Developments in the first half of 2014	2014 changes
During the first half of 2014, regulatory developments continued to have the potential to impact Santander UK's capital plans materially and were mitigated through close monitoring, scenario analysis and capital issuance. During the second quarter of 2014, Santander UK participated in the Bank of England's concurrent stress testing exercise, the results of which were presented to the PRA. Our CET 1 capital ratio increased to 11.8% at 30 June 2014 (2013: 11.6%). On 24 June 2014, Santander UK plc issued a £500m Additional Tier 1 ('AT1') security to its immediate parent Santander UK Group Holdings Ltd who, in turn, issued a similar security to Banco Santander, S.A.. We expect that the strength of our CET 1 capital ratio, our ability to generate capital organically and the rebalancing of our business mix will enable us to meet our targeted capital ratios even once the capital requirements of CRD IV and the PRA are phased in. Our end-point Tier 1 leverage ratio as defined by the PRA was 3.6%. Retained profits, and further AT1 issuance if required, are expected to result in a continued improvement in our leverage ratio. RWAs increased to £79.9bn (2013: £77.7bn), reflecting the growth of higher risk-weighted corporate lending.	↓
Building on the enhanced Conduct Risk Framework developed in 2013, a programme of work is planned to continue throughout 2014 to further embed effective management of conduct risk throughout the business, including a comprehensive cultural change project. In the second quarter of 2014, a £70m provision for conduct remediation, including related costs, was made. This included £65m relating to PPI and a net £5m for claims in respect of other retail products. During the first half of 2014, the volume of PPI complaints decreased at a slower rate than in previous periods. A review of recent claims activity indicated that claims are now expected to continue for longer than originally anticipated. As a result, the provision was increased. During the first half of 2014, the high proportion of invalid complaints continued. Monthly redress costs, including related costs, decreased to an average of £10m per month in the first half of 2014, compared with a monthly average of £18m per month in 2013 and £25m per month in 2012.	↔
During the first half of 2014, the overall Santander UK NPL ratio improved to 1.96% (2013: 2.04%), with the performance across the business units as follows: The Retail Banking NPL ratio decreased to 1.77% at 30 June 2014 (2013: 1.89%), with an improvement across both the secured and unsecured lending portfolios. There was a particular improvement in unsecured personal lending and 1I2I3 Credit Cards which benefited from the better risk profile of 1I2I3 World customers. The Commercial Banking NPL ratio increased to 3.15% at 30 June 2014 (2013: 3.02%) largely due to a single long-standing loan of £89m which moved to non-performance. A successful restructure of this loan is still anticipated and a conservative provision is held against it. The Corporate Centre NPL ratio decreased to 2.10% at 30 June 2014 (2013: 2.36%), reflecting the on-going sale and run-off of the non-core corporate and legacy assets which continue with no significant impact on the income statement. Social Housing comprised 80% of customer loans in Corporate Centre at 30 June 2014, and this portfolio is fully performing.	↔
Eligible liquid assets increased £2.7bn to £32.2bn at 30 June 2014 (2013: £29.5bn). Throughout the first half of 2014, Santander UK continued to maintain a strong liquidity position and a conservative balance sheet structure (i.e. maintaining high levels of high quality liquid assets) as well as robust risk management controls to monitor and manage the levels of the liquid asset portfolio and encumbrance. Eligible liquid assets continued to significantly exceed wholesale funding of less than one year, with a coverage ratio of 127% at 30 June 2014 (2013: 139%). At 30 June 2014, the Basel Liquidity Coverage Ratio ('LCR') was 107% (2013: 103%). Further clarity on the implementation of the LCR and Net Stable Funding Ratio ('NSFR') has continued to help to reduce the degree of uncertainty in this area.	↔
During the first half of 2014, the latest triennial Trustee pension scheme funding valuation at 31 March 2013 was agreed. Following this, an updated schedule of deficit funding contributions was agreed with the Scheme Trustee. During the first half of 2014, the risk profile of the Santander UK group's defined benefit pension scheme remained stable with the focus on positive performance of the assets relative to liabilities, whilst managing volatility through hedging a proportion of the liabilities with bond assets and derivatives. The accounting deficit of the Scheme improved by £381m, partially driven by positive asset returns as well as a net gain of £218m that arose from scheme changes that limit future defined benefit pension entitlements and provide for the longer-term sustainability of our staff pension arrangements.	↔
During the first half of 2014, Santander UK continued to develop and embed its operational risk management framework in line with regulatory expectations. During the first six months of 2014, the majority of Santander UK's £83m (year ended 31 December 2013: £221m) of Operational Risk losses arose within the clients, products and business practices category. These principally represented redress payouts (excluding related costs) on the sales of PPI products, largely provided for in previous years. Industry-wide concerns about external cyber crime remain high. On-going monitoring and oversight continued to be strengthened.	↔