Monmouthshire Building Society

Pillar 3 Disclosures Document

30 April 2023

Contents

MONMOUTHSHIRE BUILDING SOCIETY GROUP
PILLAR 3 DISCLOSURES DOCUMENT
30 APRIL 2023

1. Introduction

a. Purpose

Pillar 3 of the Basel framework aims to promote market discipline through a comprehensive set of public disclosure requirements that seek to provide market participants with sufficient information to assess the firm's material risks as well as its regulatory capital position. Banks and building societies must disclose certain qualitative and quantitative information publicly on a regular basis, either as part of their financial reports or in separate Pillar 3 reports. The Pillar 3 framework goes beyond regulatory capital requirements as disclosures related to regulatory liquidity ratios including the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as well as those related to remuneration are also covered by the framework.

The purpose of the Pillar 3 disclosures document is to provide Monmouthshire Building Society's members and stakeholders with background information on the Society's approach to risk management and the maintenance of its capital strength. As such, the disclosures include details of:

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

b. Coverage

The disclosure document applies to the Monmouthshire Building Society Group at a consolidated level:

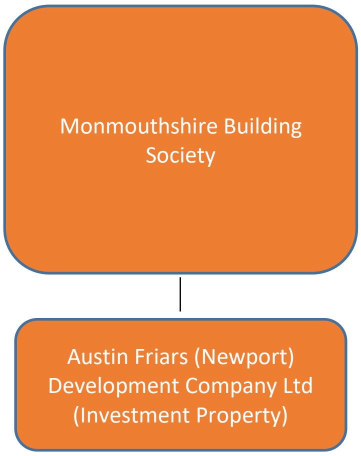

Figure 1 – Monmouthshire Building Society Group

The information presented is based on the Group's Annual Report and Accounts (ARA) as at 30 April 2023, although may differ where regulatory requirements differ from the requirements underlying the Annual Report and Accounts. All references to 'The Society' throughout this document relate to the Monmouthshire Building Society Group, unless expressly stated otherwise.

c. Legislative Framework

UK standards for capital and liquidity requirements for building societies and related institutions are set out in the Capital Requirements Directive V (CRD V) and the Capital Requirements Regulation (CRR). This is the UK 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 is implemented in the PRA Rulebook.

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 Basel framework's three-pillar approach 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 (supervisory review)
- Pillar 3 – Disclosure requirements (market discipline)

The information provided is in accordance with the rules laid out in Article 435 of the CRR.

The PRA has not yet published the final rules to be applied under the new Basel 3.1 (*CP16/22 – Implementation of the Basel 3.1 standards*) or Strong and Simple framework (*CP4/23 - The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms*). It is likely that capital requirements will become more sensitive to risk, with lower risk items attracting less regulatory capital and higher risk items attracting more regulatory capital than the current Standardised Approach (SA) levels. Changes to reporting and disclosure requirements are also anticipated.

The near-final Basel 3.1 policies are expected to be published in Q4 2023 (counterparty credit risk and operational risk) and Q2 2024 (credit risk, reporting and disclosure requirements). The Society is pro-actively engaged with industry bodies working with the PRA in relation to the new regulations. The Society continues to monitor PRA's regulatory releases to ensure that changes can be made on a timely basis to ensure compliance with new regulations as they are introduced.

d. Review and Attestation

The Society's Pillar 3 disclosures are reviewed annually by the Assets and Liabilities Committee (ALCO) and approved by the Audit Committee. The 2023 Pillar 3 report will be published on the Society's website (www.monbs.com) in conjunction with the Society's 2023 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.

The disclosures presented within this document are subject to the same level of internal review as that applicable to the management report included in the Society's financial statement disclosures. Where appropriate the Pillar 3 disclosures are reconciled to and conform with the externally audited information in the Annual Financial Statements. The Pillar 3 disclosures document is reviewed and approved by the Audit Committee.

Attestation

The Audit Committee of the Board confirms to the best of their knowledge that the disclosures provided according to the Disclosure Part of the PRA Rulebook have been prepared in accordance with the internal control processes agreed upon at the management body level.

Approved by the Audit Committee of the Board and signed by their order.

William J. Carroll
Chief Executive Officer
24 January 2024

e. Key Metrics

The Society's key metrics as required to be disclosed under Article 447 are as follows:

Template UK KM1 – Key metrics template

			£'000
		a	b
		2023	**2022**
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	82,151	71,855
2	Tier 1 capital	-	-
3	Total capital	82,764	72,143
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	576,151	506,954*
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	14.3%	14.2%
6	Tier 1 ratio (%)	14.3%	14.2%
7	Total capital ratio (%)	14.4%	14.2%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	0.6%	0.6%
UK 7b	Additional AT1 SREP requirements (%)	0.0%	0.0%
UK 7c	Additional T2 SREP requirements (%)	0.0%	0.0%
UK 7d	Total SREP own funds requirements (%)	8.6%	8.6%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	1.0%	0.0%
UK 9a	Systemic risk buffer (%)	0.0%	0.0%
11	Combined buffer requirement (%)	3.5%	2.5%
UK 11a	Overall capital requirements (%)	12.1%	11.1%
12	CET1 available after meeting the total SREP own funds requirements (%)	2.2%	3.1%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	1,477,027	1,496,779
14	Leverage ratio excluding claims on central banks (%)	5.6%	4.8%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	247,179	220,772
UK 16a	Cash outflows - Total weighted value	156,072	111,188
UK 16b	Cash inflows - Total weighted value	10,748	7,411
16	Total net cash outflows (adjusted value)	145,324	103,778
17	Liquidity coverage ratio (%)	170%	207%
	Net Stable Funding Ratio		
18	Total available stable funding	1,442,934	1,311,145
19	Total required stable funding	997,755	825,756
20	NSFR ratio (%)	145%	159%

**Risk weighted assets have been restated from the 2022 Annual Report to reflect a non-material change in the capital treatment of derivative assets and associated accounting and collateral balances*

Table 1 - Template UK KM1 – Key metrics template

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 Enterprise Risk Management Framework (ERMF).

The Enterprise Risk Management Framework is the cornerstone for ensuring an effective risk management 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 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 management 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 (see Figure 2, page 14) 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 (see Table 2 and Table 3, respectively) with defined risk owners. The Society's risk appetite for each primary risk and for the Society as a whole are defined. The Society has elected to omit disclosing key ratios and figures relating to its risk appetite as it considers these to be proprietary information as per CRR Article 432.

The Board, Risk Committee and management-level committees discuss emerging risks and opportunities as a standing agenda item which contribute toward the regular update of the Society's register of emerging risks. The Society's Executive Committee and Risk Committee also receive a summary of emerging and/or thematic risks relevant to their respective responsibilities which includes the current approach to either monitoring or mitigating against these risks. When a risk develops to a state where it can be reliably assessed, it is transitioned into active risk management within the ERMF.

Primary risks

A description of the Society's primary risks, as agreed by the Board, together with corresponding appetite statements and key mitigating actions are detailed in Table 2 below:

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Strategic Risk The uncertainty that affects or is created by the Society's business strategy and strategic objectives. Uncertainty may arise from changes to the Society's business model and the potential for the strategic plan to be impacted positively or negatively by macroeconomic, geopolitical, regulatory or other factors.	As a regional building society, the Society has an **open** appetite to a range of strategic options, complimentary to its current business model and will embrace change in the interest of our current and future membership, in pursuit of the ambition to become a modern mutual.	• Business planning process. • Review by Exco of strategic and emerging risks and mitigating actions. • Strategic updates to Board. • 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 uncertainty surrounding whether a debtor will meet their legal and contractual obligations to repay their debt on time and, ultimately, whether the Society will be able to realise its security to cover any potential losses.	The practice of extending secured credit to customers and members is a core competency of the Society. The Society has an **open** appetite to a broad range of lending secured on residential or commercial property and will develop products for those where credit losses can be mitigated to an acceptable level.	• 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. • Affordability stresses. • Mortgage Lending Risk Committee & Asset and Liability Committee oversight. • Commercial Lending Forum oversight. • Credit risk reporting, including analysis of risk metrics.
Capital Risk The risk that the Society fails to maintain sufficient capital to cover current and planned risk exposures and withstand a severe stress as identified as part of the ICAAP.	Capital is integral to the Society's continued growth and resilience in times of stress. The Society has a **minimal** appetite for capital risk and will deploy its capital efficiently. The Society will maintain sufficient capital to meet regulatory expectations but recognises that buffers may be utilised in times of extreme stress.	• Board approved risk appetite and risk limits. • Treasury Policy. • Treasury Middle Office reporting and monitoring. • Capital planning as part of the Society's ICAAP. • Stress testing. • Assets and Liabilities Committee oversight. • Assumptions Forum. • Recovery Plan.

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
Liquidity Risk The uncertainty of whether the Society will be able to meet its financial obligations as they become due, resulting in inability to support normal business activity and failure to meet regulatory liquidity requirements.	The Society has a **minimal** appetite for liquidity risk and will manage its liquidity efficiently, and in all cases maintain liquid resources above Board-approved treasury limits to give members confidence on the Society's ability to meet its obligations.	• Board approved risk appetite and risk limits. • Maintaining appropriate levels of High Quality Liquid Assets and access to Bank of England liquidity facilities. • Treasury Policy. • Treasury Middle Office reporting and monitoring. • The Society's ILAAP process. • Stress testing. • Assets and Liabilities Committee oversight. • Assumptions Forum. • Liquidity Contingency Plan and Recovery Plan.
Market Risk The potential for gains and/or losses arising from changes in market rates or prices.	The Society has a **minimal** appetite for market risk and will seek to limit its exposure to variation in interest rate and basis risk positions from adverse movements in market rates. The Society does not trade in financial instruments for profit.	• Board approved risk appetite and risk limits. • Hedging of interest rate risk using interest rate swaps. • Stress testing. • Assets and Liabilities Committee oversight. • Treasury Middle Office reporting and monitoring.
Operational Risk The potential for loss and/or poor customer outcomes caused by failure of operational processes, people, systems or third parties.	The Society has a **cautious** appetite for operational risk and will seek opportunities to leverage its operational functions and processes but must do so in a rational and controlled manner. Disruption to services resulting in a breach of the Society's impact tolerances for important business services is not acceptable.	• Board approved risk appetite limits • Strong and effective internal control environment (Controls Assurance Testing). • Insurances. • Operational Risk and Compliance Committee oversight. • Operation of the ERMF, including detailed risk management frameworks, policies, systems and processes for the secondary risks making up the Operational Risk primary risk category. • 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.

Primary Risk	Risk Appetite Statement	Key Mitigating Actions
		• Investment in operational resilience including cyber-crime and IT. • Recruitment, training and development of talented colleagues.
Conduct Risk The potential for the products and services offered by the Society to yield poor customer outcomes for both existing and prospective members.	The Society has a **minimal** appetite for conduct risk and will take all reasonable, proactive steps to prevent poor customer outcomes or foreseeable harm.	• Board approved risk appetite limits and Conduct Risk Policy. • Members are placed at the heart of the Society's decision making, aligned to the Society Values (Member Led). • Operational Risk and Compliance Committee oversight. • Customer Experience Forum. • Strong risk management culture. • Conduct Risk Dashboard. • Vulnerable Customer Policy. • Enhancements being introduced as a response to 'A New Consumer Duty' regulation.
Legal and Regulatory Risk The potential for loss in the form of fines, censure, reputational damage or otherwise for failing to adhere to legal or regulatory requirements	The Society has a **minimal** appetite for legal and regulatory risk and will be compliant with not only the requirements and rules but with the spirit and intent of the principles of 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.

Table 2 – Primary risks

Emerging and thematic risks

Emerging risks are threats or opportunities for which the impact upon the Society cannot yet be reasonably measured or assessed. Timely identification and monitoring of these emerging risks can enable the Society to take appropriate steps to begin to mitigate against the emerging threat or move to position the Society in such a way as to be ready to take advantage of an emerging opportunity. A description of the Society's emerging and thematic risks, as agreed by the Board, and corresponding key mitigating actions are detailed in Table 3 below:

Risk	Key Mitigating Actions
Macroeconomic and Geopolitical Uncertainty. Recent macroeconomic and geopolitical events have driven significant volatility and uncertainty. In particular the opening up of economies after Covid-19, Brexit, war in Ukraine and the impact of the 'mini-budget' in the autumn of 2022 have contributed to high inflation to which the Bank of England has responded by rapidly raising interest rates to	• Prudent assumptions are built into the Society's budgets for costs, levels of activity and pricing. • Monitoring of early warning indicators and other market metrics to help anticipate a further downturn in the economy.

Risk	Key Mitigating Actions
their highest level in over a decade. Overall, the economy is balanced between low-growth and recession, and a reduction in average house prices is anticipated during 2023. The resultant 'cost of living' crisis has affected everyone, but in particular some of the most vulnerable members of society and those on lower incomes. The Society is directly impacted by rising costs, and also by the impact of rising interest rates. Through careful management, the Society has been able to increase interest rates to savers and salaries paid to staff whilst avoiding passing on the whole of the increase in interest rates to mortgage members on variable rate deals. Nevertheless, the Society is aware that the full effects of inflation may not yet have crystalised, and an increase in arrears may be a consequence of increased pressure on affordability. The market for retail mortgages and savings remains competitive, and the effects of macroeconomic uncertainty on activity levels and pricing are not yet clear.	• Stress scenarios are maintained as part of the Society's management of strategic, market, capital and liquidity risk. • Appropriate affordability tests are applied to all new lending, complemented by individual underwriting. • Credit risk management, including monitoring by MLRC of management information and performance of appropriate arrears management activities. • Cross-skilling to create increased capacity in the arrears management team as required. • Benchmarking of salaries to mitigate as far as possible the impacts of rising costs for staff.
Climate Change The social awareness of the effects of climate change continues to increase and can only be expected to increase in the coming years as the impact our changing climate is becoming increasingly apparent. The effects of climate change are not independent risks to the Society, rather, they will impact the Society's primary risk categories. Climate change will cause risks to materialise in two ways: 1) ***Physical Risk*** – defined as the risk of financial loss from climate/weather-related events (heatwaves, droughts, floods, storms, and sea level rise) impairing both asset values and creditworthiness of borrowers. 2) ***Transition Risk*** – defined as the risk arising from the process of adjustment towards a low-	• The Society has implemented the requirements of the PRA's supervisory statement 3/19 and continues to manage the risks associated with climate change as part of its broader ESG strategy. • The Society has considered 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 its most recent ICAAP, and disclosures relating to climate change within the annual report have also been enhanced. • The Society continues to assess the impacts and potential mitigations for credit, market

Risk	Key Mitigating Actions
carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and the ability or willingness of borrowers to meet their obligations in a timely fashion.	and operational risks which may result from climate change. • Board training and updates have been provided to Board and Risk Committee.
Changes in the employment market There have been significant changes in the jobs market in recent years at a time when the Society has sought to meet its strategic ambitions through planned growth in its workforce. Trends in flexible working were accelerated during the Covid-19 pandemic, and the increase in early-retirement has led to a shortage of certain skills. This has contributed to increased competition amongst recruiters, driving wage inflation; to employees expecting greater flexibility; and to employees potentially staying with employers for less time. Whilst the Society has been successful in filling vacancies and growing capacity and capability to meet strategic ambitions, this is taking more time, effort and cost than it would have done a few years ago.	• Establishment and development of People Strategy. • Salary benchmarking / cost of living increase. • Rewards package refresh. • Employer brand improvements across recruitment platforms. • Expansion of HR team to support recruitment capacity. • Refreshed offices and flexible working.

Risk	Key Mitigating Actions
Technology and Digitalisation The Society's strategy includes investment in a modernised digital capability. This is in response to demand from existing and future members and will ensure the Society remains 'relevant'. The pace of change continues to accelerate. The Society's core systems provider, Mutual Vision, is developing its strategy to ensure that, working with key strategic partners, it is able to meet the expectations of its customers in terms of modernisation. Investment in technology is likely to lead to a change in the risks faced by the Society during the process of change, and then ongoing management of a solution with greater digital capability. The Society remains cognisant of the risk of 'cyber attacks' and the potentially heightened exposure as a result of geo-political and economic factors, and also heightened future exposure in relation to the planned broadening in the Society's digital capability.	• The Society has invested in increased change management capability, including enhancements to its change management framework and appointment of additional skilled colleagues. • Use of external expertise to complement internal resource. • Architectural principles for the Society have been agreed. • Agreement of IT strategy. • Appropriate information security and cyber security controls.
Basel 3.1 / Strong and Simple Regime The Prudential Regulation Authority (PRA) is due to implement changes to regulations concerning capital, liquidity and related disclosures. These changes will affect all financial institutions and are expected to be in place by 2025. The full suite of changes under Basel 3.1 will be introduced for larger firms, whilst smaller firms will be required to implement a reduced set of changes under a 'Strong and Simple' regime. The Society is likely to qualify to apply the changes under the Strong and Simple regime. The PRA has not yet published the final rules to be applied under either Basel 3.1 or Strong and Simple. It is likely that capital requirements will become more sensitive to risk, with lower risk items attracting less regulatory capital and higher risk items attracting more regulatory capital than the current Standardised levels. Changes to reporting requirements are also anticipated.	• The Society is pro-actively engaged with industry bodies working with the PRA in relation to the new regulations. • The Society continues to monitor the PRA's plans to ensure that changes can be made on a timely basis to ensure compliance with new regulations as they are introduced.

Table 3 – Emerging and thematic risks

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 the Society's 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 members and customers. The Board's risk appetite is reviewed at least annually to ensure it continues to align with the Society's operating environment, strategy and risk management framework.

The Board is responsible for establishing procedures to manage risk, oversee the internal risk control framework and determine the nature and extent of risks that the Society is willing to accept 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 and emerging risks are identified and mitigated in the pursuit of strategic objectives. The Board reviews the Enterprise Risk Management Framework and risk appetite statements annually.

Risk Culture

The Society's risk culture underpins how colleagues approach their work and guides decision making. It is the responsibility of both the Society Chair and the Board to ensure that a sound 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.

The Society's values are outlined in Figure 3 (see page 14) and are an integral part of its risk culture along with its member led strategy and core purpose of helping members, communities and colleagues to thrive.

Enterprise Risk Management Framework (ERMF)

The Society's ERMF has established a formal, consistent process for the identification, prioritisation and management of risk.

The Risk and Compliance Department is responsible for overseeing the effective engagement of colleagues in the operation of the ERMF, providing guidance and training as well as oversight and challenge. The Board 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 first line of defence:

- retains overall accountability and ownership of risks; and
- is responsible for:
    - implementing the requirements of the ERMF, including the identification, measurement, assessment, monitoring, control and mitigation of their risks; and
    - promoting and reinforcing a sound risk culture.

The second line of defence:

- provides support, oversight and challenge to the first line;
- reports directly through governance committees, including the Board; and
- is responsible for:
    - the design and administration of the ERMF and assuring its successful implementation in the first line.

The third line of defence:

- is the Society's internal audit team; and
- provides independent assurance over the design, appropriateness and effective operation of the systems of internal control implemented by the first two lines of defence throughout the business.

Figure 2 - Three lines of defence (3LOD)

The Society operates a three lines of defence (3LOD) 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 Society's values, as outlined below in Figure 3, are embedded in its culture and are central to everything it does.

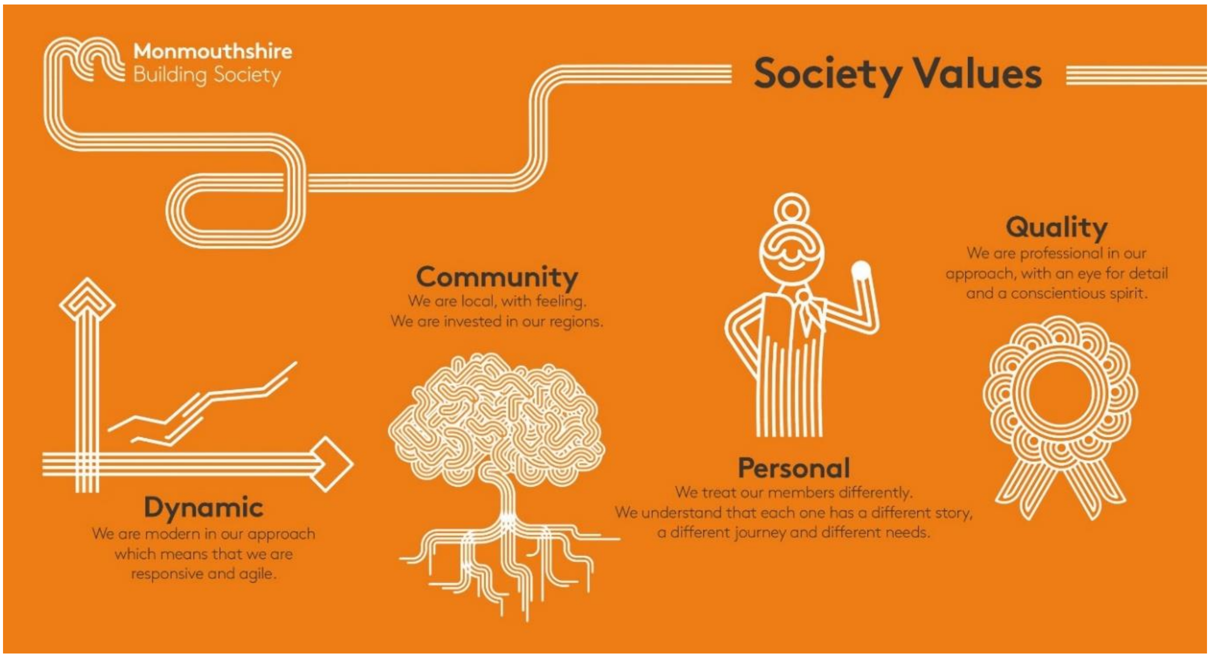

Figure 3 - The Society's values

b. Risk Governance

The Board is ultimately responsible for all aspects of the Society's activities in pursuit of its strategic objectives. The Board retains overall accountability and ownership of the ERMF and delegates 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 sub-committees to ensure there is proactive management and governance of risk and control issues. There are clearly defined reporting lines from the management risk committees to Risk Committee 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.

In addition to the management-level committees, the Society also operates an Executive Committee which supports the Chief Executive Officer and executive team to manage the day-to-day business of the Society. The responsibilities of the committee include the assessment and control of risk, with risks raised at this committee being elevated to the relevant management risk committee or, if warranted, directly to Risk Committee or Board.

The risk governance structure of the Society is outlined below.

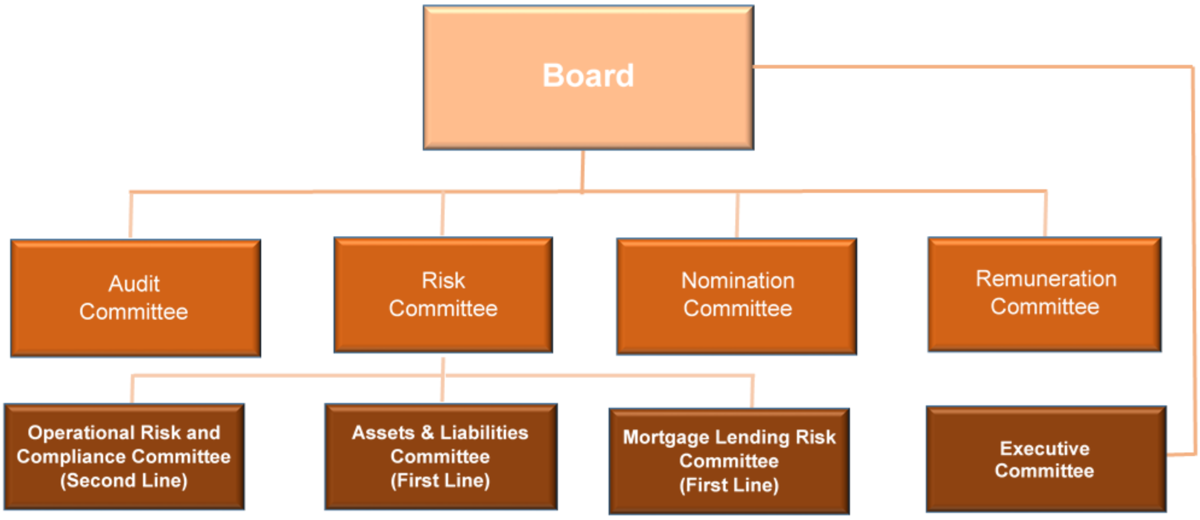

Figure 4 - Risk governance structure

All committees undertake annual effectiveness reviews. Improvement measures are implemented to ensure committees are successfully delivering on their purpose.

3. Board Committees

The current terms of reference of the Society's Board committees are published on its website. Within the Annual Report, the Society publishes a breakdown of the 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, as well as 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 meets a minimum of four times a year (there have been seven Committee meetings during the financial year ending 30 April 2023). 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 Society's financial statements and reviewing critical accounting policies, judgements and estimates. • Reviewing the appropriateness of the going concern basis for preparing the accounts. • Providing advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the

	information necessary for members to understand the Society's position, including performance, business model and strategy.
External audit	• Reviewing the continued objectivity and independence of external audit, including the level and appropriateness of non-audit services. • Considering the appointment, removal, performance, remuneration and terms of engagement 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 framework 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 evaluating the effectiveness of internal audit. • Considering the appointment, removal, performance and remuneration of the internal audit firm.

Figure 5 - Audit Committee key responsibilities

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 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 exposure to primary risks that the Society is willing to accept in order to achieve its long-term strategic objectives.

The Board believe that the risk management framework and procedures are appropriate for the Society's size and nature.

Meetings are held not less than four times per year. Seven meetings of the Committee were held during the financial year ending 30 April 2023.

The key responsibilities of the Committee are set out in the table below:

Risk Committee key responsibilities	
Advising the Board on the Society's risk appetite	• Advise the Board on the Society's overall risk appetite, tolerance and strategy and the principal and emerging risks the Society is willing to take in order to achieve its long-term strategic objectives. This includes the oversight of both conduct and prudential risk appetites and the Society's approach to operational resilience and climate risk.

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 Chief Risk Officer on the activities of the Risk Department and its assessment of risk within the organization.
Risk management	• Review and recommend to the Board the Society's ERMF. • Review the implementation of the ERMF ensuring all risks are managed with adequate resource and a satisfactory control environment. • Ensure the risk management structure is adequately resourced and effective.

Figure 6 - Risk Committee key responsibilities

c. Remuneration Committee

The Committee comprises four Non-Executive Directors.

The Committee determines levels of remuneration in respect of the Society's Directors and colleagues. Meetings are held as often as is necessary for the Committee to fulfil its responsibilities (the Committee meets a minimum of four times a year). The Committee had five meetings during the financial year ending 30 April 2023.

Remuneration Committee Key Responsibilities	
Remuneration	• Determining remuneration for the Board Chair, all Executive Directors and other members of the executive team including pension rights and any incentive payments. The remuneration of Non-Executive Directors is determined by the Committee based on a recommendation from the 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 Statements. The report is presented and subject to an advisory vote at the Annual General Meeting.
Remuneration policy	• Approving the Remuneration Policy annually.

Figure 7 - Remuneration Committee key responsibilities

d. Nomination 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 and for corporate governance matters. The Committee meets as often as is necessary to fulfil its responsibilities. The Committee annually reviews the Conflicts Register to ensure there are no potential or actual conflicts that could affect a Director's ability to act in the best interests of the Society. The Committee had three meetings during the financial year ending 30 April 2023 (the Committee meets a minimum of twice a year).

Nomination Committee Key Responsibilities	
Board composition	• 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. • Identify and recommend candidates for Board approval. • Review 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, expertise and diversity are therefore needed on the Board in the future. • Review 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. • Review the Senior Managers and Certification Regime Responsibilities Map.

Figure 8 - Nomination Committee key responsibilities

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.

Board Committee Membership during the year

	Risk	Audit	Remuneration	Nomination
Debra Lewis (Chair)			Member (retired August 2022)	Chair (retired August 2022)
Tony Morgan		Member Chair (until August 2022)	Member	
Trevor Barratt	Chair	Member		
Roger Turner	Member (until August 2022)		Member (from January 2023)	Member (Chair from August 2022)
Liz McKenzie	Member (from August 2022)	Member (until August 2022)	Chair	Member
William Carroll				Member
Marian Evans	Member		Member	Member (from August 2022)
Colin Brereton	Member (from August 2022)	Chair (from November 2022 and member prior to that)		

Figure 9 - Board Committee membership

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 2023 is set out in the 2023 Annual Report and Accounts.

f. Other directorships held

As at 30 April 2023 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 Limited
C I Brereton	Royal National Children's Springboard Foundation Floreat Education Academies Trust Farm Africa Limited BnkPro Europe Ltd BnkPro Ltd
W J Carroll	Austin Friars (Newport) Development Company Limited
M Evans	Elevate B C Ltd Llansteffan Castle Ltd
D Gunter	Monmouthshire Building Society Charitable Foundation
J M Bill	Pobl Group Limited
E.L McKenzie	Tended Ltd Brunel Pension Partnership Limited
A D Morgan	Power Poles Limited
R D Turner	F M Capital Partners Ltd

4. Capital Resources (at 30 April 2023)

As at 30 April 2023 and throughout the year ended 30 April 2023 the Society had complied with its capital requirements as prescribed by the PRA. The capital resources of the Society are calculated under Pillar 1 of the capital requirements directive. The following table shows the breakdown of available capital for the Society:

Template UK CC1 – Composition of regulatory own funds

		£'000
		(a)
		2023
Common Equity Tier 1 (CET1) capital: instruments and reserves		
2	Retained earnings	82,542
3	Accumulated other comprehensive income (and other reserves)	-
UK-3a	Funds for general banking risk	-
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**82,542**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-
8	Intangible assets (net of related tax liability) (negative amount)	(391)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-
12	Negative amounts resulting from the calculation of expected loss amounts	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
15	Defined-benefit pension fund assets (negative amount)	-
25	of which: deferred tax assets arising from temporary differences	-
UK-25a	Losses for the current financial year (negative amount)	-
27a	Other regulatory adjustments to CET1 capital *(including IFRS 9 transitional adjustments when relevant)*	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(391)**
29	**Common Equity Tier 1 (CET1) capital**	**82,151**
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**
58	**Tier 2 (T2) capital**	**613**
59	**Total capital (TC = T1 + T2)**	**82,764**

Table 4 - Template UK CC1 – Composition of regulatory own funds

The following table sets out a reconciliation between accounting and regulatory capital resources:

Reconciliation of Accounting and Regulatory Capital Resources	30-Apr-23
	£'000
Accounting Capital Resources – General Reserves	**82,542**
Adjusted for:	
Collective Impairment Provisions	613
Intangible Assets	(391)
Regulatory Capital Resources	**82,764**

Table 5 - Reconciliation of Accounting and Regulatory Capital Resources

a. Adequacy of Capital Resources

To support the strategic plan, the Society needs to maintain a strong capital base. The Board has set a risk appetite to maintain surplus capital of at least £3.5m over its calculated overall capital requirement (OCR). OCR is the amount and quality of capital a firm must maintain to comply with the CRD Pillar 1 and Pillar 2A capital requirement, plus capital buffers. Reserves are the Society's primary source of capital, so in order to maintain a capital base of OCR+£3.5m throughout the time period covered by the strategic plan, the Society needs to generate and retain profits. As at 30 April 2023 the Society had £13.2m surplus capital over OCR (see Table 8 - Excess Capital Resources).

Complementing its strategic plan, the Society undertakes an Internal Capital Adequacy Assessment Process (ICAAP) and documents the results of this process at least annually. The ICAAP is designed and governed to ensure the sufficiency of capital resources to meet current risks, as well as the risks arising from the delivery of strategic objectives over the life of the plan. Scenarios are designed and applied to test vulnerabilities in the Society's plans and to determine whether planned capital levels are sufficient to withstand severe but plausible stresses. 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 it considers 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 2023 the Society was required to hold 2.5% of risk weighted assets as its Capital Conservation Buffer. The UK Countercyclical Buffer requirement was at 1% as at 30 April 2023 (increased to 2% from 05 July 2023).

Capital buffer requirements

				£'000
	As at 30 April 2023		***From 05 July 2023****	
Capital Buffer requirements	**£'000**	**% Risk Weighted Assets**	***£'000***	***% Risk Weighted Assets***
Capital Conservation Buffer (CCB)	14,404	2.50%	*14,404*	*2.50%*
UK Countercyclical Buffer (CCyB)	5,762	1.00%	*11,523*	*2.00%*
TOTAL	**20,165**	**3.50%**	***25,927***	***4.50%***

**increase in the UK Countercyclical Buffer to 2%*

Table 6 - Capital buffer requirements

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 (SA) to credit risk and Basic Indicator Approach (BIA) to operational risk. The Society's Pillar 1 capital requirement as at 30 April 2023 is based on 8% of its risk-weighted assets, as documented below:

Risk Weighted Exposure Amounts

£'000

	As at 30 April 2023		
Exposure classes	**Exposure Amount**	**Risk Weighted Assets**	**Minimum Capital Required**
Central Governments or Central Banks	174,382	-	-
Multilateral development banks	32,791	-	-
Institutions	23,858	1,614	129
Retail exposures	18,628	13,971	1,118
Exposures secured by mortgages on immovable property	1,302,036	476,961	38,157
Exposures in default	4,385	4,385	351
Exposures associated with particularly high risk	10,826	16,240	1,299
Covered bonds	56,866	5,687	455
Other items	9,402	9,402	752
Equity	371	371	30
Total credit and counterparty credit risk requirement	**1,633,545**	**528,631**	**42,290**
Operational risk requirement		47,520	3,802
Total		**576,151**	**46,092**

Table 7 - Risk Weighted Exposure Amounts

Further details of the Society's exposure amounts and risk weighted assets are set out in the prescribed templates UK OV1, UK CR4 and UK CR5 available within the Appendix 1 (see page 33).

As at 30 April 2023, the Society held capital resources in excess of the regulatory requirements as documented in Table 8 below:

Excess Capital Resources

Excess Capital Resources as at 30 April 2023	£'000
Amount of Regulatory Capital Resources	**82,764**
Total Pillar 1 Capital Requirement	**46,092**
Pillar 2A - fixed add-on for pension risk	3,250
Total Capital Requirement (TCR)	**49,342**
Capital Conservation Buffer (CCB)	14,404
Countercyclical Buffer (CCyB)	5,762
Overall Capital Requirement (OCR)	**69,507**
Excess capital resource over TCR	**33,422**
Excess capital resources over OCR	**13,257**

Table 8 - Excess Capital Resources

The majority of the Society's own funds are in the form of Common Equity Tier 1 (CET 1) and consist of retained earnings. Specific and collective provisions as deducted from accounting profit are included within CET 1 capital, but the collective provision is added back as part of Tier 2. Additional capital buffers applicable to the Society and the calculated amounts are detailed above (also see Table 6 - Capital buffer requirements).

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.

b. Operational Risk

Operational Risk is calculated under the Basic Indicator Approach as 15% of the sum of the average net interest income 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:

Template UK OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

£'000

Banking activities		a	b	c	d	e
		Relevant indicator			**Own funds requirements**	**Risk weighted exposure amount**
		2021	**2022**	**2023**		
1	Banking activities subject to basic indicator approach (BIA)	15,350	24,769	35,913	3,802	47,520

Table 9 - Template UK OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

c. Leverage Ratio

The leverage ratio is the relation between 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 Society's calculated leverage ratio excluding claims on central banks, as at 30 April 2023, was 5.6% (30 April 2022 4.8%).

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 (MDB), 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. The 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 2023 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 Covered Bonds)	1,011	4,037	-	51,818	56,866
A+ to A-	6,840	-	-	-	6,840
Multi-Lateral Development Banks (AAA)	-	-	4,166	28,625	32,791
Central Governments and Banks	140,657	-	9,685	24,040	174,382
Total	**148,507**	**4,037**	**13,851**	**104,483**	**270,878**

Table 10 - Treasury investments - maturity profile

7. Provisions for Loans and Advances

Provisions (under CRR referred to as credit risk adjustments) are made to reduce the value of commercial and residential loans receivable in order to reflect the best estimate of future cash flows where an impairment event has occurred.

At each period end, a credit risk adjustment is made against loans and advances which are considered to be impaired (for example those in possession or arrears). A provision is required if the recoverable amount is assessed to be less than the outstanding loan balance. In determining the recoverable amount of impaired loans, reductions are applied to the value of the property to represent discounts that may be necessary to agree a sale within three months of repossession and selling costs that the Society would incur. If a provision is required, the excess of the outstanding loan balance over the recoverable amount is multiplied by the propensity to default to calculate the value of the provision to be made. Credit risk adjustments are also made to accounts where an impairment event has occurred but the loan is not yet in arrears (incurred but not reported impairment or IBNR) and accounts with forbearance agreements. If the loan is between 1 and 3 months in arrears, the provision calculated is considered to be collective. If the loan is over 3 months in arrears, the provision calculated is considered to be specific.

Given the current cost of living crisis and increasing energy prices, the impairment model has been adjusted to assess all accounts for further impairment based on assessment of affordability using income multiples and EPC ratings at the point of origination.

The Society manages risk of losses through the use of Mortgage Indemnity Insurance (MII), which is taken out on all residential lending with a greater than 90% loan to value. However, the estimated impact of MII on potential losses is not factored into the model that calculates provisions for loan losses.

No provision is made to account for losses expected as a result of future events.

8. 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

£'000

As at 30 April 2023	Carrying amount		
	Encumbered Assets	Unencumbered Assets	Total Assets
Assets of the reporting institution	**308,393**	**1,307,646**	**1,616,039**
Of which:			
Loans on demand	2,665	146,369	149,034
Equity instruments	-	369	369
Debt securities	7,506	112,637	120,143
Loans and advances other than loans on demand	298,223	993,047	1,291,270
Other Assets	-	55,224	55,224

Table 11 - Encumbered assets

9. 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 2% parallel decrease in interest rates. The results are reviewed by the ALCO and Risk Committee. The results of this analysis for 30 April 2023 are as follows:

£'000

At 30 April 2023	Impact
	-
Impact of interest rate shift of +2%	212
Impact of interest rate shift of (2%)	(212)

Table 12 - Interest Rate Risk in the Banking Book (IRRBB), parallel interest rate movement impact

10. Liquidity & Funding

The Society specialises in long-term mortgage lending which is financed mainly by liabilities which are contractually short-term (members' savings accounts). This pattern of conducting business creates maturity transformation risk which gives rise to cashflow imbalances. It is therefore vital for the Society to manage its liquidity risk to ensure that this maturity transformation is managed.

The Society must keep an appropriate amount and mix of liquidity to meet any sudden adverse cashflow requirements if it is to meet all liabilities as they arise. The level of liquidity held should therefore be sufficient to maintain public confidence that the Society can meet its commitments.

The Society's Treasury function is responsible for day-to-day liquidity management. It conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) at least annually. The ILAAP is used to assess the Society's overall liquidity adequacy and determine the level of liquid assets that is required to support both current and future risks to which the Society is exposed. The ILAAP includes stress tests that consider a range of severe but plausible scenarios that could impact the Society's cashflows and liquidity resources. The testing seeks to examine vulnerabilities of the Society's funding composition.

The most recent ILAAP was approved by the Board in November 2023. The ILAAP concludes that the Society's liquidity reserves are adequate.

a. Liquidity Coverage Ratio

The Basel Committee developed the LCR to promote short-term resilience of a bank's liquidity risk profile. This standard aims to ensure that a bank or building Society has an adequate stock of unencumbered HQLA which consists of cash or assets that can be converted into cash at little or no loss of value in private markets to meet its liquidity needs for a 30-calendar day liquidity stress scenario.

The information in the table below relates to the Society's liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the year ended 30 April, 2023. As demonstrated, the LCR is well above the regulatory minimum and illustrates the Society's strong liquidity position.

Liquidity Coverage Ratio

£'000

Liquidity	**May 22 - Jul 22**	**Aug 22 - Oct 22**	**Nov 22 - Jan 23**	**Feb 23 - Apr 23**
Average liquidity coverage ratio	**199%**	**186%**	**177%**	**170%**
Average total liquid assets	**225,486**	**234,030**	**243,150**	**247,179**
Average liquidity inflows	7,229	7,939	9,231	10,748
Average liquidity outflows	121,917	135,020	147,427	156,072
Net liquidity outflows	**114,672**	**127,065**	**138,196**	**145,324**

Table 13 - Liquidity Coverage Ratio (LCR)

b. Net Stable Funding Requirement

The NSFR was introduced by the EBA on 1 January 2018 with a minimum level of 100%. The implementation of the NSFR on 1 January 2022 by the PRA follows the requirements as described by the Basel Committee (BCBS 295, 375 and 396).

The NSFR focuses on the balance sheet structure and is defined as the amount of available stable funding relative to the amount of required stable funding. The key aim of the NSFR is to measure the stability of funding and how well that supports the Society's assets.

The information in the Table 15 below relates to the Society's net stable funding requirement, based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the year ended 30 April 2023. As demonstrated, the NSFR consistently exceeds the regulatory limit of 100%.

£'000

Net Stable Funding Requirement	**Averages**			
	Jun-22	**Sep-22**	**Dec-22**	**Mar-23**
Average net stable funding ratio	156%	145%	146%	145%
Average available stable funding	1,419,385	1,442,934	1,448,935	1,442,934
Average required stable funding	909,849	997,755	994,504	997,755

Table 14 - Net Stable Funding Requirement (NSFR)

11. Remuneration

a. Directors

Full details of the Society's remuneration policy and details of Executive Directors' emoluments for 2023 and comparatives for 2022 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. The Chief Executive Officer's contract has a notice period of 12 months, whilst the Chief Financial Officer, Chief Operating Officer and Chief Risk Officer have a contractual notice period of 6 months.

b. Material Risk Takers

The Board has determined that for the year to 30 April 2023 there were 54 employees within the Society that have a material impact on the risk profile of the Society. These staff are identified as "Material Risk Takers".

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 linked to key corporate performance measures, such as peer group comparison and the achievement of financial or regulatory compliance targets (for example in relation to growth and efficiency). For the year to 30 April 2023, the Society's strong financial performance allowed incentive payments to be made on a discretionary basis, linked to individual performance.

Payments made to material risk takers in the year to 30 April 2023 were as follows:

	£'000
Remuneration paid to Material Risk Takers	**Total**
Fixed	3,340
Variable	202
TOTAL	**3,541**

Table 15 - Remuneration paid to Material Risk Takers

Appendix 1 – Prescribed Templates

Template UK OV1 – Overview of risk weighted exposure amounts

£'000

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		2023	**2022**	**2023**
1	Credit risk (excluding CCR)	528,290	473,966	42,263
2	Of which the standardised approach	528,290	473,966	42,263
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
UK 4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	Counterparty credit risk - CCR	340	694	27
7	Of which the standardised approach	340	694	27
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	340	694	27
UK 8b	Of which credit valuation adjustment - CVA	-	-	-
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	47,520	32,294	3,802
UK 23a	Of which basic indicator approach	47,520	32,294	3,802
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	**Total**	**576,151**	**506,954**	**46,092**

Table 16 - Template UK OV1 – Overview of risk weighted exposure amounts

Template UK CR4 – Standardised Approach – Credit risk exposure and CRM effects

£'000

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	174,382	-	174,382	-	-	0.0%
2	Regional government or local authorities	-	-	-	-	-	0.0%
3	Public sector entities	-	-	-	-	-	0.0%
4	Multilateral development banks	32,791	-	32,791	-	-	0.0%
5	International organisations	-	-	-	-	-	0.0%
6	Institutions	23,858	-	23,858	-	1,614	6.8%
7	Corporates	-	-	-	-	-	0.0%
8	Retail	18,671	-	18,628	-	13,971	75.0%
9	Secured by mortgages on immovable property	1,290,111	60,535	1,289,929	12,107	476,961	36.6%
10	Exposures in default	5,115	-	4,385	-	4,385	100.0%
11	Exposures associated with particularly high risk	8,884	9,910	8,844	1,982	16,240	150.0%
12	Covered bonds	56,866	-	56,866	-	5,687	10.0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
14	Collective investment undertakings	-	-	-	-	-	0.0%
15	Equity	371	-	371	-	371	100.0%
16	Other items	9,402	-	9,402	-	9,402	100.0%
17	**TOTAL**	**1,620,451**	**70,446**	**1,619,456**	**14,089**	**528,631**	**32.4%**

Table 17 - Template UK CR4 – Standardised Approach – Credit risk exposure and CRM effects

Template UK CR5 – Standardised Approach

£'000

	Exposure classes	**Risk weight**															**Total**	**Of which unrated**
		0%	**2%**	**4%**	**10%**	**20%**	**35%**	**50%**	**70%**	**75%**	**100%**	**150%**	**250%**	**370%**	**1250%**	**Others**		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	174,382	-	-	-	-	-	-	-	-	-	-	-	-	-	-	174,382	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	32,791	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,791	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	470	17,018	-	-	6,369	-	-	-	-	-	-	-	-	-	-	23,858	-
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail exposures	-	-	-	-	-	-	-	-	18,628	-	-	-	-	-	-	18,628	18,628
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	1,269,346	-	-	-	32,689	-	-	-	-	-	1,302,036	1,302,036
10	Exposures in default	-	-	-	-	-	-	-	-	-	4,385	-	-	-	-	-	4,385	4,385
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	10,826	-	-	-	-	10,826	10,826
12	Covered bonds	-	-	-	56,866	-	-	-	-	-	-	-	-	-	-	-	56,866	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	371	-	-	-	-	-	371	371
16	Other items	-	-	-	-	-	-	-	-	-	9,402	-	-	-	-	-	9,402	9,402
17	**TOTAL**	**207,643**	**17,018**	**-**	**56,866**	**6,369**	**1,269,346**	**-**	**-**	**18,628**	**46,848**	**10,826**	**-**	**-**	**-**	**-**	**1,633,545**	**1,345,649**

Table 18 - Template UK CR5 – Standardised Approach

Template UK REM1 - Remuneration awarded for the financial year

			a	b	c	d
			MB Supervisory function	**MB Management function**	**Other senior management**	**Other identified staff**
1	Fixed remuneration	Number of identified staff	11	5	21	17
2		Total fixed remuneration				
3		Of which: cash-based	902,798	406,790	1,053,828	479,996
4		(Not applicable in the UK)				
UK-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
UK-5x		Of which: other instruments				
6		(Not applicable in the UK)				
7		Of which: other forms	132,689	66,930	225,170	71,408
8		(Not applicable in the UK)				
9	Variable remuneration	Number of identified staff				
10		Total variable remuneration				
11		Of which: cash-based	110,890	15,019	49,022	26,579
12		Of which: deferred				
UK-13a		Of which: shares or equivalent ownership interests				
UK-14a		Of which: deferred				
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments				
UK-14b		Of which: deferred				
UK-14x		Of which: other instruments				
UK-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
17	**Total remuneration (2 + 10)**		**1,146,377**	**488,739**	**1,328,020**	**577,983**

£ (amounts)

Table 19 - Template UK REM1 - Remuneration awarded for the financial year

Template UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

£

		a	b	c	d
		MB Supervisory function	**MB Management function**	**Other senior management**	**Other identified staff**
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff				
2	Guaranteed variable remuneration awards -Total amount				
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap				
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff				
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount				
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff		2		
7	Severance payments awarded during the financial year - Total amount				
8	Of which paid during the financial year		60,000		
9	Of which deferred				
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap				
11	Of which highest payment that has been awarded to a single person		30,000		

Table 20 - Template UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Template UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

£

		a	b	c	d	e	f	g	h	i	
		Management body remuneration			Business areas						-
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										54
2	Of which: members of the MB	11	5	16							
3	Of which: other senior management					15		5	6	12	
4	Of which: other identified staff										
5	Total remuneration of identified staff	1,146,377	488,739	1,635,116		532,117		196,553	322,498	854,836	
6	Of which: variable remuneration	110,890	15,019	125,909		29,056		6,111		40,434	
7	Of which: fixed remuneration	1,035,487	473,720	1,509,207		503,061		190,442	322,498	814,402	

Table 21 - UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Monmouthshire Building Society