



Statistical release

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Banking sector regulatory capital: 2016 Q3

This is the first edition of a new quarterly statistical release which will show levels of capital and risk-weighted assets for the UK banking sector, with breakdowns of the movements in different tiers of capital and risk exposure types, and overall capital ratios.

At the end of Q3 2016 the average capital ratios for the UK banking sector, for common equity Tier 1 (CET1), Tier 1 and total capital were all higher than a quarter earlier and higher than in Q3 2015. At the end of Q3 2016 the CET1 ratio was 14.8% and the total capital ratio 20.6% (see Table A and Chart 1).

These increases in Q3 2016 were due to both a decrease of 3.3% in the level of total risk-weighted assets and an increase of 2.1% in the level of Tier 1 capital (see Table A and Chart 2). Chart 2¹ shows a decomposition of the recent changes in the total capital ratio into the approximate contributions from changes in levels of capital and risk-weighted assets.

Table A: Capital ratios and levels of capital and risk-weighted assets in the UK banking sector

	2015		2016			One quarter Change (percentage points)	Four quarters Change (percentage points)
	Q3	Q4	Q1	Q2	Q3		
	Ratios (per cent)						
Total capital	18.6	19.6	19.0	19.6	20.6	1.0	1.9
Tier 1	14.9	15.7	15.3	15.7	16.6	0.9	1.7
CET1	13.1	13.9	13.7	14.1	14.8	0.7	1.7
	Values (£ billions)						
Total Capital	567	588	593	629	640	1.6	12.8
of which: Tier 1	452	470	476	506	517	2.1	14.3
of which: CET1	399	417	427	454	460	1.3	15.4
of which: Tier 2	115	118	116	123	123	-0.3	6.8
Risk-weighted assets	3,044	2,997	3,122	3,218	3,112	-3.3	2.2

Chart 1: Capital ratios for the UK banking sector

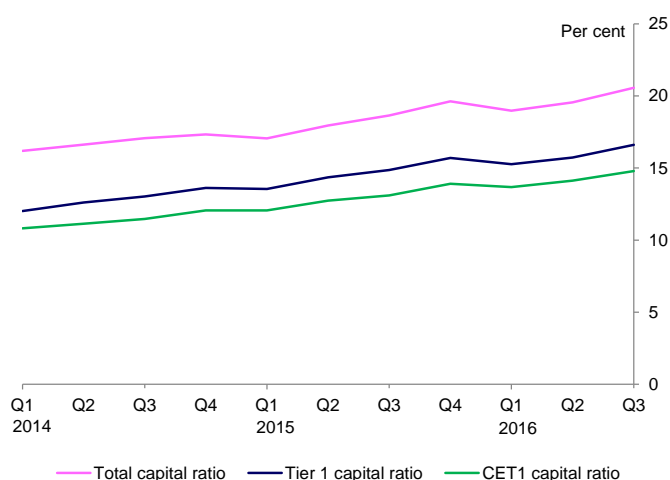
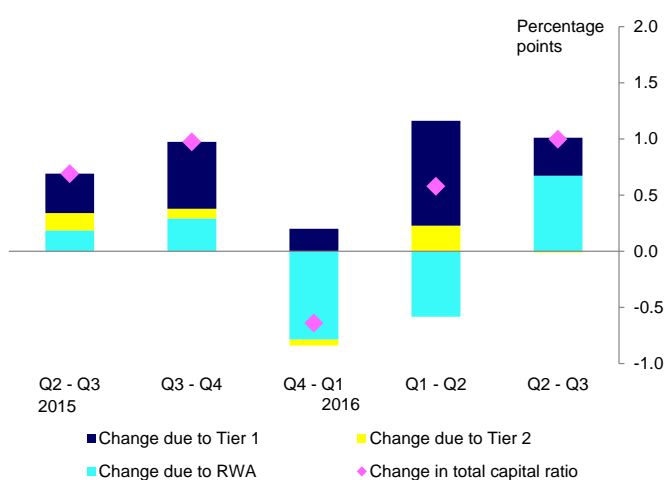


Chart 2: Contributions to quarterly change in total capital ratio



¹ See 'About these data' at the end of this release for further information on the calculation of these contributions.

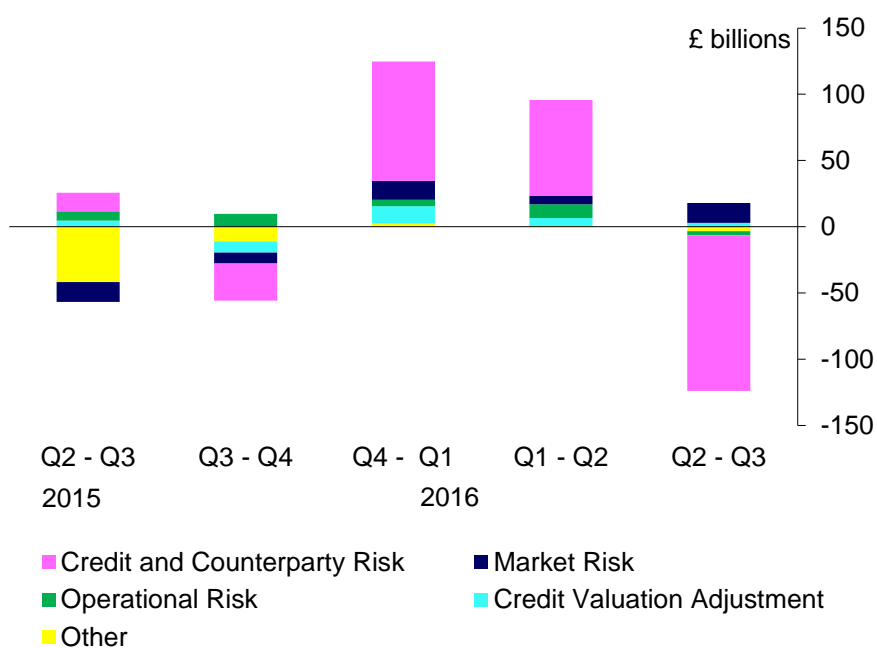
The level of total risk-weighted assets decreased by 3.3% during Q3 2016. This reduction was driven by a decrease in credit and counterparty risk (Table B and Chart 3). The "Other" category is primarily driven by large exposures risk, but also includes fixed overheads, settlement and other risk subtotals (from COREP form CA2).

Table B: Risk-weighted assets by risk type²

	2015		2016			One quarter	Four quarters
	Q3	Q4	Q1	Q2	Q3		
	Values (£ billions)						
Total risk-weighted assets	3,044	2,997	3,122	3,218	3,112	-3.3	2.2
Credit and counterparty risk	2,199	2,171	2,261	2,333	2,216	-5.0	0.8
Market risk	338	330	344	350	365	4.3	8.0
Operational risk	305	315	319	330	327	-0.9	7.1
Credit Valuation Adjustment	150	142	155	161	164	1.8	9.0
Other	52	41	43	44	40	-7.6	-21.7

² The categories of risk-weighted assets used are as defined in the reporting templates in the annexes to the Implementing Technical Standards (ITS) on Supervisory Reporting (Regulation (EU) No 573/2013).

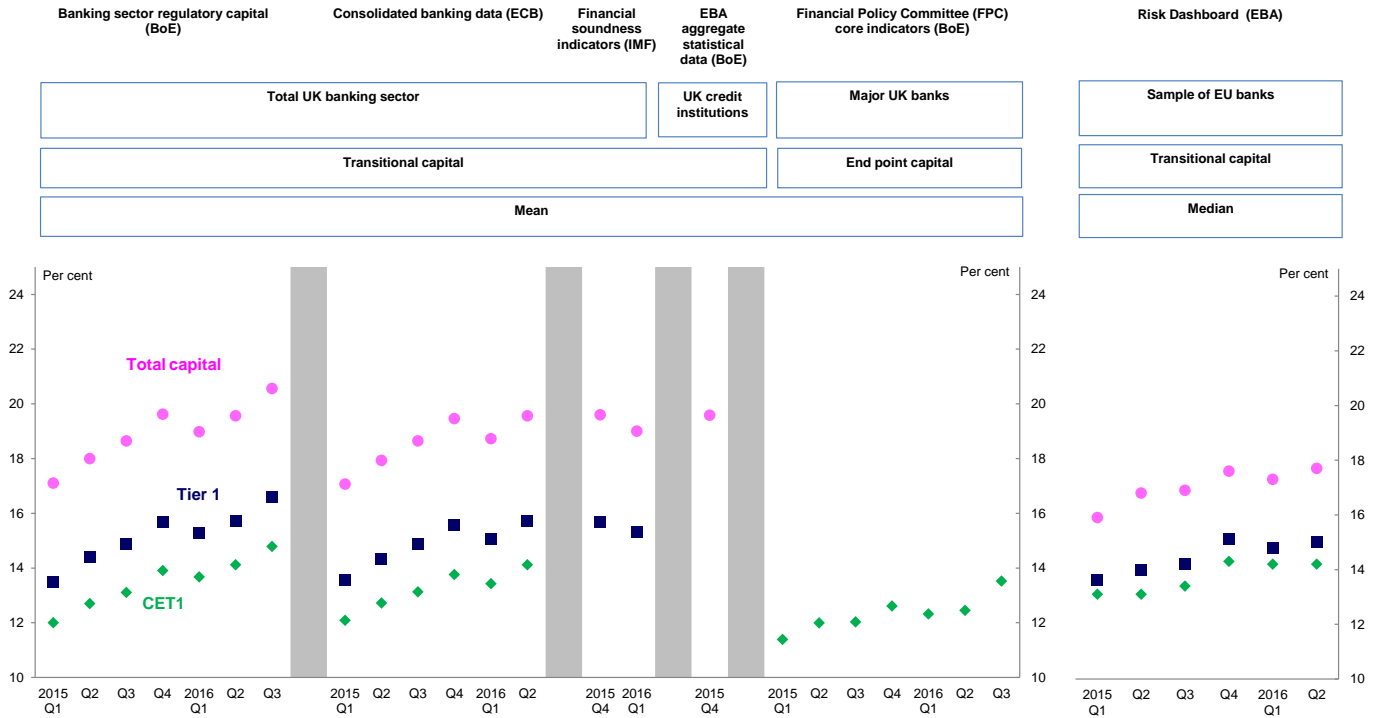
Chart 3: Changes in risk-weighted assets by risk type



Comparison of published capital ratios for the UK and the EU

Capital ratios for the UK banking sector are published by a number of organisations; the Bank of England (BoE), the European Central Bank (ECB), the International Monetary Fund (IMF) and the European Banking Authority (EBA). These ratios are not identical due to differences in firm coverage, use of transitional or endpoint capital, method of averaging and data revisions as explained below. Chart 4 shows a comparison of published capital ratios for the UK in the panel on the left with EU average ratios published by the EBA in the panel on the right. Table D provides descriptions of the underlying datasets and provides links to their definitions.

Chart 4: Comparison of published capital ratios for the UK and the EU



The effects of the differences in datasets and methodologies can be generalised as follows:

- Firm coverage – the BoE, the ECB and the IMF publish capital ratios that represent averages of the total UK banking sector. While they all use the same data the ECB and IMF publications are less timely and may include minor differences when compared with BoE data due to revisions. EBA aggregate statistical data exclude [designated investment firms](#) that are subsidiaries of banks headquartered outside the UK. The Financial Policy Committee’s (FPC) core indicator covers major UK banks³ only, rather than the total UK banking sector, and this generally has a downward effect on the ratio. The EBA publish tables showing average capital ratios for a sample of EU banks, including UK banks, which have been included in Chart 4 for comparison. While they also publish charts showing UK ratios, the data behind these charts are not currently available for publication in this release.
- Averaging method – the presentation of the EBA key risk indicators as percentiles (medians shown in Table D) rather than as weighted means, will tend to have an upward effect.
- Use of transitional or endpoint capital⁴ – the use of endpoint capital will tend to have a slight downward effect on ratios, compared to those using transitional capital.
- Timing – both timeliness and frequency vary across datasets. The banking sector regulatory capital statistical release and FPC core indicators are the timeliest. The EBA aggregate statistical data are published annually while all other datasets are published quarterly.

³The group currently includes Barclays, Co-operative Banking Group, HSBC, Lloyds Banking Group, Nationwide, RBS and Santander UK.

⁴ See [explanatory notes](#) for more detail

Table D: Description of different published capital ratios for the UK

Publishing institution	Dataset	Firm coverage	Transitional or endpoint capital	Averaging method
Bank of England	Banking sector regulatory capital	Total UK banking sector	Transitional	Mean
European Central Bank	Consolidated banking data	Total UK banking sector	Transitional	Mean
International Monetary Fund	Financial soundness indicators	Total UK banking sector	Transitional	Mean
Bank of England	FPC core indicators	Major UK Banks	Endpoint	Mean
Bank of England	EBA aggregate statistical data	UK credit institutions	Transitional	Mean
European Banking Authority	Risk Dashboard and Key Risk Indicators	EU banking sector, currently 198 banks across the EU	Transitional	Median

About these data:

The underlying data for the charts, tables and commentary presented in this publication is the EBA's Common Reporting (COREP) capital data, found in forms CA1 (own funds) and CA2 (own funds requirements). For further information on the basis of preparation of this data, please see the EBA's documentation on Implementing Technical Standards (ITS) on Supervisory Reporting, available at:

<https://www.eba.europa.eu/regulation-and-policy/supervisory-reporting/implementing-technical-standard-on-supervisory-reporting>

Levels of capital and risk-weighted assets that are reported to the Bank of England in currencies other than GBP are converted into GBP before aggregation. This conversion has an impact on levels of capital, risk-weighted assets and aggregated capital ratios. For example, if GBP depreciates against USD and a firm's reporting currency is USD, the levels when converted to GBP will be higher than if exchange rates were stable. Aggregate ratios are impacted since increases in the levels of USD reporting firms lead to increased weightings given to these firms' ratios.

Data in this release are not seasonally adjusted.

In order to help users understand the relative effects of the changes in the various components, the percentage point change in the total capital ratio has been decomposed into separate contributions attributable to the changes in capital and risk-weighted assets (see Chart 2). Although this is not strictly possible for an indicator that is defined as the ratio of two components – it can only work for an indicator capable of being written as the sum of distinct terms – the error involved in this decomposition will be of second order in the numerator and denominator contributions, and may be regarded as acceptably small in typical situations. Since the residual error is no more than an artefact of the arithmetic, and in this case is found to be negligible and not visible if plotted in Chart 2, it has been omitted. This residual will be included in future releases if found to be larger than 0.1 percentage points. The Deutsche Bundesbank also adopts this approach to show the decomposition of changes in selected banks' Tier 1 capital ratio. For further technical information please use the contact details provided below.

Further information can be found in the explanatory notes, available at:
<http://www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/capital.aspx>

If you have any queries with regards to these data please email regulatorydataqueries@bankofengland.co.uk or call 020 7601 3476.