SWANSEA
BUILDING SOCIETY
Established 1923

Pillar 3 Disclosures 2022

Contents

1. Overview

The Pillar 3 disclosure is designed to provide members and other stakeholders with information on:

- the Society's approach to risk management, policies and objectives;
- the governance structure of the Board and Board committees;
- capital resources; and
- regulatory capital requirements.

UK standards for capital and liquidity requirements for building societies and related institutions are set out in the Capital Requirements Directive V (CRD V) and the Capital Requirements Regulation (CRR). The UK implementation of Basel III, which sets out global standards for capital and liquidity adequacy, is set out in PRA Policy Statement PS22/21.

Prudential supervision with regards to capital and liquidity adequacy is overseen by the Prudential Regulatory Authority (PRA), and is implemented in the PRA Rulebook.

CRR comprises 3 main elements known within the regulation as 'pillars', they are:

- Pillar 1: Minimum capital requirements, using a risk-based capital calculation focussing particularly on credit and operational risk, to determine the capital resources requirement;
- Pillar 2: Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review and Evaluation Process (SREP). The Board has undertaken an assessment of all the key risks facing the Society and additionally has stress tested those risks to establish a level of additional capital to be held under pillar 2; and
- Pillar 3: Disclosures of any key information on risk exposures and risk management processes by the Society, designed to promote market discipline.

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

The Society satisfies the criteria for being a 'small and non-complex' institution under Article 433b of the CRR as contained in the PRA Rulebook. As such, these disclosures comply with the requirements of the derogation for small and non-complex institutions as set out in Article 433b.

Row numbers in the standardised templates and tables within the document relate to PRA prescribed references. Rows not relevant to the Society have in some circumstances been excluded for the purposes of enhancing the readability of these disclosures in line with Article 432.

2. Basis, Frequency and Scope of disclosure

The disclosures have been prepared for Swansea Building Society (The Society) and cover the Pillar 3 qualitative and quantitative disclosure requirements. The Society has no subsidiaries.

The sole purpose of these disclosures is to give information on the calculation of capital requirements and on the management of risks faced by the Society. This is in accordance with the rules laid out in the Prudential Regulation Authority (PRA) Sourcebook. All calculations that include elements of own funds are prepared in line with Basel III regulation unless explicitly stated.

This report is made on an annual basis and the disclosures are as at the Accounting Reference Date (ARD) i.e., as at 31 December and will be published within five months of the ARD. The Society will aim however, to make the disclosure shortly after the publication of the Annual Report and Accounts.

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

This document will be reviewed annually by the Assets and Liabilities Committee (ALCO), Audit Committee and be approved by the Board. The document will be published on the Society's website (www.swansea-bs.co.uk). The disclosures presented within this document are subject to the same level of internal review as that applicable to the management report included in the Society's financial statement disclosures. Where appropriate the Pillar 3 disclosures are reconciled to and conform with the externally audited information in the Annual Financial Statements.

3. Attestation

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

Approved by the Board and signed on their behalf by:

Nathan Griffiths
Finance Director
25 April 2023

4. Key Metrics

The key metrics for the Society as at 31 December 2022 are outlined below:

Template UK KM1 - Key metrics template

	2022	2021
Available own funds (amounts)	**£'000**	**£'000**
Common Equity Tier 1 (CET1) capital	34,648	30,658
Tier 1 capital (£000)	34,648	30,658
Total capital (£000)	34,904	30,690
Risk-weighted exposure amounts		
Total risk-weighted exposure amount (£000)	180,869	161,751
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	19.16	18.95
Tier 1 ratio (%)	19.16	18.95
Total capital ratio (%)	19.30	18.97
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
Additional CET1 SREP requirements (%)	0.00	0.00
Total SREP own funds requirements (%)	8.00	8.00
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	2.50	2.50
Institution specific countercyclical capital buffer (%)	1.00	-
Combined buffer requirement (%)	3.50	2.50
Overall capital requirements (%)	11.50	10.50
CET1 available after meeting the total SREP own funds requirements (%)	7.66	8.45
Leverage ratio*		
Leverage ratio total exposure measure (£000)	438,310	474,837
Leverage ratio excluding claims on central banks (%)	6.91	6.46
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA)(Weighted value -average) (£000)	97,037	83,708
Cash outflows - Total weighted value (£000)	43,711	37,474
Cash inflows - Total weighted value (£000)	16,132	10,083
Total net cash outflows (adjusted value) (£000)	27,579	27,391
Liquidity coverage ratio (%)	381	306
Net Stable Funding Ratio		
Total available stable funding (£000)	468,161	427,303
Total required stable funding (£000)	257,176	241,094
NSFR ratio (%)	182	177

* Leverage ratio stated after exclusion of qualifying central bank exposure. Comparatives for 2021 are reported based on the disclosure rules in force at that time and include claims on central banks.

5. Capital Adequacy and Capital Requirements

5.1 Internal Capital Adequacy Assessment Process

The Society maintains a three-year Corporate Plan that is approved by the Society's Board and updated on an annual basis and supported by monthly forecasted positions. The Corporate Plan details the projections for capital resources over the next three years. In addition, the Society produces an ICAAP document which demonstrates that the Society has undertaken a detailed risk-based assessment of its current and future assets based on the Corporate Plan projections given the nature and scale of its business.

The ICAAP assesses the Society's capital adequacy and determines the levels of capital required to support the current and future risks faced by the Society. The ICAAP covers all material solvency risks determining the impact of stress scenarios which are intended to meet internal and regulatory requirements.

The ICAAP is used by the PRA to determine and set the Society's TCR and PRA buffer, if required. The TCR is the total amount of capital an institution needs to hold to meet Pillar 1 and Pillar 2A capital requirements. The TCR at 31st December 2022 was calibrated by the PRA after the Society's Supervisory Review and Evaluation Process (SREP) visit in December 2019. This set the TCR at 8%, which is the minimum amount of capital to be held for Pillar 1 under the standardised approach. As at 31 December 2022, the Society's TCR set by the PRA did not include an add-on for Pillar 2A capital.

At 31 December 2022 the Society has total capital resources of £34,904k, predominantly (99.9%) made up of Tier 1 Capital which consists of the Society's general reserves. Tier 2 amounts to £257k in the form of a collective provision and accounts for 0.1% of the Society's total capital resources.

Reconciliation of Accounting and Regulatory Capital Resources

	£'000
General Reserves	35,098
Total Accounting capital resources	**35,098**
Less Intangible asset	(451)
Collective Provision	257
Regulatory Capital Resources	**34,904**

The ICAAP is reviewed by the Risk Committee and recommended for approval to the Board at least annually. In addition, on-going assessments of current and future capital requirements are undertaken monthly and reported to the Board. The combination of the Corporate Plan and the ICAAP ensures that the Society's capital resources can be expected to be sufficient to support its corporate objectives. The Board of Directors can confirm that the Society's current capital position, in its opinion, is sufficient to meet the minimum capital resources requirement and that sufficient capital will continue to meet minimum requirements for its planned future strategy. The adequacy of the Society's capital position is evidenced by its key metrics, which are listed in section 4.

5.2 Capital requirements as at 31st December 2022

Template UK OV1 – Overview of risk weighted exposure amounts

	2022 Risk Weighted Assets £'000	2021 Risk Weighted Assets £'000	2022 Total Own Funds Requirement £'000
Credit risk (excluding CCR)	**161,695**	**145,420**	**18,595**
Of which the standardised approach	161,695	145,420	18,595
Operational risk	**19,174**	**16,331**	**2,205**
Of which basic indicator approach	19,174	16,331	2,205
Total	**180,869**	**161,751**	**20,800**

Pillar 1 capital is the minimum capital that the Society is required to hold in relation to Credit Risk, Operational Risk and Market Risk, as defined below:

- Credit Risk - the risk that unexpected losses arise as a result of the Society's borrowers or market counterparties failing to meet their financial obligations to repay.
- Operational Risk - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Market Risk - the risk of any impact on the Society's financial condition due to adverse market movements caused by market variables such as interest rates, prices etc.

Pillar 1 is a formulaic, risk-based calculation that follows rules set out in the Basel III framework. Pillar 1 capital requirement is based on a risk assessment for each type of asset, with the amount held varying depending on the approach adopted. Risk weighted assets are calculated by multiplying the exposure value of the asset by its relevant risk weighting.

The Society uses the standardised approach to calculate the Pillar 1 minimum capital requirement. Pillar 1 capital adequacy is monitored through the ALCO, Risk Committee and Board. Capital forecasts are formally reviewed and approved at least annually with Pillar 2 risks considered annually as part of the ICAAP.

6. Risk Management

6.1 Risk Management Approach

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 significant risks. To mitigate these risks, the Board has implemented a clearly defined Risk Management Framework (RMF) that contains the following features:

- Risk focussed governance structure;
- Risk policy statements and risk limits;
- Risk identification, monitoring and reporting processes; and
- Effective internal control framework.

In addition, the RMF incorporates the requirements of the PRA's Supervisory Statement 20/15 'Supervising building societies' treasury and lending activities. In particular, the Society has adopted the 'Limited' lending approach and the 'Matched' treasury approach to risk management, as defined in this statement.

6.2 Board Risk Appetite

All Society risks are categorised into several primary and secondary risk types with defined risk owners. The Society's risk appetite for each primary risk and for the Society as a whole are defined. The Society has elected to omit disclosing key ratios and figures relating to its risk appetite as it considers these to be proprietary information as per CRR Article 432.

Society Level Risk Appetite Statement

As a Mutual, Swansea Building Society operates so that the Board and Management are custodians of the interests of our Members.

We seek a prudent position in aggregate for our risk appetite, whilst acknowledging that the lower levels of risk may potentially lead to lower levels of return.

The suite of risk appetite metrics quantifies this prudent approach across all primary risk categories with the aim to deliver sustainable member value for the Society.

6.3 Risk Governance

The Society's Board comprises three executive directors and six non-Executive directors. The Board is responsible for setting the Society's strategy including its approach to risk. The Board is also responsible for ensuring risk management is appropriate and that effective systems and controls are in place. This includes ensuring that risk is monitored and controlled effectively. It also has responsibility for establishing clearly defined roles and duties.

The Society performs robust stress testing, scenario analysis and contingency planning, ensuring it understands the impact of remote but potentially severe risks and to ensure that it maintains financial and operational resilience. This includes a range of multi-risk category stress tests, reverse stress tests and operational risk scenario analyses. Stress testing is an integral part of the annual planning process, the adequacy assessment processes for liquidity and capital, and the annual review of the Society's risk appetite. Outputs from stress testing are used to inform capital and liquidity appetite and planning, articulate potential management actions within contingency plans, and further improve the management of the Society's risk profile.

Reverse stress testing is a key component of the Society's stress testing framework and considers extreme events that could impact the Society. A qualitative approach is used to explore potential scenarios which, if crystallised, could result in failure of the Society. This is supplemented with a quantitative assessment of the risks that explores the level of capital or liquidity utilised in these scenarios. A key outcome from the process is to consider whether any of the scenarios considered are sufficiently plausible to necessitate a change to the Society's strategy, require mitigating actions to be taken, or require supplementary management information to monitor the likelihood of crystallisation.

The UK regulatory authorities require all banks and building societies to formulate Recovery Plans and Resolution Packs to minimise both the risk of failure and the impact of failure on the wider economy. The Society's Recovery Plan outlines the steps it can take to prevent failure whilst the Resolution Pack includes the data required by the Bank of England to ensure an orderly resolution of the Society's affairs if recovery cannot be achieved. The process of preparation for such extreme events enables the Board to plan actions it would take to recover from adverse conditions which would otherwise lead to failure. The Recovery Plan represents a 'menu of options' for the Society to deal with firm-specific or market-wide stresses and which can be incorporated into a credible and executable plan.

6.4 Risk Governance Structure

To achieve effective risk management, the Board has established the following committees:

Risk Committee

The Committee is responsible for identifying, monitoring, and managing the key risks of the Society. The Society's risk categorisation model breaks risk down into different classes, risk categories and risk components. These include risks relating to:

- Strategy;
- Business environment;
- Credit;
- Liquidity;
- Capital;
- Market/Interest
- Operational;
- Conduct;
- Legal and Regulatory and
- Climate Change.

Assets and Liabilities Committee

The Committee is responsible for financial management, including the establishing and monitoring of procedures for treasury operations, reviewing the Society's policy for managing balance sheet interest rate risk, reviewing and approving mortgage and savings rates for products and reviewing and monitoring the investment of surplus funds.

Audit Committee

The 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.

6. Risk Management (continued)

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

Remuneration/Nominations Committee

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 directors' fees and salaries. The Committee is also responsible for succession planning and making recommendations for appointments to the Board. The Society's 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 to the Board.

6.5 Three lines of Defence

The Society operates an internal governance framework that includes a three lines of defence model to ensure a clear delineation of responsibilities between control over day to-day operations, risk oversight and independent assurance of the Society's activities.

First Line of Defence

Business

- Overall accountability and ownership of risks within their area;
- Implementation of the RMF, including identification, analysis, reporting & review of their risks;
- Establish & promote strong risk management culture and set the tone from the top; and
- Board sets Risk Appetite with business input.

Second Line of Defence

Risk & Compliance Functions

- Design RMF and develop processes for its implementation;
- Promote strong risk management culture;
- Provide support, oversight & challenge, and report directly through to the Risk Committee; and
- Support the business in delivering strategy in line with risk appetite.

Third Line of Defence

Internal Audit

- Independent review of the design and operation of the RMF; and
- Provide assurance that the controls and processes of the first two lines of defence are operating effectively.

6.6 Risk Management Declaration

The risk management arrangements adequately assess, control and monitor principal risks facing the Society and are proportionate considering the characteristics, size, scale and complexity of the Society.

The Board declares that the risk governance structure and three lines of defence approach in combination are adequate in providing assurance given the Society's profile and strategy..

7. Principal Risks

Primary Risk	Risk Appetite Statement
Strategic / Business Risk: The risks that affect or are created by the Society's business strategy & strategic objectives. Risks arising from any changes to the Society's business model and the risk of the Strategic Plan proving inappropriate due to economic, geopolitical, regulatory or other factors.	Maintain earnings stability over the 3-5 year business plan to maintain sustainable asset growth and capital reserves. The Society has an appetite for top quartile peer group profit performance. The Society also has no appetite for complex or unusual tax dealings.
Credit & Concentration Risk: The risks of losses arising from a borrower or treasury counterparty failing to make timely repayment of a loan or other credit commitment. The risk of loss due to large exposure to an individual or group of connected individuals that are affected by a common issue (e.g. property price falls in a specific area).	A prudent lending approach to mortgage customers and treasury counterparties to avoid losses, by targeting a balanced portfolio of assets that match expertise and expertise of underwriters, whilst generating an appropriate level of return to reflect the risk. The mortgage book should also be appropriately diverse to deliver a variety of income streams.
Financial Soundness Risk: The risk that insufficient funds are available to meet financial obligations as they fall due and/or, insufficient capital resources, resulting in the inability to support business activities, as well as an inability to meet liquidity and capital regulatory requirements.	**Liquidity:** Maintain sufficient liquid resources to meet the regulatory requirement and to meet our severe stress test minimum survival days, to enable management to put in place contingency measures as set out in the Society's Recovery Plan. **Capital:** Maintain sufficient capital to support current and future business initiatives, including stressed losses that arise as a result of plausible but extreme scenarios and to meet regulatory requirements. Capital surplus may be utilised by the Board during 'normal' times to implement the Corporate Plan, although in uncertain times the preference is to maintain the surplus.
Market Risk / Interest Rate Risk: The risk of losses or reduced profitability arising from fluctuations in values of or income from assets or in interest or exchange rates.	Minimise potential losses on interest rate and basis risk positions from adverse movement in market rates to ensure they remain within forecast market expectations.
Operational Risk: The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Develop robust processes and controls to optimise resources, increase resilience and reduce the impact of operational risks on the Society's performance. **Financial Crime:** We do not tolerate operating without the proportionate systems and controls in place designed to detect and prevent Financial Crime and will not knowingly conduct business with individuals or organisations that we either suspect or believe to be engaged in behaviour which supports financial crime. Whilst we recognise we cannot eliminate fraud, we have a zero appetite for any such failures.
Conduct Risk: The risk of financial or reputational loss as a result of treating customers unfairly, and delivering inappropriate outcomes that lead to customer detriment.	Aim to deliver positive outcomes for customers, maintaining a high degree of customer and public confidence by focusing on the Society's aims and values.
Legal & Regulatory Risk: The risk of fines, penalties, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK or EU legal and regulatory requirements.	Maintain robust controls to ensure compliance with relevant laws and regulations.

The Society has a risk averse culture and maintains a relatively 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 is practicable.

7. Principal Risks (continued)

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.

8. Strategy for the management of risks

8.1 Loans and Advances

This relates to the risk that mortgage customers, to whom the Society has lent money, may fail to meet their obligations to the Society as they become due. The Society maintains a conservative approach to credit risk, and this is demonstrated by the quality of the balance sheet. All mortgage loans are manually underwritten amongst a team of experienced underwriters in accordance with a Board approved lending policy. The performance of the loan portfolio is monitored closely by executive management. Finally, all mortgages are subject to stress testing to ensure they remain within the quantified risk appetite of the Board. The Society's credit risk is also subject to review by its Risk and Compliance and Internal audit functions.

The Society uses a wide range of techniques to reduce credit risk associated with its lending. The most basic of these is performing an assessment of the ability of the borrower to service the proposed level of borrowing without distress. However, the risk is further mitigated by obtaining security for the funds advanced.

Residential property is the Society's main source of collateral and means of mitigating credit risk inherent in its residential mortgage portfolio. All mortgage lending activities are supported by an appropriate form of valuation using an independent firm of valuers.

The Society does not use Mortgage indemnity insurance or credit derivatives as mitigation for credit risk.

8.2 Treasury Credit Risk

The Society has exposures to banks and sovereign debt in its non-trading treasury portfolio. The Society does not operate a trading book. Exposures in the treasury portfolio are held for liquidity purposes. The Society's policy is to carry sufficient liquid assets to meet both PRA requirements in terms of liquidity buffer-eligibility, and internal requirements calculated using stress testing and having regard to seasonality within the risk exposure caused by savings maturities and other planned business events. Treasury credit risk relates to the risk that treasury counterparties, to whom the Society has lent money in the form of liquid assets, may fail to meet their obligations to the Society as they become due. Treasury counterparty lines of credit are reviewed on a regular basis by ALCO and approved by the Board. This can entail a review of the counterparties' financial performance, their ratings status and market intelligence to ensure that the limits align to the Society's risk appetite.

All of the Society's treasury assets are geographically held in the United Kingdom.

A breakdown of the Society's exposure to credit risk is included right:

Statement of Financial Position as at 31st December 2022

Exposure Class

	Risk Weighing %	Assets £'000	Risk Weighted Assets Density £'000	Total Own Funds Requirement £'000
Liquid assets				
Central Government/Central Banks	0	103,004	-	-
Institutions (credit step 1-2)	20	12,605	2,521	202
Institutions >3mth maturity (credit step 2)	50	-	-	-
Total liquid assets		**115,609**	**2,521**	**202**
Residential, Commercial and past due assets				
Secured on Residential property (LTV<80%)	35	401,379	140,483	11,239
Secured on Residential property (excess LTV>80%)	75	428	321	26
Secured on commercial real estate	100	6,678	6,678	534
Speculative immovable property financing - Items associated with particular high risk	150	1,935	2,902	232
Past due	100	710	710	57
Total mortgage assets		**411,130**	**151,094**	**12,088**
Fixed and other assets	100	**2,866**	**2,866**	**229**
Total statement of financial position		**529,605**	**156,481**	**12,519**
Off balance sheet:				
Committed loan facilities – residential security (50%)	35	9,993	3,498	280
Committed loan facilities – commercial security (50%)	100	1,716	1,716	137
Operational risk		**541,314**	**161,695**	**12,936**

8.3. Liquidity

This relates to the Society's ability to meet its financial obligations as they fall due. The Society's liquidity policies are regularly reviewed and approved by the Board. In addition, the Society conducts an ILAAP annually to assess the Society's liquidity adequacy and determine the levels of liquid assets required to support the current and future liquidity risks. These policies ensure that the Society has sufficient realisable liquid resources to meet its liabilities as they fall due under normal business conditions.

The Society's treasury policy is regularly reviewed and approved by the Board.

The Society's business model is based on long-term mortgage lending which is financed by retail funding that is contractually short term. This therefore requires the Society to maintain sufficient quantity and quality of liquid assets with appropriate access characteristics.

The day-to-day management of liquidity is the responsibility of the Society's Finance department, which oversees the Society's portfolio of liquid assets. The Society prepares forecasted cash flow statements at the end of each month which cover the next 12 months. This is done using likely, original budget, revised budget and stressed assumptions. This ensures that the required amount is readily available to ensure that the Society's obligations can be met at all times in accordance with the Treasury Policy and the Board Risk Appetite. A variety of stress tests are carried out on a monthly basis to ensure that the Society can remain liquid in the event of a number of institution specific, market wide or a combination of these events, both in the short and protracted period.

As well as holding relatively high levels of liquid assets, the Society also has liquidity plans in place to cope with any sudden or extreme outflows and carries out regular stress tests to ensure the robustness of these plans. The assessment of the appropriate balance of liquid assets, which is documented in the ILAAP, is informed by both the Liquidity Coverage Ratio, considered as the Pillar 1 requirement, and an internal analysis considered as the Pillar 2 requirement. The ILAAP concludes that the Society's liquidity reserves are adequate. The Society's liquidity gap is included below:

Residual maturity as at 31 December 2022	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	11,810	5,000	-	-	-	115,810
Loans and advances to customers	-	4,244	10,545	58,640	337,444	410,873
Other assets	593	-	-	-	-	593
Total assets	**111,403**	**9,244**	**10,545**	**58,640**	**337,444**	**527,276**
Financial liabilities						
Shares	423,807	34,369	-	-	-	458,176
Amounts owed to other customers	34,230	523	-	-	-	34,753
Other liabilities	1,773	-	-	-	-	1,773
Reserves	-	-	-	-	35,098	35,098
Total liabilities	**459,810**	**34,892**	**-**	**-**	**35,098**	**529,800**
Net liquidity gap	**(348,407)**	**(25,648)**	**10,545**	**58,640**	**302,346**	**(2,524)**

Reconciliation of Total Assets Exposure to Statement of Financial Position	£'000
Exposure amount as per Basel III	541,314
Less Off-balance sheet pipeline	(11,709)
Statement of Financial Position exposure as per Basel III	**529,605**
Less Collective provision	(257)
Plus Intangible asset difference	452
Total Society Assets as at 31 December 2021	**529,800**

8.4 Market / Interest Rate Risk

IRRBB is the risk to capital or earnings arising from movement of interest rates and commonly derives from the following:
IRRBB is the adverse impact on the Society's future cashflows arising from changes in interest rates including:

- Economic Value (NPV) – The risk to the capital value of Society as a result of changes in interest rates.
- Earnings Risk (NII) – The risk to profitability of the Society as a result of changes in interest rates.
- Basis Risk – The risk to profitability arising from non-parallel movement in net exposures to different interest rate bases.

The Society is exposed to this risk as a retailer of financial instruments, mainly in the form of mortgage and savings products and the investment of liquid assets. Risk control and mitigation is exercised by being managed in line with a Board Approved Treasury Policy.

The Board has set out clear quantified statements of risk appetite for Interest Rate Risk. Interest rate risk is monitored by the Society's finance department.

The Society ensures compliance with risk appetite through monitoring interest rate risk exposure by the Board Assets and Liabilities Committee with the following metrics on a monthly basis:

- Economic Value +/-250bps and 4 nonparallel shifts in the yield curve
- Earnings +/-200bps static earnings at risk over a 12m period

Balance sheet composition is also monitored to determine the extent to which the Society maintains control over the level of interest rates across the balance sheet through administered rate mortgages and savings balances. 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's liquidity policy only permits it to enter into fixed rate term deposits with treasury counterparties up to a maximum of six months, and a maximum of £10m in total. The Society's negligible fixed interest commitments ensures that interest rate risk is minimised, and that behavioural repayment has a minimal risk on interest rate risk.

8.5 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.

8.6 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.

8. Strategy for the management of risks (continued)

8.7 Climate Change

The Society 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 2022, the Society commissioned a report to assess the risks to the mortgage portfolio from climate change. Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of mortgaged properties. The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Finance Director has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Board.

8.8. 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.

Operational risk is calculated under the Basic Indicator Approach as 15% of the sum of the average net operating income over the previous three years. A breakdown of the calculation of capital requirements for operational risk is provided below:

Basic Indicator Approach to Operational Risk	2020 £'000	2021 £'000	2022 £'000	Average £'000
Net interest income	8,216	10,217	11,841	10,091
Other income/(charges)	93	145	168	136
Total	**8,309**	**10,362**	**12,009**	**10,227**
Basic indicator (3-year average)				
Own funds requirement of 15%			**1,534**	

9. Remuneration

The Society's objective in setting remuneration policies is to ensure that they are in line with its business strategy, risk appetite and long-term objectives, and that remuneration is set at a level that retains and attracts staff of the appropriate calibre.

Remuneration of executive directors is determined by the Remuneration and Nominations Committee, which consists of three Non-Executive directors chaired by Paula Kathrens. In setting remuneration, the committee takes account of fees, salaries and other benefits provided to directors and to other senior management of comparable institutions. 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. Non-Executive directors are paid fees only.

The annual bonus 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 as a cash bonus for achievement of these targets. The Remuneration and Nomination Committee sets targets and assesses 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.

No external consultancy advice has been sought in relation to the remuneration process.

Remuneration Code Staff

The following table displays the 2022 remuneration for the Society's managers and members of staff deemed as Material Risk Takers, as defined by the Remuneration Code. Code staff are defined by the FCA as "staff that have a material impact on the firms risk profile; this includes staff that perform significant influence functions, senior managers and risk takers". This includes Executive and Non-Executive directors.

During the year, no severance payments were made (2021: £0k). No sign on payments were made in the current or previous year.

Aggregate information on the remuneration of the six Non-Executive directors and three Executive directors, and three other Senior Management Regime members of staff for the year ending 31 December 2022 is given overleaf:

9. Remuneration (continued)

Template UK REM1 - Remuneration awarded for the financial year		MB Supervisory function	MB Management function
Fixed remuneration	Number of identified staff	9	3
	Total fixed remuneration	628	210
	Of which: cash-based		
	(Not applicable in the UK)		
	Of which: shares or equivalent ownership interests		
	Of which: share-linked instruments or equivalent non-cash instruments		
	Of which: other instruments		
	(Not applicable in the UK)		
	Of which: other forms		
	(Not applicable in the UK)		
Variable remuneration	Number of identified staff	3	3
	Total variable remuneration	55	18
	Of which: cash-based		
	Of which: deferred		
	Of which: shares or equivalent ownership interests		
	Of which: deferred		
	Of which: share-linked instruments or equivalent non-cash instruments		
	Of which: deferred		
	Of which: other instruments		
	Of which: deferred		
	Of which: other forms		
	Of which: deferred		
Total Remuneration		**683**	**228**

Template UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)	MB Supervisory function	MB Management function	Total MB	Total
Total number of identified staff				12
Of which: members of the MB	9	3	12	
Of which: other senior management				
Of which: other identified staff				
Total remuneration of identified staff	683	228	911	
Of which: variable remuneration	55	18	73	
Of which: fixed remuneration	628	210	838	

10. Contact

If a user of this document has comments or requires further information then they are requested to contact: Nathan Griffiths, Finance Director at **Nathan.Griffiths@swansea-bs.co.uk**

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