Pillar 3 Disclosures

30 September 2022

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 30 September 2022.

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 and frequency of disclosure

From 1 January 2022, 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.

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.

1.3 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).

1.4 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 Group is detailed in section 2.6 in the annual Pillar 3 disclosures 2021 and comprises the entire Group except Connells Group and a small number of other entities whose activities are not closely aligned with the core business.

Previously, the Society had a permission to carry out the prudential regulation reporting on an individual consolidation group level. This permission ceased in September 2022 following the hiving up of the mortgage assets in Amber Homeloans Limited and North Yorkshire Mortgages Limited to the Society in June 2021. The Society complies with the obligations set out in Article 6 of the UK CRR on an individual basis which comprises the Society only.

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

1.5 Verification of disclosure

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

Capital and leverage metrics reported as at 30 September 2022 exclude unaudited profits for the reported quarter.

For further details on the risk management framework, refer to the annual Pillar 3 disclosures 2021 published on Skipton Building Society's website (www.skipton.co.uk/about-us/pillar-3-disclosure).

1.6 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 internally developed IRB models resulted in the Society applying an initial temporary model adjustment (TMA) to the Society's regulator-approved IRB model output.

The revised TMA uplifts the expected loss and risk weighted exposure amounts (RWEAs) 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's approach aligns to the updated regulation outlined in PRA Supervisory Statement SS11/13. 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 revised TMA remains subject to change and may cause further movements in the capital metrics.

At the time of publishing these disclosures the TMA applicable as at 30 September 2022 has been revised. Whilst the revised TMA was not in place at the reporting date (being 30 September 2022), it has been applied throughout these disclosures as at 30 September 2022 to provide transparency as to the impact of the revised TMA. As detailed in these disclosures, the revised TMA results, as at 30 September 2022, in a reduction in the Society's CET1 ratio to 24.3% (30 June 2022: 36.5%) and a reduction in the Society's MREL ratio[4] to 29.5% (30 June 2022: 44.1%).

There have not been, and the Society does not expect there to be, any material changes to the risk profile or strategy of the Society as a result of the revised TMA.

For further details on the IRB models and associated governance framework, refer to section 6.9 and 6.10 of the annual Pillar 3 disclosures 2021.

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[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.
[4] The Society has an MREL requirement of 18% of RWEAs plus capital buffers as at 30 September 2022.

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	b	c	d
		30 Sep 22 £m	30 Jun 22 £m	31 Mar 22 £m	31 Dec 21 £m
	Available own funds (amounts)				
1	Total Common Equity Tier 1 (CET1) capital	**1,824.3**	1,867.2	1,764.7	1,775.5
2	Tier 1 capital	**1,824.3**	1,867.2	1,764.7	1,784.5
3	Total capital	**1,864.3**	1,907.2	1,804.7	1,815.5
	Risk-weighted exposure amounts (RWEAs)				
4	Total risk-weighted exposure amount	**7,511.7**	5,117.1	5,450.8	3,984.7
	Capital ratios (as a % of RWEAs)				
5	Common Equity Tier 1 ratio (%)	**24.3**	36.5	32.4	44.6
6	Tier 1 ratio (%)	**24.3**	36.5	32.4	44.8
7	Total capital ratio (%)	**24.8**	37.3	33.1	45.6
	Additional own funds requirements based on SREP (as a % of RWEAs)				
UK 7a	Additional CET1 SREP requirements (%)	**0.9**	1.3	1.2	1.2
UK 7b	Additional AT1 SREP requirements (%)	**0.2**	0.4	0.4	0.4
UK 7c	Additional T2 SREP requirements (%)	**0.4**	0.6	0.5	0.5
UK 7d	Total SREP own funds requirements (%)	**9.5**	10.3	10.1	10.1
	Combined buffer requirement (as a % of RWEAs)				
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	2.5
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%) *				
9	Institution specific countercyclical capital buffer (%) [1]	**0.017**	0.016	0.014	0.017
UK 9a	Systemic risk buffer (%) *				
10	Global Systemically Important Institution buffer (%) *				
UK 10a	Other Systemically Important Institution buffer *				
11	Combined buffer requirement (%)	**2.5**	2.5	2.5	2.5
UK 11a	Overall capital requirements (%)	**12.0**	12.8	12.6	12.6
12	CET1 available after meeting the total SREP own funds requirements (%) [2]	**18.9**	30.7	26.7	38.9
	Leverage ratio				
13	Total exposure measure excluding claims to central banks	**28,109.4**	28,043.8	28,003.3	26,314.5
14	Leverage ratio excluding claims on central banks (%)	**6.5**	6.7	6.3	6.8
	Liquidity Coverage Ratio [3]				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**4,682.1**	4,431.5	4,231.6	4,348.9
UK 16a	Cash outflows - Total weighted value	**2,820.5**	2,573.4	2,443.5	2,433.1
UK 16b	Cash inflows - Total weighted value	**141.0**	122.6	115.2	95.2
16	Total net cash outflows (adjusted value)	**2,679.5**	2,450.7	2,328.3	2,337.9
17	Liquidity coverage ratio (%)	**174.7**	181.2	182.2	186.3

Notes

1. 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.
2. 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).

3. 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.
4. The values have been calculated as a simple average of the 12 month end observations preceding the end of each quarter.

* The buffer requirement is not applicable for the Group.

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 £1,824.3m (30 June 2022: £1,867.2m). The slight reduction in CET1 capital was driven by the increase in the excess expected loss under the revised TMA, increased fair value losses through reserves due to market conditions and the write-off of an equity investment during the period.

2.2.2 Total risk weighted exposure amounts

The total RWEAs increased by £2,394.6m (£7,511.7m less £5,117.1m) during the period as set out in template UK OV1 (table 3.1). This increase was primarily driven by the application of the revised TMA.

2.2.3 Capital ratios

As a result of the movement in regulatory capital and RWEAs explained above, the CET1 ratio and total capital ratio have decreased to 24.3% (30 June 2022: 36.5%) and 24.8% (30 June 2022: 37.3%) respectively.

Until the IRB models are approved by the PRA, the TMA remains subject to change and may cause further movements in regulatory capital ratios.

2.2.4 Additional own funds requirements based on SREP

As at 30 September 2022, the Pillar 2A requirement, set by the PRA, was £115.6m (30 June 2022: £115.6m), equivalent to 1.5% of RWEAs, of which 0.9% must be met by CET1 capital.

2.2.5 Leverage ratio

The leverage ratio decreased to 6.5% as at 30 September 2022 (30 June 2022: 6.7%) due to the growth of the balance sheet during the period.

2.2.6 Liquidity Coverage Ratio (LCR)

As at 30 September 2022, the LCR was 174.7% (30 June 2022: 181.2%) 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 **30 Sep 22** £m	b 30 Jun 22 £m	c 31 Mar 22 £m	d 31 Dec 21 £m
Available own funds					
1	Common Equity Tier 1 (CET1) capital	**1,824.3**	1,867.2	1,764.7	1,775.5
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,819.8**	1,863.5	1,760.8	1,769.4
3	Tier 1 capital	**1,824.3**	1,867.2	1,764.7	1,784.5
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,819.8**	1,863.5	1,760.8	1,778.4
5	Total capital	**1,864.3**	1,907.2	1,804.7	1,815.5
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,859.8**	1,903.5	1,800.8	1,809.4
Risk-weighted exposure amounts					
7	Total risk-weighted exposure amounts	**7,511.7**	5,117.1	5,450.8	3,984.7
8	Total risk-weighted exposure amounts as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**7,506.4**	5,112.8	5,446.3	3,977.4
Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount) (%)	**24.3**	36.5	32.4	44.6
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 (%)	**24.2**	36.4	32.3	44.5
11	Tier 1 (as a percentage of risk exposure amount) (%)	**24.3**	36.5	32.4	44.8
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**24.2**	36.4	32.3	44.7
13	Total capital (as a percentage of risk exposure amount)(%)	**24.8**	37.3	33.1	45.6
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**24.8**	37.2	33.1	45.5
Leverage ratio					
15	Total exposure measure excluding claims to central banks	**28,109.4**	28,043.8	28,003.3	26,314.5
16	Leverage ratio excluding claims on central banks (%)	**6.5**	6.7	6.3	6.8
17	Leverage ratio excluding claims on central banks as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	**6.5**	6.6	6.3	6.8

3 Overview of risk weighted exposures amounts

The table below provides an overview of RWEAs and minimum capital requirements under the Pillar 1 capital requirement as at 30 September 2022. 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 RWEAs for each of the applicable exposure classes.

3.1 UK OV1 – Overview of risk weighted exposure amounts

		a	b	c
		Risk weighted exposure amount		**Capital requirement**
		30 Sep 22 £m	30 Jun 22 £m	**30 Sep 22 £m**
1	**Credit risk (excluding CCR)**	**6,874.7**	4,436.2	**550.0**
2	Of which standardised approach	1,502.7	1,552.8	120.2
3	Of which the foundation IRB (FIRB) approach *			
4	Of which slotting approach *			
UK 4a	Of which equities under the simple risk weighted approach	304.5	304.5	24.4
5	Of which the advanced IRB (AIRB) approach [1]	5,067.5	2,578.9	405.4
6	**Counterparty credit risk (CCR)**	**165.2**	217.6	**13.2**
7	Of which the standardised approach	43.5	50.1	3.5
8	Of which internal model method (IMM) *			
UK 8a	Of which exposures to a CCP	23.9	12.4	1.9
UK 8b	Of which credit valuation adjustment - CVA	97.8	155.1	7.8
9	Of which other CCR	-	-	-
15	**Settlement risk**	**-**	-	**-**
16	**Securitisations**	**31.3**	22.8	**2.5**
17	Of which SEC-IRBA approach *			
18	Of which SEC-ERBA (including IAA)	31.3	22.8	2.5
19	Of which SEC-SA approach *			
UK 19a	Of which 1250%/ deduction	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)** [2]	**-**	-	**-**
21	Of which the standardised approach	-	-	-
22	Of which IMA *			
UK 22a	**Large exposure**	**-**	-	**-**
23	**Operational risk**	**440.5**	440.5	**35.2**
UK 23a	Of which basic indicator approach *			
UK 23b	Of which standardised approach	440.5	440.5	35.2
UK 23c	Of which advanced measurement approach *			
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information) [3]	-	23.5	-
29	**Total**	**7,511.7**	5,117.1	**600.9**

Notes

1. The advanced IRB approach includes exposures to non-credit obligation assets of £50.6m (30 June 2022: £51.0m) that are subject to 100% risk weight.
2. As permitted per Article 351 of the CRR, the Group elected to set exposure to market risk as zero.
3. The amount is shown for information only, as these exposures are already included in rows 1 and 5. The Group had no equity exposure subject to 250% risk weight due to being written off during a period.

* The RWEA measured under this approach is not applicable for the Group.

The RWEAs increased by £2,394.6m during the period as set out in the above template OV1. This increase was primarily driven by the application of the revised TMA.

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

The template below sets out the flow statement of credit risk RWEAs under the IRB approach for retail mortgage exposures, as prescribed by the PRA, over the period from 30 June 2022 to 30 September 2022. The RWEAs 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 RWEAs for non-credit obligation assets of £50.6m (30 June 2022: £51.0m).

		a **Risk weighted exposure amount**
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**2,504.4**
2	Asset size (+/-)	105.5
3	Asset quality (+/-)	(27.2)
4	Model updates (+/-)	2,434.2
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**	**5,016.9**

The increase in RWEAs relates to the application of the revised TMA and the growth of the mortgage portfolio during the reporting period. This was partially offset by improvement in the mortgage quality driven by a reduction in arrears and growth in house prices.

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 LCR.

4.1 UK LIQ1 – Quantitative information of LCR

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YY)	**30 Sep 22**	30 Jun 22	31 Mar 22	31 Dec 21	**30 Sep 22**	30 Jun 22	31 Mar 22	31 Dec 21
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
		£m	£m	£m	£m	£m	£m	£m	£m
HIGH-QUALITY LIQUID ASSETS									
1	**Total high-quality liquid assets (HQLA)**					4,682.1	4,431.5	4,231.6	4,348.9
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	21,963.8	21,533.3	21,170.7	20,916.3	1,213.1	1,167.5	1,161.2	1,167.8
3	*Stable deposits*	12,842.8	12,742.9	12,338.1	11,905.7	642.1	637.1	616.9	595.3
4	*Less stable deposits*	4,086.3	3,847.2	3,916.3	4,103.8	504.2	474.8	494.7	529.6
5	Unsecured wholesale funding	377.0	397.1	392.3	381.1	229.5	256.7	262.4	262.2
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	368.7	389.1	390.1	375.5	221.2	248.7	260.2	256.6
8	*Unsecured debt*	8.2	8.0	2.2	5.6	8.2	8.0	2.2	5.6
9	*Secured wholesale funding*					0.2	0.0	-	-
10	Additional requirements	501.0	373.2	306.1	298.1	501.0	373.2	306.1	298.1
11	*Outflows related to derivative exposures and other collateral requirements*	429.9	313.9	254.5	207.9	429.9	313.9	254.5	207.9
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	71.1	59.3	51.6	90.2	71.1	59.3	51.6	90.2
14	Other contractual funding obligations	20.4	19.7	18.6	17.8	-	-	-	-
15	Other contingent funding obligations	1,815.8	1,551.8	1,427.8	1,410.0	876.9	775.9	713.9	705.0
16	**TOTAL CASH OUTFLOWS**					2,820.5	2,573.3	2,443.6	2,433.1
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	155.2	148.4	139.6	127.6	113.5	108.1	102.5	94.5
19	Other cash inflows	27.5	14.5	12.8	0.7	27.5	14.5	12.8	0.7
20	**TOTAL CASH INFLOWS**	182.7	162.9	152.4	128.3	141.0	122.6	115.3	95.2
UK-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
UK-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
UK-20c	*Inflows subject to 75% cap*	182.7	162.9	152.4	128.3	141.0	122.6	115.3	95.2
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					4,682.1	4,431.5	4,231.6	4,348.9
22	TOTAL NET CASH OUTFLOWS					2,679.5	2,450.7	2,328.3	2,337.9
23	LIQUIDITY COVERAGE RATIO (%)					174.7	181.2	182.2	186.3

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 175% as of 30 September 2022.

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

Overall, the LCR has reduced slightly, with an average LCR of 175% as of 30 September 2022 compared to an average of 181% as of 30 June 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. There has also been an increase in net stressed outflows from the impact of adverse market scenarios on derivative transactions given the steepening in the yield curve.

(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

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