

Supervisory Statement | SS3/13

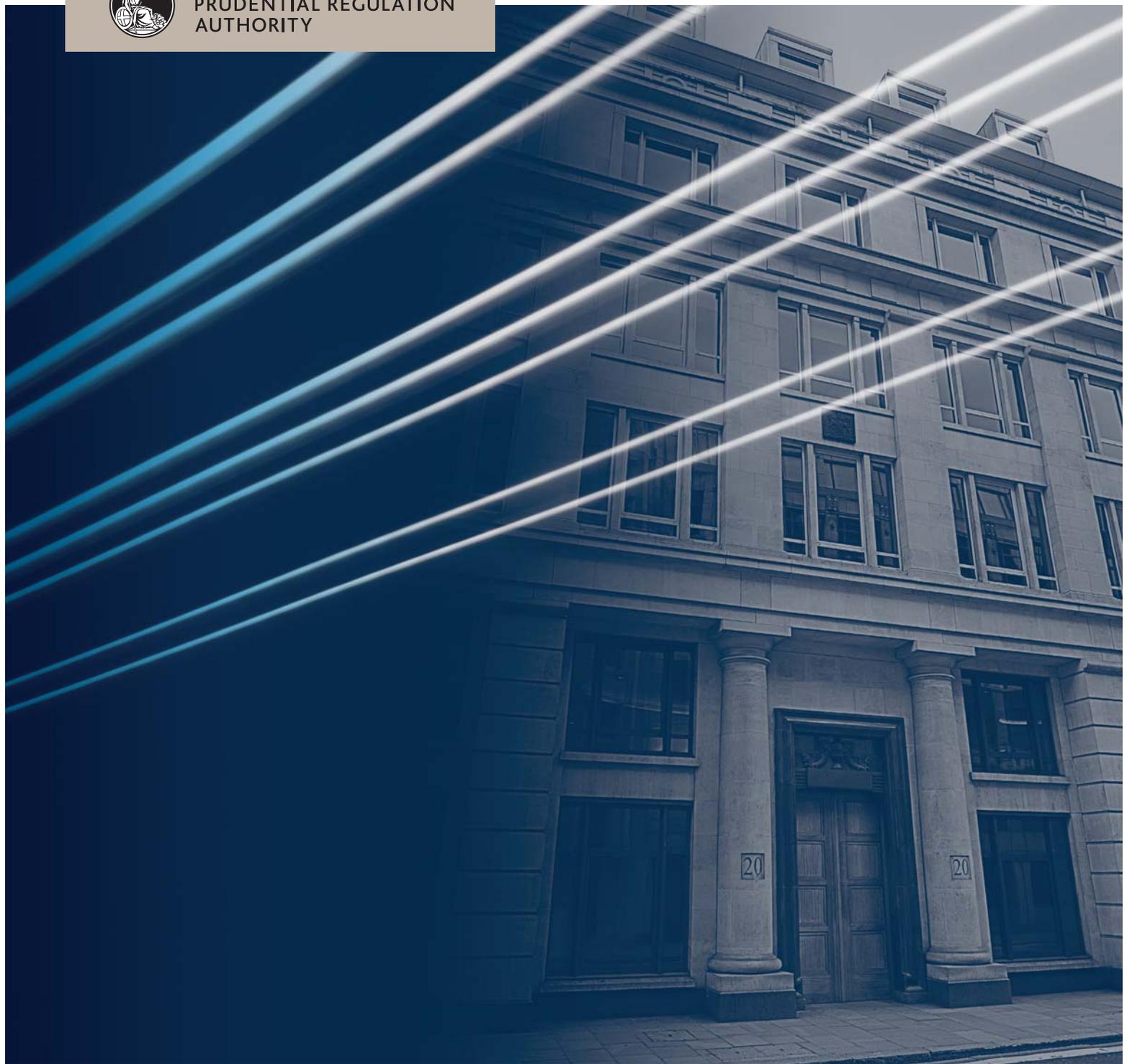
Capital and leverage ratios for major UK banks and building societies

November 2013

(Last updated on 26 June 2014)



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



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1. The purpose of this supervisory statement is to set out the Prudential Regulation Authority's (PRA's) expectations in relation to capital and leverage ratios for the eight major UK banks and building societies (referred to hereafter as 'firms'). The eight firms are:

- Barclays
- Co-operative Bank
- HSBC
- Lloyds Banking Group
- Nationwide
- Royal Bank of Scotland
- Santander UK
- Standard Chartered

2. Firms will be expected to meet a 7% common equity Tier 1 (CET1) capital ratio on the definition of capital set out in the Capital Requirements Regulation (CRR) and the PRA Rulebook.

3. Firms will also be expected to meet a 3% end-point Tier 1 leverage ratio. For the avoidance of doubt, compliant additional Tier 1 (AT1) instruments may be included in the CRR numerator, and the Basel 2014 exposure measure should be used for the denominator.⁽¹⁾ The leverage ratio should be

calculated on an end-of-quarter basis. The PRA will review the definition after changes to the CRR definition and the FPC leverage ratio review.

4. The PRA expects firms to meet the above standards at the level of the consolidated group from 1 July 2014 except where the PRA has agreed a plan with the firm to meet the standards over a longer timeframe. The PRA expects firms to meet the standards in this supervisory statement in addition to the requirements imposed on them by PRA rules and CRD IV.

5. From 1 July 2014, the adjustments to CET1 capital and risk-weighted assets (RWA) set by the PRA for the purposes of the capital shortfall exercise in June 2013 will no longer apply. Where material, it is important that these risks are addressed by appropriate adjustments to capital requirements, including following concurrent stress testing. In particular, the PRA intends to consult in due course on the way in which capital requirements for residential mortgages should reflect these risks. In the interim, the PRA expects firms not to reduce their capital in such a way that it could present them with challenges if similar adjustments for residential mortgages were introduced following the consultation.

(1) As defined under www.bis.org/press/p140112a.htm (and any subsequent Basel FAQs relating to the exposure measure).