Annual Report 2021

SWANSEA
BUILDING SOCIETY

Established 1923

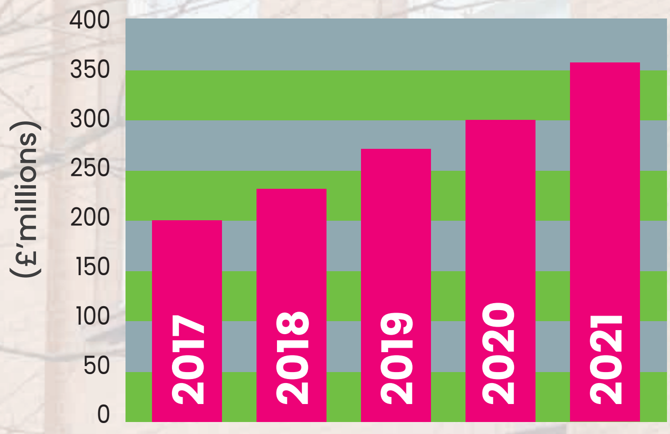
Annual Report and Accounts 2021

Annual Report and Accounts

Performance and Strategy

2021 Highlights

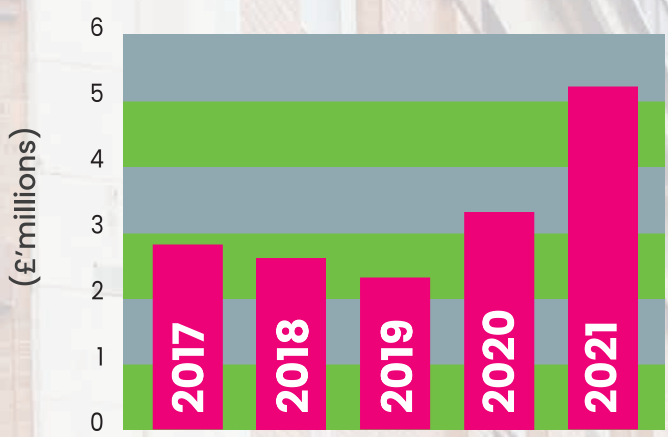
Savings Balances



Mortgage Balances

Total Assets	Mortgage Balances	Savings Balances
£463.5 million	**£360.9** million	**£431.3** million
(2020: £414.4)	(2020: £302.9)	(2020: £386.8)

Capital



Profit Before Tax

Gross Mortgage Lending
£114.7
million
(2020: £67.1)

Net Mortgage Lending
£58.0
million
(2020: £29.8)

Liquid Assets
£99.8
million
(2020: £109.3)

Chairman’s Review of 2021

Members and Results

I am delighted to report another record year to our members. We have maintained an excellent service for our members in sometimes difficult circumstances over the last year. At the same time, we have continued our growth in a way that keeps a consistent balance between our assets, capital and profits, thus delivering the best financial results ever for our Society.

The Year in Context

Our expectations at the start of the year were for a gradual release from pandemic restrictions. We expected a busy first six months as we continued from 2020, but then a gradual slowdown for the second six months as the Stamp Duty regime was reimposed. Our intent was to continue our growth, whilst closely constraining our expenditure and continue to expand the reach of our services

As events unfolded, 2021 saw Covid continue to pose challenges throughout the year, with a number of different sets of restrictions introduced by Government. The arrival of another new variant at the end of the year resulted in changes in regulations yet again in Wales. However, the sound operating basis we introduced in 2020 served us well throughout the year and we have been able to continue to provide our members with an excellent service whilst protecting our staff in doing so.

Putting members first

At the end of 2021, we anticipated the BoE Bank Rate increase and announced our new savings rates before Christmas, writing to our members before the formal BoE announcement was made, increasing the rates on our savings products from January 1st 2022. The Board agreed not to raise our mortgage rates correspondingly until 1st March 2022 as we aim to also protect our mortgage members.

IT Security

We have continued to improve the safety and performance of our IT systems, both hardware and software. These represent the bedrock of our operations to the benefit of all our members, both those who interact with us face-to-face and those who now use our online services.

Continuing Rollout of Online Access

We are committed to our policy of maintaining both branches and online access on an equal footing. The number of our online users continues to grow steadily and the approval ratings for these services remain very high. Our branch services still attract customer satisfaction ratings in excess of 93%. Member numbers using our “SBS Online” service continue to grow, allowing them to move savings to and from their clearing bank current accounts to maximise savings returns from using their Society accounts in parallel.

Brand Refresh

During 2021, we took the opportunity to undertake a brand refresh in anticipation of our 100-year anniversary in 2023. We updated our vision, mission, value proposition and values to reflect why we are here and how we operate and also how we communicate with our members. We launched a new web-site which is in line with our updated branding in terms of look and feel and all our marketing material is being updated in line with our new brand guidelines.

Financial results for 2021

Our financial results for the year are the strongest we have ever reported. Highlights of our performance, detailed later in this Annual Report, include record pre-tax profits of £5.2M and record mortgage lending of £114.7M.

During the early part of the pandemic, the Society was concerned about the potential financial impact as the housing market remained closed and many of our members applied for payment holidays. At that stage, with extreme uncertainty in the economy, we applied for and received some of the furlough funding provided by Government. When we reviewed our strong continuing performance in the early part of 2021, we concluded the funds received were not needed for the purposes intended, so returned the full financial support to Government during 2021.

Staff Contribution

To most of our members, our staff are the Society. Their commitment and flexibility over the last two years has been truly outstanding and they have consistently gone the extra mile in often extraordinary times. Member comments in our internal surveys confirm this to be true. In addition, the national sector survey undertaken by the Building Societies Association (BSA) demonstrated that our staff feel both loyalty to and a high level of pride in the Society.

The management team also deserve mention for the enthusiasm with which they have taken on the challenge. This applies both to keeping the Society running smoothly but also in delivering exceptional levels of business for the Society in a safe way, as demonstrated by all our indicators that evidence risk levels as low. The growth we have seen really is not any indication that our risks have increased – in fact quite the opposite.

Your Board

There were two changes to the Board during 2021. We welcomed Catherine Griffiths to the Board as our Director of Risk & Compliance. She had already served five years with the Society and strengthens the Executive Board, whilst also providing the Board with a new set of perspectives. Last July also saw Jeff Herdman step down from the Board after a number of years of commitment and service and we wish him well. We have appointed Malcolm Hayes, our first non-Welsh NED member on the Board, and he will take over Jeff's role as Chairman of the Risk Committee once he has completed his induction and has come to grips with the Society.

Our Communities

The Society has close links to the communities that it serves, supporting charities and organisations as well as providing its core services. Reflecting its headquarter location, the Society provides sponsorship for Swansea City AFC and Swansea RFC. We continued to support Wales Air Ambulance as our Charity of the Year, while also supporting wider charitable ventures for our staff through providing matched funding for the money they raise for local and national charities. For example, in 2021 we supported the Christmas fundraising undertaken by Llanelli Rotary Club on the same basis – with the funds collected shared equally for the current year between Ty Hafan, Latch, Ysgol Heol Goffa and Wales Air Ambulance.

Our Plans for 2022

We plan to consolidate our position over the year by continuing our growth in a planned and controlled way. Our forecasts show that we can achieve the major milestone of passing £500M in Total Assets during 2022, without changing our approach but continuing with our current operating model and delivering a number of changes already planned. Achieving the above milestone as we approach our Centenary Year of 2023 is a fitting ambition.

During 2021, we established a presence in Abergavenny to widen our operational area and open further opportunities for individually framed mortgage services. This represents an operating environment similar to Carmarthen and Cowbridge, where we successfully opened new branches during the last six years. Success in this area would open the door for us to expand our presence with a full branch. Our intent is to continue the expansion of our network through careful identification and exploration of suitable communities.

During the year, we will also be extending our response to the Climate Change challenges we all face. Specifically, we will introduce targeted mortgages and support for members who wish to future proof their homes and improve their carbon efficiency. We are also planning further sustainable changes to our own operations, properties and reductions in our carbon footprint.

Conclusion

We look forward to 2022 with confidence, notwithstanding the economic and political uncertainties that we all face. We hope that our members enjoy the ride with us.

Iw Griffiths

I.W. Griffiths
Chairman
9 March 2022

Chief Executive's Review of 2021

2021 has been another testing year for the Society due to the health and economic disruption associated with the ongoing pandemic.

In 2020 the Society provided support to over 400 of its mortgage customers with mortgage payment holidays. In 2021 all of these customers have returned their mortgages to a normal mortgage payment profile.

Access to cash has been a perennial topic of debate for the financial services industry during the pandemic. All of our branches have remained open on every business day to serve the needs of our customers including the elderly and vulnerable. Throughout the pandemic thus far, our customers have rightly looked to the Society to step up when required and I believe that the Society has risen to the challenge and delivered whatever support that our customers have needed, whether that be help and guidance with mortgage payments or access to cash and other payment services.

We have continued to offer digital innovation with the provision of our SBS Online savings portal in a responsible, inclusive and ethical way that offers enhanced benefits to those customers who chose to use these services whilst protecting customer data at all times. This work has included developing and enhancing payment services for the benefit of our customers. In January 2020 we offered our customers the opportunity to set up a nominated bank account mandate to transfer funds from their Swansea Building Society savings accounts. This initiative has become so successful that only 25% of payments from customer savings accounts in 2021 were made in branch, face to face. We have helped customers adapt to technological change while maintaining the very highest standards of customer service.

Fraud is increasing within the banking sector. During 2021 there were no cases of fraudulent payments reported as being made from any of our customers savings accounts. A key focus for the Society is keeping our members and their savings balances as safe as we possibly can.

Over the past year the Society has decided to embed climate risk and green finance into the heart of our business model to do our bit to help support a sustainable future for the country as a whole.
We have again delivered a very strong financial performance in 2021. Our four branches continue to help build our brand awareness being based on the high street and have performed to exceptionally high levels in growing member numbers and building mortgage and savings balances.

Despite the substantial levels of growth achieved, over the last 3 years in particular, the Society's capital and liquidity positions remain strong. Our latest budgeted stress tests shows that the Society is resilient to even very challenging economic scenarios such as the banking and Covid crisis respectively.

Having addressed the future importance of our digital offering and nominated account payments, I entirely appreciate that face to face contact in branches remains important for very many members, particularly the more vulnerable ones. All of our products and their interest rates will remain the same, whichever channel a member chooses to transact with the Society. All delivery channels and services are administered through our four retail branches - whether in branch, online, telephone, email or post. We believe that this underlines the importance that the Society places on the branch network and its staff. Our branches are the face of the Society and it is very much our intention that it stays that way. We remain committed to opening, not closing branch offices.

We continue to operate a simple building society business model. The Society holds no wholesale funding and our mortgage book is 100% funded by customer retail savings balances which are the purest form of funding for a mutual building society.

In December 2021, the BoE Monetary Policy Committee (MPC) increased the base interest rate by 0.15% to 0.25%. The Society decided not to participate in the low-cost funding schemes provided by the BoE. The Society's strong financial performance during 2021 has again been indirectly impacted by the financial stimulus provided by the BoE to the financial services sector and the wider UK economy as part of its response to the Covid-19 pandemic, with the funding schemes remaining in place throughout 2021 suppressing the cost of funding across the sector.

Having undertaken a thorough review of other savings providers' savings interest rates, we increased all of our savings interest rates by 0.15% with effect from 1 January 2022. It is a measure of how competitive our range of savings products were before the increase in the base interest rate that our savings balances increased by £44.4M (11.4%) to £431.3M during 2021. Also, we remain one of the only savings institutions that pay our existing members exactly the same savings interest rates as our new savings members. This is the standard that all member owned mutual organisations should follow.

The Society's standard variable mortgage interest rate (SVR) remained at 4.6% throughout 2021 and compares favourably with other building societies.

Most of the Society's variable interest rate products are discounted from our SVR for the life of the mortgage term requested. Gross mortgage lending increased from £67.1M in 2020 to £114.7M in 2021. This increased gross mortgage lending was supported by the record low base interest rate, together with other government stimuli such as the stamp duty tax holiday on property purchases.

The business review on page 11 covers our 2021 performance in detail, however, I would like to specifically highlight the following new records set by the Society during the year:

- Total assets increased by £49.0M to £463.5M
- Mortgage balances increased by £58.0M to £360.9M
- Savings balances increased by £44.4M to £431.3M
- Profit before tax increased by £1.9M to £5.2M
- Capital + Reserves increased by £4.1M to £30.7M

Costs increased during 2021 by £538K but this was more than offset by an increase in the net interest income as a result of the mortgage book increasing by £57.9M net during the year.

Employees

The Society has a very strong internal culture that reflects our purpose of serving our customers. Our employees play a vital role in the continued success of the Society and our members and professional contacts benefit from dealing with loyal, motivated, and well-trained staff. Never has this been more apparent than in the response of our staff to the pandemic, and their desire to serve our customers, despite the obvious danger of placing themselves potentially in harm's way. Despite the pandemic and the social distancing restrictions imposed, the member service results and scores provided by new saving or borrowing members during 2021 was exceptional and amongst the highest scores that the Society has ever recorded. I am proud to be their colleague. Our staff continue to develop their technical skills and ability by sitting and gaining various relevant financial services qualifications.

There is considerable regulatory focus on Treating Customers Fairly (TCF) and rightly so. The customer is at the heart of everything that the Society does and embracing the Society's values is paramount to ensuring fair customer outcomes. TCF is a regulatory requirement but will be fulfilled as a natural consequence of the Society's approach to the culture of mutuality. However, we have policies and processes in place to monitor our compliance and to ensure that we fulfil the requirements and improve our understanding of what is important to our members and how can we serve them better. The Society carries out regular customer satisfaction surveys and consistently scores above 90%, even during the various lockdowns and the Covid-19 pandemic. We are pleased that this reflects the positive way that our employees are engaged and know how to meet the needs of our customers.

The Future

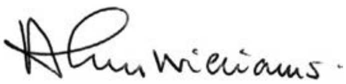
Despite the pandemic and the ongoing restrictions that come with it, 2022 finds the Society in confident mood. We continue to invest heavily for the future of the business in terms of people, IT and premises. As we continue to grow our balance sheet , economies of scale are starting to be seen in the Society's profits. As we approach our 100 year anniversary, the marketing strategy review of our brand undertaken in 2021 will see the Society develop a more modern look and feel going forward. Our personal, tailored and common sense approach will not change as we ensure we meet the needs of our members both now and in the future using a variety of delivery channels which suit our members best. We have some exciting plans in the pipeline to celebrate our 100 year anniversary to say thank you to our local communities for their support which we look forward to revealing more about in 2023.

Last year I explained that the Society has started to see a strong return on our investments made over the previous 5 years, with the Society generating a profit before tax of £3.3M in 2020. In 2021 that pay back has increased further with our profit before tax rising to £5.2M. Despite the ongoing pandemic, our budgets for 2022 indicate we will continue to grow our balance sheet and capital reserves as a result of the increasing volume of mortgage assets that the Society now holds.

In Q4 2021 and during 2022 we have started a major capital investment project to strengthen our I.T. systems and intend expanding our digital offering to existing and new savings customers further during the year. Now that the Government vaccination and booster program has been fully rolled out, we are hopeful that the UK Economy will return to the level of growth predicted by most economists. Following the closure of the Coronavirus job retention scheme in September 2021, the labour force unemployment rate fell to 4.2% in October and is expected to fall further in Q1 2022. We will review with interest the potential impact on the UK Economy from the latest Omicron Covid Variant.

It is true at the time of writing that the economic environment, particularly the impact of inflation on the UK economy, continues to be uncertain. Despite this ongoing uncertainty and the potential for further new Covid variants, we do not believe that they will have a significant negative impact on the Society and its business model.

Whilst the Bank of England base interest rate has increased modestly from a record low to 0.25% in December 2021, it is likely to remain low by historical standards. The Society will continue to be resilient in meeting future challenges such as potential further interest rate increases along with the increased cost of living and inflation. We will continue to deliver first class services through the channels chosen by members themselves whilst growing our balance sheet and capital in a controlled manner.



Alun Williams
Chief Executive
9 March 2022

Strategic Report

Strategic Report for the year ended 31 December 2021

Business model

The Society's business model is to provide residential mortgages entirely funded by personal and small business savings, predominantly in Wales. These products are delivered through direct and intermediary channels, operating from four retail branches across South Wales and our online savings portal.

Our strategy

Over the last three years the Society has grown by 50% with total assets increasing from £309.3M at 31 December 2018 to £463.5M at 31 December 2021. This growth was achieved through our strategy of 'opening not closing branches' with the opening of our third branch in Carmarthen during 2015, our fourth branch in Cowbridge during 2017 and the relocated Swansea branch in January 2019. These branches have enabled us to extend our brand, community presence and membership within Wales. Our aim, as we approach our centenary year in 2023, is to continue delivering strong, controlled growth.

Over the next year the Society will continue with our prudent response to the impacts of the pandemic and Brexit for the UK. We will continue towards our long-term objectives whilst ensuring we maintain the same safe standards of service for customers, safety for staff and continuing our robust business performance and results. Based on the solid foundations we have laid in recent years, with a simple but very robust business model delivered, we can continue to improve our financial strength and work on our internal efficiency and effectiveness. We will be able to use the systems, learning and resilience built over recent months to allow us to move forward confidently and safely into the future.

The Society is committed to preserving and enhancing our identity as an independent mutual Building Society offering:

- For savers, the provision of competitive products backed by branch and online service where staff and management are able to offer personal attention to the individual requirements of members in a friendly, efficient and accommodating manner.
- For existing borrowers, the ability to deal quickly and flexibly with changing circumstances and requirements.
- For prospective borrowers, the ability and intent to give individual consideration at senior management level to every enquiry. The Society does not engage in automated underwriting and evaluates each case on its own merits, which includes seeking solutions to some situations and circumstances that are not always straightforward.

The Society recognises that our expanding membership will include those that expect online banking as an additional service to our main face to face offering. The Society has made good progress with our online savings application and will look to build on its online functionality as part of our strategy.

Business review

Income statement overview

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Net interest income	10,217	8,216	7,375	6,866	6,473
Other income and charges	147	93	85	(37)	(67)
Total net income	**10,364**	**8,309**	**7,460**	**6,829**	**6,406**
Operating expenses	(5,346)	(4,810)	(5,020)	(4,217)	(3,612)
Operating profit before provisions	**5,018**	**3,499**	**2,440**	**2,612**	**2,794**
Impairment provisions release/(charge)	165	(205)	(165)	(4)	61
Other provisions release /(charge)	-	-	21	(9)	4
Profit for the year before taxation	**5,183**	**3,294**	**2,296**	**2,599**	**2,859**

Profit

The Directors have reaffirmed their policy of only generating sufficient profits to maintain capital at the desired level whilst supporting continued investment in member focused initiatives. The operating profit before tax increased in the year to £5.2M (2020: £3.3M) due to increased net interest margin as a result of record low interest rates in line with the Bank of England's base rate of 0.10% for the majority of 2021 until the 0.15% increase to 0.25% on 16 December 2021. The increased net interest margin was also due to record gross and net lending in 2021.. The Society's return on assets, calculated as statutory profit after tax divided by average total assets, was 0.94% (2020: 0.67%). The sector average for 2020 was 0.20%. (Source: BSA Annual Accounts Data).

Net Interest Margin

Net interest margin is the sum of the amount earned on mortgage and liquid assets less amounts paid on savings liabilities, divided by average total assets. The Society's net interest margin percentage has increased in 2021 to 2.33% (2020: 2.09%). The sector average for 2020 was 1.50%. (Source: BSA Annual Accounts Data). The increase in the net interest margin percentage is predominantly as a result of both the reduction in interest paid to savers to improve the efficiency of the Society's balance sheet and the record volume of gross and net mortgage lending achieved in 2021.

The movements in net interest can be seen from the table below:

	2021 **£'000**	**2020** **£'000**
Prior year net interest	8,216	7,375
Increase in mortgage interest	1,030	153
Decrease/(increase) in savings interest	1,084	1,064
(Decrease)/increase in interest on liquid funds	(113)	(376)
Current year net interest	**10,217**	**8,216**

Other income and charges

The Society uses the cost income and management expense ratio to measure our efficiency. The cost income ratio is calculated by dividing the operating expenses by total net income. This decreased to 51.6% in 2021 (2020: 57.9%). The sector average for 2020 was 80.3%. (Source: BSA Annual Accounts Data). The management expense ratio is calculated by dividing the operating expenses by the average total assets. This ratio decreased to 1.22% during 2021 (2020: 1.23%). The sector average for 2020 was 1.25%. (Source: BSA Annual Accounts Data). The Society recognises that operating efficiently is a key factor in achieving optimal Member value, and as such operating expenses remain a key focus. These improvements in the efficiency measures have been primarily driven by the investment in the Society's infrastructure in recent years.

Impairment provisions for losses on loans and advances

In 2021 the Society experienced a net release of impairment provisions of £165,000 (2020: charge £205,000). The Society's specific and collective provision for bad and doubtful debts at 31 December 2021 was £250,000 (2020: £415,000). This represents 0.06% of the Society's mortgage balances at 31 December 2021. This compares favourably to the 2020 sector average of 0.29% (Source: BSA Annual Accounts Data). A full explanation of the Society's current position in relation to impairment provisions can be found within note 10 of the accounts.

Taxation

The actual effective tax rate for the Society was 20.10% (2020: 19.80%) compared with the statutory rate of tax of 19% (2020: 19%). The rate differential is mainly due to timing differences and disallowable expenditure.

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Liquid assets	99,783	109,302	94,697	73,658	71,941
Loans and advances to customers	360,920	302,955	273,356	233,266	201,341
Other assets	2,762	2,154	2,304	2,407	2,098
Total assets	**463,465**	**414,411**	**370,357**	**309,331**	**275,380**
Retail savings	431,317	386,840	345,704	286,530	254,635
Other liabilities	1,414	959	686	667	688
Total liabilities	**432,731**	**387,799**	**346,390**	**287,197**	**255,323**
Reserves	30,734	26,612	23,967	22,134	20,057
Total reserves and liabilities	**463,465**	**414,411**	**370,357**	**309,331**	**275,380**

Statement of financial position overview

Total assets

Total assets have increased by £49.1M (2020: £44.1M), a growth rate of 11.8% (2020: 11.9%). The Society's total assets at 31 December 2021 were £463.5M (2020: £414.4M).

Loans and advances to customers including forbearance

Gross mortgage lending of £114.7M was achieved during 2021 (2020: £67.1M). This was achieved without offering loss leading mortgage products or compromising either the quality of lending or increasing loan to value ratios. The total amounts, outstanding on all mortgage accounts, after reductions by the accumulated provisions of £250k, at 31 December 2021 were £360.9M (2020: £302.9M). This represents a net increase in the value of mortgages of £58.0M (2020: £29.5M), 19.1% in the year (2020: 10.8%). Mortgage assets comprise residential, buy to let (incorporating holiday let) and commercial as shown in the table below:

		2021			2020	
Mortgage asset	**£'000**	**%**	**LTV %**	**£'000**	**%**	**LTV %**
Residential	310,686	86.1	47.4	265,819	87.7	48.5
Buy to let	42,276	11.7	52.4	31,364	10.4	54.0
Commercial	9,052	2.5	47.4	6,605	2.2	41.5
Deferred fees	(1,094)	(0.3)	-	(833)	(0.3)	-
	360,920	**100.0**	**47.9**	**273,356**	**100.0**	**45.5**

A mortgage is likely to be the greatest financial commitment the majority of borrowers will enter into in their lifetimes. For many borrowers, their mortgage will run for the agreed term with repayments being made as scheduled. Financial difficulties can cause great stress to the borrower and early proactive engagement is crucial to identifying a viable solution to the situation and, consequently, reaching a positive outcome for the borrower. Such a solution is also preferable for the Society, as the proceeds from a forced sale will usually result in a lower return.

The primary aim of providing a forbearance facility to a customer is to enable a complete recovery of the mortgage through the full repayment of arrears. In this case the long term impact on both the customer and the Society is minimised. Where the circumstances of the customer mean this primary aim cannot be achieved, the secondary aim would be to recover the customer into a 'sustainable terms' position on their mortgage. In all events, the provision of forbearance should aim to minimise the risk of the customer ultimately losing their home. For further information see Note 10.

Liquid assets

The Society holds liquid assets to ensure it has sufficient access to funds to meet its financial obligations in both normal and stressed scenarios and continues to maintain a strong liquidity position, with liquid assets at 31 December 2021 totalling £99.8M (2020: £109.3M) representing 23.1% (2020: 28.3%) of shares, deposits and loans (SDL). The decrease in liquidity was a result of the record lending achieved in 2021.

The Liquid Asset Buffer (LAB), as defined by the Prudential Regulation Authority (PRA), includes highly liquid assets, typically central bank and sovereign exposures. All of the Society's qualifying liquid assets are held in a Bank of England Reserves account. The proportion of the Society's total liquid assets assigned to the buffer is 83.7% (2020: 79.1%). The remaining liquid assets not assigned to the LAB comprise deposits with UK financial institutions. The breakdown of liquid assets under the standardised approach to credit risk can be seen in the table below:

Unaudited

2021		**£'000**		
Fitch Ratings Service	**< 8 days**	**> 8 days < 1 month**	**> 1 month < 3 months**	**>3 months < 6 months**
Cash	148	-	-	-
A	11,075	5,000	-	-
Bank of England	83,560	-	-	-

2020		**£'000**		
Fitch Ratings Service	**< 8 days**	**> 8 days < 1 month**	**> 1 month < 3 months**	**>3 months < 6 months**
Cash	157	-	-	-
A	17,674	-	5,000	-
Bank of England	86,471	-	-	-

The PRA monitors liquidity using the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), measures introduced as part of the CRD IV regulatory changes. The Society's LCR, a measure of the Society's ability to withstand a short-term liquidity stress, was 305.6% at 31 December 2021 (2020: 521.0%), well above the regulatory requirement of 100%. The NSFR is a longer-term stable funding metric, which measures the sustainability of the Society's long-term funding. The NSFR at 31 December 2021 was 177.2% (2020: 190.9%) which exceeds the expected 100% minimum future requirement.

Funding

Members' savings are, and will remain, the most important part of the Society's funding base. The Society does not borrow from the wholesale funding market and has not borrowed from the Funding for Lending Scheme (FLS), Term Funding Scheme (TFS) or Term Funding Scheme with additional incentives for small and medium sized enterprises (TFSME). Wholesale funding, FLS, TFS and TFSME represent cheap sources of finance to meet mortgage lending requirements. Savings balances at 31 December 2021 increased by £44.5M to £431.3M (2020: £386.8M) reflecting the Society's continued focus on offering attractive savings products with competitive interest rates for members.

Capital

The table below shows the comparison of the Society's capital at the year end. Capital is held to protect members' savings by providing a buffer against unexpected losses. The amount of capital required is assessed in relation to the Society's overall risk appetite, the material risks to which the Society is exposed and the management actions employed to manage those risks. The Society has no supplementary capital, it is instead entirely composed of the Society's retained profits.

Unaudited Capital resources	2021 £'000	2020 £'000
Common Equity Tier 1 (CET1) capital	30,658	26,855
Total regulatory capital	30,690	26,875
Risk weighted assets (RWAs)	161,739	139,192

Unaudited CRD IV Capital Ratios	2021 %	2020 %
CET1 ratio	18.98	19.04
Leverage ratio	6.46	6.20

The Total Capital Requirement (TCR) consists of a Pillar 1 and Pillar 2A capital requirement. This is set by the PRA as part of the Internal Capital Adequacy Assessment and the Supervisory Review and Evaluation Process. Pillar 1 covers the minimum capital requirement, largely in relation to credit and operational risks. Pillar 2A covers additional firm specific capital requirements for risks not covered in full by Pillar 1 requirements.

The PRA expects the TCR to be met with at least 56% CET1. At 31 December 2021 the Society's CET1 represented 99.9% of its total capital (2020: 99.9%). At 31 December 2021 the Society had surplus Total Regulatory Capital of £13.7M after meeting its TCR of £17.0M. (2020: £12.3M and £14.6M respectively).

Reserves increased by 15.5% to £30.7M. Gross capital was £30.7M (2020: £26.6M) and free capital £28.5M (2020: £25.3M) being, respectively, 7.13% (2020: 6.88%) and 6.60% (2020: 6.42%) of total shares and deposit liabilities. The definitions of Gross Capital and Free Capital are contained within the Annual Business Statement on page 85.

KEY PERFORMANCE INDICATORS	2021	2020
Total Assets	£463.5M	£414.4M
Liquid Assets	£99.8M	£109.3M
Retail Shares and Deposits	£431.3M	£386.8M
Loans to Customers	£360.9M	£303.0M
Profit before tax, FSCS levy provision and loan loss provision	£5.0M	£3.5M
Capital – Reserves	£30.7M	£26.6M
Management Expenses (as a % of Mean Total Assets)	1.22%	1.23%
Cost income (%)	51.58%	57.91%
Mortgage arrears - on accounts one month or more in arrears	£38K	£45K

Brand Refresh

The Swansea Building Society was established in 1923 to serve the local community in Swansea. Since then, we have grown into a vibrant, agile and modern building society covering predominately South and West Wales offering competitive savings and mortgage products. As a mutual building society, we operate for the benefit of you, our members and the communities you live in. Your success is our success, so we make your goals our goals and work with you at every step of the process to deliver the outcome you need. In anticipation of our 100-year anniversary in 2023, we undertook a review of the Society's Marketing strategy focusing on our brand. The Society has come a long way since 1923 and it was felt that the Society's vision, mission, value proposition and values were no longer being reflected in our brand. We also focused on how we communicate to ensure the way we are perceived by our members meets what they need both now and in the future.

The first thing we looked at as part of our brand refresh was our brand vision.

Our new brand vision is:

Brand Vision

Our brand vision articulates 'where we want to go and what we want to achieve in the future'. It's the 'why' of our business represented in a short, aspirational and bold statement.

"To enable individuals and families to realise their goals of a better, more secure future based in strong communities"

We also updated our brand vision.

Our new Brand Mission is:

Brand Mission

Our brand mission details how we'll get to where we want to go. It sets out what we're doing today, for whom, and the benefit they derive, to help them achieve their aims. It's the 'how' roadmap of our business.

"We serve our customers and their communities by providing flexible and tailored mortgage and savings products that meet individual needs and circumstances to safely and securely help all our customers achieve important life goals."

We also updated our Value Proposition.

Our new Value Proposition is:

Value Proposition

Our value proposition describes the core benefit or solution we offer, that differentiates us from the competition. It explains how what we offer solves our customers needs by answering the question "why should I buy from you instead of your competitors?"

"As a mutual society, we operate for the benefit of our customers to build better communities. We take the time to listen and to understand you, building personal relationships and tailoring financial advice & guidance that meets your needs, however complex. To ensure we provide you with the right products and services at competitive rates to help you safely and securely achieve your goals."

We have updated our Brand Values. Brand values are a unique set of beliefs that form the core of what our business represents. They create the framework that govern our actions, behaviour, and decision-making process. Internally they provide direction and clarity, uniting and helping everyone live the brand. Externally they contribute to how our brand is positioned in the marketplace and how we should communicate.

Our new Brand Values are:

Act with: **Integrity**

How we behave and what we do says so much about who we are. We work in a principled and professional manner, conducting ourselves with honesty, transparency and respect for others in all our dealings. Valuing colleagues, customers and individuals, we hold our head up and look people in the eye to forge relationships built on trust.

Demonstrate: **Understanding & Empathy**

We work hard to understand the challenges our customers face and clearly demonstrate that in how we communicate. Through our dealings with them we demonstrate how we provide the support and solutions they need to help deliver the outcome they're looking for. Just how we'd want someone to provide support and solutions for us.

Apply: **Knowledge**

We take the time to understand the sector and our customers, ensuring we have our finger on the pulse. Our knowledge and awareness are critical to everything we do. They demonstrate the value we bring and position us as a valuable partner for our customers.

Work in: **Partnership**

For both ourselves and our customers to grow and prosper we need to work together for the greater good. Their success is our success, so we make their goals our goals and work with them at every step of the process to deliver the outcome they need.

Possess: **Drive & Commitment**

Focused on meeting the needs of our customers and working to create positive outcomes, we possess a determined will, unwavering dedication and strong belief in the way we do things, taking the lead to bring about the change we wish to deliver. This passion and desire to create better futures fires our attitude and approach.

Be: **Resourceful**

Always looking for the most effective way to do something stimulates our thinking. And with each of our customers having distinct requirements in specific situations, an adaptable approach where we deliver tailored advice and solutions means we meet their needs and help them achieve their goals.

Nathan Griffiths
Finance Director
9 March 2022

Wales Air Ambulance
Staff Charity 2021

Swansea City FC
Official Club Partner

Corporate Social Responsibility

The Society is committed to building strong relationships with its local communities, supporting causes with which our customers and staff have an affinity. The Society is owned by its local members rather than distant shareholders and therefore takes a responsible approach towards all of its stakeholders including its members, the local community and the wider environment.

Community

The communities in which our branch network operates sit at the heart of the Society. We make it our mission to support those who live and work in our branch communities by undertaking fundraising activities, taking part in community events and offering sponsorships. We work with local charities, schools, community groups and organisations every year and have a number of initiatives and sponsorships that we run, including:

- Swansea City AFC - The Society has shown its commitment to its local club by signing a three-year partnership agreement to become an 'Official Club Partner' that also sees the third floor Executive Lounge at the swansea.com stadium being named the Swansea Building Society Lounge.
- Wales Air Ambulance - we were delighted to have Wales Air Ambulance as our staff charity of the year again for 2021.
- The Society donated £9,350 to Wales Air Ambulance during the year. The Society's staff have voted that Maggies will be the Society's official charity for 2022 to support providing these vital services.
- Other worthwhile cases – The Society supported a variety of charities during 2021 with donations totaling £14,400.

Workplace

The Society is committed to providing and maintaining a working environment that protects the health and safety of our staff, members and visitors. Swansea Building Society ensures that the physical environment facilitates people with disabilities in doing business with it and that, in making business decisions, the disabled are treated fairly and equally. It is in compliance with all relevant Equality Act 2010 requirements.

Environment

The Society impacts on the environment through its use of energy, purchasing of materials and equipment and creation of waste. The Society launched a Climate Change Strategy in 2020 with a working group set up to help deliver the following initiatives:

- To reduce our carbon footprint by improving our buildings' energy efficiencies and conserving energy through new technology
- To help our members lead greener lives by providing access to guidance, funding and support to help with home improvements
- To support initiatives to make the homes on which we lend more energy efficient and better prepared for regulatory and environmental change.

.

Marketplace

The Society offers savings and mortgage products which are fair and good value for members, complies with all legal and regulatory requirements and operates a robust complaints procedure. It maintains high standards of customer service and supports strongly the concept of TCF. The Society's continuing policy concerning the payment of our trade creditors is to pay invoices within the agreed terms of credit once the suppliers have discharged their contractual obligations.

Governance

Board of Directors

Board of Directors and Management Team
From left: Mr A.J. Morgan (Non-Executive Director), Mr D.S. Maddock (Non-Executive Director), Miss C.A. Griffiths (Director of Risk & Compliance), Mr A. Williams (Chief Executive), Mr N.P.A. Griffiths (Finance Director), Dr I.W. Griffiths (Chairman), Mr J.C.D. Union (Non-Executive Director), Mrs P. M. Kathrens (Non-Executive Director), Mr G.J. Stroud (Financial Controller & Company Secretary), Mr J.N. Herdman (Non-Executive Director until 31.07.2021)

Ieuan Griffiths (Chairman)
Ieuan joined the Board in May 2015 and was appointed Chairman in April 2018. He is a Chartered Accountant and a member of CIPFA. He was Director of Strategy and Finance at the DVLA for 12 years and previously Deputy Director of Finance and Performance for the NHS/DoH in England and Wales. He had worked for 20 years for major accountancy firms in audit, computer audit and consultancy for IT and business strategy before moving into his public sector roles.

Alun Williams (Chief Executive)
Alun joined the Society in May 2001 as Director and Chief Executive. Prior to his appointment, he had spent 20 years in retail, business and corporate banking starting with Williams & Glyns Bank Plc and subsequently Bank of Wales Plc. He is a member of the Assets & Liabilities, Risk, Conduct and IT Committees.

Nathan Griffiths (Finance Director)
Nathan joined the Society in July 2019 as Finance Director. He is a Chartered Accountant and spent 8 years at Deloitte specialising in providing assurance and advisory services to the banking and building society sector. He subsequently spent 4 years at Monmouthshire Building Society as Financial Controller. He is a member of the Assets & Liabilities, Risk and IT Committees.

Catherine Griffiths (Director of Risk & Compliance)
Catherine joined the Society in January 2017 as a financial accountant, before moving to take responsibility for Risk & Compliance in June 2019. Catherine was appointed to the Board in July 2021. She is a Chartered Accountant with over 25 years' experience within the South Wales area. She has worked in a variety of accountancy practices, both large and small, including spending 5 years as an external audit manager at KPMG. She also subsequently spent 8 years in industry as a finance manager at Tata Steel. She is Chair of the Conduct Committee and a member of the Risk Committee.

Stephen Maddock (Non-Executive Director)
Stephen joined the Board in May 2016 and was appointed Deputy Chairman in May 2019. He is a Chartered Accountant and a Fellow of ICAEW. He started his career at the Swansea office of accountancy firm Deloitte Haskins & Sells and after qualifying, he joined Coopers & Lybrand, now PwC. Before taking early retirement, he was Director of Financial Shared Services for Tata Steel Europe. He Chairs the Assets and Liabilities Committee and is a member of the Audit, Risk and Remuneration & Nominations Committees.

Paula Kathrens (Non-Executive Director)
Paula was appointed to the Board in July 2013. Paula is a partner with law firm Blake Morgan based in their Cardiff office and specialises in employment law. She advises organisations in both the public and private sectors, including a number of financial institutions, on all aspects of contentious and non contentious employment law. Paula is Chair of the Remuneration and Nominations Committee and is a member of the Risk Committee.

John Union (Non-Executive Director)
John was appointed to the Board in November 2017. He held several senior roles during a long career with Barclays including as Head of Swansea, Mid and West Wales Corporate Banking and as Head of Wales, Corporate Banking. He is Vice Chair of Cadwyn Housing Association and an Independent Member (Finance) at Cardiff and Vale University Health Board. He is Chair of the Audit and Risk Committee's and a member of the Assets and Liabilities and IT Committees.

Andrew Morgan (Non-Executive Director)
Andrew joined the Board in January 2019. He is a Chartered Surveyor with over 35 years experience in practice within the Mid, West and South West regions of Wales and is a founding partner of Morgan & Davies Estate Agents. He is a member of the Remuneration & Nominations and Audit Committees and Chairs the IT Committee.

Corporate Governance Report

The Financial Reporting Council published a revised UK Corporate Governance Code in July 2018. Although the code does not directly apply to mutual organisations, the Society, whilst not directly applying the code does have regard to its principles as they apply to a Building Society.

THE ROLE OF THE BOARD

The primary focus of the Board is to ensure that the Society has a sustainable future based on strong financial and risk management. The Board is effective because it actively encourages an environment of constructive challenge. The Board Controls and Procedures Manual sets out matters reserved to the Board and those which are delegated to management. This is reviewed annually by the Board. The Board meets as often as necessary to discharge these duties effectively, a minimum of eleven times per annum.

The Board has collective responsibility for the oversight and success of the Society. A core part of this role is the determination and setting of business strategy in a constantly evolving environment. The Non-Executive Directors meet at least once a year without the Executive Directors. The Society maintains liability insurance cover for Directors and Officers.

Division of Responsibilities

The offices of Chief Executive and Chairman are distinct and held by different Directors. The Chief Executive is responsible for managing the Society's business within the policies established by the Board. The Chairman's responsibilities are outlined in the paragraph below.

The Chairman

The Chairman has a key role in strategy development for the organisation and sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information.

Non-Executive Directors

The Non-Executive Directors of the Society are drawn from a wide range of backgrounds to ensure that the Board has the appropriate skills, knowledge and experience to provide a robust level of challenge and debate. Each of the Non-Executive Directors chairs a Board Committee and the allocation of roles fits their experience to the committee requirements. The role of Non-Executive Director requires understanding of the risks in the business; commercial leadership within a framework of prudent and effective risk management controls; and monitoring performance and resources, whilst providing an appropriate level of support to the Executive Management.

The composition of the Board

The Board comprises five Non-Executives and three Executive Directors providing a balance of skills and experience appropriate for the requirements of the business. The Society's Remuneration and Nominations Committee ensures that the Society has the appropriate mix of Board members and this is reviewed on an annual basis. All Non-Executive Directors are considered by the Board to be independent in character and judgement. The Deputy Chairman is the Senior Independent Director, providing support for the Chairman and an alternative route for communication. His main responsibilities are to chair the Board, in the absence of the Chairman, and conduct the annual review of the effectiveness of the Chairman in leading the Board.

Appointments to the Board

The Board understands the importance of having a diverse membership and recognises that diversity encompasses not only gender but also background and experience. During 2021 the Society signed up to both the Race at Work and the Women in Finance Charters and has committed to improving the Society's diversity wherever possible over the coming years. The Board has adopted the principle that appointments should be made solely on merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills, experience and perspectives of the Board. The Society appoints Non-Executive Director based on the specific skills and experience required under the succession plan. The Remuneration and Nominations Committee leads the selection process, although the Board as a whole makes the final decision .

Board vacancies are widely advertised in relevant media and circulated to all members to ensure that suitable candidates are attracted. External professional firms have been added to the process in recent appointments to ensure a wider field and geographic catchment area can be covered.

All Directors must meet the tests of fitness and propriety designed by the Financial Conduct Authority (FCA). Each Director must be approved by the FCA in order to fulfill their controlled function as a Director. Interviews by the regulators are included as part of the recruitment process at their request, with regular confirmation and vetting checks also undertaken.

Commitment

The Remuneration and Nominations Committee evaluates the ability of Non-Executive Directors to commit the time required for their role, prior to their appointment. The annual formal appraisal process carried out by the Chairman also assesses whether Directors have demonstrated this ability during the year and also whether the internal training and updates have been successfully completed. The attendance record during the year of Board and committee members is set out on pages 27-28.

Development

All new Non-Executive Directors receive a comprehensive induction programme tailored to their individual needs to ensure that they can fulfil the requirements of their role. This includes the nature of building societies; responsibilities and duties; the management information they will be provided with and how to interpret this; information on the Society and the local market; an overview of the regulatory requirements; and details of significant current issues for the sector. Training and development needs are identified as part of the annual appraisal of the Board and individual assessment of Director performance and effectiveness. These needs are usually met by internal briefings and via attendance at sector specific seminars and conferences alongside the online training provided.

Information and Support

The Chairman ensures that the Board receives information sufficient to enable it to discharge its responsibilities. Each Board Committee is responsible for evaluating the effectiveness of the information received and improvements are made where necessary. The Executive provide any additional management information the committees need to discharge their duties. Board information is subject to ongoing review to ensure that it meets the needs of the Board in the current and future environment.

Performance Evaluation

Each Director, including the Deputy Chairman has an annual review undertaken by the Chairman. The Chairman's performance is reviewed annually by the Deputy Chairman. The Board evaluates its overall performance and that of each committee. The Society is able to confirm that the performance of all Board members and committees continue to be effective and that all members are committed to providing sufficient time for Board and committee meetings and any other necessary duties.

Re-election

The Society's Rules require that all Directors be submitted for election at the Annual General Meeting (AGM) following their appointment to the Board and re-election every three years. Each Non-Executive Director is appointed to the Board for a term of up to three years, subject to satisfactory performance. Non-Executive Directors normally serve a maximum of three terms. Any Non-executive directors serving for over nine years are subject to annual re-election by the members. The Remuneration and Nominations Committee reviews the independence, character and judgement of Directors to ensure that they are able to commit the appropriate time and demonstrate capability. The Board agrees the appropriateness of Non-Executive Directors to be re-elected.

THE COMMITTEES OF THE BOARD

Assets & Liabilities Committee

The Assets and Liabilities Committee (ALCO) comprises the following: Mr D.S. Maddock (Chairman), Mr J.C.D. Union, Mr A.J. Morgan Mr A. Williams, Mr N.P.A. Griffiths and Mr. G.J. Stroud.

The committee's terms of reference include the establishing and monitoring of procedures for treasury operations, reviewing the Society's policy for managing balance sheet interest rate risk, reviewing the performance of the mortgage book, reviewing and approving mortgage and savings rates for products, reviewing and monitoring the investment of surplus funds. The committee met eleven times during the year.

Audit Committee and Auditors

The Board has an Audit Committee comprising three Non-Executive Directors. These Directors have specialist expertise including current and relevant financial experience. Details on the composition and the respective responsibilities of the committee can be found below.

The Audit Committee comprises the following: Mr J.C.D. Union (Chairman), Mr D.S. Maddock and Mr A.J. Morgan.

The Audit Committee reviews the Society's system of internal control and risk management systems. The committee considers all aspects of operational and reputational risk management. It is responsible for assessing the effectiveness of audit and compliance systems of inspection and control; assessing accuracy and completeness of financial information; reviewing accounting policies; and establishing effective whistle-blowing controls.

The Audit Committee reviews the Society's system of internal control and risk management systems. The committee considers all aspects of operational and reputational risk management. It is responsible for assessing the effectiveness of audit and compliance systems of inspection and control; assessing accuracy and completeness of financial information; reviewing accounting policies; and establishing effective whistle-blowing controls.

The Audit Committee approved the Internal Audit plan for the year and discussed in detail quarterly reports from Internal Audit. The reports included the key matters raised from the work, as well as management's responses to address the issues reported.

The Audit Committee is also responsible for the oversight of Internal Audit. During the year the committee:

- monitored the adequacy of Internal Audit resources including the financial budget. The availability of external specialists to bring in expertise when appropriate was also considered;
- approved the internal audit charter which sets out the role and expectations of Internal Audit; and

The committee monitors the integrity of the financial statements of the Society and a detailed note on going concern is prepared each year and is contained within the Directors' report on page 37. It recommends acceptance of the annual accounts to the Board and monitors the performance, independence, objectivity, competence and effectiveness of the internal and external auditors. It is responsible for recommending appointment, reappointment or removal of external and internal auditors. The Committee held a competitive tender process and appointed Mazars as new external auditors from the year ended 31 December 2021 onwards.

The Audit Committee is also responsible for approving any non-audit fees paid to the auditors. No non-audit work was undertaken in the year.

The Audit Committee met five times a year.

Minutes of the committee's meetings are distributed to all Board members and the Chairman of the committee reports to the Board at the Board meeting following a committee meeting.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises the following non-executive directors: Mrs P.M. Kathrens (Chairman), Mr A.J. Morgan and Mr D.S. Maddock.

The committee is charged with the responsibility of reviewing the remuneration of the Chief Executive

Finance Director, and the Director of Risk and Compliance as well as making recommendations to the Board on Non-Executive Directors' fees and salaries. The committee is also responsible for succession planning and making recommendations for appointments to the Board.

Non-Executive candidates are sought in various ways, including through press articles. Candidates must meet the tests of fitness and propriety as prescribed by the FCA and must receive approval from the FCA as an Approved Person before taking up their role.

In addition, the Society's Rules require that new directors must stand for election at the Annual General Meeting in the year following the year in which they are appointed.

The Society's remuneration policy is designed to ensure that executive directors' remuneration reflects performance and enables the Society to attract, retain and motivate executives to deliver improving business performance for the benefit of members. The committee reports on its activities and provides recommendations to the Board for approval. The committee met ten times during the year.

Risk Committee

The Risk Committee comprises the following:
Mr J.C.D Union (Chairman), Mr D.S. Maddock, Mrs P.M. Kathrens, Mr A. Williams, Mr N.P.A. Griffiths, Miss C.A. Griffiths, Mr G.J. Stroud and Mr N.M. Longar.

The committee is responsible for identifying, monitoring and managing the key risks of the Society. All Society risks are categorised into several primary risk types and risk areas. The primary risks cover strategic and business risk, credit and concentration risk, financial soundness risk, market and interest rate risk, operational risk and legal and regulatory risk.

As a provider of financial services, the Society's business is the managed acceptance of risk. The system of internal control is an essential and integral part of the risk management process. Management perform an assessment of the impact and likelihood of key risks and of the effectiveness of the controls in place to manage them. The assessment is reviewed regularly throughout the year, and formally reviewed by the Risk Committee twice yearly. The committee met four times during the year.

Details of the Society's procedures for the management of treasury risks are set out in note 21 on page 71.

Information Technology Committee

The IT Committee comprises the following:
Mr A.J. Morgan (Chairman), Mr J.C.D. Union, Mr A. Williams, Mr N.P.A. Griffiths, Mr N.M. Longar and Mr C. Wright

The committee is charged with proposing an annual IT and IT Security Strategy to the Board of Directors (ensuring that it conforms to and supports the Business Strategy adopted by the Building Society) and to monitor delivery once agreed. The committee has the remit to consider new and proposed technology initiatives and innovations in use and their potential for use within the Society. The committee is required to implement the agreed strategic objectives, including the monitoring of value for money for the initiatives undertaken. The committee is responsible for approving detailed technical IT policies and procedures relating to Information Security. It also has the responsibility of ensuring that adequate cyber security measures are adopted and enforced, as the risks involved are recognised as key risks for the Society. The committee monitors all IT projects that the Society undertakes, reporting on all changes in risk status to the Risk Committee. The committee met eleven times during the year.

Conduct Committee

(Management Committee)

The committee is charged with responsibility for maintaining an appropriate business conduct strategy and setting standards leading to fair outcomes for customers of the Society. The committee met four times during the year.

Proceedings of all committees are formally minuted and minutes are subsequently considered by the full Board.

The terms of reference for all of the Board committees can be obtained from the Society's website or by writing to the Secretary at the Society's head office.

Corporate Governance Report

OTHER ASPECTS OF CORPORATE GOVERNANCE

Financial and business reporting

The Board considers that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statements that the business is a going concern are contained in the Statement of Directors' Responsibilities on page 40.

Risk Management and Internal Control

The Board is collectively responsible for determining strategies for risk management and control as described in the Society's risk policy. Senior management is responsible for designing, operating and monitoring risk management systems and controls. Each Board committee has oversight responsibility for the risks and controls within its remit. The Risk Committee assesses the adequacy of this process. The Society's internal auditors provide independent and objective assurance that the systems are appropriate and controls effectively applied. The Society has a strong and prudent approach to risk management and compliance and is satisfied that the systems and controls are effective and appropriate for the scale and complexity of the business and protect the interests of the members.

Remuneration

The Report of the Remuneration Committee can be found on page 35.

Dialogue with shareholders

As a mutual organisation the Society's membership consists of individuals who are also the Society's customers. The Society is committed to open communication with members and makes sure that a variety of channels are available. The purpose of this communication is to enable the Society to better understand the needs of its members. This includes questionnaires which are sent to all new account holders at the time of opening the account and communication to all members on an annual basis. This feedback is then provided to the Board.

Constructive use of the Annual General Meeting (AGM)

Each year the Society sends details of the AGM to members who are eligible to vote. The resolutions include the election of Directors and a separate advisory vote on the Directors' Remuneration Report. Members are encouraged to exercise their right to vote. Members are provided with forms, which enable them to appoint a proxy to vote on their behalf if they are unable to attend the AGM. At the AGM a poll is called in relation to each resolution and the proxy votes cast are included in the result. The results are subsequently disclosed on the Society's website. All members of the Board are present at the AGM each year unless their absence is unavoidable. The Chairmen of the committees are therefore available to answer questions raised by the Society's members. The AGM includes a presentation from the Chief Executive on the performance of the Society. Members are actively encouraged to raise questions at the end of the presentation..

Directors' Attendance Record at Board Committees () = number of meetings required to attend

Director	Board	Audit	Risk	Remuneration / Nominations	Assets & Liabilities
I.W. Griffiths (Chairman)	11 (11)	5 (5)*	4 (4)*	7 (10)*	9(11)*
D.S. Maddock (Deputy Chairman)	11 (11)	5 (5)	4 (4)	10 (10)	11 (11)
A. Williams	11 (11)	5 (5)*	4 (4)	10 (10)*	11 (11)
N.P.A. Griffiths	10 (11)	4 (5)*	4 (4)	9 (10)*	11 (11)
C.A. Griffiths (Appointed 01.07.2021)	5 (5)	2 (2)*	2 (2)	3 (4)	5 (5)
P.M. Kathrens	11 (11)	5 (5)*	4 (4)	10 (10)	11 (11)*
J.N. Herdman (Until 31.07.2021)	5 (6)	2 (3)*	2 (2)	6 (6)	6 (6)
J.C.D. Union	11 (11)	5 (5)	4 (4)	9 (10)*	11 (11)
A.J. Morgan	10(11)	5 (5)	4 (4)*	9 (10)	10 (11)*

* Attendance by invitation

I.W. Griffiths
Chairman
9 March 2022

Risk Management Report

The Board has responsibility for the Society's system of internal control and for reviewing its effectiveness. The control procedures and systems the Society has established are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal controls includes financial, operational and compliance controls and risk management procedures.

The Society, like every business, faces risks and uncertainties in both its day-to-day operations and through events relating to the achievement of its long term strategic objectives. The Board has ultimate responsibility for risk management within the Society and there is an ongoing and embedded process of assessing, monitoring, managing and reporting on significant risks faced by the Society. To mitigate these risks, the Board has implemented a clearly defined risk management framework that contains the following features:

- Risk focused governance structure;
- Risk policy statements and risk appetite measures;
- Risk identification, monitoring and reporting processes; and
- Effective internal control framework

The Society has a risk averse culture and maintains a low risk appetite. This helps to protect members' interests and reduce exposure to the principal risks and uncertainties facing the business. Processes, policies and controls are in place to minimise these risks as far as practicable.

The Society operates a 'three lines of defence' model ensuring clear independence of responsibilities for risk control, oversight and governance. This is summarised below:

First line of defence

Day to day risk management by the business

Every employee is responsible for managing the risks which fall within their daily activities. The first line of defence is accountable for ensuring all key risks within their business areas are identified, monitored and mitigated by appropriate controls, within a strong overall control environment.

Second line of defence

Risk oversight and compliance

A dedicated Risk and Compliance team is responsible for providing independent oversight and challenge of activities, promoting a strong risk management culture, and supporting the business in delivering strategy in line with risk appetite.

Third line of defence

Audit

Internal audit provides independent assurance regarding the activities in both the first and second lines of defence of the Society and reports on the effectiveness of the control environment to the Audit Committee.

The Risk Committee monitors the arrangements for assessing risk inherent in the Society's business activities on behalf of the board.

PRINCIPAL RISKS AND UNCERTAINTIES

The Society's exposure to current and emerging risks is closely tracked through the formal risk governance structure. The Society keeps the risks under close observation through risk reporting and measuring of performance against key risk indicators. The Society conducts regular horizon scanning to identify any new or emerging risks which could impact delivery of the Board's strategy. The most significant risks to the Society's strategy are detailed below, together with the actions being taken to mitigate those risks.

Strategic / Business Risk

This is the risk of the Society entering unprofitable markets or offering unprofitable products. The Board has a strategic duty to ensure that the Society makes an adequate amount of profit to maintain capital ratios at a sufficient level to provide long term financial strength and stability for all members.

Building Societies operate in a highly competitive and regulated market with significant uncertainties arising from the general economic and geopolitical environment, in particular the demand for borrowing and the availability of funding. The management of risk and strategic direction are key activities for the success of the business. The Board of Directors, aided by a number of committees, is responsible for ensuring that an up to date risk management structure is in place covering all aspects of the business. Strategic issues are regularly discussed at Board meetings and the Board provides robust challenge of the Society's corporate plan.

Risk Management Report

Credit Risk

This relates to the risk that mortgage customers or treasury counterparties, to whom the Society has lent money, may fail to meet their obligations to the Society as they become due.

The Society's lending and treasury policies are regularly reviewed and approved by the Board. They include limits on credit exposures to individual and groups of counterparties.

The quality of individual mortgage lending decisions, coupled with effective subsequent account management and control, ensures that this risk is managed within the Society's risk appetite.

Treasury counterparty lines of credit are reviewed on a regular basis by ALCO and approved by the Board of Directors. This can entail a review of the counterparties' financial performance, their ratings status and market intelligence to ensure that the limits align with the Society's risk appetite.

Financial Soundness Risk

This relates to the Society's ability to meet our financial obligations as they fall due and/or, having insufficient capital resources, resulting in the inability to support business activities, as well as an inability to meet liquidity and capital regulatory requirements.

Liquidity

The Society's liquidity and structural risk management policies are regularly reviewed and approved by the Board. The Society also conducts an annual Internal Liquidity Adequacy Assessment Process (ILAAP) to assess the Society's liquidity adequacy and determine the levels of liquid assets required to support and mitigate current and future risks. These policies ensure that the Society has sufficient realisable liquid resources to meet its liabilities as they fall due under normal business conditions. In addition, a variety of stress tests are carried out on a monthly basis to ensure that the Society can maintain adequate liquidity in the event of a number of institution specific, market wide or a combination of these events, both in the short and protracted period.

Capital

The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis. The purpose of this is to assess the Society's capital adequacy and determine the levels of capital required to support the current and future risks in the business. The ICAAP covers all material risks to determine the capital requirement over a five-year horizon and includes stress scenarios which are intended to meet regulatory requirements. The capital requirements are presented to the Board for approval. The ICAAP is used by the PRA to determine and set the Society's Total Capital Requirement (TCR).

The amounts and composition of the Society's capital requirements are determined by assessing the Basel II Pillar 1 minimum capital requirement, the Society's economic capital requirement, the impact of stress and scenario tests under Pillar 2 and the Total Capital Requirement (TCR). The Society manages its capital above the minimum TCR and PRA Buffer , at all times. Capital levels for the Society are reported to and monitored by ALCO and the Board on a monthly basis.

To meet Basel 2 Pillar 3 requirements, the Society is required to set out its capital position, risk exposures and risk assessment processes. Its Pillar 3 disclosures document can be obtained by writing to the Society at its head office or downloaded from its website at www.swansea-bs.co.uk. The 2021 version of the Pillar 3 disclosures document will be available and published on the Society's website in April 2022.

Market / Interest Rate Risk

This is the risk that income or expenditure, arising from the Society's assets or liabilities, varies as a result of changes in interest rates. The Society is on the 'administered' approach to treasury which stipulates that it must have at least 90% of its savings and deposits on administered rates, i.e. not fixed.

Similarly, it must have at least 90% of its mortgage assets on administered rates. The Society enters into fixed rate term deposits with treasury counterparties up to a maximum of twelve months. The Society's low level of fixed interest commitments ensures that interest rate risk is minimised.

The financial instruments used by the Society to mitigate certain risks, particularly interest rate risk, are set out in Note 23 of the financial statements.

Operational Risk

This is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events. The Society has robust controls in place for all operational areas which are designed to mitigate these risks, including those controls designed to detect and prevent financial crime. To ensure operational resilience, the Society protects against disruption by having controls in place to reduce risk exposures, setting clear tolerances around the level of disruption that can be absorbed and having clear plans to respond beyond these points, and having arrangements in place to recover quickly from incidents and to learn and adapt from operational disruption. The Society also regularly tests its important business services to ensure operational resilience is continuously reviewed and strengthened. The Risk Committee receive management information relating to operational risk and resilience. The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control.

Conduct Risk

This is the risk of the Society treating our customers unfairly and delivering inappropriate outcomes. The Society has adopted a philosophy whereby it treats customers' interests as being equal to our own, highlighting the importance of having the right culture and cultural leadership and requiring evidentially good conduct behaviour across the five pillars of customer treatment - product governance, sales suitability, complaints and redress, reward and remuneration. The Conduct Committee monitors conduct risk at an operational level, with oversight provided by the Risk Committee.

Legal & Regulatory Risk

This is the risk that the Society does not comply with legislation and regulation, leading to potential fines, public censure, or restitution costs arising from failing to understand, interpret and comply with UK or EU legal and regulatory requirements. The Society has controls in place which are designed to mitigate such risks.

Pandemic Impact

The pandemic has had a significant impact on the economy since March 2020, with falling levels of GDP and rising unemployment, although from the middle of 2021 there was a significant recovery. As noted in last year's Annual Report, the impact of the pandemic potentially could have had a material impact on a number of the Society's principal risks, namely strategic, credit, market and operational. Throughout the last year these risks have not developed in any material way. Whilst there continues to be the possibility of an impact, for example due to the removal of the Government support schemes, future lockdowns/restrictions or stagflation, the Society has undertaken rigorous stress-testing of the potential outcomes, the results of which show that it has sufficient capital resources to withstand a range of severe stress scenarios.

Climate Change

The Society also recognises the risks and challenges posed by climate change. While the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. The Society particularly recognises two risks: physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. In 2021, the Society commissioned a report to assess the risks to the mortgage portfolio from climate change. This analysis suggests that direct, physical risks may not present a significant risk to the Society's business, but that transitional risks, especially the remediation costs of converting low energy efficiency homes to a better standard of energy efficiency may be substantial. The impact of this has been considered during 2021 as part of the Society's annual assessment of its capital position and the impact on this of various stress scenarios.

J C D Union
Chairman of the Risk Committee
9 March 2022

Report of the Remuneration Committee

The purpose of this report is to explain the Society's policies on the remuneration of directors. The Society believes that these policies comply with the FCA's Remuneration Code. The remuneration of the individual Directors is detailed on page 36.

Unaudited Information

The level and components of remuneration

The Society's policy is to reward Directors according to their expertise, experience and overall contribution to the successful performance of the business. The Executive Directors' benefit package is designed to motivate decision making in the interests of the members as a whole. A performance related pay scheme operated during the year for Executive Directors, which was carefully designed to encourage achievement of targets that maintain the financial security and financial strength of the Society; and to recognise corporate and individual performance in accordance with good risk management.

Executive Directors' Emoluments

The remuneration of Executive Directors reflects their responsibilities and time commitment. This year it comprised basic salary, an annual performance related pay scheme and various benefits. Performance related payments are not pensionable.

Basic salaries

Basic salaries are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations from the building society sector and in the light of market conditions generally.

Annual Performance Related Pay Scheme

The annual scheme is based on the Society's key financial measures of profitability, control of costs and growth in mortgages and savings balances. A maximum of 10% of salary can be earned for achievement of these targets. The Remuneration and Nomination Committee sets targets and assesses as whether any payment should be made. Fundamental prerequisites for any performance related payments include demonstrating the appropriate conduct to meet the Society's values framework and FCA conduct rules, to maintain ethical standards and appropriate risk management capabilities.

Pensions

In lieu of his entitlement to pension contributions, Mr A. Williams opted to receive a cash equivalent sum at the same gross cost to the Society. Pension contributions for Mr N.P.A. Griffiths and Miss C.A. Griffiths are made to the Society-wide defined contribution pension plan.

Benefits

Executive Directors receive other benefits including a company car, a subsidised mortgage and a private health care scheme.

Contractual terms

Executive Directors each have service contracts with the Society, terminable by either party giving twelve months notice.

Executive Directors Pay Ratio Reporting

In order to promote transparency and good governance, the Society has chosen to voluntarily disclose a snapshot of the overall pay gap between the basic salary of the executive directors, being the highest paid within the organisation, and the lowest paid employee. For 2021 these pay ratios were as follows:
Chief Executive: 8:1
Finance Director: 5:1

Non-Executive Directors

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations in the building society sector. Remuneration comprises a basic fee with a supplementary payment for the Chairman which reflects the additional responsibility of this position.

Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any incentive scheme or receive any other benefits. Non-Executive Directors have letters of appointment instead of service contracts. They are appointed for a maximum of nine years.

The procedure for determining remuneration

The Remuneration & Nominations Committee consists of three Non-Executive Directors. The Chief Executive attends by invitation only but takes no part in the discussion of his own salary. The committee reviews Directors' and Executive management remuneration annually using data from comparable organisations. Minutes of the committee's meetings are distributed to all Board members, and the Chairman of the committee reports at the Board meeting following a committee meeting.

Audited Information

EXECUTIVE 2021	Salary £'000	Benefits £'000	Annual Bonus £'000	Pension Contributions £'000	Total £'000
A. Williams	175	21	15	-	211
N.P.A. Griffiths	101	5	10	14	130
C.A. Griffiths (Appointed 01.07.2021)	45	-	5	7	57
TOTAL	**321**	**26**	**30**	**21**	**398**
EXECUTIVE 2020					
A. Williams	169	22	15	-	206
N.P.A. Griffiths	101	1	10	15	127
TOTAL	**270**	**23**	**25**	**15**	**333**

Fees

NON-EXECUTIVE	2021 £'000	2020 £'000
I.W. Griffiths (Chairman)	41	40
D.S. Maddock (Deputy Chairman)	29	28
P.M. Kathrens	29	28
J.N. Herdman (Until 31.07.2021)	17	28
J.C.D. Union	29	28
A.J. Morgan	29	28
Sub-total	**174**	**180**
Executive remuneration total	**398**	**333**
Total directors' remuneration	**572**	**513**

PMKathrens

P.M. Kathrens
Chairman of the
Remuneration and
Nominations Committee
9 March 2022

Directors' Report

The Directors have pleasure in presenting the Society's ninety eighth report and audited financial statements for the financial year ended 31 December 2021.

Business objectives and activities

The business objectives, review and key performance indicators are referred to in the Strategic Report on pages 11-18.

Profit and capital

The Society's profit before tax amounted to £5.2M (2020: £3.3M). The total reserves at 31 December 2021 were £30.7M (2020: £26.6M) which includes a revaluation reserve of £nil (2020: £20k).

Gross capital was 7.13% (2020: 6.87%) and free capital 6.60% (2020: 6.53%). For further details see page 85.

Detailed Pillar 3 capital disclosures for 2021 will be available on the Society website by 30 April 2022.

Principal risk and uncertainties

The Society's principal risk and uncertainties are covered within the risk management report on pages 32-34.

Mortgage arrears

Total mortgage arrears at 31 December 2021 amounted to £37,719 (2020: £44,889). The capital balances on the arrears cases at 31 December 2021 amounted to £2.6M (2020: £3.1M). This low level of arrears demonstrates the quality of the mortgage book. At 31 December 2021, there were no cases (2020: 0) where repayments were 12 months or more in arrears. At 31 December 2021 there was 1 case in possession (2020 : 0).

Directors

The following served as Directors of the Society during the year:

- I.W. Griffiths (Chairman)
- D.S. Maddock (Deputy Chairman)
- A. Williams (Chief Executive)
- N.P.A. Griffiths (Finance Director)
- C.A. Griffiths (Director of Risk & Compliance) (Appointed 01.07.2021)
- P.M. Kathrens
- J.N. Herdman (Until 31.07.2021)
- J.C.D. Union
- A.J. Morgan

Biographies for the Directors appear on page 23-24. The names, responsibilities and occupations of all Directors are set out on page 86 in the Annual Business Statement. None of the Directors has any beneficial interest in shares in any associated body of the Society. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986.

Miss C.A. Griffiths was appointed Director of Risk & Compliance on 1 July 2021 and Mr M. Hayes was appointed a Director of the Society on 1 January 2022. They both offer themselves for election at the Annual General Meeting on 28 April 2022.

Mr A. Williams, Dr I.W. Griffiths and Mrs P.M. Kathrens will retire at the Annual General Meeting on 28 April 2022. Being eligible for re-election Mr A. Williams, Dr I.W. Griffiths and Mrs P.M. Kathrens will seek re-election to the board.

Tenure (Non-executives only)	
0 – 3 years	1
4 - 6 years	3
7 – 9 years	1
Over 9 years	0

Male / Female	
Male	4
Female	1

Acknowledgements

The Board is grateful to all our members and professional contacts for their continued support.

Governance and Regulation

There has been a continued increase in regulatory activity in the past year and with the dedication of our staff, professional advisers and trade bodies we have a strong commitment to meet the challenges of significant legislation. The Board of Directors is committed to best practice in Corporate Governance. The report on pages 25-29 explains how the Society applies the principles of the UK Corporate Governance Code.

Independent auditors

The Auditors Mazars LLP have expressed their willingness to continue in office and in accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of Mazars LLP as Auditors is to be proposed at the Annual General Meeting on 28 April 2022

Other Matters

Creditor Payment Policy

It is the Society's policy to discharge suppliers' invoices for the complete provision of goods and services (unless there is an express provision for stage payments) in full conformity with the conditions of the purchase and within the agreed payment terms. It is intended that this policy be continued in 2022. The Society had 2 days purchases outstanding at 31 December 2021 (2020: 2 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2021.

Going Concern

In accordance with best practice, the Board undertakes regular rigorous assessments of whether the Society is a going concern in the light of current economic and market conditions and all available information about future risks and uncertainties.

The future risks considered throughout 2021 included:

- the economic impact of the Covid-19 pandemic;
- the impact on the Society's profitability of potential changes to the cost of funding due to the repayment of the Term Funding Scheme;
- further changes to the regulatory framework;
- the impact of a potential rising interest rate environment;
- the impact of high inflation; and
- Brexit.

Factors addressed when considering the Society's ability to manage future risks and uncertainties included liquidity, funding, capital resources, future profitability and risk management processes. Stress testing was used to assess the Society's ability to withstand a variety of extreme circumstances and conditions.

The Board concluded that the Society has sufficient resources to continue in operational existence for the foreseeable future and, as a result, that it is appropriate to prepare these financial statements on the going concern basis.

Events since the end of the financial year and Future Developments

The Board considers that there have been no events since 31 December 2021 that have a material effect on the financial position of the Society. We shall continue to promote savings and home ownership through a competitive interest rate structure on a variety of straightforward products combined with the highest levels of personal service to all our members. These are the strengths of a regional building society and we look forward to working with our members and professional contacts to ensure that we continue to meet these objectives.

The Future

The Board believes that the Society is in a strong position, both financially and operationally. The Board will continually monitor developments regarding the Covid-19 pandemic, the impact of Brexit and climate change. Further information in respect of these risks can be found on page 34 in the Risk Management Report. The Society continues to maintain a prudent lending policy which is regularly reviewed to take account of best practice and the evolving nature of the mortgage industry. Despite the difficult market conditions in which we operate, the Board firmly believes a successful future lies ahead as an independent, mutually owned business. The Board's strategy for the coming years will be to place more emphasis on both strong capital and liquidity positions to address the economic environment in which it operates. Providing regulation is proportionate, the Board is confident that the Society will continue to deliver exceptional service and value for its members.

On behalf of the Board of Directors.

IW Griffiths

I.W. Griffiths
Chairman
9 March 2022

Statement of Directors' Responsibilities

Directors' Responsibilities for Preparing the Annual Accounts

The following statement, which should be read in conjunction with the Independent Auditor's Report on pages 41-46, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 ("the Act") to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of the affairs of the Society as at the end of the financial year 2021, and of the income and expenditure of the Society for the financial year 2021.

Under that law they have elected to prepare the Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

In preparing those Annual Accounts, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Society will continue in business.

In addition to the accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' Responsibilities for Accounting Records and Internal Control

The Directors are responsible for ensuring that, in accordance with the Act, the Society:

- keeps accounting records in accordance with the Building Societies Act 1986, and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulatory Authority under the Financial Services and Markets Act 2000.

The Directors also have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Society's web site. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

I.W. Griffiths
Chairman
9 March 2022

Independent Auditors' Report to the members of Swansea Building Society

Opinion

We have audited the annual accounts of Swansea Building Society (the 'society') for the year ended 31 December 2021 which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Members' Interests, Cashflow Statement and related notes to the accounts, including a summary of significant accounting policies.

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

In our opinion, the annual accounts:
- give a true and fair view of the state of the society's affairs as at 31 December 2021 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual accounts section of our report. We are independent of the society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, including the FRC's Ethical Standard, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

Our audit procedures to evaluate the directors' assessment of the society's ability to continue to adopt the going concern basis of accounting included but were not limited to:
- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the society's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the society's future financial performance;
- Assessing the society's corporate plan, ICAAP and ILAAP documentation forming the base of their going concern assumption;
- Assessing the historical accuracy of forecasts prepared by the directors; and
- Evaluating the appropriateness of the directors' disclosures in the annual accounts on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the society's ability to continue as a going concern for a period of at least twelve months from when the annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matter in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures.

This matter, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key audit matter

Credit risk - Impairment of loans and advances to customers
Refer to page 59, accounting policy and page 63 annual disclosures

Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year end provision requirement.

The individual impairment is booked on a oneto- one basis for mortgages whose partial or full collectability is uncertain. Judgement is required in determining mortgages requiring provision and estimating the recoverable amount. The society does not have experience of crystalised losses hence the estimate is sensitive to movements in the forced sale discounts (FSD) against collateral and the probability of default (PD).

The collective impairment is derived from a model that uses a combination of being aligned to peers and management's own view. The society has treated COVID-19 related payment holiday as an impairment trigger and applied a stressed PDs to these loans. The collective provision is sensitive to movements in the FSD against collateral.

How our scope addressed this matter

Our audit procedures included, but not limited to the following procedures:

- Testing the design, implementation and the operating effectiveness of the key controls in relation to credit processes (loan origination and approval, loan redemptions, arrears monitoring).
- Assessing the methodology for identifying impaired loans and whether they are subject to individual impairment assessment.
- Assessing the reasonableness and relevance of external data used in the provision model and considering whether this is consistent with our understanding of the society's portfolio and is consistent with key assumptions for relevant similar lenders and industry practice.
- Performing sensitivity analysis over the key assumptions of PDs and FSD.
- Engaging our internal property valuation experts to assess the reasonableness of the collateral value on individually assessed impairments and independently assessed the level of provision required.
- Assessing the appropriateness of impairment provision disclosures in the financial statements.

Our observations
Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be reasonable..

Independent Auditors' Report to the members of Swansea Building Society

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

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual annual account line items and disclosures and in evaluating the effect of misstatements, both individually and on the annual accounts as a whole. Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	£300,000
How we determined it	1% of net assets.
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, net assets as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where net assets is an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. Performance materiality of 180,000 was applied in the audit based on 60% overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above 9,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the annual accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the annual accounts as a whole. We used the outputs of a risk assessment, our understanding of the] society, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

The other information comprises the information included in the annual report, other than the annual accounts and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the Building Societies Act 1986 and regulations made under it;
- the information in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information on which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the society, or returns adequate for our audit have not been received from branches not visited by us; or
- the society financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 40, the directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the members of Swansea Building Society

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the society and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), anti-money laundering and GDPR.

In identifying and assessing risks of material misstatement in respect to irregularities including noncompliance with laws and regulations, our procedures included but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the society, the industry in which it operates and considered the risk of acts by the society which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the society is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including Prudential Regulatory Authority (PRA).
- Reviewing minutes of director's meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those other laws and regulations that have a direct impact on the preparation of annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of annual accounts, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions, and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of nondetection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under “Key audit matters” within this report.

A further description of our responsibilities is available on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 22 April 2021 to audit the annual accounts for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ended 31 December 2021.

The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the society and we remain independent of the society in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

This report is made solely to the society’s members as a body in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society’s members as a body for our audit work, for this report, or for the opinions we have formed.

David Allen (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
9 March 2022

Financial Statements

Income statement for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Interest receivable and similar income	3	12,157	11,240
Interest payable and similar charges	4	(1,940)	(3,024)
NET INTEREST INCOME		**10,217**	**8,216**
Fees and commissions receivable		155	123
Fees and commissions payable		(113)	(96)
Other income		105	66
TOTAL NET INCOME		**10,364**	**8,309**
Administrative expenses	5	(4,941)	(4,356)
Depreciation and amortisation	12, 13	(405)	(454)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND PROVISIONS		**5,018**	**3,499**
Impairment release/(charge) on loans and advances	10	165	(205)
PROFIT BEFORE TAX		**5,183**	**3,294**
Tax on profit	8	(1,041)	(649)
PROFIT FOR THE FINANCIAL YEAR	18	**4,142**	**2,645**

The profit before tax is derived from the continuing operations of the Society.
The accounting policies and notes on pages 55-83 form part of these accounts.

Statement of financial position as at 31 December 2021

ASSETS	Notes	2021 £'000	2020 £'000
Liquid assets			
Cash in hand and balances with the Bank of England		83,717	86,628
Loans and advances to credit institutions	9	16,066	22,674
Loans and advances to customers	10	360,920	302,955
Other assets	11	508	384
Property, plant and equipment	12	1,933	1,488
Intangible assets	13	321	282
TOTAL ASSETS		**463,465**	**414,411**
LIABILITIES			
Shares	14	408,750	367,104
Amounts owed to other customers	15	22,567	19,736
Other liabilities and accruals	16	715	489
Current tax liabilities		412	371
Deferred tax liabilities	17	287	99
TOTAL LIABILITIES		**432,731**	**387,799**
RESERVES			
General reserves	18	30,734	26,592
Revaluation reserve	18	-	20
Total reserves attributable to members of the Society		30,734	26,612
TOTAL RESERVES AND LIABILITIES		**463,465**	**414,411**

The accounting policies and notes on pages 55-83 form part of these accounts.

The accounts on pages 49-83 were approved by the Board of Directors on 9 March 2022 and were signed on its behalf by:

I.W. Griffiths - Chairman

A. Williams - Chief Executive

N.P.A. Griffiths - Finance Director

Statements of changes in members' interests for the year ended 31 December 2021

	General reserves	Revaluation reserve	Total
	£'000	**£'000**	**£'000**
Balance as at 1 January 2021	26,592	20	26,612
Profit for the financial year	4,142	-	4,142
Transfer	-	(20)	(20)
BALANCE AS AT 31 December 2021	**30,734**	**-**	**30,734**

	General reserves	Revaluation reserve	Total
Balance as at 1 January 2020	23,946	21	23,967
Profit for the financial year	2,645	-	2,645
Transfer	1	(1)	-
BALANCE AS AT 31 December 2020	**26,592**	**20**	**26,612**

Cashflow Statement for the year ended 31 December 2021

	2021 £'000	2020 £'000
CASHFLOWS FROM OPERATING ACTIVITIES		
Profit before tax	5,183	3,294
Depreciation and amortization	405	454
Profit on disposal of property, plant and equipment	(23)	-
Increase in effective interest rate adjustment	(261)	(46)
Impairment charge	(165)	205
TOTAL	**5,139**	**3,907**
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Increase in prepayments, accrued income and other assets	(124)	(43)
Increase in accruals and deferred income	226	62
Increase in loans and advances to customers	(57,539)	(29,758)
Increase in shares	41,646	42,755
Increase/(decrease) in amounts owed to other customers	2,831	(1,619)
Decrease/(increase) in loans and advances to credit institutions	1	(2,479)
Taxation paid	(812)	(438)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**(8,632)**	**12,387**
CASHFLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(973)	(261)
Disposal of property, plant and equipment and intangible assets	87	-
NET CASH USED IN INVESTING ACTIVITIES	**(886)**	**(261)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(9,518)**	**12,126**
Cash and cash equivalents at 1 January	104,298	92,172
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**94,780**	**104,298**
REPRESENTED BY:		
Cash and balances with The Bank of England	83,717	86,628
Loans and advances to credit institutions repayable on demand	11,063	17,670
TOTAL	**94,780**	**104,298**

Notes to the Accounts

Notes to the Accounts

1. Accounting policies

Basis of accounting

Swansea Building Society (the "Society") has prepared these annual accounts:

- In accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, The Financial Reporting Standard, applicable in the UK and Republic of Ireland ("FRS 102") as issued in March 2018. The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.
- On the historical cost basis except in the case of Financial Instruments which are measured in line with FRS 102 (sections 11 and 12) and treated as either basic or non-basic. Basic instruments are measured at amortised cost and non-basic instruments are stated at their fair value.

Income recognition

(i) Interest income and interest payable

Interest income and interest payable for all interest bearing financial instruments are recognised in 'interest receivable and similar income' or 'interest payable and similar charges' using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by an allowance for impairment.

(ii) Fees and commissions

Fees, commission income and expenses associated with bringing a mortgage onto the statement of financial position are amortised over the expected life of the mortgage on an effective interest rate basis. These are primarily arrangement fees and procurement fees.

Other fees and commission income are recognised on an accruals basis in the income statement when the service has been provided or on the completion of an act to which the fee relates.

Valuation fees receivable, less amounts payable to valuers, are included in fees and commissions receivable.

Investments

Investments in the subsidiary undertaking are stated at cost. The Society's subsidiary has not traded for a number of years. The statement of financial position of the subsidiary contains no significant balances, such that the consolidated statement of financial position and the Society statement of financial position are in substance the same.

Financial Instruments

(i) Loans and receivables

Loans and receivables are predominantly mortgages to customers and money market advances held for liquidity purposes. They are recorded at amortised cost, including any effective interest rate adjustment, less any impairment losses.

(ii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. No such assets or liabilities are offset in the Statement of Financial Position.

(iii) Financial liabilities

Financial liabilities are measured at amortised cost, and are recognised on the Statement of Financial Position when the Society becomes a party to the contractual provision of the instrument. Financial liabilities are derecognised when the liability is extinguished which is when the contractual obligation is discharged or expires.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and the profit as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the Accounts

1. Accounting policies (continued)

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Deferred tax balances are not discounted.

Intangible assets

Computer Software

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Society which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Intangible assets are stated at cost less cumulative amortisation and impairment losses.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is 4 years. The amortisation periods used are reviewed annually.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

Property, plant and equipment

Additions and improvements to office premises and equipment, including costs directly attributable to the acquisition of the asset, are capitalised at cost. As noted in note 12, the Society has, on transition to FRS 102, elected to treat the fair value of freehold property as the Society's deemed cost. All other items of property, plant and equipment are included in the statement of financial position at the original cost, less cumulative depreciation and any impairment. The cost, less estimated residual values of any asset, is depreciated on a straight-line basis over its estimated useful economic life of the asset as follows:

- Freehold Buildings over 50 years
- Leasehold land and buildings over the remainder of the lease
- Property improvements over 10 years
- Computer equipment, fixtures, fittings and vehicles over 4 years

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use. Freehold land is not depreciated.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, treasury bills and other eligible bills and loans and advances to credit institutions.

Impairment of financial assets

The Society assesses at least quarterly whether there is objective evidence that a financial asset or group of financial assets is impaired. This forms the watchlist. Objective evidence of impairment may include:

- indications that the borrower or group of borrowers are experiencing significant financial difficulty,
- default or delinquency in interest or principal payments,
- the debt being restructured to reduce the burden on the borrower,
- any breach of contract, and other overall economic conditions.

If there is evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the net present value of estimated discounted future cash flows. Loans are considered for the specific provision at three or more months in arrears. Loans less than three months are considered for the collective provision. The resultant provisions are deducted from the related asset values in the Statement of Financial Position and the movement is recorded in the Income Statement.

Leased assets

At inception the Society assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(i) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(ii) Lease incentives

Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight-line basis over the period of the lease. The Society has no finance leases.

Notes to the Accounts

1. Accounting policies (continued)

Employee benefits

The Society provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) **Short term benefits**
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) **Defined contribution pension plans**
The Society operates a defined contribution pension scheme. The cost of providing retirement pensions and related benefits is charged each year to the income statement. The assets are held in a separate fund

Segmental reporting

As the Society's business is UK based within one business sector, no segmental analysis is required.

Provisions and contingent liabilities

The Society recognises a provision when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2. Critical accounting judgements and estimation uncertainty

The Society makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

(a) Impairment losses on loans and advances to customers

The Society reviews its mortgage advances portfolio at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience. Assumptions are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates), forced sale discount and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

Based on the assumptions in the Society's model a provision of £250k has been calculated. An increase in the forced sale discount of 5% would result in an additional provision requirement of £49k. A 5% decrease in the forced sale discount would cause the provision to decrease by £24k. An increase in the time to sell a defaulted property by one year would increase the provision by

£19k. A decrease in the time to sell a property by one year would decrease the provision by £15k.

(b) Effective Interest Rate ("EIR") Accounting

In determining the amount of interest to be recognised on the EIR basis of accounting the Society uses historical and forecast redemption data in order to estimate the expected lives of mortgages and to support the assessment of future early redemption interest.

The appropriateness of the assumptions made is re-assessed on a regular basis. Changes to the assumptions will change the carrying value of mortgages in the statement of financial position and the timing of recognition of interest income. A decrease of one year in the expected lives of the mortgages would increase the income recorded by approximately £63k. An increase of one year in the expected lives of the mortgages would decrease the income recorded by approximately £43k.

3. Interest receivable and similar income

	2021 £'000	2020 £'000
On loans fully secured on residential property	11,691	10,626
On other loans fully secured on land	357	392
On other liquid assets	109	222
	12,157	**11,240**

4. Interest payable and similar charges

	2021 £'000	2020 £'000
On shares held by individuals	1,909	2,965
On deposits and other borrowings	31	59
	1,940	**3,024**

5. Administrative expenses

	2021 £'000	2020 £'000
Employee costs (see note 6 and 7)		
- Wages and salaries	2,193	2,040
- Social security costs	230	217
- Other pension costs	187	180
	2,610	**2,437**
Other administrative expenses	2,331	1,919
	4,941	**4,356**
Other administrative expenses include:		
Remuneration of auditor		
- audit of annual accounts (Exc. VAT)	84	52
Payments under operating leases		
- Rent of office premises	69	105

6. Directors' and Key Managers' Remuneration

Total remuneration of the Society's Directors for the year was £572,000 (2020: £513,000). Full details are given in the Directors' Remuneration Report on page 36. Details of directors' loans and transactions can be found in note 20 on page 70. Remuneration of the Leadership Team, including the Executive Directors, for the year was £596,000 (2020: 560,000).

Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any incentive scheme or receive any other benefits.

7. Employee information

The average monthly number of persons employed by the Society (including executive directors) during the financial year was as follows:

	2021 Full Time	2021 Part Time	2020 Full Time	2020 Part Time
Head Office and Administration staff	18	2	20	3
Branch offices	19	26	19	21
Executive Directors	3	-	2	-
	40	**28**	**41**	**24**

8. Tax on profit

	2021 £'000	2020 £'000
The taxation charge for the year comprises:		
UK corporation tax on the profits in the year	850	639
Adjustments in respect of prior periods	3	(32)
Total current tax charge	**853**	**607**
Deferred taxation:		
Origination and reversal of timing differences	157	9
Adjustment in respect of prior periods	-	24
Effect of tax rate change on opening balance	31	9
Tax on profit	**1,041**	**649**

	2021 £'000	2020 £'000
Profit before tax	**5,183**	**3,294**
Profit before tax multiplied by 19.00% (2020: 19.00%) rate of corporation tax in the UK	984	626
Effects of:		
Fixed asset differences	(19)	19
Expenses not deductible for tax purposes	4	3
Adjustments to tax charge in respect of previous periods	3	(32)
Adjustments to tax charge in respect of previous periods - deferred tax	-	24
Remeasurement of deferred tax for changes in tax rates	69	9
Tax charge for the year	**1,041**	**649**

The standard rate of Corporation Tax in the UK was 19% and accordingly the Society's profits have been taxed at this effective rate (2020:19%). Deferred tax has been measured based on the substantively enacted rate of 25%. Further details on deferred tax are included in Note 17.

9. Loans and advances to credit institutions

Maturity analysis

In the ordinary course of business, loans and advances to credit institutions are repayable from the statement of financial position date, as follows:

	2021 £'000	2020 £'000
Accrued interest	3	4
On demand	11,063	17,670
Not more than three months	5,000	5,000
At 31 December	**16,066**	**22,674**

10. Loans and advances to customers

Maturity analysis

The maturity analysis of loans and advances to customers, from the date of the statement of financial position, is as follows (instalments being regarded as separate amounts): It should be noted that the above may not reflect actual experience of repayments since many mortgage loans are repaid early. In addition the above analysis reflects the legal position that all accounts in arrears are repayable on demand, except where arrangements or concessions are in force.

	2021 £'000	2020 £'000
Repayable on demand	1,328	3,104
Deferred fees and charges	(1,094)	(833)
Not more than three months	4,635	1,930
More than three months but not more than one year	8,566	9,544
More than one year but not more than five years	62,921	55,958
More than five years	284,814	233,667
	361,170	**303,370**
Less: allowance for impairment	(250)	(415)
	360,920	**302,955**
Loans fully secured on residential property	351,867	296,350
Other loans fully secured on land	9,053	6,605
At 31 December	**360,920**	**302,955**

Forbearance

The Society uses forbearance tools in line with industry guidance where they are deemed appropriate for an individual customer's circumstances. Forbearance tools which the Society may offer include capitalisation, temporary interest only concessions, payment arrangements, payment holidays and term extensions.

The analysis below sets out a total of £0.5M (2020: £5.5M) of mortgage balances which are subject to some form of forbearance. The impairment provisioning methodology and assumptions are applied to provide adequate cover in respect of lending which is subject to forbearance.

	Positive Arrears Arrangements*	Payment Holidays	Temporary Interest Only	Term Extension	Negative Arrears**	Total
2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Not in arrears	-	-	157	303	-	460
Less than one month	-	-	-	-	-	-
One to two months	-	-	-	-	-	-
Two to three months	-	-	-	-	-	-
Three to six months	-	-	68	-	-	68
	-	**-**	**225**	**303**	**-**	**528**

	Positive Arrears Arrangements*	Payment Holidays	Temporary Interest Only	Term Extension	Negative Arrears**	Total
2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Not in arrears	-	3,266	538	412	-	4,216
Less than one month	-	-	-	-	-	-
One to two months	251	-	24	-	-	275
Two to three months	-	-	-	-	-	-
Three to six months	-	-	557	-	491	1,048
	251	**3,266**	**1,119**	**412**	**491**	**5,539**

* A positive arrears arrangement is one where the customer's regular monthly repayments are in excess of their contractual repayment amount in order to reduce their arrears situation.

** A negative arrears arrangement is one where the customer's regular monthly repayments are lower than their contractual repayment amount, agreed by the Society for an agreed period of time.

10. Loans and advances to customers (continued)

The movement on the allowance for impairment is summarised as follows:

	£'000
At 1 January 2021	415
Amounts charged in the year	(165)
At 31 December 2021	**250**

The provision relates to loans fully secured on residential property.

11. Other assets

	2021	2020
	£'000	£'000
Other debtors	508	384
At 31 December	**508**	**384**

12. Tangible assets (Property, plant and equipment)

Cost or valuation (see below)	Freehold land and buildings £'000	Long Leasehold land and buildings £'000	Property improve-ments £'000	Computer equipment, fixtures, fittings and vehicles £'000	Total £'000
At 1 January 2021	387	260	1,004	1,008	2,659
Additions	-	-	-	732	732
Disposals	-	(20)	-	(195)	(215)
At 31 December 2021	**387**	**240**	**1,004**	**1,545**	**(215)**

Accumulated Depreciation

At 1 January 2021	28	15	384	744	1,171
Charge	7	2	88	156	253
Disposals	-	-	-	(181)	(181)
At 31 December 2021	**35**	**17**	**472**	**719**	**1,243**

Carrying amount

At 31 December 2021	**352**	**223**	**532**	**826**	**1,933**
At 31 December 2020	**359**	**245**	**620**	**264**	**1,488**

Notes to the Accounts

13. Intangible assets

Cost	Software £'000
At 1 January 2021	1,431
Additions	241
Disposal	(344)
At 31 December 2021	**1,328**

Amortisation and impairment	
At 1 January 2021	1,149
Charge for the year	152
Disposal	(294)
At 31 December 2021	**1,007**

Carrying amount	
At 31 December 2021	**321**
At 31 December 2020	**282**

14. Shares

Shares	2021 £'000	2020 £'000
Held by individuals	**408,750**	**367,104**

Maturity analysis

In the ordinary course of business, shares are repayable from the balance sheet date as follows:

Accrued interest	465	663
On demand	375,175	336,614
In not more than three months	33,110	29,827
At 31 December	**408,750**	**367,104**

15. Amounts owed to other customers

Maturity analysis

In the ordinary course of business, amounts owed to other customers are repayable from the balance sheet date as follows:

	2021 £'000	2020 £'000
Accrued interest	-	1
On demand	22,345	19,513
In not more than three months	222	222
At 31 December	**22,567**	**19,736**

16. Other liabilities and accruals

	2021 £'000	2020 £'000
Lease incentive	36	61
Other liabilities and accruals	679	428
At 31 December	**715**	**489**

17. Deferred tax liabilities

	Deferred taxation liability 2021 £'000	Deferred taxation liability 2020 £'000
At 1 January	99	57
Transferred from income statement	188	42
At 31 December	**287**	**99**

Deferred taxation

Deferred tax has been accounted for in respect of:

	2021 £'000	2020 £'000
Capital allowances in excess of depreciation	315	126
Other short term timing differences	(28)	(27)
At 31 December	**287**	**99**

18. Reserves

General	Revaluation	
	£'000	£'000
At 1 January 2021	26,592	20
Profit for the financial year	4,142	-
Transfer from revaluation reserve	-	(20)
At 31 December 2021	**30,734**	**-**

19. Guarantees and other financial commitments

(a) At 31 December 2021, the Society had commitments to the following future minimum lease payments under non-cancellable operating leases for each of the following periods. Payments due:

	2021	2020
	£'000	£'000
Not later than one year	91	92
Later than one year and not later than five years	297	331
Later than five years	38	95
Total	**426**	**518**

(b) The Society operates a mortgage product which allows borrowers to receive the contracted advance balance over a period of time. The amounts in respect of completed advances which have not yet been received by borrowers are:

	2021	2020
	£'000	£'000
Committed loan facilities	**204**	**381**

20. Directors' loans and transactions

(a) As required under section 68(1) and section 68(3) of the Building Societies Act 1986, registers are maintained at the principal office of the Society containing details of loans, transactions and arrangements between the Society and its directors and connected persons. These may be inspected during normal office hours for a period of fifteen days up to and including the date of the Society's Annual General Meeting to be held on 28 April 2022.

At 31 December 2021, the total secured advances outstanding in respect of 5 directors and connected persons (2020: 5) amounted to £1,032,272 (2020: £1,165,804).

(b) Directors are required to have share accounts. The Society's duty of confidentiality to its members precludes disclosure of these details

(c) The following directors of the Society are directors or partners in external businesses which provide services to the Society:

Director	Company
P.M. Kathrens	Blake Morgan LLP – Solicitors
A.J. Morgan	Morgan & Davies Ltd.

During the financial year the Society paid £2,755 (2020: £6,024) in respect of fees to Blake Morgan - Solicitors. There were no outstanding balances at 31 December 2021.

During the financial year the Society paid £79,064 (2020: £45,411) in respect of fees to Morgan & Davies Ltd. There was an outstanding balance of £145 at 31 December 2021.

Amounts in respect of additional services provided by the above individuals in (c) above or businesses in which they are involved are not included in directors' emoluments.

21. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. As a Building Society, the Society is involved in financial instrument transactions as follows:

(a) Retailer of financial instruments
The Society retails mortgages and savings products.

(b) Management of risk
The Society invests liquid asset balances with UK clearing banks and the Bank of England to manage liquidity risk. The Society does not use equity instruments.

The Society has procedures to manage the Treasury risks associated with its activities. The principal areas of risk are:

(a) liquidity risk;
(b) interest rate risk; and
(c) credit risk.

The approach to the management of these risks is described below. The Society is not directly subject to any currency risks.

The management of the Society's exposure to liquidity and interest rate risk is reviewed and controlled by the Asset and Liability Committee (ALCO). This committee is responsible to the Board for managing and controlling the balance sheet exposures of the Society. Minutes of the ALCO are presented monthly to the Board.

The Society has a formal structure for managing risks, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Board of Directors ("the Board") who are charged with the responsibility for managing and controlling the balance sheet exposures of the Society and the use of financial instruments for risk management purposes.

Summary terms and conditions and accounting policies of financial instruments

Financial instrument	Terms and conditions	Accounting policy
Loans and advances to credit institutions	Variable interest rates	Held at amortised cost
Cash in hand and balances with the Bank of England	Variable interest rates	Held at amortised cost
Loans and advances to customers	Variable interest rates	Held at amortised cost
Shares	Variable interest rates	Held at amortised cost
Amounts owed to other customers	Variable interest rates	Held at amortised cost
Note: None of the instruments on hand at year end constitute fixed rate instruments.		

The tables below analyse the Society's assets and liabilities by financial classification:

Carrying values by category 31 December 2021	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Total
	£'000	£'000	£'000
Financial assets			
Cash in hand and balances with Bank of England	-	83,717	83,717
Loans and advances to credit institutions	16,066	-	16,066
Loans and advances to customers	360,920	-	360,920
Total financial assets	**376,986**	**83,717**	**460,703**
Total non-financial assets			2,762
Total assets			**463,465**
Financial liabilities			
Shares	-	408,750	408,750
Amounts owed to other customers	-	22,567	22,567
Total financial liabilities	**-**	**431,317**	**431,317**
Total non-financial liabilities			1,414
General reserves			30,734
Total liabilities			**463,465**

Carrying values by category 31 December 2020	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Total
	£'000	£'000	£'000
Financial assets			
Cash in hand and balances with Bank of England	-	86,628	86,628
Loans and advances to credit institutions	22,674	-	22,674
Loans and advances to customers	302,955	-	302,955
Total financial assets	**325,629**	**86,628**	**412,257**
Total non-financial assets			2,154
Total assets			**414,411**
Financial liabilities			
Shares	-	367,104	367,104
Amounts owed to other customers	-	19,736	19,736
Total financial liabilities	**-**	**386,840**	**386,840**
Total non-financial liabilities			959
General and other reserves			26,612
Total liabilities			**414,411**

21. Financial Instruments (continued)

(A) Credit risk

Credit risk is the risk that the Society incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Society structures the level of credit risk it undertakes, by maintaining a credit governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain risk asset portfolios of high quality.

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

	2021 £'000	2020 £'000
Credit Risk Exposure		
Cash in hand and balances with the Bank of England	83,708	86,628
Loans and advances to credit institutions	16,075	22,674
Loans and advances to customers	360,920	302,955
Total statement of financial position	**460,703**	**412,257**
Off balance sheet exposure – mortgage commitments	204	381
TOTAL	**460,907**	**412,638**

(a) Loans and advances to credit institutions

The ALCO is responsible for approving treasury counterparties for investment purposes. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors. This is monitored daily by the Society's Finance team and reviewed monthly by the ALCO.

The Society's policy only permits lending to the Bank of England and the UK clearing banks.

The Society's Finance team perform regular reviews of counterparty risk and monitoring of publicly available information to highlight possible indirect exposure.

An analysis of the Society's treasury asset concentration is shown in the table below:

	2021 £'000	2021 %	2020 £'000	2020 %
Industry sector				
Banks	16,075	16.1	22,674	20.7
Central Government	83,708	83.9	86,628	79.3
TOTAL	**99,783**	**100.0**	**109,302**	**100.0**

The Society only lends in the United Kingdom.

(b) Loans and advances to customers

All mortgage applications are assessed with reference to the Society's retail credit risk appetite statement and lending policy, which includes assessing applicants for potential fraud risk, and which is approved by the Board. When deciding on the overall risk appetite that the Society wishes to adopt, both numerical and non- numerical considerations are taken into account, along with data on the current UK economic climate and competitor activity. The statement must comply with all the prevailing regulatory policy and framework.

The lending portfolio is monitored by the ALCO and Risk Committees to ensure that it remains in line with the stated risk appetite of the Society, including adherence to the lending principles, policies and lending limits.

For new customers the first element of the retail credit control framework is achieved via an affordability assessment, which includes an assessment of the credit quality of potential customers prior to making loan offers. A second element is lending policy rules which are applied to new applications to ensure that they meet the risk appetite of the Society. All mortgage applications are overseen by the Lending team who ensure that any additional lending criteria are applied and that all information submitted within the application is validated.

For existing customers who have been added to the lending portfolio, management use behavioural analysis to review the ongoing creditworthiness of customers by determining the likelihood of default over a rolling 12 month period together with the amount of loss anticipated if they do default. The Society has considered the impact of the pandemic as well as the impact of the exit from the European Union. Further information is contained within the Risk Management Report on page 32.

It is the Society's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure.

The Society does not have any exposure to the sub-prime market.

Loans and advances to customers are predominately in Wales and made up of retail loans fully secured against UK residential property £351.9M (2020: £296.3.M), split between residential and buy-to-lets with the remaining £9.1M (2020: £6.6M) being secured on commercial property.

Allowance for impairment

	£'000
Residential	248
Buy-to-Let	2
Commercial	-
TOTAL	**250**

21. Financial Instruments (continued)

Retail loans

Loans fully secured on residential property are split between residential and buy to let. The average loan to value (LTV) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage to the value of collateral held, which is based on original valuation and not indexed linked.

The average LTV of residential mortgages is 47% (2020: 45%)

Further LTV information on the Society's residential mortgage portfolio is shown below:

LTV analysis

	2021	2020
	%	%
Residential		
0% - 30%	10	9
30% - 60%	38	35
60% - 80%	48	50
80% - 90%	4	6
90% - 100%	-	-
>100%	-	-
Average loan to value of residential mortgage loans	**47**	**45**
Average loan to value of new business	**52**	**46**
Buy-to-let		
0% - 30%	6	5
30% - 60%	31	24
60% - 80%	61	68
80% - 90%	1	2
90% - 100%	-	-
>100%	1	1
Average loan to value of buy-to-let mortgage loans	**52**	**54**
Average loan to value of new business	**52**	**55**

The main factor for loans moving into arrears tends to be the general economic environment.

The table below provides information on residential and buy to let mortgage loans by payment due status.

Arrears analysis	2021 £'000	2021 %	2020 £'000	2020 %
Not impaired:				
Neither past due or impaired	350,567	99.63	279,825	94.42
Past due up to 3 months but not impaired	1,665	0.46	1,358	0.46
Past due over 3 months but not impaired	298	0.08	557	0.19
Possessions	-	-	-	-
Impaired:				
Not past due	-	-	14,702	4.96
Past due up to 3 months	-	-	665	0.22
Past due over 3 months	-	-	491	0.17
Possessions	681	0.18	-	-
Other:				
Deferred fees and charges	(1,094)	(0.30)	(833)	(0.28)
Allowance for impairment	(250)	(0.05)	(415)	(0.14)
TOTAL	**351,867**	**100.0**	**296,350**	**100.0**

Value of collateral held	£'000	Average LTV%	£'000	Average LTV%
Neither past due or impaired	732,184	47.9	584,280	47.9
Past due but not impaired	3,652	53.8	3,229	59.3
Impaired	500	136.3	19,714	80.4
TOTAL	**736,336**	**48.0**	**607,223**	**49.0**

The collateral consists of residential property valued at the mortgage date or re-inspection date.

The status 'past due up to three months but not impaired' and 'past due over three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

Possession balances represent those loans where the Society has taken ownership of the underlying security pending its sale. The Society has various forbearance options to support customers who may find themselves in financial difficulty. These include payment plans, capitalisations, term extensions and reduced payment concessions.

21. Financial Instruments (continued)

Forbearance

Temporary interest only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase.

Reduced payment concessions allow a customer to make an agreed underpayment for a specific period of time. The monthly underpaid amount accrues as arrears and agreement is reached at the end of the concession period on how the arrears will be repaid.

Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

Capitalisations occur where arrears are added to the capital balance outstanding for the purposes of re-structuring the loan.

The term of the mortgage is extended in order to reduce payments to a level which is affordable to the customer based on their current financial circumstances.

All forbearance arrangements are formally discussed with the customer and reviewed by management prior to acceptance of the forbearance arrangement. By offering customers in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

Regular monitoring of the level and different types of forbearance activity are reported to Board on a quarterly basis. In addition the Board monitors the level of arrears on a monthly basis. In addition all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the customer.

The table below details the number of forbearance cases at 31 December 2021. Further information can be found in note 10 on pages 63-65.

Type of forbearance	2021 Number	2020 Number
Positive arrears arrangement	-	2 [1]
Payment holiday	-	16 [16]
Temporary interest only	2 [2]	5 [5]
Mortgage term extensions	5	7
Negative Arrears	-	2 [1]
TOTAL	**7**	**32 [23]**

[ ] denotes the number of forbearance cases at 31 December 2020 and 2021 that were impacted by the pandemic.

Secured Business Loans

Secured Business Loans (SBL) are primarily made available to Small and Medium sized enterprises for either owner occupied, investment property or residential development purposes. Loans are also only granted against the 'bricks and mortar' of the property and not against working capital or machinery etc.

The composition of the SBL book at 31 December is as follows:

	2021	2021	2020	2020
	£'000	%	£'000	%
Residential investment	1,539	17	1,456	22
Non residential investment	5,024	56	2,752	42
Residential development	2,490	27	2,397	36
TOTAL	9,053	100	6,605	100

The table below provides information on the original LTV of the Society's SBL mortgage portfolio:

LTV analysis	2021	2020
SBL	%	%
0% - 30%	11	12
30% - 60%	22	40
60% - 80%	65	48
80% - 90%	2	-
Average loan to value of SBL	47	42
Average loan to value of new business	29	55

(B) Liquidity risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. It is the Society's policy that a significant amount of its total assets are carried in the form of cash and other readily realisable assets in order to:

(i) meet day-to-day business needs;
(ii) meet any unexpected cash needs;
(iii) maintain public confidence; and
(iv) ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Society's prudent policy framework, is performed daily. Compliance with these policies is reported to the ALCO monthly and to the Risk Committee.

21. Financial Instruments (continued)

The Society's liquidity policy is designed to ensure the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of the Individual Liquidity Adequacy Assessment (ILAAP) process. They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests) and scenarios identified by the Society which are specific to its business model. The stress tests are performed monthly and reported to ALCO to confirm that liquidity policy remains appropriate.

The Society's liquid resources comprise high quality liquid assets in the form of a Bank of England reserves account. At the end of the year the ratio of liquid assets to shares and deposits was 23.1% compared to 28.3% at the end of 2020.

The Society maintains a contingency liquidity plan to ensure that it has so far as possible, sufficient liquid financial resources to meet liabilities as they fall due under each of the scenarios.

The table below analyses the Society's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the statement of financial position date. This is not representative of the Society's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. The average life of a mortgage at the Society, currently in product, is 6 years. Conversely, retail deposits repayable on demand generally remain on balance sheet much longer.

Residual maturity as at 31 December 2021	On Demand £'000	Not more than 3 months £'000	More than 3 months, but not more than 1 year £'000	More than 1 year, but not more than 5 years £'000	More than 5 years £'000	Total £'000
Financial Assets						
Liquid assets	94,783	5,000	-	-	-	99,783
Loans and advances to customers	1,328	4,635	8,566	62,921	283,470	360,920
Other assets	508	-	-	-	-	508
Total assets	**96,619**	**9,635**	**8,566**	**62,921**	**283,470**	**461,211**
Financial liabilities						
Shares	375,640	33,110	-	-	-	408,750
Amounts owed to other customers	22,345	222	-	-	-	22,567
Other liabilities	1,414	-	-	-	-	1,414
Reserves	-	-	-	-	30,734	30,734
Total liabilities	**399,399**	**33,332**	**-**	**-**	**30,734**	**463,465**
Net liquidity gap	**(302,780)**	**(23,697)**	**8,566**	**62,921**	**252,736**	**(2,254)**

Residual maturity as at 31 December 2020	On Demand £'000	Not more than 3 months £'000	More than 3 months, but not more than 1 year £'000	More than 1 year, but not more than 5 years £'000	More than 5 years £'000	Total £'000
Financial Assets						
Liquid assets	104,302	-	5,000	-	-	109,302
Loans and advances to customers	3,104	1,930	9,544	55,958	232,419	302,955
Other assets	384	-	-	-	-	384
Total assets	**107,790**	**1,930**	**14,544**	**55,958**	**232,419**	**414,411**
Financial liabilities						
Shares	337,277	29,827	-	-	-	367,104
Amounts owed to other customers	19,514	222	-	-	-	19,736
Other liabilities	959	-	-	-	-	959
Reserves	-	-	-	-	26,612	26,612
Total liabilities	**357,750**	**30,049**	**-**	**-**	**26,612**	**414,411**
Net liquidity gap	**(249,960)**	**(28,119)**	**14,544**	**55,958**	**205,807**	**(1,770)**

All liquid assets are unencumbered as at the statement of financial position date.

Analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date. There is no material difference between the gross contractual cash flows and the residual maturity.

(C) Market risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates. The Society is modestly exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different balance sheet elements (basis risk).

The PRA has devised five models for financial risk management and treasury operations, described 'supervisory treasury approaches', of increasing sophistications, to assist societies. The approaches are described as 'Administered', 'Matched', 'Extended' and 'Comprehensive'. The Society has adopted the 'Administered' approach and in accordance with that approach must have at least 90% of its savings and deposits on administered rates, i.e. not fixed. Similarly, it must have at least 90% of its mortgage assets on administered rates. This requirement therefore reduces the Society's Market risk considerably.

The management of interest rate risk is based on a full statement of financial position gap analysis. The statement of financial position is subjected to several interest rate shock stress tests on a monthly basis and the results are reported to the monthly ALCO meeting. These are in turn reviewed monthly by the ALCO and reported to the Risk Committee.

The table overleaf summarises the Society's exposure to interest rate risk.

21. Financial Instruments (continued)

Interest rate risk at 31 December 2021	Not more than 3 months £'000	More than 3 months, but not more than 1 year £'000	More than 1 year, but not more than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Liquid assets	88,708	-	-	-	11,075	99,783
Loans and advances to customers	360,920	-	-	-	-	360,920
Property, plant and equipment	-	-	-	-	1,933	1,933
Intangible assets	-	-	-	-	321	321
Other assets	-	-	-	-	508	508
Total assets	**449,628**	**-**	**-**	**-**	**13,837**	**463,465**
Liabilities						
Shares	408,750	-	-	-	-	408,750
Borrowings	22,567	-	-	-	-	22,567
Other liabilities	-	-	-	-	1,414	1,414
Reserves	-	-	-	-	30,734	30,734
Total liabilities	**431,317**	**-**	**-**	**-**	**32,148**	**463,465**
Interest rate sensitivity gap	**18,311**	**-**	**-**	**-**	**18,311**	**-**

The Society is not exposed to foreign currency risk.

+200bps Parallel Increase	£'000
Sensitivity of reported reserves to interest rate movement (economic value)	
As at 31 December 2021	(49)

Interest rate risk at 31 December 2020	Not more than 3 months £'000	More than 3 months, but not more than 1 year £'000	More than 1 year, but not more than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Liquid assets	86,471	5,000	-	-	17,831	109,302
Loans and advances to customers	302,955	-	-	-	-	302,955
Property, plant and equipment	-	-	-	-	1,488	1,488
Intangible assets	-	-	-	-	279	279
Other assets	-	-	-	-	387	387
Total assets	**389,426**	**5,000**	**-**	**-**	**19,985**	**414,411**
Liabilities						
Shares	367,104	-	-	-	-	367,104
Borrowings	19,736	-	-	-	-	19,736
Other liabilities	-	-	-	-	959	959
Reserves	-	-	-	-	26,612	26,612
Total liabilities	**386,840**	**-**	**-**	**-**	**27,571**	**414,411**
Interest rate sensitivity gap	**2,586**	**5,000**	**-**	**-**	**(7,586)**	**-**

The Society is not exposed to foreign currency risk.

+200bps Parallel Increase	£'000
Sensitivity of reported reserves to interest rate movement (economic value)	
As at 31 December 2020	(59)

Notes to the Accounts

22. Country-by-Country Reporting for the year ending December 2021

Article 89 of the Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the information shown below. At 31 December 2021, Swansea Building Society met the definition of a 'credit institution' and is classified within the retail banking category. It is registered and trades solely in the United Kingdom.

	2021	2020
Number of employees (full time equivalent)	54	53
Turnover £M [1]	10.36	8.29
Pre-tax profit £M	5.18	3.27
Corporation tax paid £M [2]	0.66	0.43
Public subsidies received	Nil	Nil

1) Turnover is defined as total net income (net interest receivable and net fee/commission income) in accordance with guidance from UK Treasury.
2) Corporation tax paid in 2021 is partly in respect of the results for the year ended 31 December 2020 and partly in respect of the results for the year ended 31 December 2021.

Basis of preparation

The Society's Country-By-Country Reporting ("CBCR") has been prepared to comply with the Regulations which came into effect in 1 January 2014. The requirements place certain reporting obligations on financial institutions that are within the scope of CRD IV. CBCR requires annual publication of certain statutory information on a consolidated basis, by country where an institution has a subsidiary or branch. All of the Society's operations are in the United Kingdom.

Other Information

Annual Business Statement for the year ended 31 December 2021

1. Statutory percentages

	At 31 December 2021 %	Statutory Limit %
The Lending limit	2.50	25
The Funding limit	5.23	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Society as shown in the statement of financial position plus loan loss impairment less liquid assets and tangible fixed assets as shown in the Society's statement of financial position.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The Statutory limits are prescribed in building society legislation and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	At 31 December 2021 %	At 31 December 2020 %
Gross capital as a percentage of shares and borrowings	7.13	6.88
Free capital as a percentage of shares and borrowings	6.60	6.42
Liquid assets as a percentage of shares and borrowings	23.13	28.26
Profit after taxation as a percentage of mean total assets	0.94	0.67
Management expenses as a percentage of mean total assets	1.22	1.23

The above percentages have been calculated from the Society's accounts.
'Shares and Borrowings' represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers;

'Gross capital' represents the aggregate of total reserves and subordinated liabilities in the Society statement of financial position;

'Free capital' represents the total reserves and subordinated liabilities plus collective impairment less tangible and intangible fixed assets;

'Liquid assets' represents the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities;

'Mean total assets' are the average of the 2021 and 2020 total assets in the Society statement of financial position at the beginning and end of the financial year;

'Management expenses' are the total of staff costs (which include wages and salaries, social security costs and other pension costs) and other administrative expenses and depreciation and amortisation.

Unaudited

3. Information relating to the Directors

Name	Age	Business occupation	Date first appointed	Other directorships during the year
I.W. Griffiths (Chairman)	67	Chartered Accountant	1.5.2015	IW Griffiths Professional Services Ltd; Surgical Synergy Ltd;
D.S. Maddock (Deputy Chairman)	64	Chartered Accountant	1.5.2016	None
A. Williams (Chief Executive)	57	Building Society Chief Executive	1.5.2001	Coastal Housing Group: Pennant Housing Association
N.P.A. Griffiths (Financial Director)	37	Building Society Finance Director	1.7.2019	None
C.A. Griffiths (Director of Risk & Compliance)	49	Building Society Director of Risk & Compliance	1.6.2021	None
P.M. Kathrens	48	Solicitor	1.7.2013	Blake Morgan Group LLP; Blake Morgan LLP; Morgan Cole LLP; Blake Lapthorn LLP;
J.C.D. Union	66	Banker	1.11.2017	John Union Ltd; Cadwyn Housing Association; Cardiff Business Club Ltd; Igneous Ltd
A.J. Morgan	60	Chartered Surveyor	1.1.2019	Morgan & Davies Ltd; Old Rec Cottages Ltd; Minelen Ltd; GAD Property & Finance Ltd

A.Williams is employed on a service agreement dated 1 April 2011 which takes him to the age of 65 in 2029 unless terminated by either party by not less than 12 months notice.

N.P.A. Griffiths is employed on a service agreement dated 6 March 2019 which takes him to the age of 65 in 2049 unless terminated by either party by not less than 12 months notice.

C.A. Griffiths is employed on a service agreement dated 1 June 2021 which takes her to the age of 65 in 2037 unless terminated by either party by not less than 12 months notice.

Correspondence and other documents may be served on any of the Directors, care of Blake Morgan, One, Central Square, Cardiff.

4. Other officers (as defined by the Building Societies Act 1986)

Name	Business occupation	Other directorships during the year
G.J. Stroud	Financial Controller and Company Secretary	Coleg Llanymddyfri
S.P.P Darshan	Head of Lending	None
R. Miles	Head of Savings & Area Manager (East Wales)	Linc-Cymru Housing Association; Tarbed Ltd
N. Longar	Head of IT	Outsource Wales Ltd
S. Jones	Area Manager (West Wales)	None
J. Parker	Area manager, Swansea, Neath & Port Talbot	None

Swansea Building Society Branches (Unaudited)

Swansea Building Society Management Team
(Unaudited)

Mr G.J. Stroud
Financial Controller & Company Secretary
Age: 48
Appointed: 05/05/98

Mr S.P.P. Darshan
Head of Lending
Age: 54
Appointed: 12/05/14

Mrs S. Jones
Area Manager (West Wales)
Age: 54
Appointed: 06/07/15

Mrs J. Parker
Area Manager
(Swansea, Neath & Port Talbot)
Age: 55
Appointed: 20/01/10

Mr N. Longar
Head of IT
Age: 38
Appointed: 04/02/19

Mrs A. Jones
Mortgage Manager
Age: 58
Appointed: 05/08/13

Mrs P. John
Mortgage Advisor
Age: 52
Appointed: 04/02/19

Mr N. Morris
Mortgage Underwriter
Age: 52
Appointed: 26/02/18

Mr. R Miles
Head of Savings and Marketing and Area Manager (East Wales)
Age: 52
Appointed: 12/06/17

Mr D.A. Ellerton
Manager
Age: 69
Appointed: 11/12/06

Mr T. Rees
Branch Manager (Swansea)
Age: 57
Appointed: 21/08/17

Mr M.D. Lewis
Business Development Manager
(East Wales)
Age: 56
Appointed: 12/11/12

Mr C. Wright
IT Application Delivery Manager
Age: 37
Appointed: 05/09/16

Mr D. Osterland
Branch Manager (Cowbridge)
Age: 32
Appointed: 05/01/15

Mr D. Goulding
Business Development Manager
Age: 49
Appointed: 22/03/21

Mr M. Hughes
Mortgage Manager
Age: 54
Appointed: 01/07/19

Swansea Building Society

External Auditors

Mazars LLP
Tower Bridge House, St Katharine's Way, London, E1W 1DD

Internal Auditors

Deloitte LLP
4 Brindley Place, Birmingham B1 2HZ

Bankers

Bank of England
Threadneedle Street, London

Barclays Corporate Bank
Barclays Octagon House,
Gadbrook Park, Northwich,
Cheshire CW9 7RB

Tax Advisors

BDO
Bridgwater House, Finzels Reach, Counterslip, Bristol

Solicitors

Blake Morgan
One Central Square, Cardiff

JCP
Venture Court, Valley Way, Enterprise Park, Swansea

Morgan La Roche
PO Box 176, Bay House, Tawe Business Village, Phoenix Way Enterprise Park, SA7 9YT

Visit us at www.swansea-bs.co.uk

Follow us :

@SwanseaBS
@swansea-building-society
@SwanseaBS
@swansea_building_society_

SWANSEA
BUILDING SOCIETY
Established 1923

www.swansea-bs.co.uk

Swansea Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register Number: 206066

Head Office
11-12 Cradock Street, Swansea SA1 3EW
01792 739100 | swansea@swansea-bs.co.uk

Carmarthen
13-14 Lammas Street, Carmarthen SA31 3AQ
01267 611950 | carmarthen@swansea-bs.co.uk

Cowbridge
75 High Street, Cowbridge CF71 7AF
01446 506000 | cowbridge@swansea-bs.co.uk

Mumbles
496 Mumbles Road, Swansea SA3 4BX
01792 739200 | mumbles@swansea-bs.co.uk

Swansea
1-4 Portland Street, Swansea SA1 3DH
01792 739100 | swansea@swansea-bs.co.uk