# Santander UK Group Holdings plc and Santander UK plc

# September 2020 Additional Capital and Risk Management Disclosures

## Introduction

As a significant wholly-owned subsidiary of Banco Santander, S.A., under CRD IV[1] Santander UK Group Holdings plc (the 'Company') is required to produce and publish annually a specified number of Pillar 3 disclosures. In accordance with the European Banking Authority (EBA) guidelines on disclosure frequency[2], 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 within Part 1 of this document on pages 3 to 8 cover the consolidated Santander UK Group Holdings plc group position.

The Company is the immediate parent company of Santander UK plc, a Ring Fenced Bank (RFB), and associated controlled entities and is the head of the Santander UK group for regulatory capital and leverage purposes. Part 2 of this document on pages 9-12 includes a specified number of Pillar 3 disclosures in accordance with the EBA guidelines on disclosure frequency for the Santander UK plc group, which are similar to those for the Company.

The regulatory and supervisory measures to alleviate the financial stability impact of Coronavirus pandemic (Covid-19) and maintain the safety and soundness of authorised firms have been reflected in the Santander UK Group Holdings plc group and Santander UK plc group capital results. These measures are aimed to ensure the Santander UK Group Holdings plc group and the Santander UK plc group are able to continue to lend to households and businesses, support the real economy, and provide robust and consistent market disclosures. While activity is disrupted, substantial and substantive Government and Central Bank measures have been put in place in the UK and internationally to support businesses and households.

**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.

# Additional Capital and Risk Management Disclosures for Santander UK Group Holdings plc group

The following table summarises the Company's Own Funds and key risk-based capital ratios at 30 September 2020 together with the previously disclosed quarter end information at 30 June 2020, 31 March 2020, 31 December 2019 and 30 September 2019. Further detail on Risk Weighted Assets is included in the subsequent sections of this document.

## Key metrics

| | 30 September 2020 £m | 30 June 2020 £m | 31 March 2020 £m | 31 December 2019 £m | 30 September 2019 £m |
|---|---|---|---|---|---|
| **Available Capital (amounts)** | | | | | |
| Common Equity Tier 1 (CET1) capital | 10,683 | 10,575 | 10,659 | 10,438 | 10,327 |
| Fully loaded[1] Expected Credit Loss (ECL) accounting model CET1 | 10,670 | 10,512 | 10,612 | 10,422 | 10,311 |
| Tier 1 capital | 13,165 | 13,056 | 13,143 | 13,083 | 12,981 |
| Fully loaded ECL accounting model Tier 1 | 13,152 | 12,993 | 13,096 | 13,066 | 12,966 |
| Total capital | 15,533 | 15,514 | 15,632 | 15,778 | 15,943 |
| Fully loaded ECL accounting model total capital | 15,520 | 15,451 | 15,585 | 15,761 | 15,927 |
| **Risk-weighted assets (amounts)** | | | | | |
| Total risk-weighted assets (RWA) | 74,154 | 72,718 | 74,014 | 73,202 | 74,516 |
| Fully loaded ECL accounting model total RWA | 74,072 | 72,616 | 73,979 | 73,232 | 74,547 |
| **Risk-based capital ratios as a percentage of RWA** | | | | | |
| Common Equity Tier 1 ratio | 14.4% | 14.5% | 14.4% | 14.3% | 13.9% |
| Fully loaded ECL accounting model Common Equity Tier 1 (%) | 14.4% | 14.5% | 14.3% | 14.2% | 13.8% |
| Tier 1 ratio | 17.8% | 18.0% | 17.8% | 17.9% | 17.4% |
| Fully loaded ECL accounting model Tier 1 ratio (%) | 17.8% | 17.9% | 17.7% | 17.8% | 17.4% |
| Total capital ratio | 20.9% | 21.3% | 21.1% | 21.6% | 21.4% |
| Fully loaded ECL accounting model total capital ratio (%) | 21.0% | 21.3% | 21.1% | 21.5% | 21.4% |
| **Additional CET1 buffer requirements as a percentage of RWA** | | | | | |
| Capital conservation buffer requirement (2.5% from 2019) (%) | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Countercyclical buffer requirement (%) | - | - | 0.02% | 0.98% | 0.98% |
| Bank G-SIB and/or D-SIB additional requirements (%) | - | - | - | - | - |
| Total of bank CET1 specific buffer requirements (%) | 2.5% | 2.5% | 2.52% | 3.48% | 3.48% |
| CET1 available after meeting the banks minimum capital | 7.41% | 7.54% | 7.38% | 6.28% | 5.88% |
| **CRD IV leverage ratio** | | | | | |
| Total CRD IV leverage ratio exposure measure(£bn) | 303.3 | 308.1 | 298.0 | 295.6 | 293.6 |
| CRD IV leverage ratio | 4.3% | 4.2% | 4.3% | 4.3% | 4.3% |
| Fully loaded ECL accounting model leverage Ratio | 4.2% | 4.1% | 4.3% | 4.3% | 4.3% |
| **Liquidity Coverage Ratio** | | | | | |
| Total high-quality liquid assets (HQLA) | 47,116 | 47,425 | 42,900 | 41,604 | 44,363 |
| Total net cash outflow | 30,995 | 32,274 | 31,186 | 29,266 | 29,927 |
| Liquidity coverage ratio (LCR) | 152.0% | 146.9% | 137.6% | 142.2% | 148.2% |

**Key Movements**
CET1 capital increased to £10.7bn, with ongoing capital accretion through retained profits and a lower deduction from the excess of regulatory expected loss amounts over credit provisions. These improvements were partially offset by adverse market driven movements in the defined pension schemes.
CET1 capital ratio increased 10bps to 14.4%, with a 4.7p.p. buffer to Maximum Distributable Amount (MDA) restrictions.
LCR has increased to 152% with higher customer deposits and an October 20 £3.2bn mortgage asset transfer to Santander Financial Services (SFS).

[1] Fully loaded excludes the impact of transitional arrangements.

**Key metrics – Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirements**

The following table summarises key metrics about Own Funds and Eligible Liabilities available, and MREL requirements applied, for the Santander UK Group Holdings plc group.

| | 30 September 2020 £m | 30 June 2020 £m | 31 March 2020 £m | 31 December 2019 £m | 30 September 2019 £m |
|---|---|---|---|---|---|
| Total Own Funds and Eligible Liabilities available | 23,282 | 23,860 | 23,829 | 23,787 | 25,427 |
| Fully loaded ECL accounting model Own Funds and Eligible Liabilities available | 23,269 | 23,796 | 23,782 | 23,771 | 25,411 |
| Total RWA at the level of the resolution group | 74,154 | 72,718 | 74,014 | 73,202 | 74,516 |
| Total Own Funds and Eligible Liabilities as a percentage of RWA | 31.4% | 32.8% | 32.2% | 32.5% | 34.1% |
| Fully loaded ECL accounting model Own Funds and Eligible Liabilities as a percentage of fully loaded ECL accounting model RWA | 31.4% | 32.8% | 32.3% | 32.5% | 34.1% |
| CRD IV Leverage exposure measure at the level of the resolution group | 303,267 | 308,063 | 298,015 | 295,562 | 293,591 |
| Total Own Funds and Eligible Liabilities as a percentage of CRD IV leverage exposure measure | 7.7% | 7.7% | 8.0% | 8.0% | 8.7% |
| Fully loaded ECL accounting model Own Funds and Eligible Liabilities as a percentage of fully loaded ECL accounting model CRD IV leverage ratio exposure measure | 7.7% | 7.7% | 8.0% | 8.0% | 8.7% |
| Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? | No | No | No | No | No |
| Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? | No | No | No | No | No |
| If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with Excluded Liabilities and that is recognised as Own Funds and Eligible Liabilities, divided by funding issued that ranks pari passu with Excluded Liabilities and that would be recognised as Own Funds and Eligible Liabilities if no cap was applied (%) | n/a | n/a | n/a | n/a | n/a |

The MREL requirement for the Santander UK Group Holdings plc group, excluding capital buffers, is the higher of:

- 16% of consolidated RWAs or 6% of the CRR Leverage exposure

## IFRS 9 Transitional Arrangements

The following table summarises the impact of IFRS 9 transitional arrangements at 30 September 2020 over the full allowable period.

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| IFRS9 Transitional Factor | 70% | 50% | 25% | | |
| IFRS9 Transitional Factor for credit loss-based provision movements post 1/1/20 | 100% | 100% | 75% | 50% | 25% |
| **Available Capital (amounts)** | | | | | |
| Common Equity Tier 1 (CET1) capital | 10,683 | 10,680 | 10,675 | 10,670 | 10,670 |
| CET1 Capital as if IFRS 9 STATIC transitional arrangements were not applied | 10,670 | 10,670 | 10,670 | 10,670 | 10,670 |
| CET1 Capital as if IFRS 9 DYNAMIC transitional arrangements were not applied | 10,683 | 10,680 | 10,675 | 10,670 | 10,670 |
| CET1 Capital as if ALL IFRS 9 transitional arrangements were not applied | 10,670 | 10,670 | 10,670 | 10,670 | 10,670 |
| Tier 1 Capital | 13,165 | 13,162 | 13,157 | 13,152 | 13,152 |
| Tier 1 Capital as if ALL IFRS 9 transitional arrangements were not applied | 13,152 | 13,152 | 13,152 | 13,152 | 13,152 |
| Total Capital | 15,533 | 15,530 | 15,525 | 15,520 | 15,520 |
| Total Capital as if ALL IFRS 9 transitional arrangements were not applied | 15,520 | 15,520 | 15,520 | 15,520 | 15,520 |
| **Risk-weighted assets (amounts)** | | | | | |
| Total risk-weighted assets (RWA) | 74,154 | 74,158 | 74,139 | 74,121 | 74,096 |
| Total RWA as if IFRS 9 STATIC transitional arrangements were not applied | 74,231 | 74,213 | 74,167 | 74,121 | 74,096 |
| Total RWA as if IFRS 9 DYNAMIC transitional arrangements were not applied | 73,995 | 74,017 | 74,044 | 74,072 | 74,072 |
| Total RWA as if ALL IFRS 9 transitional arrangements were not applied | 74,072 | 74,072 | 74,072 | 74,072 | 74,072 |
| **Capital Ratios** | | | | | |
| Common Equity Tier 1 ratio | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% |
| Common Equity Tier 1 as if ALL IFRS 9 transitional arrangements were not applied | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% |
| Tier 1 ratio | 17.8% | 17.8% | 17.8% | 17.7% | 17.8% |
| Tier 1 as if ALL IFRS 9 transitional arrangements were not applied | 17.8% | 17.8% | 17.8% | 17.8% | 17.8% |
| Total capital ratio | 20.9% | 20.9% | 20.9% | 20.9% | 20.9% |
| Total Capital as if ALL IFRS 9 transitional arrangements were not applied | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% |
| **CRD IV leverage ratio** | | | | | |
| Leverage Ratio Total Exposure Measure | 303,267 | 303,267 | 303,267 | 303,267 | 303,267 |
| Leverage Ratio | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% |
| Leverage ratio as if ALL IFRS 9 transitional arrangements were not applied | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% |

The Company is applying the IFRS 9 capital transitional arrangements set out in EU Regulation 2017/2395 and EU Regulation 2020/873 that amend the Capital Requirements Regulation. Under the transitional arrangements, the Company is entitled to mitigate the effect to capital of Expected Credit Loss-based provisioning following the implementation of IFRS 9. The transitional arrangements last for a five-year period beginning on the 1st of January 2018 with the amount of capital relief available reduced each year by the transitional factor, with an extended transitional period used for capital relief against provision movements from 1 January 2020. The transitional factor is 70 percent in 2020, declining to 50 percent in 2021 and 25 percent in 2022, and for post 1 January 2020 provision movements is 100 percent in 2020 and 2021, 75 percent in 2022, 50 percent in 2023 and 25 percent in 2024.

The capital relief affects both the capital base and RWAs reported by the Company. The adjustment to CET1 capital is comprised of a static element and a dynamic element. The static element is based on the CET1 capital impact of the change in provision levels upon implementation of IFRS 9 (on 1st January 2018). The capital adjustments from this static element will only change over the five-year transition period due to the phased reduction of the transitional factor. The dynamic element is based on the capital impact of the change in provision levels for non-credit impaired exposures from the first day of the implementation of IFRS 9. The dynamic element will change over the transition period and is also subject to progressive reduction over the 5-year transitional period and the extended period for provision movements post 1 January 2020 due to the transitional factor. In addition to this adjustment, the transitional arrangements also reduce associated capital position impacts for exposures modelled under the Standardised Approach for Credit Risk, deferred tax assets created upon adoption of IFRS 9 ECL-based provisioning and Tier 2 capital from an excess of provisions over expected losses for exposures modelled using the Internal Rating Based approach.

## Leverage Ratio

The following table summarises the Company's end point CRD IV and UK Leverage Ratio at 30 September 2020 together with the previously disclosed quarter end information at June 2020, 31 March 2020, 31 December 2019 and 30 September 2019. The UK Leverage Ratio 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.

| | 30 September 2020 | 30 June 2020 | 31 March 2020 | 31 December 2019 | 30 September 2019 |
|---|---|---|---|---|---|
| Common Equity Tier 1 (CET1) capital (£m) | 10,683 | 10,575 | 10,659 | 10,438 | 10,327 |
| End point Additional Tier 1 (AT1) capital (£m) | 2,140 | 2,186 | 2,209 | 2,187 | 2,222 |
| End point Tier 1 capital (£m) | 12,823 | 12,761 | 12,868 | 12,625 | 12,549 |
| | | | | | |
| Leverage Exposure CRD IV (£bn) | 303.3 | 308.1 | 298.0 | 295.6 | 293.6 |
| Leverage Exposure UK[1] (£bn) | 263.3 | 269.0 | 271.9 | 269.2 | 273.5 |
| | | | | | |
| End point Tier 1 Leverage Ratio CRD IV | 4.3% | 4.2% | 4.3% | 4.3% | 4.3% |
| End point Tier 1 Leverage Ratio UK[1] | 4.9% | 4.7% | 4.7% | 4.7% | 4.6% |
| | | | | | |
| Average Tier 1 Leverage Ratio UK[1] | 4.8% | 4.7% | 4.7% | 4.6% | 4.5% |

UK leverage ratio at 4.9%, was 1.3 p.p. above the regulatory requirement.

## Liquidity Coverage Ratio

The values presented below are the simple average of the preceding monthly periods ending on the reporting date as specified in the table.

| | Average unweighted value | | Average weighted value | |
|---|---|---|---|---|
| | 30 September 2020 £m | 30 June 2020 £m | 30 September 2020 £m | 30 June 2020 £m |
| Total high-quality liquid assets (HQLA) | 45,579 | 45,677 | 45,202 | 45,136 |
| **CASH OUTFLOWS** | | | | |
| **Retail deposits and deposits from small business customers, of which:** | **136,769** | **135,340** | **8,009** | **7,931** |
| Stable deposits | 119,542 | 118,326 | 5,977 | 5,917 |
| Less stable deposits | 17,227 | 17,014 | 2,032 | 2,014 |
| **Unsecured wholesale funding** | **26,076** | **25,036** | **14,581** | **14,092** |
| Operational deposits (all counterparties) and deposits in networks of cooperative banks | | | | |
| Non-operational deposits (all counterparties) | 24,436 | 23,360 | 12,941 | 12,416 |
| Unsecured debt | 1,640 | 1,676 | 1,640 | 1,676 |
| **Secured wholesale funding** | **13,819** | **13,064** | **247** | **327** |
| **Additional requirements** | **19,886** | **19,854** | **8,430** | **8,279** |
| Outflows related to derivative exposures and other collateral requirements | 6,466 | 6,194 | 6,466 | 6,194 |
| Outflows related to loss of funding on debt products | 182 | 266 | 182 | 266 |
| Credit and liquidity facilities | 13,238 | 13,394 | 1,782 | 1,819 |
| **Other contractual funding obligations** | **55** | **60** | **-** | **3** |
| **Other contingent funding obligations** | **25,808** | **26,110** | **2,020** | **2,034** |
| **TOTAL CASH OUTFLOWS** | **222,413** | **219,464** | **33,287** | **32,666** |
| **CASH INFLOWS** | | | | |
| Secured lending (eg reverse repos) | 7,641 | 8,983 | 23 | 38 |
| Inflows from fully performing exposures | 1,786 | 1,841 | 1,074 | 1,102 |
| Other cash inflows | 1,917 | 1,709 | 657 | 451 |
| (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) | | | | |
| (Excess inflows from a related specialised credit institution) | | | | |
| **TOTAL CASH INFLOWS** | **11,344** | **12,533** | **1,754** | **1,591** |
| Fully exempt inflows | | | | |
| Inflows Subject to 90% Cap | | | | |
| Inflows Subject to 75% Cap | 9,013 | 9,352 | 1,782 | 1,705 |
| LIQUIDITY BUFFER | - | - | 45,202 | 45,136 |
| TOTAL NET CASH OUTFLOWS | - | - | 31,507 | 30,963 |
| **LIQUIDITY COVERAGE RATIO (%)** | **-** | **-** | **143.47** | **145.78** |
| Number of data points used in calculation of averages | 12 | 12 | 12 | 12 |

### Key Movements

The average LCR of 143.47% reflects our prudent approach in the uncertain operating environment and is significantly above the regulatory requirements.

---

[1] Includes the impact of AT1 cap on end point AT1 capital and deductions permitted under the recommendation from the Financial Policy Committee on 25th July 2016.

## RWA and Capital Requirements

### Overview of RWA

The following table details RWA and equivalent Own Funds Requirements. Own Funds Requirements are calculated as RWA multiplied by 8%.

| | RWA | | Minimum capital requirements |
|---|---|---|---|
| | 30 September 2020 £bn | 30 June 2020 £bn | 30 September 2020 £bn[1] |
| Credit risk (excluding counterparty credit risk) [1] | 64.0 | 62.3 | 5.1 |
| - Of which: standardised approach (SA) | 17.8 | 18.1 | 1.4 |
| - Of which: foundation internal rating-based approach (FIRB) approach | 5.3 | 5.1 | 0.4 |
| - Of which: advanced internal rating-based approach (AIRB) approach | 40.9 | 39.1 | 3.3 |
| Counterparty credit risk (CCR) [1] | 0.9 | 0.9 | 0.1 |
| - Of which: standardised approach for counterparty credit risk | 0.3 | 0.2 | - |
| - Of which: Internal Model Method (IMM) | 0.6 | 0.7 | - |
| - Of which: other CCR | - | - | - |
| Credit Valuation Adjustment (CVA) | 0.3 | 0.4 | - |
| Equity positions under the simple risk weight approach and the internal model method during the five-year linear phase-in period | 0.5 | 0.5 | - |
| Equity investments in funds – look-through approach | - | - | - |
| Equity investments in funds – mandate-based approach | - | - | - |
| Equity investments in funds – fall-back approach | - | - | - |
| Settlement risk | - | - | - |
| Securitisation exposures in banking book (after cap) [2] | 1.0 | 1.1 | 0.1 |
| - Of which: securitisation IRB approach (SEC-IRBA) | 0.2 | 0.2 | - |
| - Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA) | 0.5 | 0.6 | - |
| - Of which: securitisation standardised approach (SEC-SA) | 0.3 | 0.3 | - |
| Market risk [1] | 0.2 | 0.2 | - |
| - Of which: standardised approach | 0.2 | 0.2 | - |
| - Of which: internal model approach (IM) | - | - | - |
| Capital charge for switch between trading book and banking book | - | - | - |
| Operational risk [1] | 7.3 | 7.3 | 0.6 |
| Amounts below the thresholds for deduction (subject to 250% risk weight) | - | - | - |
| Aggregate capital floor applied | - | - | - |
| Floor adjustment (before application of transitional cap) | - | - | - |
| Floor adjustment (after application of transitional cap) | - | - | - |
| Total[1] | 74.2 | 72.7 | 5.9 |

### RWA flow statements of credit risk exposures under IRB and RWA flow statements of credit risk exposures under standardised[3]

**RWA flow statements of credit risk exposures under IRB**

| | RWA £bn | Capital requirements |
|---|---|---|
| RWAs at 1 July | 45.6 | 3.6 |
| Asset size | 0.3 | - |
| Asset quality | 1.4 | 0.1 |
| Model updates | - | - |
| Methodology and policy | - | - |
| Acquisitions and disposals | - | - |
| Foreign exchange movements | - | - |
| RWAs at 30 September | 47.3 | 3.7 |

**RWA flow statements of credit risk exposures under standardised approach**

| | RWA £bn | Capital requirements |
|---|---|---|
| RWAs at 1 July | 19.2 | 1.5 |
| Asset size | (0.3) | - |
| Asset quality | - | - |
| Model updates | - | - |
| Methodology and policy | - | - |
| Acquisitions and disposals | - | - |
| Foreign exchange movements | - | - |
| RWAs at 30 September | 18.9 | 1.5 |

The majority of the growth related to asset quality under IRB approach is because of increases in the UK mortgage transformation ratio.

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

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

3 Table excludes CVA.

## Credit Risk and Counterparty Risk by Risk Class

The following table details RWA per risk class. Counterparty Risk and Credit Valuation Adjustment Risk are included in the table.

| Standardised Approach credit risk | 30 September 2020 £bn | 30 June 2020 £bn | 31 March 2020 £bn | 31 December 2019 £bn | 30 September 2019 £bn |
|---|---|---|---|---|---|
| Institutions | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Corporates | 6.1 | 6.7 | 7.0 | 6.6 | 7.6 |
| Standardised Retail | 7.7 | 7.3 | 7.7 | 7.7 | 8.3 |
| Secured by Mortgages on Immovable Property | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Exposures in Default | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 |
| Higher-risk Categories | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 |
| Covered Bonds | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| Equity | - | - | - | - | 0.1 |
| Securitisation Positions | 0.8 | 0.9 | 0.9 | 1.0 | - |
| Other | 3.5 | 3.5 | 3.4 | 3.6 | 3.6 |
| Total | 18.9 | 19.2 | 19.8 | 19.8 | 20.9 |

| IRB Approach credit risk | 30 September 2020 £bn | 30 June 2020 £bn | 31 March 2020 £bn | 31 December 2019 £bn | 30 September 2019 £bn |
|---|---|---|---|---|---|
| Institutions | 0.4 | 0.4 | 0.5 | 0.4 | 0.5 |
| Corporates | 12.1 | 11.9 | 12.8 | 12.2 | 11.7 |
| IRB Retail Mortgages | 30.9 | 29.1 | 28.4 | 28.4 | 27.7 |
| IRB Qualifying Revolving Retail Exposures | 1.6 | 1.6 | 1.8 | 1.9 | 1.9 |
| Other Retail | 1.7 | 1.7 | 1.9 | 1.9 | 1.8 |
| Securitisation Positions | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 |
| IRB Equity Exposures – 370% Risk Weight | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 |
| Total | 47.3 | 45.4 | 46.1 | 45.6 | 44.5 |
| CVA | 0.3 | 0.4 | 0.4 | 0.3 | 0.5 |

# Part 2

# September 2020 Additional Capital and Risk Management Disclosures for Santander UK plc group

## Introduction

As a large wholly-owned subsidiary under CRD IV[1], Santander UK plc (the RFB) 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 frequency[2], the RFB 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 RFB group position.

## Key metrics

The following table summarises the RFB group's Own Funds and key risk-based capital ratios at 30 September 2020, together with the previously disclosed quarter end information at 30 June 2020, 31 March 2020, 31 December 2019 and 30 September 2019. Further detail on Risk Weighted Assets is included in the subsequent sections of this document.

| | 30 September 2020 £m | 30 June 2020 £m | 31 March 2020 £m | 31 December 2019 £m | 30 September 2019 £m |
|---|---|---|---|---|---|
| **Available Capital (amounts)** | | | | | |
| Common Equity Tier 1 (CET1) capital | 10,703 | 10,591 | 10,657 | 10,419 | 10,316 |
| Fully loaded[3] Expected Credit Loss (ECL) accounting model CET1 | 10,690 | 10,528 | 10,610 | 10,403 | 10,300 |
| Tier 1 capital | 12,983 | 12,872 | 12,937 | 12,862 | 12,759 |
| Fully loaded ECL accounting model Tier 1 | 12,970 | 12,809 | 12,890 | 12,845 | 12,743 |
| Total capital | 15,456 | 15,478 | 15,566 | 15,787 | 15,947 |
| Fully loaded ECL accounting model total capital | 15,443 | 15,415 | 15,518 | 15,771 | 15,931 |
| **Risk-weighted assets (amounts)** | | | | | |
| Total risk-weighted assets (RWA) | 73,586 | 72,176 | 73,458 | 72,614 | 73,927 |
| Fully loaded ECL accounting model total RWA | 73,504 | 72,074 | 73,423 | 72,645 | 73,959 |
| **Risk-based capital ratios as a percentage of RWA** | | | | | |
| Common Equity Tier 1 ratio | 14.5% | 14.7% | 14.5% | 14.3% | 14.0% |
| Fully loaded ECL accounting model Common Equity Tier 1 (%) | 14.5% | 14.6% | 14.5% | 14.3% | 13.9% |
| Tier 1 ratio | 17.6% | 17.8% | 17.6% | 17.7% | 17.3% |
| Fully loaded ECL accounting model Tier 1 ratio (%) | 17.6% | 17.8% | 17.6% | 17.7% | 17.2% |
| Total capital ratio | 21.0% | 21.4% | 21.2% | 21.7% | 21.6% |
| Fully loaded ECL accounting model total capital ratio (%) | 21.0% | 21.4% | 21.1% | 21.7% | 21.5% |
| **Additional CET1 buffer requirements as a percentage of RWA** | | | | | |
| Capital conservation buffer requirement (2.5% from 2019) (%) | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Countercyclical buffer requirement (%) | - | - | 0.02% | 0.99% | 0.99% |
| Bank G-SIB and/or D-SIB additional requirements (%) | - | - | - | - | - |
| Systemic Risk Buffer requirement (%) | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Total of bank CET1 specific buffer requirements (%) | 3.50% | 3.50% | 3.52% | 4.49% | 4.49% |
| CET1 available after meeting the banks minimum capital requirements | 6.54% | 6.67% | 6.49% | 5.36% | 4.97% |
| **Basel III leverage ratio** | | | | | |
| Total Basel III leverage ratio exposure measure(£bn) | 296.4 | 300.9 | 290.3 | 288.7 | 287.2 |
| Basel III leverage ratio | 4.3% | 4.2% | 4.3% | 4.3% | 4.3% |
| Fully loaded ECL accounting model leverage Ratio | 4.3% | 4.1% | 4.3% | 4.3% | 4.3% |
| **Liquidity Coverage Ratio** | | | | | |
| Total high-quality liquid assets (HQLA) | 47,116 | 47,425 | 42,900 | 41,604 | 44,363 |
| Total net cash outflow | 30,605 | 31,934 | 30,315 | 28,601 | 29,560 |
| Liquidity coverage ratio (LCR)) | 154.0% | 148.5% | 141.5% | 145.5% | 150.1% |

Key Movements

CET1 capital increased to £10.7bn, with ongoing capital accretion through retained profits and a lower deduction from the excess of regulatory expected loss amounts over credit provisions. These improvements were partially offset by adverse market driven movements in the defined pension schemes.

CET1 capital ratio increased 20bps to 14.5%, with a 3.9p.p. buffer to MDA restrictions.

LCR has increased to 154% with higher customer deposits and an October 20 £3.2bn mortgage asset transfer to Santander Financial Services (SFS).

[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.

## IFRS 9 Transitional Arrangements

The following table summarises the impact of IFRS 9 transitional arrangements at 30 September 2020 over the full allowable period.

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| IFRS9 Transitional Factor | 70% | 50% | 25% | | |
| IFRS9 Transitional Factor for credit loss-based provision movements post 1/1/20 | 100% | 100% | 75% | 50% | 25% |
| **Available Capital (amounts)** | | | | | |
| Common Equity Tier 1 (CET1) capital | 10,703 | 10,700 | 16,695 | 10,690 | 10,690 |
| CET1 Capital as if IFRS 9 STATIC transitional arrangements were not applied | 10,690 | 10,690 | 10,690 | 10,690 | 10,690 |
| CET1 Capital as if IFRS 9 DYNAMIC transitional arrangements were not applied | 10,703 | 10,700 | 10,695 | 10,690 | 10,690 |
| CET1 Capital as if ALL IFRS 9 transitional arrangements were not applied | 10,690 | 10,690 | 10,690 | 10,690 | 10,690 |
| Tier 1 Capital | 12,983 | 12,980 | 12,975 | 12,970 | 12,970 |
| Tier 1 Capital as if ALL IFRS 9 transitional arrangements were not applied | 12,970 | 12,970 | 12,970 | 12,970 | 12,970 |
| Total Capital | 15,456 | 15,453 | 15,448 | 15,443 | 15,443 |
| Total Capital as if ALL IFRS 9 transitional arrangements were not applied | 15,443 | 15,443 | 15,443 | 15,443 | 15,443 |
| **Risk-weighted assets (amounts)** | | | | | |
| Total risk-weighted assets (RWA) | 73,586 | 73,590 | 73,571 | 73,553 | 73,528 |
| Total RWA as if IFRS 9 STATIC transitional arrangements were not applied | 73,663 | 73,645 | 73,599 | 73,553 | 73,528 |
| Total RWA as if IFRS 9 DYNAMIC transitional arrangements were not applied | 73,427 | 73,449 | 73,476 | 73,504 | 73,504 |
| Total RWA as if ALL IFRS 9 transitional arrangements were not applied | 73,504 | 73,504 | 73,504 | 73,504 | 73,504 |
| **Capital Ratios** | | | | | |
| Common Equity Tier 1 ratio | 14.5% | 14.5% | 14.5% | 14.5% | 14.5% |
| Common Equity Tier 1 as if ALL IFRS 9 transitional arrangements were not applied | 14.5% | 14.5% | 14.5% | 14.5% | 14.5% |
| Tier 1 ratio | 17.6% | 17.6% | 17.6% | 17.6% | 17.6% |
| Tier 1 as if ALL IFRS 9 transitional arrangements were not applied | 17.7% | 17.7% | 17.7% | 17.7% | 17.7% |
| Total capital ratio | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% |
| Total Capital as if ALL IFRS 9 transitional arrangements were not applied | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% |
| **CRD IV leverage ratio** | | | | | |
| Leverage Ratio Total Exposure Measure | 296,354 | 296,354 | 296,354 | 296,354 | 296,354 |
| Leverage Ratio | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% |
| Leverage ratio as if ALL IFRS 9 transitional arrangements were not applied | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% |

The RFB group is applying the IFRS 9 capital transitional arrangements set out in EU Regulation 2017/2395 and EU Regulation 2020/873 that amend the Capital Requirements Regulation. Under the transitional arrangements, the RFB group is entitled to mitigate the effect to capital of ECL-based provisioning following the implementation of IFRS 9. The transitional arrangements last for a five-year period beginning on the 1st of January 2018 with the amount of capital relief available reduced each year by the transitional factor, with an extended transitional period used for capital relief against provision movements from 1 January 2020. The transitional factor is 70 percent in 2020, declining to 50 percent in 2021 and 25 percent in 2022, and for post 1 January 2020 provision movements is 100 percent in 2020 and 2021, 75 percent in 2022, 50 percent in 2023 and 25 percent in 2024.

The capital relief affects both the capital base and RWAs reported by RFB group. The adjustment to CET1 capital is comprised of a static element and a dynamic element. The static element is based on the CET1 capital impact of the change in provision levels upon implementation of IFRS 9 (on 1st January 2018). The capital adjustments from this static element will only change over the five-year transition period due to the phased reduction of the transitional factor. The dynamic element is based on the capital impact of the change in provision levels for non-credit impaired exposures from the first day of the implementation of IFRS 9. The dynamic element will change over the transition period and is also subject to progressive reduction over the five-year transitional period and the extended period for provision movements post 1 January 2020 due to the transitional factor. In addition to this adjustment, the transitional arrangements also reduce associated capital position impacts for exposures modelled under the Standardised Approach for Credit Risk, deferred tax assets created upon adoption of IFRS 9 ECL-based provisioning and Tier 2 capital from an excess of provisions over expected losses for exposures modelled using the Internal Rating Based approach.

## Leverage Ratio

The following table summarises the RFB group's end point CRD IV and UK PRA Tier 1 Leverage ratio at 30 September 2020 together with the previously disclosed quarter end information at 30 June 2020, 31 March 2020, 31 December 2019 and 30 September 2019. 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.

| | 30 September 2020 | 30 June 2020 | 31 March 2020 | 30 December 2019 | 30 September 2019 |
|---|---|---|---|---|---|
| Common Equity Tier 1 (CET1) capital (£m) | 10,703 | 10,591 | 10,657 | 10,419 | 10,316 |
| End point Additional Tier 1 (AT1) capital (£m) | 1,956 | 1,957 | 1,956 | 1,956 | 1,956 |
| End point Tier 1 capital (£m) | 12,659 | 12,548 | 12,613 | 12,375 | 12,272 |
| | | | | | |
| Leverage Exposure CRD IV (£bn) | 296.4 | 300.9 | 290.3 | 288.7 | 287.2 |
| Leverage Exposure UK[1] (£bn) | 261.9 | 267.5 | 269.8 | 267.5 | 271.8 |
| | | | | | |
| End point Tier 1 Leverage Ratio CRD IV | 4.3% | 4.2% | 4.3% | 4.3% | 4.3% |
| End point Tier 1 Leverage Ratio UK[1] | 4.8% | 4.7% | 4.7% | 4.6% | 4.5% |
| | | | | | |
| Average Tier 1 Leverage Ratio UK[1] | 4.8% | 4.6% | 4.6% | 4.6% | 4.4% |

UK leverage ratio at 4.8%, was 1.2 p.p. above the regulatory requirement.

## Liquidity Coverage Ratio

The values presented below are the simple average of the preceding monthly periods ending on the reporting date as specified in the table.

| | Average unweighted value | | Average weighted value | |
|---|---|---|---|---|
| | 30 September 2020 £m | 30 June 2020 £m | 30 September 2020 £m | 30 June 2020 £m |
| Total high-quality liquid assets (HQLA) | 45,579 | 46,163 | 45,202 | 45,613 |
| CASH OUTFLOWS | | | | |
| **Retail deposits and deposits from small business customers, of which:** | **136,769** | **136,782** | **8,009** | **8,015** |
| Stable deposits | 119,542 | 119,587 | 5,977 | 5,979 |
| Less stable deposits | 17,227 | 17,195 | 2,032 | 2,036 |
| **Unsecured wholesale funding** | **25,911** | **25,149** | **14,417** | **14,096** |
| Operational deposits (all counterparties) and deposits in networks of cooperative banks | | - | | - |
| Non-operational deposits (all counterparties) | 24,271 | 23,454 | 12,777 | 12,401 |
| Unsecured debt | 1,640 | 1,695 | 1,640 | 1,695 |
| **Secured wholesale funding** | **13,819** | **13,171** | **247** | **335** |
| **Additional requirements** | **19,497** | **19,639** | **8,246** | **8,176** |
| Outflows related to derivative exposures and other collateral requirements | 6,466 | 6,262 | 6,466 | 6,262 |
| Outflows related to loss of funding on debt products | 200 | 292 | 200 | 292 |
| Credit and liquidity facilities | 12,831 | 13,085 | 1,580 | 1,622 |
| **Other contractual funding obligations** | **55** | **60** | **-** | **3** |
| **Other contingent funding obligations** | **25,808** | **26,426** | **2,020** | **2,063** |
| **TOTAL CASH OUTFLOWS** | **221,859** | **221,227** | **32,939** | **32,688** |
| CASH INFLOWS | | | | |
| Secured lending (e.g. reverse repos) | 7,641 | 9,109 | 23 | 39 |
| Inflows from fully performing exposures | 2,066 | 2,173 | 1217 | 1,282 |
| Other cash inflows | 1,992 | 1,793 | 672 | 469 |
| (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) | | - | | - |
| (Excess inflows from a related specialised credit institution) | | - | | - |
| **TOTAL CASH INFLOWS** | **11,699** | **13,075** | **1,912** | **1,790** |
| Fully exempt inflows | | | | - |
| Inflows Subject to 90% Cap | | | | - |
| Inflows Subject to 75% Cap | 9,369 | 9,829 | 1,940 | 1,908 |
| LIQUIDITY BUFFER | - | - | 45,202 | 45,613 |
| TOTAL NET CASH OUTFLOWS | - | - | 31,001 | 30,783 |
| **LIQUIDITY COVERAGE RATIO (%)** | **-** | **-** | **145.81** | 148.18 |
| Number of data points used in calculation of averages | 12 | 12 | 12 | 12 |

The average LCR of 145.81% reflects our prudent approach in the uncertain operating environment and is significantly above regulatory requirements.

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

## RWA and Capital Requirements

### Overview of RWA

The following table details RWA and equivalent Own Funds Requirements. Own Funds Requirements are calculated as RWA multiplied by 8%.

| | RWA | | Minimum capital requirements |
|---|---|---|---|
| | 30 September 2020 £bn | 30 June 2020 £bn | 30 September 2020 £bn[1] |
| Credit risk (excluding counterparty credit risk)[1] | 63.7 | 62.2 | 5.1 |
| - Of which: standardised approach (SA) | 17.7 | 18.0 | 1.4 |
| - Of which: foundation internal rating-based (FIRB) approach | 5.3 | 5.1 | 0.4 |
| - Of which advanced internal rating-based (AIRB) approach | 40.7 | 39.1 | 3.3 |
| Counterparty credit risk (CCR)[1] | 0.9 | 0.9 | 0.1 |
| - Of which: standardised approach for counterparty credit risk | 0.3 | 0.3 | - |
| - Of which: Internal Model Method (IMM) | 0.6 | 0.6 | - |
| - Of which: other CCR | - | - | - |
| Credit Valuation Adjustment (CVA) | 0.3 | 0.3 | - |
| Equity positions under the simple risk-weight approach and the internal model method during the five-year linear phase-in period | 0.1 | 0.1 | - |
| Equity investments in funds – look-through approach | - | - | - |
| Equity investments in funds – mandate-based approach | - | - | - |
| Equity investments in funds – fall-back approach | - | - | - |
| Settlement risk | - | - | - |
| Securitisation exposures in banking book (after cap)[2] | 1.0 | 1.1 | 0.1 |
| - Of which: securitisation IRB approach (SEC-IRBA) | 0.2 | 0.2 | - |
| - Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA) | 0.5 | 0.6 | - |
| - Of which: securitisation standardised approach (SEC-SA) | 0.3 | 0.3 | - |
| Market risk[1] | 0.3 | 0.3 | - |
| - Of which: standardised approach (SA) | 0.3 | 0.3 | - |
| - Of which: internal model approach (IMA) | - | - | - |
| Capital charge for switch between trading book and banking book | - | - | - |
| Operational risk[1] | 7.3 | 7.3 | 0.6 |
| Amounts below the thresholds for deduction (subject to 250% risk weight) | - | - | - |
| Aggregate capital floor applied | - | - | - |
| Floor adjustment (before application of transitional cap) | - | - | - |
| Floor adjustment (after application of transitional cap) | - | - | - |
| Total[1] | 73.6 | 72.2 | 5.9 |

### RWA flow statements of credit risk exposures under IRB and RWA flow statements of credit risk exposures under standardised[3]

#### RWA flow statements of credit risk exposures under IRB

| | RWA £bn | Capital requirements |
|---|---|---|
| RWAs at 1 July | 45.1 | 3.6 |
| Asset size | 0.2 | - |
| Asset quality | 1.6 | 0.1 |
| Model updates | - | - |
| Methodology and policy | - | - |
| Acquisitions and disposals | - | - |
| Foreign exchange movements | - | - |
| RWAs at 30 September | 46.9 | 3.7 |

#### RWA flow statements of credit risk exposures under standardised approach

| | RWA £bn | Capital requirements |
|---|---|---|
| RWAs at 1 July | 19.2 | 1.5 |
| Asset size | (0.3) | - |
| Asset quality | - | - |
| Model updates | - | - |
| Methodology and policy | - | - |
| Acquisitions and disposals | - | - |
| Foreign exchange movements | - | - |
| RWAs at 30 September | 18.9 | 1.5 |

The majority of the growth related to asset quality under IRB approach is because of increases in the UK mortgage transformation ratio.

---

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.

3 Table excludes CVA.