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BANK OF ENGLAND

News release

29 August 2013

PRA statements on bank capital and leverage ratios released in 2013

Co-operative Bank - 29 August 2013

Today the Co-operative Bank announced its interim results for the first half of 2013. The Prudential Regulation Authority (PRA) anticipated the likely scale and source of these losses when it made its assessment of the bank's capital position in June. Consequently, the announcement today does not affect the PRA's assessment that the Co-operative Bank has a capital shortfall of £1.5bn relative to the 7% core equity capital after adjustments. The PRA will continue to monitor the actions taken by the Co-operative Bank as part of its plan to meet that capital shortfall. It will hold the Co-operative Bank to its plans, and if they fall short of what is required, it will ask for additional action.

17 June 2013

The PRA's current assessment is that the Co-operative Bank needs to generate an additional £1.5bn in Common Equity Tier One capital in order to absorb potential losses over coming years. We will hold the Co-operative to the delivery of its plans. In relation to the Co-operative Bank this action will deliver the Financial Policy Committee's recommendation to the PRA in March regarding the capital position of the banking system. The PRA will publish details on 20 June setting out the final conclusions of its capital exercise for all of the 8 major UK banks and building societies.

Barclays - 30 July 2013

Following constructive discussions, the PRA has agreed and welcomes Barclays capital plan, announced today. We have considered all elements of the plan, including new capital issuance, planned dividends and management actions to be taken and, based on Barclays' projections, conclude that it is a credible plan to meet a leverage ratio of 3%, after adjustments, by June 2014 without cutting back on lending to the real economy.

Under the Capital Requirements Regulation, to be implemented from 1 January 2014, firms may determine a CET1 capital trigger for the write down or conversion of Additional Tier 1 (AT1) capital that is 5.125% or higher. The PRA expects UK firms, especially those whose failure may have systemic consequences for the United Kingdom, to set AT1 triggers at a level that is unambiguously consistent with being able to recover from a stress without entering into resolution. This may be at a level higher than 5.125% CET1. In setting the trigger, the CRR definition of capital should be applied without taking account of transitional provisions. The PRA also expects the conversion or write-down to be for the full amount of the instrument and to be permanent. The PRA is satisfied that the CET1 capital trigger of the AT1 instruments that Barclays plan to issue will meet the expectation set out above for the purposes of both leverage and capital ratio calculations.

The PRA will shortly issue a consultation paper on its implementation of the Capital Requirements Directive (CRD4) and we have taken this into account in our review of Barclays capital plan.

Nationwide - 12 July 2013

The PRA has required Nationwide to increase its leverage ratio to 3% by the end of 2015 after taking account of the capital adjustments set out in our statement of June 20, and has accepted Nationwide’s plan for achieving this. Discussions with Barclays are ongoing and we expect them to conclude by the end of July in line with the PRA Board statement.

Lloyds and Royal Bank of Scotland - 22 May 2013

The Prudential Regulation Authority (PRA) is taking forward with the major UK banks the adjustments to capital positions identified by the Financial Policy Committee (FPC) relating to expected future losses, conduct costs and prudent risk-weighting. The PRA has set out the capital requirements for Lloyds Banking Group and Royal Bank of Scotland. The two banks have advanced their plans to a position where disclosure is appropriate. Once discussions have concluded with all banks, more information will be provided along with confirmation that, where necessary, banks will take appropriate steps to ensure that they meet the FPC’s recommendation on capital.