Pillar 3 Disclosures

31 March 2023

SKIPTON
BUILDING SOCIETY
Since 1853

Contents

1 Introduction

1.1 Background

This document presents the consolidated Pillar 3 disclosures of Skipton Building Society (the Society) and its subsidiaries as at 31 March 2023.

The disclosures have been prepared in accordance with the Capital Requirements Directive (CRD V), United Kingdom's Capital Requirements Regulation (UK CRR) and the disclosure requirements set out in the Prudential Regulation Authority's (PRA) Rulebook.

The Pillar 3 disclosure requirements apply to banks and building societies and require firms to publish key details regarding their financial strength and risk management.

1.2 Basis of presentation

The disclosures are presented using the prescribed disclosure templates in the PRA Rulebook. Row and column references are based on those prescribed in the PRA templates. No changes have been made to the fixed templates, unless specifically stated under the template.

All figures and narrative are as at 31 March 2023. Comparative information is disclosed in certain templates based on the previous disclosed reporting period as prescribed in the PRA Rulebook.

1.3 Frequency of disclosure

The Society is required to publish Pillar 3 Disclosures quarterly in accordance with the requirements set out in the PRA Rulebook on materiality, proprietary and confidentiality under Articles 432(1), 432(2) and on disclosure frequency under Article 433a of the UK CRR.

1.4 Media and location of publication

These Pillar 3 disclosures, and those from previous years, are published on Skipton Building Society's website (www.skipton.co.uk/about-us/pillar-3-disclosure).

1.5 Scope of application

For accounting purposes, the Group's consolidation group comprises the Society and all of its subsidiaries (i.e. full group consolidation). The Group's prudential regulation reporting is carried out at the prudential consolidation group (the Group) level and on a Society only level. The prudential consolidation group comprises the entire Group except the Connells group and a small number of other entities whose activities are not closely aligned with the core business.

The Pillar 3 disclosures are reported at a prudential consolidation group level.

For further details on the scope of prudential consolidation see section 4 in the Pillar 3 disclosures 31 December 2022.

1.6 Verification of disclosure

These disclosures have been reviewed and approved by the Board Risk Committee (BRC).

Capital and leverage metrics reported as at 31 March 2023 exclude unaudited profits for the reported quarter.

For further details on the risk management framework, refer to the annual Pillar 3 disclosures 31 December 2022 published on Skipton Building Society's website (www.skipton.co.uk/about-us/pillar-3-disclosure).

1.7 Scope of permission of Internal Ratings Based (IRB) Approach

The Society has PRA permission to apply the IRB approach to certain credit risk exposures. The Group has calculated the minimum regulatory capital requirement for credit risk under the IRB approach for:

- Retail mortgage[1] exposures within the Society;
- Equity exposures[2];
- Non-credit obligation assets[3]; and
- Cash in hand.

The standardised approach continues to apply to all other exposures, operational risk and market risk.

From 1 January 2022, new regulation, applicable to internal ratings-based (IRB) models, resulted in the Society applying a temporary model adjustment (TMA) to the Society's regulator-approved IRB model output. The TMA uplifts the Expected loss (EL) and Risk Weighted Assets (RWAs) produced by the incumbent regulator approved IRB model to the level expected once the model is finalised to meet the new regulation. This adjustment is applied at portfolio level.

The Society submitted updated IRB models to the PRA in 2021 and the process for review and approval is ongoing. Until the IRB models are approved by the PRA, the TMA remains subject to change and may cause further movements in the capital metrics.

For further details on the IRB models and associated governance framework, refer to section 12 of the Pillar 3 disclosures 31 December 2022.

[1] Retail mortgage exposures include owner-occupied mortgages and residential buy-to-let mortgages.
[2] Equity exposures relate to the cost of investment in subsidiary companies outside the regulatory group.
[3] Non-credit obligation assets relate to property, plant and equipment, right-of-use assets and fair value adjustments for hedged risk assets under the IRB approach.

2 Key metrics

The table below provides a summary of the main prudential regulation ratios and measures. Capital ratios and measures include adjustments for IFRS 9 relief in accordance with the Article 473a of the CRR.

2.1 UK KM1 – Key metrics template

		a 31 Mar 23 £m	b 31 Dec 22 £m	c 30 Sep 22 £m	d 30 Jun 22 £m	e 31 Mar 22 £m
	Available own funds					
1	Total Common Equity Tier 1 (CET1) capital	**1,950.9**	1,952.9	1,824.3	1,867.2	1,764.7
2	Tier 1 capital	**1,950.9**	1,952.9	1,824.3	1,867.2	1,764.7
3	Total capital	**1,990.9**	1,992.9	1,864.3	1,907.2	1,804.7
	Risk weighted assets (RWEAs)					
4	Total risk-weighted exposure amount	**7,700.2**	7,573.6	7,511.7	5,117.1	5,450.8
	Capital ratios (as a % of RWEAs)					
5	Common Equity Tier 1 ratio (%)	**25.34**	25.79	24.29	36.49	32.38
6	Tier 1 ratio (%)	**25.34**	25.79	24.29	36.49	32.38
7	Total capital ratio (%)	**25.86**	26.31	24.82	37.27	33.11
	Additional own funds requirements based on SREP (as a % of RWEAs)					
UK 7a	Additional CET1 SREP requirements (%)	**1.18**	1.18	0.87	1.27	1.19
UK 7b	Additional AT1 SREP requirements (%)	**0.39**	0.39	0.29	0.42	0.40
UK 7c	Additional T2 SREP requirements (%)	**0.52**	0.53	0.38	0.57	0.53
UK 7d	Total SREP own funds requirements (%)	**10.09**	10.10	9.54	10.26	10.12
	Combined buffer requirement (as a % of RWEAs) [1]					
8	Capital conservation buffer (%)	**2.50**	2.50	2.50	2.50	2.50
9	Institution specific countercyclical capital buffer (%) [2]	**0.91**	0.91	0.02	0.02	0.01
11	Combined buffer requirement (%)	**3.41**	3.41	2.52	2.52	2.51
UK 11a	Overall capital requirements (%)	**13.50**	13.51	12.06	12.78	12.63
12	CET1 available after meeting the total SREP own funds requirements (%) [3]	**19.66**	20.11	18.92	30.72	26.69
	Leverage ratio [4]					
13	Total exposure measure excluding claims to central banks	**29,719.3**	28,813.3	28,109.4	28,043.8	28,003.3
14	Leverage ratio excluding claims on central banks (%)	**6.56**	6.78	6.49	6.66	6.30
	Liquidity Coverage Ratio [5]					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**5,400.7**	5,040.5	4,682.1	4,431.5	4,231.6
UK 16a	Cash outflows - Total weighted value	**3,263.5**	3,045.5	2,820.5	2,573.4	2,443.5
UK 16b	Cash inflows - Total weighted value	**168.9**	153.2	141.0	122.6	115.2
16	Total net cash outflows (adjusted value)	**3,094.6**	2,892.3	2,679.5	2,450.7	2,328.3
17	Liquidity coverage ratio (%)	**174.81**	174.50	174.67	181.20	182.20
	Net Stable Funding Ratio [6]					
18	Total available stable funding	**28,808.3**	28,149.1			
19	Total required stable funding	**20,558.9**	19,959.7			
20	Net Stable Funding Ratio (%)	**140.29**	141.10			

Notes

1. The buffer requirement in rows UK 8a, UK 9a to UK10a have been removed from the template as not applicable for the Group.
2. The institution specific countercyclical capital buffer requirement is based on the weighted average of the buffer rates in effect for the countries in which institutions have exposures.
3. Represents the level of CET1 capital available to meet buffer requirements after subtracting the minimum amount of CET1 capital required to meet Pillar 1 and Pillar 2A capital requirements, also referred to as total SREP own funds requirements.

The minimum CET1 requirement is equivalent to 4.5% (Pillar 1) plus the additional CET1 SREP requirement (56.25% of Pillar 2A).

4. The additional leverage ratio disclosure requirements only apply to financial institutions with deposits equal to or greater than £50bn or non-UK assets equal to or greater than £10bn. The rows UK-14a to UK-14e have been removed from the template as the Group is not currently captured by either threshold.
5. The values have been calculated as a simple average of the 12 month end observations preceding the end of each quarter.
6. The NSFR was disclosed for the first time as at 31 December 2022 comprising four previous averaged quarters in accordance with the regulation that came into effect from 1 January 2022. As such, no previous quarters prior to 31 December 2022 have been disclosed.

2.2 Summary of key disclosures

2.2.1 Total regulatory capital

The Group's capital position remains strong with a Common Equity Tier 1 (CET1) capital of £1,950.9m (31 December 2022: £1,952.9m). The slight reduction in CET1 capital was driven by the increase in the expected credit loss amounts in relation to mortgages measured under the IRB approach.

2.2.2 Total risk weighted exposure amounts

The total RWAs increased by £126.6m from £7,573.6m as at 31 December 2022 to £7,700.2m as at 31 March 2023 as set out in template UK OV1 (table 3.1). This increase was primarily driven by strong mortgage book growth partly offset by a small reduction in risk weighted assets held in relation to the liquid asset portfolio.

2.2.3 Capital ratios

As a result of the movement in regulatory capital and RWAs explained above, the CET1 ratio and total capital ratio have decreased to 25.3% (31 December 2022: 25.8%) and 25.9% (31 December 2022: 26.3%) respectively.

2.2.4 Additional own funds requirements based on SREP

As at 31 March 2023, the Pillar 2A requirement, set by the PRA, was £160.9m (31 December 2022: £159.1m), equivalent to 2.1% of RWAs, of which 1.2% of RWAs must be met by CET1 capital.

2.2.5 Leverage ratio

The leverage ratio decreased to 6.6% as at 31 March 2023 (31 December 2022: 6.8%) due to the growth of the balance sheet during the period driven by increased mortgage lending levels.

2.2.6 Liquidity Coverage Ratio (LCR)

As at 31 March 2023, the LCR was 174.8% (31 December 2022: 174.5%) and was above both the regulatory and internal limits set by the Board throughout the period.

2.2.7 Net Stable Funding Ratio

As at 31 March 2023, the NSFR was 140.3% (31 December 2022: 141.1%) and was above both the regulatory and internal limits set by the Board throughout the period.

2.3 Impact of IFRS 9 transitional arrangements

The Group has opted to apply the IFRS 9 transitional arrangements to capital calculations from 1 January 2018, in accordance with EBA/GL/2018/01, on a scaling bases, over the period to 31 December 2024. The implementation of IFRS 9 does not have a significant impact on the Group's capital position.

The table below shows key ratios and measures with and without the application of IFRS 9 transitional relief.

		a **31 Mar 23** **£m**	b 31 Dec 22 £m	c 30 Sep 22 £m	d 30 Jun 22 £m	e 31 Mar 22 £m
	Available capital					
1	Common Equity Tier 1 (CET1) capital	**1,950.9**	1,952.9	1,824.3	1,867.2	1,764.7
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,949.4**	1,949.9	1,819.8	1,863.5	1,760.8
3	Tier 1 capital	**1,950.9**	1,952.9	1,824.3	1,867.2	1,764.7
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,949.4**	1,949.9	1,819.8	1,863.5	1,760.8
5	Total capital	**1,990.9**	1,992.9	1,864.3	1,907.2	1,804.7
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,989.4**	1,989.9	1,859.8	1,903.5	1,800.8
	Risk-weighted exposure amounts					
7	Total risk-weighted exposure amounts	**7,700.2**	7,573.6	7,511.7	5,117.1	5,450.8
8	Total risk-weighted exposure amounts as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**7,698.4**	7,570.5	7,506.4	5,112.8	5,446.3
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount) (%)	**25.34**	25.79	24.29	36.49	32.37
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**25.32**	25.76	24.24	36.45	32.33
11	Tier 1 (as a percentage of risk exposure amount) (%)	**25.34**	25.79	24.29	36.49	32.37
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**25.32**	25.76	24.24	36.45	32.33
13	Total capital (as a percentage of risk exposure amount)(%)	**25.86**	26.31	24.82	37.27	33.11
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**25.84**	26.29	24.78	37.23	33.06
	UK Leverage ratio					
15	Total exposure measure excluding claims to central banks	**29,719.3**	28,813.3	28,109.4	28,043.8	28,003.3
16	Leverage ratio excluding claims on central banks (%)	**6.56**	6.78	6.49	6.66	6.30
17	Leverage ratio excluding claims on central banks as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**6.56**	6.77	6.48	6.65	6.29

3 Overview of risk weighted exposures amounts

The table below provides an overview of RWAs and minimum capital requirements under the Pillar 1 capital requirement as at 31 March 2023. Pillar 1 credit risk exposures include balances which are off-balance sheet, such as credit commitments relating to mortgages not yet drawn down.

The capital requirement under both the IRB and standardised approach is calculated as 8% of the RWAs for each of the applicable exposure classes.

3.1 UK OV1 – Overview of risk weighted exposure amounts

		a	b	c
		Risk weighted exposure amounts		Total Own Fund Requirements
		31 Mar 23 £m	31 Dec 22 £m	31 Mar 23 £m
1	**Credit risk (excluding CCR)**	**7,044.3**	6,901.6	**563.5**
2	Of which standardised approach	1,414.9	1,467.4	113.2
3	Of which the foundation IRB (FIRB) approach1	-	-	-
4	Of which slotting approach1	-	-	-
UK 4a	Of which equities under the simple risk weighted approach	304.5	304.5	24.3
5	Of which the advanced IRB (AIRB) approach2	5,324.9	5,129.7	426.0
6	**Counterparty credit risk (CCR)**	**88.5**	104.1	**7.1**
7	Of which the standardised approach	18.3	21.5	1.5
8	Of which internal model method (IMM)[1]	-	-	-
UK 8a	Of which exposures to a CCP	12.2	12.0	1.0
UK 8b	Of which credit valuation adjustment - CVA3	58.0	70.6	4.6
9	Of which other CCR	-	-	-
15	**Settlement risk**	**-**	-	**-**
16	**Securitisation exposures in the non-trading book (after the cap)**	**31.4**	32.7	**2.5**
17	Of which SEC-IRBA approach1	-	-	-
18	Of which SEC-ERBA (including IAA)[4]	31.4	32.7	2.5
19	Of which SEC-SA approach1	-	-	-
UK 19a	Of which 1250%/ deduction1	**-**	-	**-**
20	**Position, foreign exchange and commodities risks (Market risk)** [5]	-	-	-
21	Of which the standardised approach1	**-**	-	**-**
22	Of which IMA1	**-**	-	**-**
UK 22a	**Large exposure**	**-**	-	**-**
23	**Operational risk**	**536.0**	535.2	**42.9**
UK 23a	Of which basic indicator approach1			
UK 23b	Of which standardised approach	536.0	535.2	42.9
UK 23c	Of which advanced measurement approach1			
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	**Total**	**7,700.2**	7,573.6	**616.0**

Notes
1. This approach is not applicable to the Group.
2. The advanced IRB approach includes exposures to non-credit obligation assets of £51.9m (31 December 2022: £51.8m) that are subject to 100% risk weight.
3. Credit Valuation Adjustment (CVA) is the adjustment applied to the fair values of derivatives to reflect the creditworthiness of the counterparty.
4. The Group has adopted the SEC-ERBA approach method to calculate the capital requirements of securitisation exposures. The Internal assessment approach (IAA) is not applicable to the Group.
5. As permitted per Article 351 of the CRR, the Group elected to set exposure to market risk as zero.

The own funds requirement under both IRB and the standardised approach is calculated as 8% of the risk weighted exposure amount.

The RWAs increased by £126.6m during the period as set out above in template OV1. This increase was primarily driven by strong mortgage book growth partly offset by a small reduction in risk weighted assets held in relation to the liquid asset portfolio.

3.2 UK CR8 - RWA flow statements of credit risk exposures under the IRB approach

The template below sets out the flow statement of credit risk RWAs under the IRB approach for retail mortgage exposures, as prescribed by the PRA, over the period from 31 December 2022 to 31 March 2023. The RWAs do not match with the amounts presented in row 5 of table UK OV1 for the credit risk exposures measured under the IRB approach as this also includes RWAs for non-credit obligation assets of £51.9m (31 December 2022: £51.8m).

		a Risk weighted exposure amount quarter to March 23 £m
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**5,077.9**
2	Asset size (+/-)	218.2
3	Asset quality (+/-)	(23.1)
4	Model updates (+/-)	-
5	Methodology and policy (+/-)	-
6	Acquisitions and disposals (+/-)	-
7	Foreign exchange movements (+/-)	-
8	Other (+/-)	-
9	**Risk weighted exposure amount as at the end of the reporting period**	**5,273.0**

4 Liquidity requirements

The table below shows the Group's breakdown of high-quality liquid assets, cash inflows and cash outflows, on both an unweighted and weighted basis, that are used to derive the Liquidity Coverage Ratio (LCR) followed by the qualitative information.

4.1 UK LIQ1 – Quantitative information of LCR

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
		£m	£m	£m	£m	£m	£m	£m	£m
UK 1a	Quarter ending on (DD Month YY)	**31 Mar 23**	31 Dec 22	30 Sep 22	30 Jun 22	**31 Mar 23**	31 Dec 22	30 Sep 22	30 Jun 22
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					**5,400.7**	5,040.5	4,682.1	4,431.5
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	**23,323.5**	22,580.6	21,963.8	21,533.3	**1,402.1**	1,299.7	1,213.1	1,167.5
3	*Stable deposits*	**12,683.1**	12,771.8	12,842.8	12,742.9	**634.2**	638.6	642.1	637.1
4	*Less stable deposits*	**5,321.3**	4,625.6	4,086.3	3,847.2	**681.7**	581.0	504.2	474.8
5	Unsecured wholesale funding	**347.3**	368.6	377.0	397.1	**200.7**	217.7	229.5	256.7
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	**-**	-	-	-	**-**	-	-	-
7	*Non-operational deposits (all counterparties)*	**337.7**	359.6	368.7	389.1	**191.1**	208.7	221.2	248.7
8	*Unsecured debt*	**9.6**	9.0	8.2	8.0	**9.6**	9.0	8.2	8.0
9	Secured wholesale funding					**0.2**	0.2	0.2	-
10	Additional requirements	**791.4**	655.5	501.0	373.2	**791.4**	655.5	501.0	373.2
11	*Outflows related to derivative exposures and other collateral requirements*	**709.9**	579.4	429.9	313.9	**709.9**	579.4	429.9	313.9
12	*Outflows related to loss of funding on debt products*	**-**	-	-	-	**-**	-	-	-
13	*Credit and liquidity facilities*	**81.5**	76.1	71.1	59.3	**81.5**	76.1	71.1	59.3
14	Other contractual funding obligations	**20.9**	20.9	20.4	19.7	**-**	-	-	-
15	Other contingent funding obligations	**2,125.8**	1,969.0	1,815.8	1,551.8	**869.1**	872.4	876.9	775.9
16	TOTAL CASH OUTFLOWS					**3,263.5**	3,045.5	2,820.5	2,573.3
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	**-**	-	-	-	**-**	-	-	-
18	Inflows from fully performing exposures	**169.4**	163.2	155.2	148.4	**126.9**	121.0	113.5	108.1
19	Other cash inflows	**42.0**	32.2	27.5	14.5	**42.0**	32.2	27.5	14.5
20	TOTAL CASH INFLOWS	**211.4**	195.4	182.7	162.9	**168.9**	153.2	141.0	122.6
UK-20a	*Fully exempt inflows*	**-**	-	-	-	**-**	-	-	-
UK-20b	*Inflows subject to 90% cap*	**-**	-	-	-	**-**	-	-	-
UK-20c	*Inflows subject to 75% cap*	**211.4**	195.4	182.7	162.9	**168.9**	153.2	141.0	122.6
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					**5,400.7**	5,040.5	4,682.1	4,431.5
22	TOTAL NET CASH OUTFLOWS					**3,094.6**	2,892.3	2,679.5	2,450.7
23	LIQUIDITY COVERAGE RATIO (%)					**174.81**	174.50	174.67	181.20

4.2 UK LIQB – Qualitative information of LCR, which complements UK LIQ1

(a) Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time

The LCR, which is prepared in accordance with the Liquidity Coverage Ratio (CRR) part of the PRA Rulebook, aims to ensure that the Group holds sufficient High-Quality Liquid Assets (HQLA) to survive a period of liquidity stress lasting 30 calendar days.

The Group's LCR is driven by the size of the HQLA buffer, stressed retail outflows, mortgages which have been offered but are yet to complete, wholesale funding maturities and potential stressed collateral outflows.

The Group's LCR disclosure, calculated as the simple average of month end observations over the 12 months preceding the end of each quarter, was 174.8% as of 31 March 2023.

(b) Explanations on the changes in the LCR over time

Overall, the LCR has remained stable, with an average LCR of 174.8% as of 31 March 2023 compared to an average of 174.5% as of 31 December 2022. The Group has seen an increase in customer deposits which has supported new customer lending, including greater commitments for future mortgage lending, to enable more customers into their own homes.

(c) Explanations on the actual concentration of funding sources

The Group's funding position is predominantly supported by its retail customer deposit base, which has historically provided a highly stable source of funding and aligns with Society's strategy as a mutual organisation.

The Group also raises both unsecured and secured wholesale funding in order to provide diversification of funding and support the liquidity position. This funding includes deposits, certificates of deposits, medium term notes, capital, drawings from the Term Funding Scheme with additional incentives for SMEs (TFSME), repos, covered bonds and residential mortgage backed securities (RMBS).

Funding concentration by counterparty, currency and tenor is monitored on an ongoing basis as part of the Group's internal liquidity and funding risk management frameworks.

(d) High-level description of the composition of the institution`s liquidity buffer

The Group's liquidity buffer consists almost entirely of Level 1 assets. Level 1 assets are primarily held as central bank reserves, UK government bonds and high quality supranational debt securities, with a smaller holding of Level 1 eligible extremely high quality covered bonds. The liquidity buffer also includes a small portion of Level 2B assets, which are high quality UK issued RMBS.

(e) Derivative exposures and potential collateral calls

The Group actively manages its derivative exposures and potential calls, including both due collateral and excess collateral, with derivative outflows under stress captured under the Historical Look Back Approach which considers the impact of an adverse market scenario on derivatives. Potential collateral calls due to a deterioration in Society's credit rating are also captured.

(f) Currency mismatch in the LCR

The LCR is calculated on a GBP equivalent basis only as this is the Group's only significant currency, in accordance with the Liquidity Coverage Ratio (CRR) part of the PRA Rulebook definition.

The currency risk appetite of the Group is low and any wholesale funding issuances denominated in foreign currency are immediately swapped into GBP. Currency risk is monitored through the internal liquidity and funding risk management frameworks.

g) Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

We do not consider anything else of material relevance for disclosure.

Media Enquiries

For media enquiries please contact the Skipton press office.
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