

Santander UK Group Holdings plc

September 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 30 September 2018, together with the previously disclosed quarter end information at 30 June 2018, 31 March 2018, 31 December 2017 and 30 September 2017. Further detail on Risk Weighted Assets is included in the subsequent sections of this document.

	30 September 2018 £m	30 June 2018 £m	31 March 2018 £m	31 December 2017 £m	30 September 2017 £m
Available Capital (amounts)					
Common Equity Tier 1 (CET1) capital	10,327	10,818	10,681	10,620	10,699
Fully loaded ³ Expected Credit Loss (ECL) accounting model CET1	10,305	10,796	10,663	-	-
Tier 1 capital	12,696	13,178	13,045	13,068	13,153
Fully loaded ECL accounting model Tier 1	12,674	13,156	13,027	-	-
Total capital	14,901	15,427	15,205	15,488	15,605
Fully loaded ECL accounting model total capital	14,879	15,405	15,186	-	-
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	78,792	85,128	85,275	87,005	88,138
Fully loaded ECL accounting model total RWA	78,849	85,203	85,356	-	-
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio	13.1%	12.7%	12.5%	12.2%	12.1%
Fully loaded ECL accounting model Common Equity Tier 1 (%)	13.1%	12.7%	12.5%	-	-
Tier 1 ratio	16.1%	15.5%	15.3%	15.0%	14.9%
Fully loaded ECL accounting model Tier 1 ratio (%)	16.1%	15.4%	15.3%	-	-
Total capital ratio	18.9%	18.1%	17.8%	17.8%	17.7%
Fully loaded ECL accounting model total capital ratio (%)	18.9%	18.1%	17.8%	-	-
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019) (%)	1.88%	1.88%	1.88%	1.25%	1.25%
Countercyclical buffer requirement (%)	0.48%	0.48%	0.00%	0.00%	0.00%
Bank G-SIB and/or D-SIB additional requirements (%)	-	-	-	-	-
Total of bank CET1 specific buffer requirements (%)	2.36%	2.36%	1.88%	1.25%	1.25%
CET1 available after meeting the banks minimum capital requirements (%)	6.25%	5.85%	6.15%	6.46%	6.35%
Basel III leverage ratio					
Total Basel III leverage ratio exposure measure	306.2	314.8	315.4	317.7	317.7
Basel III leverage ratio	4.0%	4.1%	4.0%	4.0%	4.0%
Fully loaded ECL accounting model leverage Ratio	4.0%	4.1%	4.0%	-	-
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA)	50,404	46,537	47,084	47,428	45,770
Total net cash outflow	34,539	33,757	35,666	39,666	37,492
Liquidity coverage ratio (LCR)	145.9%	137.9%	132.0%	120.0%	122.1%

Key Movements

The CET1 capital ratio increased 40bps to 13.1%, largely driven by retained profits and a risk management initiative, under which £1.3bn of customer assets were transferred to Banco Santander London Branch. This transfer reduced RWAs by £1.2bn. Other RWA decreases in counterparty credit risk, credit risk and market risk were due to banking reform. These RWA reductions were offset by the payment of an associated dividend of £668m. The LCR increased by 8 percentage points to 145.9%, 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.

Leverage Ratio

The following table summarises the Company's end point CRD IV and UK PRA Tier 1 Leverage ratio at 30 September 2018, together with the previously disclosed quarter end information at 30 June 2018, 31 March 2018, 31 December 2017 and 30 September 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.

	30 September 2018 £m	30 June 2018 £m	31 March 2018 £m	31 December 2017 £m	30 September 2017 £m
Common Equity Tier 1 (CET1) capital	10,327	10,818	10,681	10,620	10,669
End point Additional Tier 1 (AT1) capital	2,041	2,041	2,041	2,041	2,041
End point Tier 1 capital	12,368	12,859	12,722	12,661	12,710
Leverage Exposure CRD IV (£bn)	306.2	314.8	315.4	317.7	317.7
Leverage Exposure UK Leverage Ratio ¹ (£bn)	279.0	295.6	291.3	287.0	287.4
End point Tier 1 Leverage Ratio CRD IV	4.0%	4.1%	4.0%	4.0%	4.0%
End point Tier 1 Leverage Ratio UK Leverage Ratio	4.4%	4.4%	4.4%	4.4%	4.4%
Average Tier 1 Leverage Ratio UK Leverage Ratio ¹	4.3%	4.4%	4.3%	4.4%	4.3%

UK leverage ratio remained flat for the period.

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

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Liquidity Coverage Ratio

		Average unweighted value		Average weighted value	
		30 September 2018 £m	30 June 2018 £m	30 September 2018 £m	30 June 2018 £m
1	Total high-quality liquid assets (HQLA)	49,595	48,641	47,684	47,213
Cash-Outflows					
2	Retail deposits and deposits from small business customers, of which:	135,502	135,860	7,975	7,958
3	Stable deposits	118,220	119,205	5,911	5,960
4	Less stable deposits	17,282	16,655	2,064	1,998
5	Unsecured wholesale funding	25,288	25,315	15,608	15,727
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	22,468	22,401	12,789	12,813
8	Unsecured debt	2,820	2,914	2,819	2,914
9	Secured wholesale funding	23,477	25,284	1,787	2,175
10	Additional requirements	25,294	25,851	10,192	10,780
11	Outflows related to derivative exposures and other collateral requirements	7,267	7,761	7,267	7,761
12	Outflows related to loss of funding on debt products	254	473	254	473
13	Credit and liquidity facilities	17,773	17,617	2,671	2,546
14	Other contractual funding obligations	1,080	1,265	996	1,183
15	Other contingent funding obligations	24,778	24,898	1,546	1,378
16	TOTAL CASH OUTFLOWS	235,419	238,473	38,104	39,201
Cash-Inflows					
17	Secured lending (eg reverse repos)	20,243	21,616	664	697
18	Inflows from fully performing exposures	1,944	1,962	1,214	1,273
19	Other cash inflows	2,028	2,198	846	941
EU-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)	-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)	-	-	-	-
20	TOTAL CASH INFLOWS	24,215	25,776	2,724	2,911
EU-20a	Fully exempt inflows	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	14,360	14,200	2,725	2,911
21	LIQUIDITY BUFFER	-	-	47,684	47,213
22	TOTAL NET CASH OUTFLOWS	-	-	35,586	36,500
23	LIQUIDITY COVERAGE RATIO (%)	-	-	134%	129%
24	Number of data points used in calculation of averages	12	12	12	12

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

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
	30 September 2018 £bn	30 June 2018 £bn	30 September 2018 £bn ¹
Credit risk (excluding counterparty credit risk) (CCR) ^{note1}	66.5	67.9	5.3
- Of which standardised approach (SA)	22.6	22.9	1.8
- Of which foundation internal rating-based approach	9.0	9.3	0.7
- Of which advanced internal rating-based approach	34.5	35.4	2.8
- Of which equity IRB under the Simple risk-weight or the internal models approach	0.4	0.3	-
Counterparty credit risk ^{note1}	3.2	6.6	0.3
- Of which marked to market	1.8	3.2	0.1
- 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	0.1	0.1	-
- Of which CVA	1.3	3.3	0.1
Settlement risk	-	-	-
Securitisation exposures in banking book (after cap) ²	0.5	0.7	-
- Of which IRB ratings-based approach (RBA)	0.4	0.5	-
- Of which IRB supervisory formula approach (SFA)	-	-	-
- Of which internal assessment approach (IAA)	-	-	-
- Of which standardised approach	0.1	0.2	-
Market risk ^{note1}	1.1	2.4	0.1
- Of which standardised approach	0.3	0.3	-
- Of which internal model approach (IM)	0.8	2.1	0.1
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}	78.8	85.1	6.3

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 July	48.0	3.8
Asset size	(2.5)	(0.2)
Asset quality	-	-
Model updates	-	-
Methodology and policy	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	-	-
Other	-	-
RWAs at 30 September	45.5	3.6

RWA flow statements of credit risk exposures under standardised approach

	RWA £bn	Capital requirements
RWAs at 1 July	23.9	1.9
Asset size	(0.3)	-
Asset quality	(0.3)	-
Model updates	-	-
Methodology and policy	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	-	-
Other	-	-
RWAs at 30 September	23.3	1.9

Main movement is due to transfers under our banking reform programme and a risk management initiative.

^{note1} 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 per risk class. Counterparty Risk and Credit Valuation Adjustment Risk are included in the table.

RWA

	30 September 2018 £bn	30 June 2018 £bn	31 March 2018 £bn	31 December 2017 £bn	30 September 2017 £bn
Standardised Approach credit risk					
Institutions	0.5	0.5	0.4	0.2	0.3
Corporates	11.0	12.1	12.5	15.4	16.2
Standardised Retail	7.3	6.6	6.4	6.6	6.7
Secured by Mortgages on Immovable Property	0.6	0.6	0.5	0.6	0.6
Exposures in Default	0.2	0.3	0.3	0.4	0.5
Higher-risk Categories	0.2	0.2	0.2	0.1	0.1
Covered Bonds	0.4	0.4	0.4	0.4	0.4
Equity	0.1	-	-	-	0.1
Securitisation Positions	0.1	0.3	0.3	0.6	0.4
Other	2.9	2.9	2.9	2.5	2.5
Total	23.3	23.9	23.9	26.8	27.8

	30 September 2018 £bn	30 June 2018 £bn	31 March 2018 £bn	31 December 2017 £bn	30 September 2017 £bn
IRB Approach credit risk					
Institutions	1.2	1.5	1.9	1.9	1.9
Corporates	13.9	16.4	16.2	14.7	15.3
IRB Retail Mortgages	25.9	25.7	25.6	25.8	25.9
IRB Qualifying Revolving Retail Exposures	1.8	1.8	1.9	1.9	1.9
Other Retail	1.9	1.8	1.9	1.9	2.0
Securitisation Positions	0.4	0.5	0.5	0.4	0.3
IRB Equity Exposures – 370% Risk Weight	0.4	0.3	0.2	0.3	0.1
Total	45.5	48.0	48.2	46.9	47.4
CVA	1.3	3.3	2.3	2.2	2.1