Pillar 3 Disclosures
31 March 2022

SKIPTON
BUILDING SOCIETY
Since 1853

Contents

1 Introduction

1.1 Background

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

1.2 Basis and frequency of disclosure

The Pillar 3 Disclosures are published quarterly as at 31 March, 30 June, 30 September and 31 December in line with the PRA Rulebook on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of the 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 and any rows and columns that are not applicable have been left blank and any cells with no value at the time of reporting have been populated with a dash.

As this is the first time that the Group are publishing quarterly disclosures a full set of comparatives for the previous three quarters has not been disclosed as permitted under the PRA Rulebook.

1.3 Scope of application

The Group's consolidation group comprises the Skipton Building Society (Society) and all of its subsidiaries (i.e. full group consolidation). The prudential consolidation group (the Group) is detailed in section 2.6 in the annual Pillar 3 disclosures 2021 and comprises the entire Group except Connells and a small number of other entities whose activities are not closely aligned with the core business. The individual consolidation group comprises of the Society, Amber Homeloans Limited and North Yorkshire Mortgages Limited.

The Pillar 3 disclosures are reported at a prudential consolidation group level. The capital requirements under the prudential consolidation group are higher than under the individual consolidation group. On the basis that the prudential consolidation group represents the lowest capital adequacy and leverage positions and the same risk management framework is applied to both consolidation groups, these disclosures have been disclosed at a prudential consolidation group level only.

1.4 Verification of disclosure

The design of the disclosures and compliance with regulatory reporting requirements have been independently reviewed. These disclosures have also been reviewed and approved by the Board Risk Committee (BRC) on behalf of the Board at a meeting also attended by members of the Board Audit Committee (BAC).

Capital and leverage metrics reported as at 31 March 2022 exclude interim profits for the period to 31 March 2022.

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).

2 Key metrics

The table below provides a summary of the main prudential regulation ratios and measures. Capital ratios and measures are presented on an end-point basis but include adjustments for IFRS 9 relief in accordance with the Article 473a of the CRR.

UK KM1 - Key metrics template

		Prudential consolidation group	
		31 Mar 22 £m	31 Dec 21 £m
	Available own funds (amounts)		
1	Total Common Equity Tier 1 (CET1) capital	**1,764.7**	1,775.5
2	Tier 1 capital	**1,764.7**	1,784.5
3	Total capital	**1,804.7**	1,815.5
	Risk-weighted exposure amounts (RWEAs)		
4	Total risk-weighted exposure amount	**5,450.8**	3,984.7
	Capital ratios (as a % of RWEAs)		
5	Common Equity Tier 1 ratio (%)	**32.4%**	44.6%
6	Tier 1 ratio (%)	**32.4%**	44.8%
7	Total capital ratio (%)	**33.1%**	45.6%
	Additional own funds requirements based on SREP (as a % of RWEAs)		
UK 7a	Additional CET1 SREP requirements (%)	**1.2%**	1.2%
UK 7b	Additional AT1 SREP requirements (%)	**0.4%**	0.4%
UK 7c	Additional T2 SREP requirements (%)	**0.5%**	0.5%
UK 7d	Total SREP own funds requirements (%)	**10.1%**	10.1%
	Combined buffer requirement (as a % of RWEAs)		
8	Capital conservation buffer (%)	**2.5%**	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**0.0%**	0.0%
9	Institution specific countercyclical capital buffer (%) [1]	**0.014%**	0.017%
UK 9a	Systemic risk buffer (%)	**0.0%**	0.0%
10	Global Systemically Important Institution buffer (%)	**0.0%**	0.0%
UK 10a	Other Systemically Important Institution buffer	**0.0%**	0.0%
11	Combined buffer requirement (%)	**2.5%**	2.5%
UK 11a	Overall capital requirements (%)	**12.6%**	12.6%
12	CET1 available after meeting the total SREP own funds requirements (%) [2]	**26.7%**	38.9%
	Leverage ratio		
13	Total exposure measure excluding claims to central banks	**28,003.3**	26,314.5
14	Leverage ratio excluding claims on central banks (%)	**6.3%**	6.8%
	Additional leverage ratio disclosure requirements [3]		
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		
14b	Leverage ratio including claims on central banks (%)		
14c	Average leverage ratio excluding claims on central banks (%)		
14d	Average leverage ratio including claims on central banks (%)		
14e	Countercyclical leverage ratio buffer (%)		
	Liquidity Coverage Ratio [4]		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**4,231.6**	4,348.9
UK 16a	Cash outflows - Total weighted value	**2,443.5**	2,433.1
UK 16b	Cash inflows - Total weighted value	**115.2**	95.2
16	Total net cash outflows (adjusted value)	**2,328.3**	2,337.9
17	Liquidity coverage ratio (%)	**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. This buffer requirement is required to be disclosed with three decimal places.
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 have been left blank 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.

2.1 Summary of key disclosures

Total regulatory capital

The Group's capital position remains strong with Common Equity Tier 1 (CET1) capital of £1,764.7m (31 December 2021: £1,775.5m). The slight reduction in CET1 capital during the period is due to changes to the internal ratings-based (IRB) approach, which we have applied through via a temporary model adjustment (TMA), which have increased the expected credit loss amounts.

Total risk weighted exposure amounts

The risk weighted exposure amounts (RWEAs) increased by £1,466.1m during the period. This increase is driven by the implementation of the regulatory changes on 1 January 2022. The changes include changes to the IRB approach which we have applied via the application of a TMA to our IRB modelled outputs and a new standardised approach for measuring counterparty credit risk (CCR) following the UK implementation of the CRR. In addition, the Group had a temporary exposure to an issuance of the £500m covered bonds by the Society before the reporting date with the settlement in April 2022. See section 3.1 for further details.

Capital ratios

As a result of the movement in regulatory capital and RWEAs explained above, the CET1 ratio and the total capital ratio have decreased to 32.4% (31 December 2021: 44.6%) and 33.1% (31 December 2021: 45.6%) 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.

Additional own funds requirements based on SREP

As at 31 March 2022, the Pillar 2A requirement, set by the PRA, was £115.6m (31 December 2021: £115.6m), equivalent to 2.1% of RWEAs, of which 1.2% must be met by CET1 capital.

Leverage ratio

The leverage ratio has been calculated in accordance with changes to the UK's leverage ratio framework which came into effect from 1 January 2022. The leverage ratio decreased to 6.3% as at 31 March 2022 (31 December 2021: 6.8%) due to the growth of the balance sheet during the period.

Liquidity Coverage Ratio

As at 31 March 2022, the LCR was 182.2% (31 December 2021: 186.3%) and was above both the regulatory and internal limits set by the Board throughout the period.

2.2 Impact of IFRS 9 transitional arrangements

The Group has adopted 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.

IFRS 9 Impact of IFRS 9 transitional arrangements

		31 Mar 22 £m	31 Dec 21 £m
Available capital			
1	Common Equity Tier 1 (CET1) capital	**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	**1,760.8**	1,769.4
3	Tier 1 capital	**1,764.7**	1,784.5
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,760.8**	1,778.4
5	Total capital	**1,804.7**	1,815.5
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,800.8**	1,809.4
Risk-weighted exposure amounts			
7	Total risk-weighted exposure amounts	**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	**5,446.3**	3,977.4
Capital ratios			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	**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	**32.3%**	44.5%
11	Tier 1 (as a percentage of risk exposure amount)	**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	**32.3%**	44.7%
13	Total capital (as a percentage of risk exposure amount)	**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	**33.1%**	45.5%
UK Leverage ratio			
15	Total exposure measure excluding claims to central banks	**28,003.3**	26,314.5
16	Leverage ratio excluding claims on central banks (%)	**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	**6.3%**	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 31 March 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 risk weighted exposure amounts for each of the applicable exposure classes.

UK OV1 Overview of risk weighted exposure amounts

		Risk weighted exposure amounts		**Capital requirement**	
		31 Mar 22	**31 Dec 21**	**31 Mar 22**	**31 Dec 21**
		£m	£m	**£m**	£m
1	**Credit risk (excluding CRR)**	**4,872.5**	3,480.9	**389.8**	278.6
2	Of which standardised approach	2,046.7	1,516.8	163.7	121.5
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	24.4
5	Of which the advanced IRB (AIRB) approach [1]	2,521.3	1,659.6	201.7	132.7
6	**Counterparty credit risk (CCR)**	**115.1**	44.6	**9.2**	3.5
7	Of which the standardised approach [2]	37.6	12.3	3.0	1.0
8	Of which internal model method (IMM)				
UK 8a	Of which exposures to a CCP	11.2	3.1	0.9	0.2
UK 8b	Of which credit valuation adjustment - CVA	66.3	29.2	5.3	2.3
9	Of which other CCR	-	-	-	-
15	**Settlement risk**	**-**	-	**-**	-
16	**Securitisations**	**22.7**	18.7	**1.8**	1.5
17	Of which SEC-IRBA approach				
18	Of which SEC-ERBA (including IAA)	22.7	18.7	1.8	1.5
19	Of which SEC-SA approach				
UK 19a	Of which 1250%/ deduction				
20	**Position, foreign exchange and commodities risks (Market risk)** [3]	**-**	-	**-**	-
21	Of which the standardised approach	-	-	-	-
22	Of which IMA				
UK 22a	**Large exposure** [4]	**-**	-	**-**	-
23	**Operational risk**	**440.5**	440.5	**35.2**	35.2
UK 23a	Of which basic indicator approach				
UK 23b	Of which standardised approach	440.5	440.5	35.2	35.2
UK 23c	Of which advanced measurement approach				
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information) [5]	21.3	21.3	1.7	1.7
29	**Total**	**5,450.8**	3,984.7	**436.1**	318.8

Notes
1. The advanced IRB approach includes exposures to non-credit obligation assets of £52.1m (31 December 2021: £53.8) and equity exposure of £21.3m (31 December 2021: £21.3m) that are subject to 100% and 250% risk weight respectively.
2. The standardised approach to CCR was implemented with effect from 1 January 2022 and replaces the previous mark-to-market method. The comparative balance has been reported under the previous approach.
3. As permitted per Article 352 of the CRR, the Group elected to set exposure to market risk as zero.
4. The Group does not have any large exposures to report as it does not have any exposures that exceed the regulatory large exposure limit.
5. The amount is shown for information only, as these exposures are already included in rows 1 and 5.

As at 31 March 2022 the total RWEAs increased by £1,466.1m to £5,450.8m (31 December 2021: £3,984.7m). The key driver for the increase in credit risk for exposures measured under the IRB approach is the impact of new regulations applicable to IRB models from 1 January 2022. See section 3.1 for further details.

The credit risk RWEAs for exposures measured under the standardised approach increased as a result of a temporary exposure to an issuance of a £500m covered bond, where terms had been agreed before the reporting date, but settlement was completed in April 2022. From 1 January 2022, the counterparty credit risk (CCR), including credit valuation adjustments, is measured under the new standardised approach which has resulted in increased RWEAs.

3.1 IRB approach to credit risk

The Group has adopted to calculate 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 table 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 31 December 2021 to 31 March 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 £52.1m (31 December 2021: £53.8) and equity exposures of £21.3m (31 December 2021: £21.3m).

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

		Risk weighted exposure amount
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**1,584.5**
2	Asset size (+/-)	39.3
3	Asset quality (+/-)	(48.5)
4	Model updates (+/-)	872.6
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**	**2,447.9**

The improvement in the quality of the mortgages RWEAs reflects moderate reduction in arrears and growth in house prices which was offset by the modest increased portfolio size over the course of the reporting period.

The key driver for the increase in RWEAs is the inclusion of a temporary model adjustment (TMA) to uplift the Society's regulatory approved IRB model outputs to align with the Society's best view of 2022 IRB model outputs. 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.

The TMA uplifts the expected loss and RWEA outputs from the incumbent regulatory approved IRB model to the level of the redeveloped model. This adjustment is applied at portfolio level. The redevelopment of the IRB model encompasses the definition of default, the probability of default (PD) model, the loss given default model and the risk weighted asset formula. Until the IRB models are approved by the PRA, the TMA remains subject to change and may cause further movements in RWEAs.

[1] Retail mortgage exposures include owner-occupied mortgages and residential buy-to-let mortgages.
[2] Equity exposures primarily relate to the cost of investment in subsidiary companies outside the regulatory group as well as other equity investments.
[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 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.

UK LIQ1 Quantitative information of LCR

		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YY)	**31 Mar 22**	31 Dec 21	30 Sep 21	30 Jun 21	31 Mar 22	31 Dec 21	30 Sep 21	30 Jun 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		a	b	c	d	e	f	g	h
1	**Total high-quality liquid assets (HQLA)**					4,231.6	4,348.9	4,346.0	4,027.6
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	21,170.7	20,916.3	20,584.2	20,053.7	1,161.2	1,167.8	1,172.2	1,152.0
3	*Stable deposits*	12,338.1	11,905.7	11,386.5	10,950.5	616.9	595.3	569.3	547.5
4	*Less stable deposits*	3,916.3	4,103.8	4,287.4	4,278.8	494.7	529.6	559.7	560.5
5	Unsecured wholesale funding	392.3	381.1	354.5	319.8	262.4	262.2	243.5	214.4
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	390.1	375.5	348.6	314.2	260.2	256.6	237.6	208.9
8	*Unsecured debt*	2.2	5.6	5.9	5.5	2.2	5.6	5.9	5.5
9	*Secured wholesale funding*					-	-	-	-
10	Additional requirements	306.1	298.1	277.7	260.7	306.1	298.1	277.7	260.7
11	*Outflows related to derivative exposures and other collateral requirements*	254.5	207.9	171.4	157.3	254.5	207.9	171.4	157.3
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	51.6	90.2	106.3	103.4	51.6	90.2	106.3	103.4
14	Other contractual funding obligations	18.6	17.8	17.5	17.1	-	-	-	-
15	Other contingent funding obligations	1,427.8	1,410.0	1,314.0	1,312.6	713.9	705.0	657.0	656.3
16	**TOTAL CASH OUTFLOWS**					2,443.6	2,433.1	2,350.4	2,283.4
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	139.6	127.6	120.8	116.1	102.5	94.5	90.8	88.4
19	Other cash inflows	12.8	0.7	4.6	4.6	12.8	0.7	4.6	4.6
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	152.4	128.3	125.4	120.7	115.3	95.2	95.4	93.0
UK-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
UK-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
UK-20c	*Inflows subject to 75% cap*	152.4	128.3	125.4	120.7	115.2	95.2	95.4	93.0
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					4,231.6	4,348.9	4,346.0	4,027.6
22	TOTAL NET CASH OUTFLOWS					2,328.3	2,337.9	2,255.0	2,190.4
23	LIQUIDITY COVERAGE RATIO					182.2%	186.3%	193.1%	183.3%

UK LIQB Qualitative information on LCR, which complements table UK LIQ1

In accordance with Article 451a (2) of the CRR, the table below provides the qualitative information on LCR, which complements table UK LIQ1.

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 disclosure (calculated as the simple average of month end observations over the 12 months preceding the end of each quarter) was 182% as of 31 March 2022. The 4% decrease from 186% for the prior quarter is explained primarily by a slight decrease in liquid assets.
Explanations on the changes in the LCR over time	Overall, the LCR has remained stable, with an average LCR of 182% as of 31 March 2022 compared to an average LCR of 183% as of 30 June 2021. This reflects an increase in customer deposits offset by new customer lending, including greater commitments for future mortgage lending, to support more customers into their own homes.
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 Group'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 (CDs), medium term notes (MTNs), capital, central bank (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.
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 residential mortgage backed securities.
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 Skipton's credit rating are also captured.
Currency mismatch in the LCR	The LCR is calculated for GBP 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, with no non-Sterling liquid assets held within the reporting period shown and any funding issuances denominated in foreign currency are immediately swapped into Sterling. Currency risk is monitored through the internal liquidity and funding risk management frameworks.
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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