Santander UK plc

H1 2013 Additional Capital Disclosures

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Impact of CRD IV

The Prudential Regulation Authority ('PRA') requires UK banking groups to disclose reconciliations of accounting and regulatory measures of capital under the CRD IV rules[1], the EU implementation of Basel III, and to disclose their "glide path" to CRD IV explaining how end-point requirements will be met.

The following tables set out the Santander UK group's best estimate of the impact of CRD IV on the basis that it is implemented on 30 June 2013 and that the rules due to apply at the end of the transition period are in force at 30 June 2013 ('End Point'). The previously disclosed results for 31 December 2012 are also shown.

Pro Forma CRD IV capital and Risk Weighted Assets ('RWA')

	Reported 30 June 2013 Current PRA rules £m	**Proforma 30 June 2013 CRD IV End Point £m**	Reported 31 December 2012 Current PRA rules £m	Proforma 31 December 2012 CRD IV End Point £m
Core Tier 1 Capital ('CT1') - current PRA rules	**9,359**	**9,359**	9,302	9,302
CRD IV Adjustments to CT1				
Excess of regulatory expected losses over impairment losses		**(249)**		(370)
Defined Benefit Pension adjustment		**(152)**		(101)
Other (see below)		**(6)**		(23)
Common Equity Tier 1 Capital ('CET1') - CRD IV		**8,952**		8,808
Pillar 1 RWA - current PRA rules	**75,384**	**75,384**	76,524	76,524
CRD IV Adjustments to RWA				
Securitisation		**1,075**		970
Counterparty Risk (see below)		**2,267**		2,028
RWA - CRD IV		**78,726**		79,522
CT1 or CET1 Capital / RWA Ratio	**12.4%**	**11.4%**	12.2%	11.1%
Difference to CT1 Ratio		**(1.0)%**		(1.1)%

The pro forma results included above are based on our interpretation of the June 2013 CRD IV rules (reflecting those both in the draft Capital Requirements Regulation and associated Directive). The actual impact of the implementation of CRD IV could vary as a consequence of rules which will be defined in European Banking Authority ('EBA') technical standards and other guidance from regulatory authorities.

In the above results, securitisation positions which are currently treated as deductions are reflected as 1,250% risk weighted assets under CRD IV. The Other adjustments to Core Tier 1 capital include the effect of deferred tax, securitisation and unrealised losses on available-for-sale securities. The counterparty risk adjustments to RWA include credit valuation adjustment, central counterparty clearing and asset value correlation. For central counterparties it has been assumed that all are deemed to be 'qualifying'.

No CRD IV adjustments have been made to Core Tier 1 Capital (under current PRA rules) for prudent valuation adjustments in the pro forma results as the relevant EBA technical standard has not yet been finalised. For a similar reason, potential changes to the approach for assessing the excess of regulatory expected losses over impairment losses, and the potential extension of the scope of indirect investments in financial sector entities to include defined benefit pension fund assets have also not been reflected in the pro forma results.

Under this analysis, the Santander UK group would have exceeded the minimum Common Equity Tier 1 capital requirements under end point CRD IV on 30 June 2013 and no further capital actions would be required.

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

Composition of Regulatory Capital under CRD IV – Transitional Own Funds Disclosure

The disclosure below provides the PRA-requested reconciliations of accounting and regulatory measures of capital under CRD IV, in a format consistent with the Annex VI Transitional own fund disclosure template to the European Banking Authority Consultation Paper on Draft Implementing Technical Standards on Disclosure for Own Funds by institutions.

The results in the first column reflect the potential composition of regulatory capital under CRD IV in the first year of the transitional implementation period, which for the purposes of this disclosure reflects the transitional status to be applied in 2014. The 30 June 2013 balance sheet position is used. For this analysis the Financial Services Authority ('FSA') guidance dated 26 October 2012 has been reflected, with the minimum pace of transition in CRD IV being followed, subject to the stated exemption for deferred tax assets.

The results in the second column provide the adjustments required to the transitional results (first column) to reach the CRD IV end point position. The end point position can be derived as the sum of the transitional result and the associated end point adjustment. The assumptions adopted for the Pro Forma CRD IV capital and RWA disclosure above have been reflected in this disclosure.

	30 June 2013 £m	Amounts subject to pre-CRR treatment or CRR prescribed residual amount £m
Common Equity Tier 1 capital: instruments and reserves		
Capital Instruments and the related share premium accounts	8,725	-
Retained earnings	3,289	-
Accumulated other comprehensive income (and other reserves)	(48)	-
Common Equity Tier 1 prior to adjustments	**11,966**	**-**
Common Equity Tier 1: regulatory adjustments		
Intangible Assets (net of related tax liability)	(466)	(1,862)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(3)	(28)
Fair value reserves related to gains or losses on cash flow hedges	45	-
Negative amounts resulting from the calculation of regulatory expected loss amounts	(100)	(398)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(53)	-
Defined benefit pension fund assets	(158)	-
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment		
Regulatory adjustments relating to unrealised gains and losses	14	(14)
of which: unrealised gains on available-for-sale debt instruments	14	(14)
Amounts to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	131	(122)
of which: defined benefit pension fund	122	(122)
of which: other	9	-
Qualifying Additional Tier 1 deductions that exceed the Additional Tier 1 capital of the institution	(753)	753
Total Regulatory adjustments to Common Equity Tier 1	**(1,343)**	**(1,671)**
Common Equity Tier 1 Capital	**10,623**	**(1,671)**
Additional Tier 1 capital: instruments		
Amount of qualifying items and related share premium amounts subject to phase out from Additional Tier 1	1,308	(1,308)
Additional Tier 1 before regulatory adjustments	**1,308**	**(1,308)**
Additional Tier 1 capital: regulatory adjustments		
Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out		
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period	(2,061)	2,061
of which: Intangible Assets (net of related deferred tax liability)	(1,862)	1,862
of which: Negative amounts resulting from the calculation of regulatory expected loss	(199)	199
Qualifying Additional Tier 1 deductions that exceed the Additional Tier 1 capital of the institution	753	(753)
Total regulatory adjustments to Additional Tier 1 capital	**(1,308)**	**1,308**
Additional Tier 1 capital	**-**	**-**
Tier 1 (T1) Capital	**10,623**	**(1,671)**

	30 June 2013 £m	Amounts subject to pre-CRR treatment or CRR prescribed residual amount £m
Tier 2 Capital: instruments and provisions		
Capital Instruments and the related share premium accounts	1,528	361
Amount of qualifying items and related share premium accounts subject to phase out from Tier 2	1,156	(1,156)
Credit Risk adjustments	257	-
Tier 2 before Regulatory adjustments	**2,941**	**(795)**
Tier 2 capital: regulatory adjustments		
Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out		
Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 during the transitional period	(199)	199
of which: negative amounts resulting from the calculation of regulatory expected loss amounts	(199)	199
Total Regulatory adjustments to Tier 2 capital	**(199)**	**199**
Tier 2 (T2) Capital	**2,742**	**(596)**
Total Capital (TC = T1 + T2)	**13,365**	**(2,267)**

Leverage Ratio

The Santander UK group manages leverage on the basis of an internal measure of adjusted total assets against Tier 1 capital, taking into account the Santander UK group's risk appetite and balance sheet structure. The following table summarises the Santander UK group's leverage at 30 June 2013 and the previously disclosed results for 31 December 2012.

	30 June 2013 £m	31 December 2012 £m
Total Assets	**297,871**	293,044
Intangible Assets & Other Adjustments	**(3,210)**	(2,388)
Counterparty Netting	**(41,268)**	(46,219)
Total Adjusted Assets (including cash at central banks held for liquidity purposes)	**253,393**	244,437
Less: cash at central banks held for liquidity purposes	**(33,083)**	(27,585)
Total Adjusted Assets (excluding cash at central banks held for liquidity purposes)	**220,310**	216,852

	30 June 2013 £m	31 December 2012 £m
Leverage Ratios, excluding cash at central banks held for liquidity purposes (Exposure as detailed above)		
Tier 1 capital (current PRA rules)	**11,231**	11,203
Leverage ratio expressed as a percentage	**5.1%**	5.2%
Leverage ratio expressed as a multiple	**20x**	19x
Leverage Ratios, including cash at central banks held for liquidity purposes		
Tier 1 capital (current PRA rules)	**11,231**	11,203
Leverage ratio expressed as a percentage	**4.4%**	4.6%
Leverage ratio expressed as a multiple	**23x**	22x

Regulatory Leverage – using current PRA definition

The Basel III and CRD IV rules include proposals for the use of a leverage ratio as a backstop measure. These proposals will continue to develop over the coming years. In the interim, the PRA has requested that UK banking groups disclose leverage ratios using PRA-specified methodologies (to determine capital and adjusted assets) at 30 June 2013.

The table below provides three leverage ratio calculations, and includes those specified by the PRA. The first measure uses the current Tier 1 Capital Base under PRA rules. The second measure, the 'Adjusted End Point CRD IV Measure', reflects the estimated end point CRD IV CET1 capital base at 30 June 2013 and the 30 June 2013 Other Tier 1 capital instruments under current PRA rules. The third measure reflects solely the estimated end point CRD IV Tier 1 capital at 30 June 2013, which is equal to end point CET1 as all current Other Tier 1 capital is assumed to be ineligible. Santander UK exceeds the proposed minimum of 3% under all measures. The previously disclosed results for 31 December 2012 are also shown.

The reductions in the leverage ratio from 31 December 2012 to 30 June 2013 were principally driven by the increase in the liquid asset portfolio held as cash at central banks, an increase in trading assets over this period and short-term repo activity combined with refinements to the approach used for the estimation of leverage exposure at 30 June 2013.

	30 June 2013 £m	31 December 2012 £m
Total Assets	**297,871**	293,044
Intangible Assets & Other Adjustments	**(3,210)**	(2,388)
Counterparty Netting	**(29,400)**	(46,220)
Off-Balance Sheet	**17,920**	24,468
Total Regulatory Exposure	**283,181**	268,904

Regulatory Leverage	**30 June 2013 as a ratio**	**30 June 2013 as a multiple**	31 December 2012 as a ratio	31 December 2012 as a multiple
Tier 1 Measure (current PRA rules)	**4.0%**	**25x**	4.2%	24x
Less: End Point CRD IV CET1 adjustments	**(0.2%)**		(0.2%)	
Adjusted End Point CRD IV Measure	**3.8%**	**26x**	4.0%	25x
Less: Currently eligible Other Tier 1 Capital[1]	**(0.6%)**		(0.7%)	
End Point CRD IV Measure	**3.2%**	**32x**	3.3%	30x

(1) The End Point CRD IV measure of capital assumes that all current Other Tier 1 instruments are ineligible. It does not allow for the natural replacement of these instruments over the transition period.