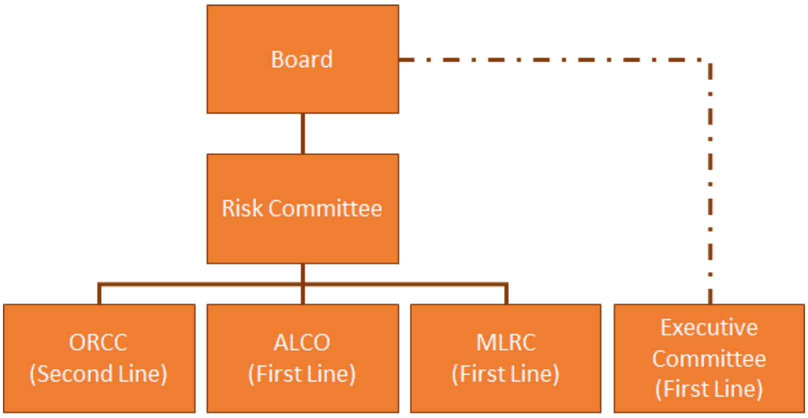


b. Risk Governance

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

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

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



3. Board Committees

The current terms of reference of the Group's Board committees are published on the Society's website. The Society publishes within the Annual Report a breakdown summary of number of directorships held by each board member as well as its recruitment and diversity policy. A summary of the Board Committees is detailed below.

a. Audit Committee

The purpose of the Committee is to consider all audit related matters, in particular, to review the Society's financial reporting arrangements, the effectiveness of its internal controls and its risk management framework; and the internal and external audit processes. Through the Committee the Board has established formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of the financial statements. The Committee met Seven times during the financial year. The Committee reports to the Board on its activities and makes recommendations to the Board. The key responsibilities of the Committee are set out below:

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. Reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements
Internal Controls and Risk management	• Reviewing the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems in conjunction with reviewing reports produced by internal and external audit. Reviewing the statements to be included in the Annual Report concerning internal controls and risk management.
Internal audit	• Considering and approving the strategic and annual plans of work. • Considering management responses to recommendations. • Monitoring and reviewing the effectiveness of internal audit. • Considering the appointment, removal, performance and remuneration of the internal audit firm.

b. Risk Committee

The purpose of the Committee is to monitor the Society's compliance with the Board's approved risk appetite, the functioning of the Enterprise Risk Management Framework (ERMF) and embedding of a sound risk culture. Through the Committee the Board has established procedures to manage risk, oversee the internal control framework and determine the nature and extent of the primary risks the Society is willing to take in order to achieve its long-term strategic objectives. The key responsibilities of the Committee are set out in the table below. Examples of how it discharged its responsibilities follow. Meetings are held not less than four times per year. Six meetings of the Committee were held in 2020/21 to consider the increasing volume of work for the Committee and the additional time allocated to risk matters by the Board.

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 Chief Risk Officer on the activities of the Risk Department and its assessment of risk within the organisation
Risk management	• Reviewing and approve the Group's Enterprise Risk Management Framework. • Reviewing the implementation of the Enterprise 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 levels of remuneration in respect of the Society's Executive and colleagues. Examples of how it discharged its responsibilities follow. Meetings are held as often as is necessary for the Committee to fulfil its responsibilities. The Committee had six meetings during the year and a number of virtual meetings were held outside of this to review and approve a number of matters.

Remuneration Committee Key Responsibilities	
Remuneration	• Determining remuneration for the Chair, all executive Directors and other members of the executive including pension rights and any compensation payments. The remuneration of non-executive Directors is determined by the Chair and executive Directors. • Determining the remuneration framework for all employees of the Society and taking this into account when setting executive remuneration.
Remuneration Reporting	• Reporting to members annually in the Annual Report & Accounts and the Report on Directors' Remuneration in the Summary Financial Statement. The report will be presented and be subject to an advisory vote at the Annual General Meeting.
Remuneration policy	• Reviewing the Remuneration Policy annually.

d. Nomination and Corporate Governance Committee

The Committee comprises three 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. During the year the Committee met four times.

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.

e. Committee meetings

The Board meets regularly and holds an annual strategy meeting to review the Society's strategic options in the context of the economic, regulatory and competitive environment. Some meetings have been held virtually due to the COVID 19 pandemic.

Board Committee Membership during the year

	Risk	Audit	Remuneration	Nomination
Debra Lewis (Chair)			Member	Chair
Tony Morgan		Chair	Member	
Trevor Barratt	Chair	Member		
Roger Turner	Member	Member		Member
Liz McKenzie	Member		Chair	Member
William Carroll				Member

All Directors are expected to attend Board meetings. In the event of circumstances that prevent a director from attending a meeting the Chair makes sure that any views are passed on and are heard in the meeting. Attendance at Board and Committee meetings for the year to 30 April 2021 has been recorded as follows:

	Board	Risk	Audit	Remuneration	Nomination
Trevor Barratt	13(13)	6(6)	7(7)		
William Carroll	12(13)				4(4)
Dawn Gunter	13(13)				
Iwan Jones	13(13)				
Debra Lewis	13(13)			4(4)	4(4)
Liz McKenzie	13(13)	6(6)		6(6)	3(3)
Tony Morgan	13(13)		7(7)	6(6)	
Roger Turner	13(13)	6(6)	2(2)	2(2)	4(4)
Nina Hingorani-Crain	5(5)		5(5)		1(1)

f. Other directorships held

As at 30 April 2021 the board and its directors held a number of directorships and appointments outside of the Society. Details of these are summarised below:

Other Directorships and Appointments:

T Barratt	Omega Consultancy Ltd
W J Carroll	Monmouthshire Independent Financial Advisers Ltd
	Monmouthshire Insurance Services Ltd
	Austin Friars Development Company Ltd
	MBS Development Ltd
I J Jones	AE Innovations Ltd
E.L McKenzie	West Midlands Growth Company
	Tended Ltd
	Brunel Pension Partnership
A D Morgan	Geldards LLP (Independent Adviser)
	Power Poles Ltd
R D Turner	F M Capital Partners Ltd

4. Capital Resources (at 30 April 2021)

As at 30 April 2021 and throughout the year ended 30 April 2021 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 2021 £000
Tier 1 Capital		
General Reserves		**63,556**
Less intangible assets		**(1,130)**
Total Tier 1 Capital		**62,426**
Core Tier 1 Capital as a percentage of risk weighted assets		**13.22%**
Tier 2 Capital		
Collective Provisions		**290**
Total Tier 2 Capital		**290**
Total Regulatory Capital Resources		**62,716**
RWA's		472,349
Total regulatory capital as a percentage of risk weighted assets		**13.28%**
Reconciliation of Accounting and Regulatory Capital Resources		**30 April 2021 £000**
Accounting Capital Resources – General Reserves		**63,556**
Adjusted for:		
Collective Provisions		**290**
Intangible assets		**(1,130)**
Regulatory Capital Resources		**62,716**

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.

b. Capital Buffers

As at 30 April 2021 the Society was required to hold an additional 2.5% of risk weighted assets for the capital conservation buffer. The UK Countercyclical buffer remains at 0%.

Capital buffer requirements at 30 April 2021	**£ Million**	**% Risk Weighted Assets**
Capital conservation buffer	11,809	**2.50**
UK Counter cyclical buffer	-	**0.00**

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 2021 based on 8% of its risk-weighted assets is derived as follows:

30 April 2021	Assets £000	Risk Weighted Asset £000	Minimum Capital Required £000
Pillar 1 Capital- Credit Risk			
Central Governments or Central Banks	138,577	-	-
Institutions	100,134	6,891	551
Fully Secured on Residential Property Mortgage assets	1,110,779	399,625	31,970
Fully Secured on Land Mortgage Assets	19,818	19,818	1,585
Other Items	16,221	16,221	1,298
Total	1,385,529	442,555	35,404
Off balance sheet exposures	10,423	3,648	292
Pillar 1 Capital –Operational Risk		26,146	2,092
Total Pillar 1 Capital Requirement		472,349	37,788

	£000
Amount of Regulatory Capital Resources	62,716
Total Pillar 1 Capital Requirement	(37,788)
Pillar 2A – fixed add-on for pension risk	(3,250)
Excess of Reserves over Pillar 1 + Pillar 2A Capital Requirement	**21,678**
Capital Buffer requirement	(11,809)
Excess of Reserves over Pillar 1 + Pillar 2A + Capital Buffer Requirement	**9,869**

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. Additional capital buffers applicable to the Society and the calculated amounts are detailed above.

Under the CRR 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.

Off balance sheet exposures shown above are in relation to the undrawn mortgage commitments within the Society as at 30 April 2021.

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)	2019	2020	2021
Net interest Income	15,020	12,956	14,885
Other Income/charges	(88)	(1,404)	465
Total	14,932	11,552	15,350
Basic Indicator (3 year average)			13,945
Own Funds Requirement (15% of the Basic Indicator)			**2,092**
Risk Weighted Assets			**26,146**

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 2021.

Leverage Ratio Calculation	£000
Capital	
Capital	63,556
Less intangible assets	(1,130)
	62,426
Total Balance sheet exposures	1,385,529
Derivatives adjustment	(1,247)
Less intangible assets	(1,130)
Off balance sheet exposures	10,423
	1,393,575
Leverage Ratio	**4.48%**

The Society's calculated leverage ratio at 30 April 2021 was 4.48% (30 April 2020 4.82%).

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 2021 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)	-	-	-	30,391	30,391
A+ to A-	-	-	-	-	-
Building Societies	-	-	-	-	-
Multi-Lateral Development Banks (AAA)	-	-	-	49,961	49,961
Central Governments and Banks	158,359	-	-	-	158,359
Local authorities	-	-	-	-	-
Total	**158,359**	**-**	**-**	**80,352**	**238,711**

Total assets by exposure class and maturity at 30 April 2021 are shown below:

Exposure Class	Less than 3 months	3 months to 1 year	1 year to 5 years	Greater than 5 years	Total £'000
Central governments or central banks	157,750	-	-	-	157,750
Institutions	609	4,406	75,946	-	80,961
Secured by mortgages	3,359	7,472	57,694	1,067,647	1,136,172
Other items	-	-	-	10,646	10,646
Total Credit Risk	161,718	11,878	133,640	1,078,293	1,385,529

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 30/04/2021.

Mortgage Portfolio	Owner occupied Residential	Buy To Let Residential	Commercial	Total
	£000	£000	£000	£000
Total exposure	820,492	295,862	19,818	1,136,172
Performing	809,993	295,862	18,370	1,124,225
Non-performing *	10,499	-	1,448	11,947
Collective provision	264	-	26	290
Specific provision	855	-	394	1,249
Exposure by region	%	%	%	%
Wales	47	42	85	45
South West	10	28	6	15
West Midlands	11	6	1	9
Outer London	5	7	8	6
Other South East	6	6	0	6
Greater London	7	4	0	6
North West	5	3	0	5
Other	9	4	0	8
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 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. A provision of £551k has been included specifically for incurred but not reported losses that could arise following the end of the furlough scheme and the wider impact on the macroenvironment post the pandemic, affecting members whose income has been directly affected by the pandemic. Calculating a provision while still operating amongst such uncertainty in the market requires the exercise of judgement, as there is no precedent on the levels of losses that might arise.

9. Encumbered Assets

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	Unencumbered Assets	Total Assets
	£'000	£'000	£'000
Assets of the reporting institution	244,800	1,140,729	1,385,529
Loans on demand	-	-	-
Equity instruments	-	-	-
Debt securities	-	80,352	80,352
Loans and advances other than loans on demand	244,800	891,372	1,136,172
Other Assets	-	169,005	169,005

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

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 which is applied a 2% parallel increase in interest rates and a 1% parallel decrease in interest rates. The results are reviewed by the ALCO and Risk Committee. The results of this analysis for 30 April 2021 are as follows:

	Net Gap £000	Impact on net interest income £000
At 30 April 2021	50,971	-
Impact of interest rate shift of +2%	52,402	1,431
Impact of interest rate shift of -1%	51,686	715

11. Remuneration

a. Directors

Full details of the Society's remuneration policy and details of Executive Directors' emoluments for 2021 and comparatives for 2020 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. CEO contract is 12 months, Finance Director 6 months and COO 6 months.

b. Material Risk Takers

The Board has determined that for the year to 30 April 2021, there were 17 employees within the Society that 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 https://www.monbs.com/.

Rewards are principally in two parts, being basic salary (fixed remuneration) and an annual incentive payment (variable remuneration). Payments made as a result of the annual incentive scheme are not pensionable. The annual incentive scheme is normally 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). No incentive payments were made in the financial year 30 April 2020, reflecting the financial performance of the Society for that year. For the year to 30 April 2021, balancing improvement in the Society's financial performance against the uncertainty created by the ongoing Covid-19 pandemic, incentive payments were made on a discretionary basis, linked to individual performance.

Payments made to material risk takers in the year to 30 April 2021 were as follows:

	Total £000
Remuneration	
Fixed	1,389
Variable	92
	1,482