

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 IV¹ 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 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 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	30 June 2020	30 September 2020	30 June 2020
	£m	£m	£m	£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:				
Stable deposits	136,769	135,340	8,009	7,931
Less stable deposits	119,542	118,326	5,977	5,917
Unsecured wholesale funding	17,227	17,014	2,032	2,014
Operational deposits (all counterparties) and deposits in networks of cooperative banks	26,076	25,036	14,581	14,092
Non-operational deposits (all counterparties)				
Unsecured debt	24,436	23,360	12,941	12,416
Secured wholesale funding	1,640	1,676	1,640	1,676
Additional requirements	13,819	13,064	247	327
Outflows related to derivative exposures and other collateral requirements	19,886	19,854	8,430	8,279
Outflows related to loss of funding on debt products	6,466	6,194	6,466	6,194
Credit and liquidity facilities	182	266	182	266
Other contractual funding obligations	13,238	13,394	1,782	1,819
Other contingent funding obligations	55	60	-	3
TOTAL CASH OUTFLOWS	25,808	26,110	2,020	2,034
CASH INFLOWS	222,413	219,464	33,287	32,666
Secured lending (eg reverse repos)				
Inflows from fully performing exposures	7,641	8,983	23	38
Other cash inflows	1,786	1,841	1,074	1,102
(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)	1,917	1,709	657	451
(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 standardised³

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 IV¹, 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 frequency², 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 ¹ £bn
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 standardised³

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.