Pillar 3 disclosures

31st December 2020

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1. Key Regulatory capital metrics

	31st December 2020	31st December 2019
Available own funds	**£000**	**£000**
Common Equity Tier 1 (CET1) capital	26,495	23,595
Tier 1 capital	26,495	23,595
Total capital	26,875	23,616
Risk-weighted exposure	**£000**	**£000**
Total risk-weighted exposure amount	139,492	139,288
Capital ratios as a % of Risk weighted assets (RWAs)	**%**	**%**
Common Equity Tier 1 as a percentage of total risk exposure amount	19.00	18.55
Tier 1 as a percentage of total risk exposure amount	19.00	18.55
Total capital as a percentage of total risk exposure amount	19.27	18.56
Additional own funds requirements based on SREP as a % of RWAs	**%**	**%**
Total SREP own funds requirements	8	8
Combined buffer requirement as a % of RWAs	**%**	**%**
Capital conservation buffer	2.50	2.50
Conservation buffer identified at the level of a Member State	0	1
Overall capital requirements	10.50	11.5
CET1 available after meeting the total SREP own funds requirements	8.50	7.05
Capital available after meeting the SREP own funds requirements	8.77	7.06
Leverage ratio	**£000**	**£000**
Leverage ratio total exposure measure	427,142	381,027
	%	**%**
Leverage ratio	6.2	6.19
Overall leverage ratio requirements	3	3
Liquidity Coverage Ratio	**£000**	**£000**
Total high-quality liquid assets (HQLA)	86,627	76,513
Cash outflows - Total weighted value	34,448	31,230
Cash inflows - Total weighted value (	17,821	14,400
Total net cash outflows (adjusted value)	16,627	16,830
	(%)	**(%)**
Liquidity coverage ratio	521	455
Net Stable Funding Ratio	**£000**	**£000**
Total available stable funding	383,201	343,543
Total required stable funding	200,694	181,344
	%	**%**
Net Stable Funding Ratio	191	189

2. 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.

The legislative framework, the Capital Requirements Directive (CRD) governed how much capital banks and building societies must hold to protect their members was introduced by the European Union on 1 January 2007. This was replaced by Capital Requirements Regulation (CRR) and CRD, together referred to as CRD IV on 1 January 2014.

The CRD IV commonly known as Basel III, 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.

Basel III requires more detailed Pillar 3 disclosures and includes generic templates to be adopted by larger financial institutions over the course of the transition to allow improved comparability and transparency between institutions covered by the Basel Accords. The generic templates are not applicable for the Society due to size; however, the Society has strengthened its disclosures in recent years and continues to review disclosure requirements.

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 and CRD IV. All calculations that include elements of own funds are prepared in line with Basel III regulation unless explicitly stated.

The disclosures have been prepared for Swansea Building Society and cover the Pillar 3 qualitative and quantitative disclosure requirements. This report will be made on an annual basis and the disclosures will be as at the Accounting Reference Date (ARD) i.e., as at 31 December and will be published within four 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. Unless otherwise stated, the figures are as at 31 December 2020.

The Report will be published on the Society's corporate website (www.swansea-bs.co.uk).

3. Risk Management Policies and Objectives

Risk Management Structure

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.

This framework is based upon the best practice three lines of defence model as follows:

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.

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.

Internal audit provides independent assurance regarding the activities of the Society and reports on the effectiveness of the control environment to the Audit Committee on a quarterly basis. The Risk Committee monitors the arrangements for assessing risk inherent in the Society's business activities on behalf of the Board on a quarterly basis.

Specific risks to the Society are reviewed as part of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Adequacy Process (ILAAP).

Risk Governance

The Society's Board comprises two 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.

Stress Testing

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 and European 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.

4. Board Committees

To achieve effective risk management, the Board has established the following committees. The Board and Committee structure is set out below along with the names of the members of each Committee.

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;
- Legal and Regulatory
- Climate Change

The Committee met four times during the year.

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.

The Committee met eleven times during the year.

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; and establishing effective whistle-blowing controls.

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.

The Committee met five times in the year.

Remuneration/Nominations Committee

The Committee is charged with the responsibility of reviewing the remuneration of the Chief Executive and Finance Director 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. Non-executive candidates are sought in various ways, including through press articles.

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.

The committee met ten times during the year.

Committee Chart

Risk Committee (meets quarterly)	Assets & Liabilities Committee (meets monthly)	Audit Committee (meets quarterly)	Remuneration & Nominations Committee (meets monthly)	I.T. Committee (meets monthly)
J.N. Herdman (Chairman) Non Executive Director	D. S. Maddock (Chairman) Non Executive Director	J.C.D. Union (Chairman) Non Executive Director	Mrs P. M. Kathrens (Chairman) Non Executive Director	Andrew Morgan (Chairman) Non Executive Director
D. S. Maddock Non Executive Director	J.C.D. Union Non Executive Director	D. S. Maddock Non Executive Director	J.N. Herdman Non Executive Director	I.W. Griffiths Non Executive Director
Mrs P. M. Kathrens Non Executive Director	J.N. Herdman Non Executive Director	A. Morgan Non Executive Director	A. Morgan Non Executive Director	
Membership: Any two further Non Executive Directors in addition to the Chairman	Membership: Any two further Non Executive Directors in addition to the Chairman	Membership: Any two further Non Executive Directors (of which at least one must be a financial expert)	Membership: Any two Non Executive Directors	Membership: At least 4 members
A. Williams Chief Executive	A. Williams Chief Executive	External Auditors (PwC) (to attend Feb meeting)		A. Williams Chief Executive
N. Griffiths Finance Director G. J Stroud Financial Controller & Company Secretary	N. Griffiths Finance Director	Internal Auditor (Deloitte)		N. Griffiths Finance Director C. Wright IT Application Delivery Manager
N. Longar IT Service Operations Manager	G.J Stroud Financial Controller & Company Secretary			N. Longar IT Service Operations Manager
Quorum: 4 members, of which 2 must be NED’s and 1 Executive	Quorum: 4 members, of which 2 must be NED’s and 1 Executive	Quorum: 4 members, of which 2 must be NED’s and 1 Executive	Quorum: 2 members, of which 2 must be NED’s (of which one must be a financial expert)	Quorum: 4 members, of which 1 must be NED and 2 Executive

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5. Capital Resources (at 31st December 2020)

At 31 December 2020 the Society has total capital resources of £26,874k, predominantly (98.6%) made up of Tier 1 Capital which consists of the Society's general reserves.

Tier 2 amounts to £379k in the form of a collective provision and revaluation reserve and accounts for 1.4% of the Society's total capital resources.

	31st December 2020
Common Equity Tier 1 Capital	**£000**
Gross: General Reserves (accumulated profit)	26,592
Less Intangible asset	(97)
Net Tier 1 Capital Resources	**26,495**

Tier 2 Capital	**£000**
Gross: Revaluation Reserve	20
Collective Provision	359
Deductions	-
Net Tier 2 Capital Resources	**379**

Total Capital	**(£000)**
Gross	26,874
Net Total Regulatory Capital Resources	**26,874**
Total Capital	**%**
Total Regulatory Capital as a percentage of risk weighted assets	**19.27**

Capital Ratios and Buffers	**%**
Common Equity Tier 1 Ratio	**19.00**
Total Capital Ratio	**19.27**
Institution CET1 overall capital requirement plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	10.50
of which capital conservation buffer requirement	2.50
of which: countercyclical buffer requirement	-

Reconciliation of Accounting and Regulatory Capital Resources	**£000**
General Reserves	26,592
Revaluation Reserve	20
Total Accounting capital resources	**26,612**
Less Intangible	(97)
Collective Provision	359
Regulatory Capital Resources	**26,874**

6. Capital Adequacy

The Society uses the standardised approach to calculate the Pillar 1 minimum capital requirement.

Pillar 1 capital adequacy is monitored through the Board, ALCO and Risk Committee. Capital forecasts are formally reviewed and approved at least annually with Pillar 2 risks considered annually as part of the ICAAP.

Internal Capital Adequacy Assessment Process

The Society conducts an ICAAP to assess its capital adequacy and determine the levels of capital required to support the current and future risks faced by the Society. The ICAAP covers all material solvency risks to determine the impact of stress scenarios which are intended to meet internal and regulatory requirements. The capital requirements are presented to the Board for approval with the most recent review being October 2020.

The ICAAP is used by the PRA to determine and set the Society's Total Capital Requirement (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 2020 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%.

The Society manages its capital above the minimum TCR threshold, including a capital buffer at all times. Capital levels for the Society are reported to, and monitored by, the Board on a regular basis.

Regulatory environment

The Society remains confident in its ability to address the requirements associated with the implementation of emerging regulation over the planning horizon.

7. Capital Requirement

The Society's TCR under Pillar 1 is calculated by applying appropriate risk weightings to each class of exposure, then applying a fixed 8% multiplier. The table below sets out the Society's Pillar 1 capital requirement as at 31 December 2020 by asset class:

Statement of Financial Position as at 31 December 2020				
Exposure Class	**Assets £000**	**Risk Weighted Assets £000**	**Risk Weighted Assets Density %**	**Total Own Funds Requirement £000**
Credit risk				
Central Government/Central Banks	86,628	-	-	-
Financial Institutions	22,670	6,034	27	483
Liquid Assets	**109,298**	**6,034**	-	**483**
Of which the standardised approach				
Secured on Residential	296,258	103,988	35	8,319
Past due	1,907	1,907	100	153
Residential	**298,165**	**105,895**		**8,472**
Secured on Commercial	5,149	6,347	123	508
Past due	-	-	-	-
Commercial	**5,149**	**6,347**		**508**
Fixed and other assets	2,061	2,061	100	165
Other	**2,061**	**2,061**		**165**
Total on Statement of Financial Position exposures	**414,673**	**120,337**		**9,627**
Off Statement of Financial Position				
Residential committed loan facilities	12,828	5,048	39	404
Operational risk				
Of which Basic Indicator Approach		14,107		1,129
Total Pillar 1 capital requirement		**139,492**		**11,159**
Total own funds				**26,874**
Excess of own funds over minimum capital requirement under Pillar 1				**15,715**

The exposures in each asset class as at 31 December 2020 and average exposures held in each asset class during the financial year is detailed below.

Exposure class	Total Assets 31st December £000	Average Assets for 2020 £000
Central Government / Central Banks	86,628	84,194
Financial Institutions	22,670	20,259
Liquid assets	**109,298**	**104,453**
Secured on Residential property	296,258	283,291
Past due	1,907	1,923
Residential	**298,165**	**285,214**
Secured on commercial property	5,149	6,059
Past due	-	-
Commercial Exposure Class	**5,149**	**6,059**
Fixed and other assets	**2,061**	**2,236**
Total Statement of Financial Position	**414,673**	**397,962**
Off balance sheet:		
Committed loan facilities	12,828	8,318
Total	**427,501**	**406,280**

Credit risk, the risk of loss arising from the failure of customers or counterparties to meet their obligations to the Society, is of paramount importance. The total credit risk exposure is £427,501k. This reconciles to the Annual Report and Accounts as follows:

Reconciliation of Total Assets Exposure to Statement of Financial Position	£000
Exposure amount as per Basel III	427,501
Less Off-balance sheet pipeline	(12,828)
Statement of Financial Position exposure as per Basel III	**414,673**
Less Collective provision	(359)
Plus, Intangible asset difference	97
Total Society Assets as at 31 December 2020	**414,411**

Operational Risk

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	2018 £000	2019 £000	2020 £000
Net interest income	6,866	7,375	8,216
Other income/(charges)	(37)	85	93
Total	**6,829**	**7,460**	**8,309**
Basic indicator (3-year average)			**7,533**
Own funds requirement of 15%			**1,130**

Movements in Risk Weighted Assets

During the year, the impact of Statement of Financial Position growth has led to an increase in Risk Weighted Assets.

	£000
Position as at 31 December 2019	**127,226**
Increase due to net mortgage book growth	8,956
Increase due to growth in treasury assets	1,652
Increase due to Other Assets	43
Increase in Operational Risk	1,173
Increase in off balance sheet items	442
Position as at 31 December 2020	**139,492**

The increase in Operational Risk of £1,173K is solely down to the formulaic calculation of risk weights for operational risk which relies on the average income over the past 3 years which has increased due to the improved performance in 2020. For more information, see the Chief Executive's Report in the 2020 Annual Report and Accounts.

The increase in off balance sheet items is due to the increased mortgage pipeline as at 31st December 2020 in comparison to the prior year.

8. Capital Buffers

To encourage adequate build-up of loss absorbing capital that can be used in times of stress, Basel III requires the use of CET1 capital buffers, expressed as a percentage of total RWA's. A Capital Conservation Buffer (CCB) of 2.5% can be supplemented by regulators with a Counter-Cyclical Capital Buffer (CCyB).

The PRA undertake SREP's to review the adequacy of the Society's capital requirements for all relevant risks. The outcome of the process is reflected in the calculation of TCR and, where deemed appropriate, a PRA buffer in addition to the other regulatory buffers. The PRA buffer defines the minimum level of capital buffer over and above the minimum regulatory requirement that should be maintained in non-stressed conditions. This is designed to be mitigation against possible stress periods in the future. The Society currently operates with an excess over the regulatory minimum and continues to be able to comfortably meet minimum requirements over the longer-term planning horizon.

The CCB has been transitioning into effect since 2016 and as of 1 January 2019 is fully transitioned meaning that the CCB is now 2.5%.

The amount of capital required for the CCyB was raised to 1% of RWA's in November 2018. The Financial Policy Committee (FPC) had announced that a further 1% increase to 2% of total RWA's would take effect from December 2020. The FPC has stated that they expect a CCyB in the region of 2% when risks are judged to be neither subdued nor elevated in the UK economy. However, on 11 March 2020, in response to the COVID-19 pandemic, the FPC reduced the CCyB to 0% with immediate effect.

All of the Society's exposures are domiciled within the UK meaning the Society is not required to hold any capital for the CCyB in relation to foreign exposures.

Geographical Breakdown	Countercyclical Capital Buffer Rate %	Exposure Values and Risk-Weighted Assets used in the Computation of the Countercyclical Capital Buffer		Bank-Specific Countercyclical Capital Buffer Rate %	Countercyclical Capital Buffer Amount £000
		Exposure values £000	Risk Weighted Assets £000		
United Kingdom	-	427,501	139,492	-	-
Total	**-**	**427,501**	**139,492**	**-**	**-**

9. Leverage ratio

The CRD IV framework required firms to calculate a simple, transparent, non-risk-based leverage ratio that is a supplementary measure to the risk based capital requirements. The ratio shows tier 1 capital as a proportion of on and off-balance sheet assets. The UK leverage ratio requires a minimum ratio of 3%. This means that for every £1m of eligible capital, institutions can hold up to £33.3m of assets.

The Society's calculated leverage ratio at 31 December 2020 was 6.20% (2019:6.19%). The Society will continue to operate at a level significantly higher than the regulatory minimum.

The PRA's UK leverage ratio framework, which has not been reflected in European regulation, allows institutions within its scope to exclude Bank of England assets from their leverage calculations; however, as a result the PRA expects the minimum ratio to be 3.25%. This means that for every £1m of eligible capital, institutions can hold up to £30.8m of assets. The Society is not within scope of the UK leverage framework as retail deposits do not exceed £50bn.

Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures	31 December 2020 £000
Total balance sheet assets as reported in the Annual Report and Accounts	**414,411**
Adjustments for off balance sheet items	12,828
Other adjustments	
Intangible exposures	(97)
Total leverage rate exposure measure	**427,142**
Tier 1 capital	26,495
	%
Leverage ratio	**6.20**
Leverage ratio if under UK Leverage ratio framework	**7.77**

Leverage Ratio Common Disclosure	
On Balance Sheet Exposures	**31 December 2020 £000**
On Statement of Financial Position Exposures	414,411
Asset Amounts deducted in determining Tier 1 capital	(97)
Total on Statement of Financial Position Exposure	**414,314**
Off balance sheet exposures	
Off balance sheet exposures at gross notional amount	25,656
Adjustment for conversion to credit equivalent amount	(12,828)
Total off balance sheet exposure	**12,828**
Capital and Total Exposure Measures	
Tier 1 Capital	**26,495**
Leverage Ratio Total exposure measure	**427,142**
	%
Leverage Ratio	**6.20**

Leverage Ratio - Split of on balance sheet exposures	31 December 2020 £000
Total on balance sheet exposures	**414,314**
Of which	
Exposures treated as Sovereigns	86,628
Institutions	22,674
Secured by mortgages on immovable properties	301,049
Exposures in default	1,809
Other exposures	2,154

10. Credit Risk and other Financial Risks

Credit and Concentration Risk

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 quality of individual mortgage lending decisions coupled with the subsequent management and control ensures that this risk is managed within the Society's risk appetite. The Society maintains a conservative approach to 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 annual stress testing to ensure they remain within the quantified risk appetite of the Board.

The Society does not have any exposure to the subprime market. Mortgage loans to customers are predominantly in Wales and consist of retail loans fully secured against residential property (98%) with the remaining (2%) being secured on commercial property. Whilst the Board believe that the Society's strength is lending within a core radius of 50 miles from its head office or regional branch outlet, it does recognise that this creates a geographic concentration risk. This risk is monitored when undertaking stress testing and

house price movements are modelled on regional indices with a focus on historical data as well as historical variances between South Wales and the remainder of the UK.

Within the 98% residential property portfolio, the Society is exposed to a product concentration risk of 87% in relation to owner occupied residential property and 11% on buy to let residential property. The risk is monitored through adherence to the lending policy and limits. In addition, the concentration risk associated with buy to let loans is monitored through additional stress testing in the form of more severe house price reductions coupled with a higher propensity to default assumptions.

Impaired exposures, Past due exposures and Impairment Provisions

For accounting purposes, past due exposures, impaired exposures and impairment provisions are defined as follows:

- **Past due exposures -** An exposure is past due when a counterparty has failed to make a payment when contractually due.
- **Impaired exposures -** An exposure where the Society does not expect to collect all the contractual cash flows or to collect them when they are contractually due and has specifically provided against those exposures.
- **Impairment provisions -** 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.
- **Defaults-** Defaulted loans are classified as those loans 90 days or more in arrears.

The Geographical Analysis of Performance as at 31st December 2020 is included in the table below. The amounts shown as past due represent the full amount of the loan outstanding, not just the amount that is past due. Past due loans, impaired loans and provisions are all UK based.

Concentration	Performing £000	Past due and impaired £000	Past due and not impaired £000	Total £000
Cardiff	37,334	399	324	38,057
Llandrindod Wells	5,002	-	-	5,002
Llandudno	3,057	-	-	3,057
Newport	7,316	-	-	7,316
Swansea	194,053	665	1,196	195,914
Shrewsbury	7,415	-	-	7,415
Remainder of Wales	1,341	-	-	1,341
Wales	**255,518**	**1064**	**1520**	**258,102**
England	45,613		488	46,101
Total	**301,131**	**1,064**	**2,008**	**304,203**
Fees				(833)
Impairment provision				(415)
Total				**302,955**

The following table shows defaulted loans for the year ended 31 December 2020:

	Gross carrying values of		Allowances/ impairments	Net values
	Defaulted exposures £000	Non-defaulted exposures £000	£000	£000
Loans				
of which Central Banks	-	86,628	-	86,628
Credit Institutions	-	22,674		22,674
Customers	1,008	302,362	(415)	302,955
Total	**1,008**	**410,834**	**(415)**	**412,257**

The movement in defaulted loans in the year to 31st December 2020 is shown in the table below:

Changes in stock of defaulted loans	£000
Defaulted loans and debt securities at end of the previous reporting period	**77**
Loans that have defaulted since the last reporting period	1,008
Returned to non-defaulted status	(77)
Defaulted loans at end of the reporting period	**1,008**

The table below details the Society's provisions as at 31st December 2020

Category	Provision 31st December 2019 £000	Charge/ (Release) £000	Written off £000	Provision 31st December 2020 £000	Recoveries of amounts previously written off £000
Residential	210	141	-	351	-
Buy-to-Let	-	64	-	64	-
Commercial	-	-	-	-	-
Total	**210**	**205**	**0**	**415**	**-**

The maturity of the Society's mortgages as at 31st December 2020 is included in the table below:

Maturity	On demand £000	Deferred fees and charges £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but less than five years £000	More than five years £000	Less: allowance for impairment £000	Total £000
Value	3,104	-833	1,930	9,544	55,958	233,667	-415	**302,955**

Credit Risk Mitigation
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.

Forbearance
The Society has various forbearance options to support customers who may find themselves in financial difficulty:
- Temporary conversion from capital and interest to interest only repayment (Interest only concessions)
- Temporary extension of mortgage term to reduce monthly repayments (term extensions)
- Reduced payment concessions, where the customer makes an agreed underpayment for a period
- Arrangements to make part payments to repay arrears over an agreed period (payment plans)
- Payment holidays where previous overpayments have accrued
- Change of repayment date to better suit customer's income and expenditure profile
- Change of method by which payments are made
- Capitalisation of arrears where borrower has maintained repayments for an agreed period

Further details can be found in the Society's 2020 Annual Report and Accounts.

Treasury Credit Risk

The Society has exposures to banks, building societies, 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.

Market Counterparty Credit & Concentration Risk

This relates to the risk that market 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.

External Credit Assessment Institutions (ECAI)

Risk weighted exposure amounts using the Standardised approach are calculated with the credit quality steps referred to in the Capital Requirements Regulations (575/2013 CRR, Article 120). The higher the rating given by an eligible ECAI the lower the risk weighting the Society has to apply to its exposure.

Exposures to rated institutions of up to 3 months maturity and rated at BBB- and above are assigned a 20% risk-weight with a capital requirement of 8% of the risk weighted assets. Where the counterparty has a rating of A+ to BBB- and the maturity date is greater than 3 months a risk weighting of 50% with a capital

requirement of 8% of the risk weighted assets is applied. Deposits with the Bank of England carry a zero-capital requirement. The Society uses Fitch as its Rating Agency for its Treasury investments.

The below table shows the External Credit Assessment Institutions (ECAI's) ratings of the Society's Treasury Assets by Counterparty type:

Credit quality steps	Fitch Rating	Banks £000	Building Societies £000	Central Government £000	Total £000
1	AAA to AA-	-	-	86,471	86,471
2	A+ to A-	17,674	-	-	17,674
3	BBB+ to BBB-	-	-	-	-
4	BB+ to BB-	-	-	-	-
5	B+ to B-	-	-	-	-
6	CCC+ and below	-	-	-	-

The below table shows the External Credit Assessment Institutions (ECAI's) ratings of the Society's Treasury Assets by maturity:

Credit quality steps	Fitch Rating	On demand £000	<= 3 months £000	> 3 months £000	Total £000
1	AAA to AA-	86,471	-		86,471
2	A+ to A-	12,674	5,000		17,674
3	BBB+ to BBB-	-	-	-	-
4	BB+ to BB-	-	-	-	-
5	B+ to B-	-	-	-	-
6	CCC+ and below	-	-	-	-

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

Asset encumbrance

The Society has no encumbered assets.

Securitisations

The Society has no securitisations.

Interest Rate Risk

Interest Rate Risk in the Banking Book (IRBB)
IRRB 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

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

- 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.

The Society's sensitivity to an increase in market rates assuming no non-parallel movement in yield curves, deviation from base behavioural prepayment assumptions and a constant financial position is shown below:

Sensitivity of reported reserves to 250 bps interest rate movement (economic value)	£000
At 31 December 2020	88
Average for the period	82
Maximum for the period	88
Minimum for the period	75

Sensitivity of reported earnings to 200 bps interest rate movement (earnings)	£000
At 31 December 2020	59
Average for the period	59
Maximum for the period	59
Minimum for the period	57

The Society only deals with products denominated in sterling so is not directly affected by currency risk. Society products are also only interest orientated products so are not exposed to other pricing risks.

Regulatory Risk

This is the risk that the Society does not comply with external regulations resulting in excessive costs of compliance or regulatory censure or fine. Regulatory risk is managed by regulatory tracking, regular compliance monitoring of existing regulatory requirements and internal audit review of key regulated activities.

Liquidity Risk

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 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 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 readily available along with the quality is 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 contingency funding 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 (LCR), considered as the Pillar 1 requirement, and an internal analysis considered as the Pillar 2 requirement.

In combination both the Pillar 1 and 2 assessments satisfy the overall liquidity adequacy rule that states the Society must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The LCR is calculated by dividing the value of HQLA, held as a liquidity buffer, by the forecast net cash outflows under stress over 30 calendar days. From January 2018, the minimum requirement for the LCR ratio is 100%. The Society's LCR has been significantly above this level since inception and is expected to continue at this higher level. As at 31 December 2020 the Society's LCR was 521%.

The table below sets out the Society's average quarterly Liquidity Coverage Ratio for the 12-month period ending 31 December 2020.

Liquidity Coverage Ratio %	31 March 2020	30 June 2020	30 September 2020	31December 2020
Liquidity Buffer	81,180	84,483	84,486	86,628
Total Net Cashflows	14,760	14,012	15,922	16,628
Liquidity Coverage Ratio %	550	603	531	521

Conduct Risk

Conduct risk is the risk of treating customers unfairly resulting in the delivery of inappropriate outcomes. The Society has adopted a philosophy that it treats customers interests as being equal to its own interests 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, complaint and redress and reward and remuneration.

Pension Obligation Risk
The Society contributes to a 'defined contribution' group personal pension scheme which is open to contracted employees over eighteen years of age. The Scheme is funded separately through a life assurance company and the funding is independent of the Society's finances. The Society's contributions are charged against profits in the year which they are made. The Society is not exposed to a 'defined benefit scheme' and is therefore not exposed to the risk that it may need to make future unexpected contributions to a scheme of this nature.

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 controls in place which are designed to mitigate these risks. In order to protect the Society's capital position, the Society also maintains a range of insurance policies to cover such events such as fidelity, public liability, cyber etc.

Risks and controls are reviewed periodically at the Risk Committee meetings which are held quarterly. The Society prepares a full risk register which assesses the likelihood and impact of the risks faced by the business along with a residual risk once controls have been applied.

Under the Basel Capital Accord, for the standardised approach to operational risk, gross income is regarded as a proxy for the operational risk exposure within each business line. The capital charge for operational risk is calculated separately, based upon gross income over the preceding three years

Strategic Risk

This is the risk arising from changes to the Society's business model and/or the risk that the business plan becomes unviable due to macroeconomic, geopolitical, regulatory or other factors. This is overseen by the Board, with executive given the management authority to deliver a detailed business plan which is monitored on a continual basis.

Climate change

The Society also recognises the risks and challenges posed by climate change. While the financial risks from climate change may only fully crystallise 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. 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 Risk Committee.

11. 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 and other senior management positions is determined by the Remuneration and Nominations Committee, which consists of two 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. Non-Executive directors are paid fees only.

Variable remuneration is paid to all employees (including executive directors). The scheme distributes, on an annual basis, 10% of basic salary in recognition of the contribution made by staff to the Society's performance.

Remuneration Code Staff

The following table displays the 2020 remuneration for the Society's managers and members of staff deemed as Material Risk Takers (MRT), 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.

The Report of the Remuneration Committee contained within the 2020 Annual Report and Accounts contains the following:

- The decision-making process used for determining the remuneration policy
- The link between pay and performance
- The most important remuneration design characteristics

During the year, severance payments totalling £6k were made (2019: nil).

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". Aggregate information on the remuneration of the six Non-Executive directors and two Executive directors, and six other Senior Management Regime members of staff for the year ending 31 December 2020 is given below:

Role	Number of Material Risk Takers	Fixed Remuneration £000	Variable remuneration £000	Total remuneration £000
Non-Executive Director	6	180	-	180
Executive Directors	2	308	25	333
Other Management	6	377	33	410
Total	**14**	**865**	**58**	**923**

12. Conclusion

This disclosure document is intended to provide background information on the Society's approach to risk management as related to maintaining and preserving the capital position of the Society. It also provides asset information and capital calculations under Pillar 1. It has been prepared in accordance with the requirements of CRD IV as interpreted by the Society based on its size and complexity and is updated annually following the publication of its Annual Report & Accounts.

In the event that a user of this document has comments or requires further information then they are requested to contact:

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13. Glossary of Terms

Term	Definition
Administered Rate	A rate which is set by the Society, such as SVR, and that is at the Society’s discretion to change, subject to the terms and conditions of the product.
Basel II	The Basel Committee on Banking Supervision’s statement of best practice that defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive and was implemented in the UK via the PRA Handbook.
Basel III	The Basel Committee on Banking Supervision’s statement of best practice that defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel III became law in the EU Capital Requirements Directive IV and was implemented in the UK via the PRA/FCA Handbook on the 1st of January 2014.
CCB	Capital Conservation Buffer. A buffer of 2.5% of Common Equity Tier 1 capital held outside periods of stress. Phased in from 2016 to 2019.
CCyB	Counter-Cyclical Capital Buffer. Based on national circumstances, a Common Equity Tier 1 capital buffer.
Common Equity Tier 1	Common Equity Tier 1 replaces the Core Tier 1 expression used previously for the best quality capital. In Swansea’s instance this consists mainly of retained earnings.
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows.
CRD IV	Capital Requirements Directive IV. This implements Basel III through national law.
Credit risk	The risk that a borrower or counterparty fails to pay the interest or to repay the capital on a loan. Credit risk is the largest risk category to which the Society is exposed and sub-divided as follows: retail lending, commercial lending, and Treasury credit risks.
FCA	Financial Conduct Authority. The financial services industry regulator in the UK for Conduct issues

ICAAP	Internal Capital Adequacy Assessment Process. The Society's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events
ILAAP	Internal Liquidity Adequacy Assessment Process. The Society's own assessment of the levels of liquidity that it needs to meet its current and financial obligations. These are assessed under normal and stressed condition.
LTV	Loan to Value. A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Society calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a regular basis to reflect changes in the house price index (HPI).
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Pillar 1	The part of the Basel III Framework which sets out the regulatory minimum capital requirements for credit and operational risk.
Pillar 2	The part of the Basel III Framework which sets out the processes by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments. This includes all risks (including Pillar 1 risks) - ICG is an outcome from Pillar 2.
Pillar 3	The part of the Basel III Framework which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline.
PRA	Prudential Regulation Authority. The financial services industry regulator in the UK for prudential risk.
Provisions	Amounts set aside to cover losses associated with credit risks
RWA	Risk Weighted Assets. This is used to determine the minimum amount of capital, weighted according to risk, which must be held by the Society to reduce the risk of insolvency.
Stress testing	Various techniques that are used by the Society to gauge the potential vulnerability to exceptional but plausible events

SREP	Supervisory Review and Evaluation Process. (CRD IV Section III, the PRA's process for reviewing the adequacy of a firm's ICAAP)
TCR	Total Capital Requirement. The total amount of capital an institution needs to hold to meet Pillar 1 and Pillar 2 capital requirements. Replaced the previous individual capital guidance (ICG) terminology as of 1 January 2018.
The Standardised Approach (credit risks)	The basic method used to calculate credit risk capital requirements under Basel III. In this approach the risk weights used in the capital calculation are determined by PRA supervisory parameters
Total Remuneration	The sum of fixed pay, variable pay, director fees, car allowance, pension and benefits in kind.