YORKSHIRE BUILDING SOCIETY

PILLAR 3 DISCLOSURES

QUARTER 3 – 2022

CONTENTS

INTRODUCTION

BACKGROUND

The European Union Capital Requirements Directive, which applies to banks and building societies, came into effect on 1 January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II accord, and included disclosure requirements known as 'Pillar 3'. These disclosures are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. Following publication of the Basel III accord, this was replaced by the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (together referred to as CRD IV) which came into force on 1 January 2014 and was superseded by PS22/21 on 1 January 2022.

PS22/21 'Implementation of Basel standards: Final rules' included revisions to the Pillar 3 disclosure framework to align to Basel international standards. The revised requirements seek to increase the efficiency of institutions' disclosures and reinforce market discipline and consistency. The implementation date in the UK was 1 January 2022. This disclosure document, which incorporates those revisions, comprises:

- quantitative disclosures (templates) more aligned with Basel international standards and supervisory reporting; and
- qualitative disclosures enabling improved consistency across banks and building societies.

BASIS AND FREQUENCY OF DISCLOSURE

The purpose of this disclosure is to provide information in line with Basel III capital requirements and on the management of risks faced by Yorkshire Building Society. The disclosures and basis of measurement are in accordance with the rules laid out in the UK PRA Rulebook (CRR) Annex K. The disclosures may differ from similar information in other published financial statements which are prepared in accordance with International Financial Reporting Standards ('IFRS'). Therefore, the information in these disclosures may not be directly comparable.

TEMPLATES NOT INCLUDED

The templates presented in this document are those which are required on a quarterly basis, and which are applicable to the Society based on thresholds set out in the guidance.

The Society is undergoing an application to use IRB models for the calculation of capital requirements. Until the Society is IRB accredited, template UKCR8 (RWEA flow statements of credit risk exposures under the IRB approach) will not be presented.

In accordance with PS22/21 'Implementation of Basel Standards: Final rules', Net Stable Funding Ratio (NSFR) disclosures are not required until after 1 January 2023; as such, this template has been omitted.

LOCATION AND VERIFICATION

These disclosures have been reviewed and approved by the Audit Committee (AC) and are published on 30 November 2022. These disclosures have not been, and are not required to be, subject to independent external audit, and do not constitute any part of the Society's financial statements.

ATTESTATION BY SENIOR MANAGEMENT

I confirm that, to the best of my knowledge, the Society's Pillar 3 disclosures for the quarter ended 30 September 2022 comply with the Disclosure (CRR) part of the PRA Rulebook and have been prepared in accordance with the Society's Pillar 3 Disclosure Policy.

Rob Purdy

Interim Chief Finance Officer

ANNEX I : KEY METRICS AND OVERVIEW OF RISK WEIGHTED EXPOSURE AMOUNTS

UK OV1 – Overview of risk weighted exposure amounts

		a	b	c
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		30/09/2022	30/06/2022	30/09/2022
		£m	£m	£m
1	Credit risk (excluding CCR)	18,594.0	17,974.9	1,487.5
2	Of which the standardised approach	18,594.0	17,974.9	1,487.5
3	Of which the foundation IRB (FIRB) approach			
4	Of which slotting approach			
UK 4a	Of which equities under the simple risk weighted approach			
5	Of which the advanced IRB (AIRB) approach			
6	Counterparty credit risk – CCR	412.4	323.1	33.0
7	Of which the standardised approach	123.3	104.7	9.9
8	Of which internal model method (IMM)			
UK 8a	Of which exposures to a CCP	14.5	10.6	1.2
UK 8b	Of which credit valuation adjustment – CVA	274.6	207.7	22.0
9	Of which other CCR	0.0	0.0	0.0
10	Empty set in the UK			
11	Empty set in the UK			
12	Empty set in the UK			
13	Empty set in the UK			
14	Empty set in the UK			
15	Settlement risk	–	–	–
16	Securitisation exposures in the non-trading book (after the cap)	26.5	19.5	2.1
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)	26.5	19.5	2.1
19	Of which SEC-SA approach			
UK 19a	Of which 1250%/deduction			
20	Position, foreign exchange and commodities risks (Market risk)	–	–	–
21	Of which the standardised approach	–	–	–
22	Of which IMA	–	–	–
UK 22a	Large exposures	–	–	–
23	Operational risk	669.0	669.0	53.5
UK 23a	Of which basic indicator approach	–	–	–
UK 23b	Of which standardised approach	669.0	669.0	53.5
UK 23c	Of which advanced measurement approach	–	–	–
24	Amounts below the thresholds for deduction (subject o 250% risk weight) (For information)	0.1	0.1	–
25	Empty set in the UK			
26	Empty set in the UK			
27	Empty set in the UK			
28	Empty set in the UK			
29	**Total**	**19,701.9**	**18,986.4**	**1,576.2**

Where values are not required to be reported, owing to the size of YBS or other reasons, cells have been left blank.

<<< CONTENTS

UK KM1 – Key metrics template

		a	b	c	d
		30/09/2022	30/06/2022	31/03/2022	31/12/2021
		£m	£m	£m	£m
	Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	3,167.4	3,150.0	2,970.7	2,970.2
2	Tier 1 capital	3,167.4	3,150.0	2,970.7	2,970.2
3	Total capital	3,433.4	3,454.8	3,284.2	3,294.9
	Risk-weighted exposure amounts				
4	Total risk-weighted exposure amount	19,701.9	18,986.4	18,282.8	17,631.0
	Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	16.08%	16.59%	16.25%	16.85%
6	Tier 1 ratio (%)	16.08%	16.59%	16.25%	16.85%
7	Total capital ratio (%)	17.43%	18.20%	17.96%	18.69%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)				
UK 7a	Additional CET1 SREP requirements (%)	0.00%	0.00%	0.00%	0.00%
UK 7b	Additional AT1 SREP requirements (%)	0.00%	0.00%	0.00%	0.00%
UK 7c	Additional T2 SREP requirements (%)	0.00%	0.00%	0.00%	0.00%
UK 7d	Total SREP own funds requirements (%)	8.00%	8.00%	8.00%	8.00%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.00%	0.00%
UK 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)				
UK 10a	Other Systemically Important Institution buffer	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.50%	2.50%	2.50%	2.50%
UK 11a	Overall capital requirements (%)	10.50%	10.50%	10.50%	10.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	9.43%	10.20%	9.96%	10.69%
	Leverage ratio				
13	Total exposure measure excluding claims on central banks	53,768.6	54,529.9	51,305.0	50,257.9
14	Leverage ratio excluding claims on central banks (%)	5.89%	5.78%	5.79%	5.91%
	Additional leverage ratio disclosure requirements				
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				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	9,186.9	8,162.9	7,491.1	6,992.8
UK 16a	Cash outflows – Total weighted value	5,269.8	4,736.8	4,432.7	4,128.9
UK 16b	Cash inflows – Total weighted value	204.7	179.0	217.6	213.0
16	Total net cash outflows (adjusted value)	5,065.1	4,557.8	4,215.1	3,915.9
17	Liquidity coverage ratio (%)	183.85%	179.64%	177.75%	178.57%

Where values are not required to be reported, owing to the size of YBS or other reasons, cells have been left blank.
Where reporting is required but there is nothing to report, cells show zero.

ANNEX XIII : LIQUIDITY REQUIREMENTS

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 YYY)	30/09/2022	30/06/2022	31/03/2022	31/12/2021	30/09/2022	30/06/2022	31/03/2022	31/12/2021
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	High-quality liquid assets	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
1	Total high-quality liquid assets (HQLA)					9,186.9	8,162.9	7,491.1	6,992.8
	Cash – outflows								
2	Retail deposits and deposits from small business customers, of which:	37,222.1	36,365.8	35,728.0	35,133.4	2,582.6	2,504.4	2,438.6	2,376.5
3	Stable deposits	18,982.6	18,888.1	18,724.5	18,473.1	949.1	944.4	936.2	923.7
4	Less stable deposits	18,239.5	17,477.7	17,003.5	16,660.2	1,633.5	1,560.0	1,502.3	1,452.9
5	Unsecured wholesale funding	337.3	215.8	160.8	111.3	304.4	193.6	146.0	100.1
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	–	–	–	–	–	–	–	–
7	Non-operational deposits (all counterparties)	265.8	166.3	76.0	39.7	232.9	144.1	61.2	28.5
8	Unsecured debt	71.5	49.5	84.8	71.5	71.5	49.5	84.8	71.5
9	Secured wholesale funding					3.9	2.5	1.2	0.4
10	Additional requirements	1,522.1	1,217.5	1,050.6	924.3	1,306.7	952.3	735.3	565.8
11	Outflows related to derivative exposures and other collateral requirements	1,282.8	922.8	700.3	526.0	1,282.8	922.8	700.3	526.0
12	Outflows related to loss of funding on debt products	–	–	–	–	–	–	–	–
13	Credit and liquidity facilities	239.2	294.7	350.3	398.3	23.9	29.5	35.0	39.8
14	Other contractual funding obligations	53.4	27.9	27.2	27.9	25.8	0.8	0.5	1.3
15	Other contingent funding obligations	2,836.8	2,850.4	2,924.2	2,854.7	1,046.4	1,083.2	1,111.2	1,084.8
16	**Total cash outflows**					**5,269.8**	**4,736.8**	**4,432.7**	**4,128.9**
	Cash – inflows								
17	Secured lending (e.g. reverse repos)	198.4	237.8	247.2	177.9	–	–	–	–
18	Inflows from fully performing exposures	334.4	314.2	309.7	310.9	161.7	157.6	154.7	152.1
19	Other cash inflows	43.0	21.4	62.9	60.9	43.0	21.4	62.9	60.9
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**	**575.9**	**573.4**	**619.7**	**549.7**	**204.7**	**179.0**	**217.6**	**213.0**
UK-20a	Fully exempt inflows	–	–	–	–	–	–	–	–
UK-20b	Inflows subject to 90% cap	–	–	–	–	–	–	–	–
UK-20c	Inflows subject to 75% cap	575.9	573.4	619.7	549.7	204.7	179.0	217.6	213.0
	Total adjusted value								
UK-21	Liquidity buffer					9,186.9	8,162.9	7,491.1	6,992.8
22	Total net cash outflows					5,065.1	4,557.8	4,215.1	3,915.9
23	Liquidity coverage ratio					183.85%	179.64%	177.75%	178.57%

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

in accordance with Article 451a(2) CRR

(a) Explanations on the main drivers of LCR results

The upward trend in the Society's average LCR across quarters is driven by an increased HQLA balance, following the Society's drawings on the TFSME scheme made in H2 2021; as well as collateral postings received on the Society's derivative contracts, with swap rates rising throughout 2022.

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

The Society's 12 month average LCR (calculated using 12 previous month end points) as at 30 September 2022 was 183.85%, this represents a 4.2% increase on the average of the 12 month end points leading up to 30 June 2022. As well as increased HQLA levels driving an increase in the average ratio, increased average net outflows can be seen from the impact of adverse market scenarios on derivative transactions, calculated through an historic look-back approach, as well as increased requirements held against downgrade triggers following swap rate movements seen over the reporting periods.

(c) Explanations on the actual concentration of funding sources

The Society remains committed to maintaining a diverse funding base to underpin its liquidity position, with risk appetite limits in place around both the diversity (by funding type and currency) and maturity profile of its wholesale funding base. In addition to this, the Society has further limits in place to ensure that an appropriate minimum proportion of the Society's activity is funded through retail deposits at all times, with the maturity profile and product concentration of these deposits also monitored within the Society's risk appetite statement.

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

The Society maintains a diverse profile of high quality liquid assets, with geographical diversification, minimum reserve amounts and SMF eligibility all core considerations of the Society's investments strategy.

(e) Derivative exposures and potential collateral calls

The Society's derivative requirements can be mainly summarised as those arising from a theoretical material (3 notch) deterioration in the Society's own credit rating, as well as outflows relating to the impact of adverse rate scenarios upon the Society's collateralised derivative contracts. As part of the latter, the Society calculates an excess collateral requirement against plausible upcoming calls based off the most recent value of its collateralised derivative positions.

(f) Currency mismatch in the LCR

The Society's core operations are transacted in GBP, with any funding accessed in other currencies hedged back to GBP at execution.

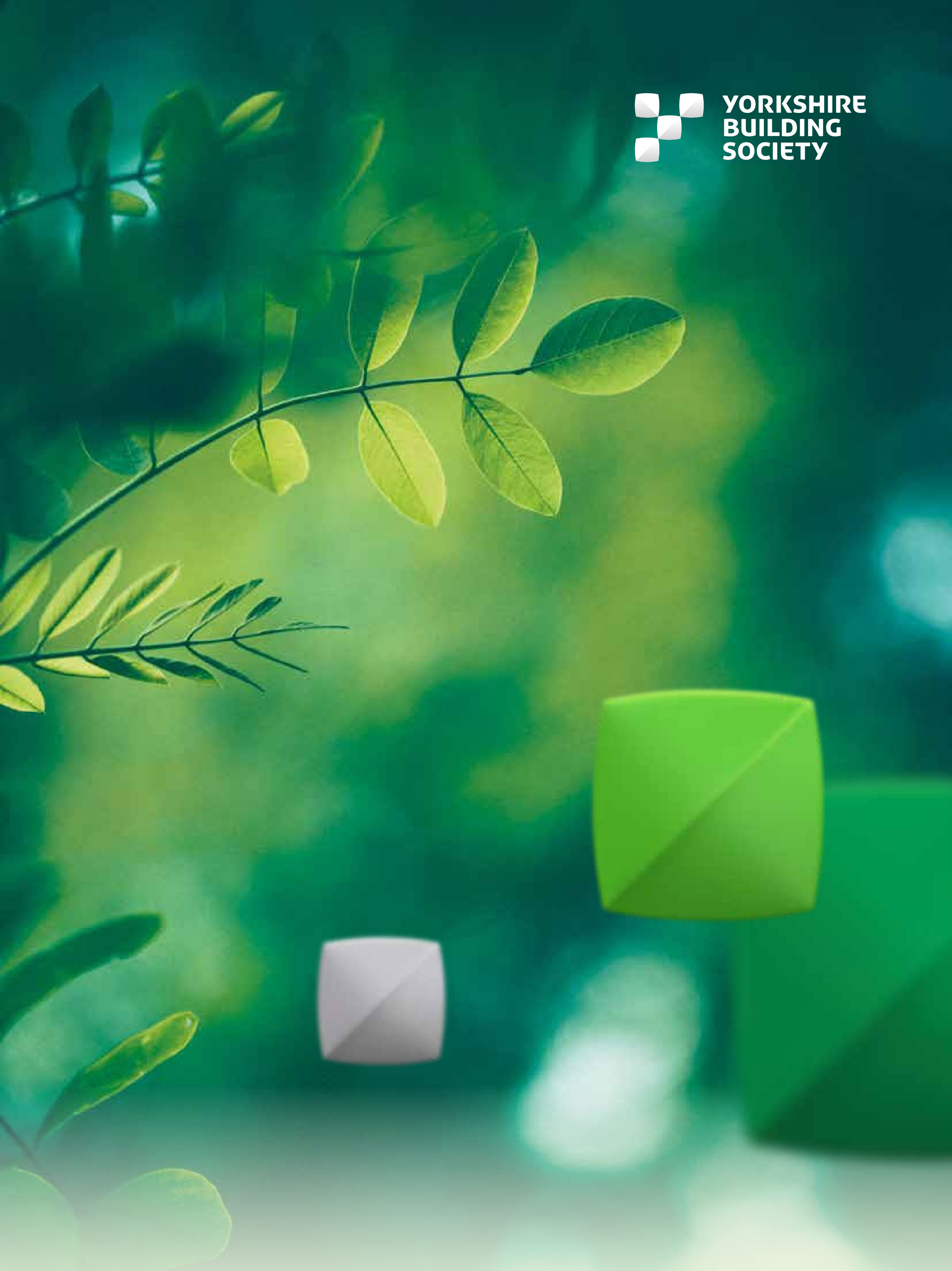
(g) Other items in the LCR calculation that are not captured in the LCR disclosure template

There are no other items that the Society considers relevant.

GLOSSARY

Additional Tier 1 (AT1) capital	Capital that meets certain criteria set out in CRD IV. In particular, the criteria require that upon the occurrence of a trigger event, the AT1 capital instrument converts to a form of Common Equity Tier 1 capital or the principal is written down on a permanent basis; or grandfathered instruments such as Permanent Interest Bearing Shares (PIBS).
Capital conservation buffer	An additional layer of usable capital that can be drawn down when losses are incurred in a stress.
Central Counterparties (CCP)	A CCP is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, where a single bilateral contract between the buyer and seller is replaced with two contracts, one between the buyer and CCP and one between the seller and CCP.
Common Equity Tier 1 (CET1) capital	The highest quality regulatory capital resources, comprising retained earnings less regulatory adjustments, as defined under CRD IV. Equivalent to Core Tier 1 defined under previous CRD legislation.
Common Equity Tier 1 capital ratio	The ratio of Common Equity Tier 1 Capital to Risk Weighted Assets.
Countercyclical buffer	A capital buffer which aims to ensure that banking sector capital requirements take account of the macro-financial environment in which banks operate.
Counterparty Credit Risk (CCR)	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	The Capital Requirements Directive IV is an EU-wide legislative package that includes prudential rules for banks, building societies and investment firms. CRD IV has been adopted with slight modification by the UK following its exit from the EU.
CRR	The Capital Requirements Regulation that applied the Basel III framework in the EU and has been incorporated into UK regulation following the UK's exit from the EU.
Credit risk	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.
Credit Valuation Adjustment (CVA)	Adjustments applied to the fair values of derivatives to reflect the creditworthiness of the counterparty.
High Quality Liquidity Assets (HQLA)	Assets which can be easily and immediately converted into cash at little or no loss of value.
Liquidity Coverage Ratio (LCR)	A liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a severe stress scenario.
Operational risk	The risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
Prudential Regulation Authority (PRA)	The UK prudential regulator, which is a part of the Bank of England and alongside the FCA, has responsibility for the oversight of building societies, banks and insurers. The PRA's objective is to promote the safety and soundness of regulated firms.
Securitisation	A transaction or scheme where assets are sold to a Special Purpose Vehicle (SPV) in return for immediate cash payment. That vehicle raises the immediate cash payment by issuing debt securities in the form of tradable notes or commercial paper to wholesale investors who receive an income from the underlying assets. Some risk is retained on the balance sheet while the remaining risk is transferred to investors. Securitisations may be purchased or retained.
Sterling Monetary Framework (SMF)	The Bank of England's operations in the sterling money markets to maintaining monetary and financial stability.
SREP	Supervisory Review and Evaluation Process, the PRA assessment of a firm's own capital assessment (ICA) under Basel III Pillar 2.

The Standardised Approach (credit risk)	The standardised approach to credit risk, calculated by applying varying RWA percentages to credit exposures, depending on the underlying risk.
The Standardised Approach (operational risk)	The standardised approach to operational risk, calculated using three-year historical net income multiplied by a factor of between 12-18%, depending on the underlying business being considered.
Systemic risk buffer	Additional capital requirement which aims to address systemic risks that are not covered by the Capital Requirements Regulation.
Term Funding Scheme with additional incentives for SMEs (TFSME)	A scheme launched by the Bank of England designed to boost lending to households and businesses by providing term funding to banks and building societies participating in the scheme at rates close to Bank Rate.
Tier 1 (T1) capital	The sum total of Common Equity Tier 1 and Additional Tier 1 capital.
Tier 1 capital ratio	The ratio of Tier 1 capital to Risk Weighted Assets.
Tier 2 (T2) capital	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
Total capital ratio	The ratio of total capital (Tier 1 and Tier 2) to Risk Weighted Assets.
Total Capital Requirement (TCR)	The total of Pillar 1 requirements and Pillar 2A requirements.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