

Santander UK Group Holdings plc

March 2018 Additional Capital Disclosures

Additional Capital Disclosures

Introduction

As a significant wholly-owned subsidiary of Banco Santander, S.A., under CRD IV¹ Santander UK Group Holdings plc (the 'Company') is required to produce and publish annually a specified number of Pillar 3 disclosures rather than a complete set of Pillar 3 disclosures. In accordance with the EBA guidelines on disclosure frequency², the Company has assessed the need to publish capital-related disclosures more frequently than annually, and the disclosures deemed appropriate for more frequent publication have been included in the additional capital disclosures set out in this document. All disclosures cover the consolidated Santander UK Group Holdings plc group position.

The Company is the immediate parent company of Santander UK plc. The Company and Santander UK plc operate on the basis of a unified business strategy, albeit the principal business activities are currently carried out by the Santander UK plc group. The Company was incorporated on 23 September 2013 and on 10 January 2014 became the immediate parent company of Santander UK plc and its controlled entities. From this date, the Company became the head of the Santander UK group for regulatory capital and leverage purposes.

Key metrics

The following table summarises the Company's Own Funds and key risk-based capital ratios at 31 March 2018, together with the previously disclosed quarter end information at 31 December 2017, 30 September 2017, 30 June 2017 and 31 March 2017. Further detail on Risk Weighted Assets is included in the subsequent sections of this document.

	31 March 2018 £m	31 December 2017 £m	30 September 2017 £m	30 June 2017 £m	31 March 2017 £m
Available Capital (amounts)					
Common Equity Tier 1 (CET1) capital	10,681	10,620	10,699	10,591	10,442
Fully loaded ³ Expected Credit Loss (ECL) accounting model CET1	10,663	-	-	-	-
Tier 1 capital	13,045	13,068	13,153	13,042	12,407
Fully loaded ECL accounting model Tier 1	13,027	-	-	-	-
Total capital	15,205	15,488	15,605	15,641	15,113
Fully loaded ECL accounting model total capital	15,186	-	-	-	-
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	85,275	87,005	88,138	87,194	87,997
Fully loaded ECL accounting model total RWA	85,356	-	-	-	-
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio	12.5%	12.2%	12.1%	12.1%	11.9%
Fully loaded ECL accounting model Common Equity Tier 1 (%)	12.5%	-	-	-	-
Tier 1 ratio	15.3%	15.0%	14.9%	15.0%	14.1%
Fully loaded ECL accounting model Tier 1 ratio (%)	15.3%	-	-	-	-
Total capital ratio	17.8%	17.8%	17.7%	17.9%	17.2%
Fully loaded ECL accounting model total capital ratio (%)	17.8%	-	-	-	-
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019) (%)	1.88%	1.25%	1.25%	1.25%	1.25%
Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Bank G-SIB and/or D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Total of bank CET1 specific buffer requirements (%)	1.88%	1.25%	1.25%	1.25%	1.25%
CET1 available after meeting the banks minimum capital requirements (%)	6.15%	6.46%	6.35%	6.35%	6.15%
Basel III leverage ratio					
Total Basel III leverage ratio exposure measure	315.4	317.7	317.7	308.0	304.3
Basel III leverage ratio	4.0%	4.0%	4.0%	4.1%	3.9%
Fully loaded ECL accounting model leverage Ratio	4.0%	-	-	-	-
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA)	47,084	47,428	45,770	48,495	47,133
Total net cash outflow	35,666	39,666	37,492	36,508	36,801
Liquidity coverage ratio (LCR)	132.01%	120.0%	122.1%	133.0%	128.1%

Key Movements

The CET1 capital ratio increased 30bps to 12.5%, with retained profits and continued build of CET1 capital, as well as a reduction in RWAs through enhanced focus on risk-weighted assets and the widening of the scope of our large corporate model.

Total capital ratio remained flat at 17.8%, with higher CET1 capital, offset by the transitional impact of CRD IV Minority Interest rules that reduces recognition of grandfathered capital instruments issued by Santander UK plc.⁴

The LCR increased 13 percentage points to 133%, reflecting management of requirements and liquidity planning.

¹ The Capital Requirements Directive IV ('CRD IV') and Capital Requirements Regulation ('CRR') legislative package, collectively referred to as CRD IV

² EBA guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(20) and 433 of Regulation (EU) No 575/2013

³ Fully loaded excludes the impact of transitional arrangements.

⁴ The total capital ratio continues to be impacted by the transitional reduction in the recognition of Tier 1 and Tier 2 capital instruments issued from the Santander UK plc subsidiary under the CRD IV Minority Interest rules, which are being phased in at 20% increments over a five year period.

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Leverage Ratio

The following table summarises the Company's end point CRD IV and UK PRA Tier 1 Leverage ratio at 31 March 2018, together with the previously disclosed quarter end information at 31 December 2017, 30 September 2017, 30 June 2017 and 31 March 2017. This is consistent with the Leverage ratio applied to large UK banks under the framework defined by the Financial Policy Committee's review of the Leverage ratio.

	31 March 2018 £m	31 December 2017 £m	30 September 2017 £m	30 June 2017 £m	31 March 2017 £m
Common Equity Tier 1 (CET1) capital	10,681	10,620	10,669	10,591	10,442
End point Additional Tier 1 (AT1) capital	2,041	2,041	2,041	2,041	1,545
End point Tier 1 capital	12,722	12,661	12,710	12,632	11,987
Leverage Exposure CRD IV (£bn)	315.4	317.7	317.7	308.0	304.3
Leverage Exposure UK Leverage Ratio ¹ (£bn)	291.3	287.0	287.4	289.3	291.8
End point Tier 1 Leverage Ratio CRD IV	4.0%	4.0%	4.0%	4.1%	3.9%
End point Tier 1 Leverage Ratio UK Leverage Ratio ¹	4.4%	4.4%	4.4%	4.4%	4.1%
Average Tier 1 Leverage Ratio UK Leverage Ratio ¹	4.3%	4.4%	4.3%	4.3%	4.0%

The Leverage Ratio improved slightly due to reduced exposure and improved end point Tier 1 capital.

¹ Includes deduction permitted under the recommendation from Financial Policy Committee on 25th July 2016

RWA and Capital Requirements

Overview of RWA

The following table details RWA compared to the previous quarter and equivalent Own Funds Requirements. Own Funds Requirements are calculated as RWA multiplied by 8%.

	RWA		Minimum capital requirements
	31 March 2018 £bn	31 December 2017 £bn	31 March 2018 £bn ¹
Credit risk (excluding counterparty credit risk) (CCR) ^{note1}	67.2	68.2	5.4
- Of which standardised approach (SA)	22.4	24.6	1.8
- Of which foundation internal rating-based approach	9.4	9.6	0.8
- Of which advanced internal rating-based approach	35.2	33.7	2.8
- Of which equity IRB under the Simple risk-weight or the internal models approach	0.2	0.3	-
Counterparty credit risk ^{note1}	6.4	6.7	0.5
- Of which marked to market	3.9	4.4	0.3
- Of which original exposure	-	-	-
- Of which standardised approach for counterparty credit risk	-	-	-
- Of which internal model method (IMM)	-	-	-
- Of which risk exposure amount for contributions to the default fund of a CCP	0.2	0.1	-
- Of which CVA	2.3	2.2	0.2
Settlement risk	-	-	-
Securitisation exposures in banking book (after cap) ²	0.8	1.0	0.1 ^{note1}
- Of which IRB ratings-based approach (RBA)	0.5	0.4	-
- Of which IRB supervisory formula approach (SFA)	-	-	-
- Of which internal assessment approach (IAA)	-	-	-
- Of which standardised approach	0.3	0.6	-
Market risk ^{note1}	3.4	3.6	0.3
- Of which standardised approach	0.2	0.4	-
- Of which internal model approach (IM)	3.2	3.2	0.3
Operational Risk ^{note1}	7.5	7.5	0.6
- Of which basic indicator approach	-	-	-
- Of which standardised approach	7.5	7.5	0.6
- Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustments	-	-	-
Total ^{note1}	85.3	87.0	6.8

RWA flow statements of credit risk exposures under IRB and RWA flow statements of credit risk exposures under standardised.

RWA flow statements of credit risk exposures under IRB

	RWA £bn	Capital requirements
RWAs at 1 January	46.9	3.8
Asset size	0.4	-
Asset quality	(0.3)	-
Model updates	1.2	0.1
Methodology and policy	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	-	-
Other	-	-
RWAs at 31 March	48.2	3.9

RWA flow statements of credit risk exposures under standardised approach

	RWA £bn	Capital requirements
RWAs at 1 January	26.8	2.1
Asset size	(0.1)	-
Asset quality	(0.1)	-
Model updates	(2.7)	(0.2)
Methodology and policy	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	-	-
Other	-	-
RWAs at 31 March	23.9	1.9

Main movement is due to the expansion of the IRB models for corporates, moving exposures from Standardised to IRB approach.

¹ Includes balances which are not visible due to rounding have been included in the total

² Includes 3 Significant Risk Transfer transactions which are subject to re-characterisation risk

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Credit risk and Counterparty risk by risk class

The following table details RWA and equivalent Own Funds Requirements (RWA multiplied by 8%) per risk class. Counterparty Risk and Credit Valuation Adjustment Risk are included in the table.

RWA

	31 March 2018 £bn	31 December 2017 £bn	30 September 2017 £bn	30 June 2017 £bn	31 March 2017 £bn
Standardised Approach credit risk					
Institutions	0.4	0.2	0.3	0.4	0.5
Corporates	12.5	15.4	16.2	16.1	17.8
Standardised Retail	6.4	6.6	6.7	6.2	6.8
Secured by Mortgages on Immovable Property	0.5	0.6	0.6	0.6	0.6
Exposures in Default	0.3	0.4	0.5	0.3	0.3
Higher-risk Categories	0.2	0.1	0.1	0.3	-
Covered Bonds	0.4	0.4	0.4	0.4	0.3
Equity	-	-	0.1	0.1	0.3
Securitisation Positions	0.3	0.6	0.4	0.7	0.4
Other	2.9	2.5	2.5	2.5	2.6
Total	23.9	26.8	27.8	27.6	29.6

	31 March 2018 £bn	31 December 2017 £bn	30 September 2017 £bn	30 June 2017 £bn	31 March 2017 £bn
IRB Approach credit risk					
Institutions	1.9	1.9	1.9	1.6	1.9
Corporates	16.2	14.7	15.3	15.6	13.4
IRB Retail Mortgages	25.6	25.8	25.9	26.0	25.7
IRB Qualifying Revolving Retail Exposures	1.9	1.9	1.9	1.9	1.9
Other Retail	1.9	1.9	2.0	2.0	2.4
Securitisation Positions	0.5	0.4	0.3	0.2	0.4
IRB Equity Exposures – 370% Risk Weight	0.2	0.3	0.1	0.1	0.1
Total	48.2	46.9	47.4	47.4	45.8
CVA	2.3	2.2	2.1	1.5	1.7

Own Funds Requirements

	31 March 2018 8% RWA £bn	31 December 2017 8% RWA £bn	30 September 2017 8% RWA £bn	30 June 2017 8% RWA £bn	31 March 2017 8% RWA £bn
Standardised Approach credit risk					
Institutions	-	-	-	-	-
Corporates	1.0	1.2	1.3	1.3	1.4
Standardised Retail	0.5	0.5	0.5	0.5	0.5
Secured by Mortgages on Immovable Property	-	-	-	-	0.1
Exposures in Default	-	-	-	-	-
Higher-risk Categories	-	-	-	-	-
Covered Bonds	-	-	-	-	-
Equity	-	-	-	-	-
Securitisation Positions	-	-	-	0.1	-
Other	0.2	0.2	0.2	0.2	0.2
Total^{note1}	1.9	2.1	2.2	2.2	2.4

	31 March 2018 8% RWA £bn	31 December 2017 8% RWA £bn	30 September 2017 8% RWA £bn	30 June 2017 8% RWA £bn	31 March 2017 8% RWA £bn
IRB Approach credit risk					
Institutions	0.2	0.2	0.1	0.1	0.2
Corporates	1.3	1.2	1.2	1.2	1.1
IRB Retail Mortgages	2.0	2.1	2.1	2.1	2.1
IRB Qualifying Revolving Retail Exposures	0.1	0.2	0.1	0.2	0.1
Other Retail	0.1	0.2	0.2	0.2	0.2
Securitisation Positions	-	-	-	-	-
IRB Equity Exposures – 370% Risk Weight	-	-	-	-	-
Total^{note1}	3.9	3.8	3.8	3.8	3.7
CVA	0.2	0.2	0.2	0.1	0.1

¹ Includes balances which are not visible due to rounding have been included in the total