Secure Trust Bank PLC

Pillar 3 disclosures for the year ended 31 December 2018

Contents

1. Overview

1.1 Background

The European Union ('EU') implemented the Basel III proposals published in December 2010 through the Capital Requirements Regulation ('CRR') and Capital Requirements Directive (together referred to as 'CRD IV') which came into force on 1 January 2014. This provides consistent capital adequacy standards governing the level of capital that banks must hold to protect their depositors and shareholders and an associated supervisory framework.

The Prudential Regulation Authority ('PRA') is responsible for the implementation of rules and guidance and enforcement within the UK. The rules include disclosure requirements known as 'Pillar 3' which apply to banks and other financial institutions. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

The Basel framework consists of three pillars:

- **Pillar 1**: Defines the minimum capital requirements that institutions are required to hold for credit, market and operational risks.
- **Pillar 2**: This builds on Pillar 1 and incorporates the Group's own assessment of additional capital resources needed in order to cover specific risks that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('SREP') and is used to determine the overall capital resources required by the Group.
- **Pillar 3**: Aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

1.2 Basis of disclosures

This document sets out the Pillar 3 disclosures for Secure Trust Bank PLC and its subsidiaries (the Group) as at 31 December 2018. These disclosures provide information on the capital requirements and on the management of key risks faced by the Group.

The disclosures have been prepared for Secure Trust Bank PLC, and cover the Pillar 3 qualitative and quantitative disclosure requirements. Further details on risks are included in the 'Principal Risks and Uncertainties' section within the 2018 Annual Report and Accounts, which can be found in the investor section of the Secure Trust Bank's website (www.securetrustbank.com/investor-information).

The Pillar 3 disclosure requirements have subsequently been enhanced by the Basel Committee on Banking Supervision with revised guidance issued in January 2015 and March 2017. This document reflects the disclosure requirements applicable at 31 December 2018.

1.3 Content of Report

The Pillar 3 report is issued annually in conjunction with the 2018 Annual Report and Accounts. Pillar 3 disclosures are also required to be issued at the half year and at the March and September quarter ends; these require a reduced level of disclosure.

1.4 Media and location

Pillar 3 disclosures are published on the Secure Trust Bank PLC corporate website (www.securetrustbank.com/investor-information).

1.5 Verification

The Pillar 3 disclosure report is prepared in accordance with a policy describing internal controls and processes around preparation of this document.

These Pillar 3 disclosures have been prepared to explain the basis upon which the Group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

1.6 Changes in disclosure requirements

The reporting requirements are in line with those in place for the previous annual Pillar 3 disclosures at 31 December 2017 with the only additional requirements being disclosure of the Net Stable Funding Ratio (NSFR), which was implemented from 30 June 2018, included in section 2.2 and disclosure of the Total Capital Requirement (TCR) in section 2.6.

2. Overview of Risk Management, Key Prudential Metrics and RWA

2.1 Risk Overview

The Board has assessed the principal risks that are inherent in the Group's business, and could impact on its business model, financial performance and future prospects. These are documented in the Principal Risks and Uncertainties section of the Strategic Report in the Group's 2018 Annual Report and Accounts.

2.2 Key Metrics (at consolidated group level)

		a	b	c	d	e
		31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17
		£'m	£'m	£'m	£'m	£'m
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	251.8	235.6	226.7	237.7	238.9
1a	Fully loaded ECL accounting model CET1	227.3	211.1	202.2	213.5	-
2	Tier 1 capital	251.8	235.6	226.7	237.7	238.9
2a	Fully loaded ECL accounting model Tier 1	227.3	211.1	202.2	213.5	-
3	Total capital	297.5	260.1	226.7	237.7	243.3
3a	Fully loaded ECL accounting model total capital	273.0	235.6	202.2	213.5	-
	Risk weighted assets (amount)					
4	Total risk weighted assets (RWA)	1,824.6	1,785.1	1,729.2	1,666.2	1,446.1
	Risk based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 (CET1) ratio (%)	13.8%	13.2%	13.1%	14.3%	16.5%
5a	Fully loaded ECL accounting model CET1 (%)	12.5%	11.8%	11.7%	12.8%	-
6	Tier 1 ratio (%)	13.8%	13.2%	13.1%	14.3%	16.5%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	12.5%	11.8%	11.7%	12.8%	-
7	Total capital ratio (%)	16.3%	14.6%	13.1%	14.3%	16.8%
7a	Fully loaded ECL accounting model total capital ratio (%)	15.0%	13.2%	11.7%	12.8%	-
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.9%	1.9%	1.9%	1.9%	1.3%
9	Countercyclical buffer requirement (%)	1.0%	0.5%	0.5%	0.0%	0.0%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (rows 8-10) (%)	2.9%	2.4%	2.4%	1.9%	1.3%
12	CET1 available after meeting the bank's specific buffer requirements (%)	10.9%	10.8%	10.7%	12.4%	15.3%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	2,432.8	2,336.7	2,267.7	2,084.4	1,942.7
14	Basel III leverage ratio (%) (row 2/row 13)	10.4%	10.1%	10.0%	11.4%	12.3%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13)	9.3%	9.0%	8.9%	10.2%	-
	Liquidity Coverage Ratio					
15	Total HQLA	211.2	182.9	127.4	183.1	218.7
16	Total net cash outflow	33.9	39.5	33.0	36.5	29.7
17	LCR ratio (%)	623.2%	463.4%	385.8%	501.1%	736.4%
	Net Stable Funding Ratio					
18	Total available stable funding	2,245.8	2,172.6	2,041.2	-	-
19	Total required stable funding	1,523.1	1,422.9	1,364.2	-	-
20	NSFR ratio	147.4%	152.7%	149.6%	-	-

Total Risk Exposure (TRE) has been reported in row 4 rather than Risk Weighted Assets (RWA). TRE represents RWA plus the Operational Risk component. Disclosure of capital ratios based on TRE is consistent with the basis used in the 2018 Annual Report and Accounts and other regulatory returns and is thus considered the most appropriate measure.

The CET 1 capital balance at 31 December 2018 has increased by £16.2m compared to September 2018 primarily attributable to the addition of £15.5m of H2 2018 profits which were certified on the approval of the 2018 Annual Report and Accounts. Following the implementation of IFRS 9 from 1 January 2018, the Group is no longer able to treat collective bad debt provisions as Tier 2 capital.

During the year new subordinated debt instruments were issued, raising £49.2m net of costs: £24.5m in Q3 and £24.7m in Q4 2018. These instruments are eligible to be treated as Tier 2 capital. Only £45.7m has been included as Tier 2 capital in the calculation of total capital (row 3) at 31 December 2018 as the amount of eligible Tier 2 capital cannot exceed 25% of the capital requirement (calculated as the TRE x Total Capital Requirement (TCR) percentage).

The Group has elected to adopt the IFRS 9 transitional rules. For 2018 this allowed 95% of the IFRS 9 impact to be added back to eligible capital. The 'fully loaded ECL accounting model' disclosure above shows what the capital position would be without the IFRS 9 transitional adjustment. Further details of the impact of IFRS 9 on the Group's capital position can be found in note 38 of the 2018 Annual Report and Accounts.

High quality liquid assets (row 15) principally represent the Group's Bank of England reserve account and unencumbered treasury bills. The data points used in creating the average figures for the table are the Group's monthly liquidity returns. In calculating the net cash outflow figure (row 16), the cap limiting the allowable cash inflow to 75% of the cash outflow has been applied.

The increase in Liquidity Coverage Ratio during Q4 reflects an increase of £40m in HQLA during December 2018, attributable to an increase in unencumbered Treasury bills.

The Net Stable Funding Ratio (NSFR) is required to be disclosed from 30 June 2018 onwards. The NSFR ratio at 31 December 2018 of 147.4% is comfortably in excess of the required minimum. The NSFR ratio remained broadly consistent with previous periods.

2.3 Risk Appetite

The Group sets a high level risk appetite statement to confirm the risk parameters within which the strategic aims and vision of the Group are to be achieved. The Board has identified risk themes, risk drivers and major risk categories relevant to the business to enable it to produce its risk appetite statements which underpin the strategy of the Group as set out in the Group's Annual Report and Accounts 2018 Strategic Report.

The Group's risk appetite statements are subject to regular monitoring and review. The Group's Risk Management Framework, which includes details of how risks are monitored, can be found on the Groups website www.securetrustbank.com.

This framework also sets out governance and oversight arrangements, including the relevant polices covering each risk, the method of reporting and the reporting Committee(s).

2.4 Qualitative Information on Stress Testing

The Group performs stress testing as a key tool to understand and manage the impact of risks crystallising. As well as providing an understanding of resistance to internal and external shocks, stress testing forms a key component of the Group's capital and liquidity assessments.

The Board has set a requirement that the Group is able to withstand a severe but plausible stress scenario without breaching minimum capital requirements.

The stress testing performed is designed to:

- Provide sufficiently severe and forward looking scenarios
- Confirm that the Group has sufficient capital and liquidity resources
- Ensure that the Group remains within its risk appetite
- Ensure alignment between the risk management framework and decision making.

ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) is the Group's evaluation of its capital position and requirements, assessed under the Capital Requirements Regulation and Capital Requirements Directive (CRD IV) framework. The ICAAP provides details of the current approaches used to manage risk across the Group. As part of that assessment, the ICAAP has to assess capital requirements both against the Group's current position and during severe but plausible stresses over the planning horizon.

The Group assesses its capital requirements both on a stressed scenario specified by the regulator and a second scenario overlaid with a range of more severe stresses.

ILAAP

The Internal Liquidity Adequacy Assessment Process (ILAAP) is the Group's documentation of its liquidity position and funding requirements, assessed against regulatory requirements and the Group's internal risk tolerance and assessment. An integral component of the approach to liquidity risk management is stress testing, some of which is prescriptive using the rules and guidance issued within prudential regulations and reported within regulatory returns.

Reverse stress testing

Reverse stress testing is integrated into existing stress testing within the ICAAP and ILAAP processes, but goes beyond standard tests by considering any extreme event that has the capacity to 'break' the Group. As such it helps to identify risks and possible controls which might ordinarily be missed when using standardised risk assessments.

A key outcome from the process is to consider whether any of the scenarios are sufficiently plausible to necessitate a change to the Group's strategy or underlying controls.

Recovery Plan

The Recovery Plan aims to improve the financial resilience of the Group by describing and evaluating the recovery options available to recover from a significant financial event. The PRA expects the Recovery Plan to be consistent with the ICAAP and ILAAP. The stress scenarios employed to test the Recovery Plan are aligned with the stress testing utilised in the ICAAP and ILAAP processes.

2.5 Overview of Risk Weighted Assets

		a	b	c	d
		Risk Weighted Assets		Minimum Capital Requirement	
		31/12/18 £'m	31/12/17 £'m	**31/12/18 £'m**	31/12/17 £'m
1	Credit Risk (excluding counterparty credit risk) CCR	**1,653.5**	1,278.6	**132.3**	102.3
2	Of which standardised approach (SA)	**1,653.5**	1,278.6	**132.3**	102.3
3	Of which internal rating-based approach (IRB)	**-**	-	**-**	-
4	Counterparty credit risk	**-**	-	**-**	-
5	Of which standardised approach for counterparty credit risk (SA-CCR)			**-**	-
6	Of which internal model method (IMM)	**-**	-	**-**	-
7	Equity positions in banking book under market based approach	**-**	-	**-**	-
8	Equity investments in funds - look through approach	**-**	-	**-**	-
9	Equity investments in funds - mandate-based approach	**-**	-	**-**	-
10	Equity investments in funds - fall-back approach	**-**	-	**-**	-
11	Settlement risk	**-**	-	**-**	-
12	Securitisation exposures in banking book	**-**	-	**-**	-
13	Of which IRB ratings-based approach (RBA)	**-**	-	**-**	-
14	Of which IRB supervisory formula approach (SFA)	**-**	-	**-**	-
15	Of which SA/simplified supervisory formula approach (SSFA)	**-**	-	**-**	-
16	Market risk	**-**	-	**-**	-
17	Of which standardised approach (SA)	**-**	-	**-**	-
18	Of which internal model approaches (IMM)	**-**	-	**-**	-
19	Operational risk	**171.1**	167.5	**13.7**	13.4
20	Of which Basic Indicator Approach	**-**	167.5	**-**	13.4
21	Of which Standardised Approach	**171.1**	-	**13.7**	-
22	Of which Advanced Measurement Approach	**-**	-	**-**	-
23	Amounts below the threshold for deduction (subject to 250% risk weight)	**-**	-	**-**	-
24	Floor adjustment	**-**	-	**-**	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	**1,824.6**	1,446.1	**146.0**	115.7

The minimum capital requirement above represents the Group’s Pillar 1 capital requirement and excludes any additional Pillar 2A capital add-ons.

The credit risk capital requirement has increased by 26% in the period, from £115.7m to £146.0m. This is less than the 29% increase in total assets, from £1,892m to £2,445m over the same period. This reflects the ongoing growth of the lending book, particularly Consumer Mortgages which were launched in 2017 and attract a lower risk weighting than other classes of the Group’s business.

The operational risk capital requirement at 31 December 2018 of £13.7m is above the £13.4m requirement at 31 December 2017 by virtue of the growth of the Group’s income. This is despite the adoption of the standardised approach (TSA) methodology during 2018; previously the basic indicator approach (BIA) methodology was adopted.

During Q3 2018 the PRA granted a waiver to allow the Group to exclude income relating to the Personal Lending Division (PLD) from the operational risk calculation, which reduced the capital requirement by £1.3m. The PLD business was sold during December 2017 and it is considered that no residual operational risks relating to the business remain within the Group.

2.6 Total Capital Requirement

The capital guidance currently applicable to the Group is to hold a Total Capital Requirement (TCR) of 10.01% of the Group's TRE. This equates to £182.6m at 31 December 2018.

This sets the minimum capital that the Group must hold under Pillar 1 and Pillar 2A requirements and is driven both by balance sheet growth and risk factors determined by the PRA. The Group comfortably meets this requirement with CET1 capital alone. Capital used to meet the TCR may not be used to meet the supplementary Pillar 2B buffers: the Capital Conservation Buffer and Countercyclical Capital Buffer.

3 Linkages between financial statements and regulatory capital exposures

3.1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement risk categories with regulatory risk categories

	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Assets							
Cash and balances at central banks	169.7	169.7	169.7	-	-	-	-
Loans and advances to banks	44.8	44.8	-	44.8	-	-	-
Loans and advances to customers	2,028.9	2,028.9	2,028.9	-	-	-	-
Debt securities held to maturity	149.7	149.7	149.7	-	-	-	-
Equity instruments available for sale	-	-	-	-		-	-
Property, plant and equipment	11.0	11.0	11.0	-	-	-	-
Intangible assets	9.9	9.9	-	-	-	-	9.9
Deferred tax assets	7.9	7.9	7.9	-	-	-	-
Other assets	22.4	22.4	22.4	-	-	-	-
Total assets	**2,444.3**	**2,444.3**	**2,389.6**	**44.8**	**-**	**-**	**9.9**
Liabilities							
Due to banks	263.0	263.0	263.0	-	-	-	-
Deposits from customers	1,847.7	1,847.7	1,847.7	-	-	-	-
Current tax liabilities	4.2	4.2	4.2	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	41.8	41.8	41.8	-	-	-	-
Provisions for liabilities and charges	1.3	1.3	1.3	-	-	-	-
Subordinated liabilities	49.2	49.2	49.2	-	-	-	-
Total liabilities	**2,207.2**	**2,207.2**	**2,207.2**	**-**	**-**	**-**	**-**

3.2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
			Items subject to:			
		Total £'m	Credit risk framework £'m	Counterparty credit risk framework £'m	Securitisation framework £'m	Market risk framework £'m
1	**Asset carrying value under scope of regulatory consolidation (as per template LI1)**	**2,444.3**	**2,389.6**	**44.8**	**-**	**-**
2	Liabilities carying amount under regulatory scope of consolidation (as per template LI1)	2,207.2	2,207.2	-	-	-
3	Total net amount under regulatory scope of consolidation	237.1	182.4	44.8	-	-
4	Off balance sheet amounts	263.1	263.1	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9						
10	**Exposure amounts considered for regulatory reporting purposes**	**2,707.4**	**2,652.7**	**44.8**	**-**	**-**

Explanation of differences between accounting and regulatory exposure amounts

There are no differences between the reported carrying values within the financial statements and the regulatory balances as reported in the Group's financial regulatory returns (section 3.1).

The difference between the Group's net carrying value of £2,444.3m in section 3.1 and the regulatory reporting exposure amount of £2,707.4m (section 3.2) is represented by off balance sheet commitments of £263.1m. These off balance sheet commitments represent agreed loan facilities which remain undrawn at the balance sheet date.

Where financial assets are individually evaluated for impairment, management uses its best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral (where held), in determining the expected future cash flows.

4 Composition of Capital

4.1 Composition of regulatory capital

The table below summarises the composition of the Group's regulatory capital as at 31 December 2018:

	31/12/18 £'m	31/12/17 £'m
Tier 1		
Share capital	7.4	7.4
Share premium	81.2	81.2
Retained earnings	147.4	159.2
IFRS 9 adjustment	24.2	-
Other reserves and adjustments	(8.4)	(8.9)
Common Equity Tier 1 capital	**251.8**	**238.9**
Tier 2		
Collective allowance for impairment of loans and advances	-	4.4
Eligible Tier 2 capital loan instruments issued	45.7	-
Total Tier 2 capital	**45.7**	**4.4**
Total Tier 1 & Tier 2 capital	**297.5**	**243.3**

The Group's Total Loss Absorbing Capacity (TLAC) at 31 December 2018 is equal to its total capital requirement (Pillar 1+2A capital), as described in section 2.8. The Group is not required by the PRA to hold a MREL recapitalisation reserve.

4.2 Management of Capital

In order to protect the capital adequacy of the Group, internal capital is held to provide a cushion for unexpected losses. In assessing the adequacy of its capital, the Group considers its risk appetite, the material risks to which the Group is exposed and the appropriate management strategies for each of the Group's material risks, including whether or not capital provides an appropriate mitigant.

The Internal Capital Adequacy Assessment Process (ICAAP) is a key element of the Group's implementation of the EU Capital Requirements Directive (CRD). It is a process that brings together the risk management framework of the Group and the financial discipline of budgeting and business planning.

The ICAAP is reviewed and updated each year in conjunction with the annual budget process, unless there are any changes in the control environment or other events that warrant a more immediate update. When performing the annual update the Board will review the continued appropriateness of the stated risk appetite and compare it against actual performance. It will also request the performance of stress testing, to assess the Group's capital adequacy in a range of scenarios.

The Group's capital management policy is focused on optimising shareholder value over the long-term. Processes exist to ensure that capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements. The Board reviews the capital position at every Board meeting.

The Board has adopted the PRA Pillar 2A capital guidance methodology to determine the level of capital that needs to be held. This method takes the Pillar 1 capital formula calculations (for credit, market and operational risk) as a starting point and then considers whether each of these calculations delivers an adequate capital sum to cover all anticipated risks. Where the PRA and Board consider that the Pillar 1 calculations do not adequately reflect the risks, additional Pillar 2A capital is held.

4.3 Capital Requirement

The following table shows the Group's Pillar 1 capital requirements by asset class (credit risk requirements represent gross exposures and exposures after credit risk mitigation):

Pillar 1 Requirement	2018	2017
Credit Risk requirements arising from exposures to:	£'m	£'m
Institutions	0.7	0.6
Corporates	16.7	14.0
Retail	53.8	44.8
Secured on immoveable property	54.1	39.5
Exposures in default	2.8	1.9
Other	4.2	1.5
Market risk capital requirement	-	-
Operational risk capital requirement	13.7	13.4
Total Pillar 1 Capital Requirement	**146.0**	**115.7**

Credit Risk
The retail capital requirement has increased by 20% in the year due to continued strong growth in the Retail Finance business (+32%), with Motor Finance remaining relatively flat (+1%).

The capital requirement for immovable property lending increased by 37%, which was greater than the overall 33% increase in Real Estate Finance lending from £581m to £770m. This difference is attributable to mix effects within the portfolio with the majority of new business consisting of either development lending, attracting a 150% risk weighting, or residential investment lending being weighted at 35%.

In addition the Consumer Mortgage business launched in late 2017 with lending of £85m at 2018 year end (2017: £16m), which was generally risk weighted at 35%, also a component of the immovable property balance.

Operational Risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external factors. These can relate to breaches of law and regulations, error or omission, unauthorised activities and fraud, system failure or external events.

A description of the Group's approach to Operational Risk can be found within the Principal Risks and Uncertainties section of the Strategic Report in the Group's 2018 Annual Report and Accounts.

Operational Risk Capital Calculation Approach

CRD IV requires that the Group holds Pillar 1 capital against operational risk. The amount of capital the Group is required to hold is determined by the Standardised Approach (TSA). Regulatory approval for use of TSA was provided in September 2018 and demonstrates the Group's progression and maturity in the management of Operational Risk.

The capital required under this approach was £13.7m at 31 December 2018.

5 Macro-Prudential Supervisory Measures

5.1 Geographical distribution of the credit exposures used in the countercyclical capital buffer

The countercyclical capital buffer (CCyB) rate applicable in the United Kingdom at 31 December 2018 was 1.0%. The underlying credit exposures arise solely within the UK.

6 Leverage Ratio

CRD IV introduces a non-risk based leverage ratio that is supplementary to the risk based capital requirements. The calculation determines a ratio based on the relationship between Tier 1 capital and total exposures, including off- balance sheet items. The leverage ratio does not distinguish between unsecured and secured loans, nor recognise the ratio of loan to value of secured lending.

The PRA has implemented the Financial Policy Committee's (FPC) direction to introduce a UK leverage ratio framework. This currently only applies to banks and building societies with retail deposits of £50 billion or more and on this basis the Group is not captured by this requirement.

The UK leverage ratio framework sets a minimum ratio of 3.25% from December 2017, previously 3%. Although not subject to the framework, the Group follows the requirements as best practice and has maintained its ratio well in excess of the minimum requirement.

Details of the Group's leverage ratio are included within section 2.2 above.

7 Liquidity

Details of the Group's governance in respect of key liquidity risks and the mitigation in place are documented in the Principal Risks and Uncertainties section of the Strategic Report in the Group's 2018 Annual Report and Accounts.

7.1 Liquidity Risk Management

The Overall Liquidity Adequacy Requirement (OLAR) ratio is the key metric used to monitor the level of High Quality Liquid Assets (HQLA) required to meet a severe but plausible stress over a 90 day period. This is monitored by the Treasury function and reported to senior management on a daily basis and ALCO on a monthly basis. The OLAR ratio is calculated as the HQLA / 90 day liquidity surplus and is maintained in excess of 100%. At 31 December 2018 the OLAR was well in excess of the required minimum based on the prevailing methodologies.

The measures in place to manage liquidity risk on sources of funding are described in note 32 of the 2018 Annual Report and Accounts. The loan to deposit ratio and total funding ratio are calculated and monitored as described in section (iv) of the appendix to the 2018 Annual Report and Accounts.

Details of the maturity profiles and liquidity gaps of balance sheet amounts are disclosed in note 32 of the 2018 Annual Report and Accounts.

8 Credit Risk

Credit risk is the risk that customers or other counterparties are unable to meet their financial obligations to the Group as they fall due.

General qualitative information about credit risk

8.1 How the business model translates into the components of the Group's credit risk profile

The Board has assessed the principal credit risks inherent within the business. These are documented in the Principal Risks and Uncertainties section of the Strategic Report in the Group's 2018 Annual Report and Accounts.

8.2 Criteria and approach used for defining credit risk management policy and for setting credit risk limits

The Secure Trust Bank strategy is to have a balanced lending portfolio that constitutes a mix of Consumer Finance, Residential Mortgage lending and Commercial Finance. The composition of the business mix is agreed by the Board. The Board also agrees maximum lending limits in terms of individual loan to customers and concentration risk to any one particular introducer.

8.3 Structure and organisation of the credit risk management and control function

The Group operates a three lines of defence model to credit risk:

Underwriting and Quality Assurance - First Line of Defence: Consumer Finance Lending

The Underwriting and Operational Quality Assurance teams are the first line of defence, for Motor Finance headed up by the Group's Head of Motor Operations, with the V12 Operations Director having first line responsibility for the Retail Finance business.

Credit Committee Process - First Line of Defence: Business Finance Lending

Responsibility and accountability lies with the line management in the individual commercial businesses. Line management are responsible for credit risk strategy and credit risk mitigation for the Group's products, from new acquisition to write off, through portfolio analysis. A reporting process is in place to highlight key risk to the Group's senior management and risk committees.

Credit Risk - Second Line of Defence

The Credit Risk function is the second line of defence. Credit Risk is headed up by the Group Heads of Credit Risk (Consumer and Business). Reporting to the Chief Risk Officer, the Group Heads of Credit Risk are responsible for credit strategy and credit risk mitigation for all the Group's lending products from new acquisition to write-off, through portfolio analysis.

A reporting process exists to highlight key risks to the Group's Senior Management and Risk Committees.

Internal Audit – Third Line of Defence

The Group has an independent internal audit function managed by a Chief Internal Auditor who has right of attendance at the Group ExCo meeting. Credit Risk is audited annually with different elements of Credit Risk reviewed at the specific request of the Group Board Risk Committee.

Relationships between the credit risk management, risk control, compliance and internal audit functions

All Group processes, business units and support functions are in scope for internal audit review. The internal audit plan, which is risk based, covers all significant business processes and enabling functions over a four year period and the plan is updated each year and approved by the Board Audit Committee. Credit risk features in the internal audit plan every year, in both business process reviews (reviewing credit risk management as operated by the underwriting teams and supported by QA at application stage and in-life) and in audits of the effectiveness of the second line of defence functions. Although not every business unit or second line function is covered every year, all are covered over a four year period and the processes or functions that are regarded as highest risk are subject to review more frequently.

8.4 Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

A Portfolio Review pack is created on a monthly basis to monitor trends in applicant quality and portfolio performance. Metrics are generated to review the effectiveness of the scorecard and designed to identify any deterioration of its discriminatory strength.

Data is scrutinised at application level but furthermore by introducers. Introducer statistics include application volumes, and quality, written rates/ quality and post acceptance the performance of the written loans.

8.5 Credit quality of assets

		a	b	c	d
		Gross carrying values of:		Allowances/ Impairments £'m	Net values (a+b+c) £'m
		Defaulted exposures £'m	Non-defaulted exposures £'m		
1	Loans	54.2	2,041.8	(67.1)	2,028.9
2	Debt Securities	-	-	-	-
3	Off-balance sheet exposures	-	263.1	-	263.1
4	**Total**	**54.2**	**2,304.9**	**(67.1)**	**2,292.0**

8.6 Changes in stock of defaulted loans

		2018 £m
1	**Defaulted loans and debt securities at end of the previous period (restated)**	**44.4**
2	Loans and debt securities which have defaulted since the last reporting period	17.1
3	Returned to non-defaulted status	(1.6)
4	Amounts written off	(3.8)
5	Other changes	(1.9)
6	**Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)**	**54.2**

Defaulted exposures are defined as loans which are greater than 90 days past due and impaired.

8.7 Additional disclosure related to the credit quality of assets

The Group follows the regulatory definition for past due and impaired exposures for accounting purposes. All exposures greater than 90 days overdue are considered as impaired.

Impairments are calculated based on criteria including the number of months overdue and the likelihood of recovery.

The Group does not routinely reschedule contractual arrangements where customers default on their repayments. It may offer the customer the option to reduce or defer payments for a short period, in which cases the loan will retain the normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes.

All lending takes place within the United Kingdom.

8.8 Residual Maturity of Assets

	Within 3 months £'m	3-6 months £'m	6-12 months £'m	After 12 months £'m	**Total £'m**
Cash and balances at central banks	169.7	-	-	-	**169.7**
Loans and advances to banks	44.8	-	-	-	**44.8**
Loans and advances to customers	376.1	167.6	278.3	1,207.1	**2,028.9**
Debt securities held to maturity		149.7	-	-	**149.7**
Other assets	22.4	-	7.8	21.2	**51.4**
Total	**613.0**	**317.3**	**286.1**	**1,228.3**	**2,444.5**

Cash and balances at central banks represent balances at the Bank of England. Loans and advances to banks represent loans to other banking institutions. Loans and advances to customers represent: the Business Finance portfolio comprising secured lending to businesses for Real Estate, Asset Finance and Invoice Finance; the Consumer Finance portfolio including DMS, unsecured Retail Finance lending, secured lending for Motor Finance and Consumer Mortgages.

8.9 Ageing analysis of past due exposures by industry sector

	Carrying amount of assets without significant increase in credit risk since initial recognition (Stage 1) (£'m)			Carrying amount of assets with significant increase in credit risk since initial recognition (Stage 2) (£'m)			Carrying amount of credit impaired assets (Stage 3) (£'m)		
	Up to 30 days	31 - 90 days	Over 90 days	Up to 30 days	31 - 90 days	Over 90 days	Up to 30 days	31 - 90 days	Over 90 days
Central banks	-	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	2.9	0.5	-	-	0.1	0.3
Households	0.1	-	-	25.9	2.2	-	0.3	0.9	36.4
Total	**0.1**	**-**	**-**	**28.8**	**2.7**	**-**	**0.3**	**1.0**	**36.7**

8.10 Qualitative disclosure required related to credit risk mitigation techniques

a. Credit risk mitigation for the unsecured retail business is principally facilitated through use of the bespoke scorecard described in section 8.1 above. This is considered a robust approach as overrides are only allowed by exception and the proportion and absolute value of such exceptions are capped.

b. All commercial business lending is secured at prudent loan to value ratios and therefore is considered adequately mitigated.

8.11 Credit risk mitigation techniques - overview

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
		£'m	£'m	£'m	£'m	£'m	£'m	£'m
1	Loans	939.1	1,304.3	1,139.6	11.9	11.9	-	-
2	Debt Securities	-	-	-	-	-	-	-
3	**Total**	**939.1**	**1,304.3**	**1,139.6**	**11.9**	**11.9**	**-**	**-**
4	Of which defaulted	37.4	16.8	14.8	-	-	-	-

Unsecured exposures represent exposures to the Retail Finance business and those to the Bank of England and banking institutions. Secured exposures represent the Motor Finance business, Consumer Mortgages and Business Finance portfolios.

8.12 Qualitative disclosure on the banks use of external credit ratings under the standardised approach for credit risk

The Group does not currently make use of external credit ratings in the assessment of credit risk.

8.13 Standardised approach - credit risk exposure and CRM effects

		a	b	c	d	e	f
		Exposures before CCF and CRM		**Exposures post CCF and CRM**		**RWA and RWA density**	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		£'m	£'m	£'m	£'m	£'m	£'m
	Asset Classes:						
1	Sovereigns and their central banks	319.4	-	319.4	-	-	0%
2	Non central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	44.8	-	44.8	-	9.0	20%
5	Securities firms	-	-	-	-	-	-
6	Corporates	234.1	10.4	234.1	-	220.9	94%
7	Regulatory retail portfolios	905.4	64.2	893.5	5.7	674.4	75%
8	Secured by residential property	85.2	15.3	85.2	15.3	33.0	33%
9	Secured by commercial real estate	768.8	173.2	768.8	78.9	644.1	76%
10	Equity	-	-	-	-	-	-
11	Past due loans	35.4	-	35.4	-	35.4	100%
12	Higher risk categories	-	-	-	-	-	-
13	Other Assets	39.7	-	39.7	-	51.7	130%
14	**Total**	**2,432.8**	**263.1**	**2,420.9**	**99.9**	**1,668.5**	**66%**

Secured by commercial real estate (row 9) represents lending by the Group's Real Estate Finance business. On balance sheet lending (column a) at 31 December 2018 can be further analysed as follows:

- Residential investment lending £508.8m
- Commercial investment lending £37.6m
- Development lending £222.4m

The majority of the off-balance sheet balance (column b) represents exposure to development projects.

8.14 Standardised approach - exposures by asset class and risk weights

		a	b	c	d	e	f	g	h	i	j
	Risk Weight / Asset Classes	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount post CCF and post CRM
		£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
1	Sovereigns and their central banks	319.4	-	-	-	-	-	-	-	-	319.4
2	Non central government public sector entities	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	44.8	-	-	-	-	-	-	44.8
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	52.6	181.5	-	-	234.1
7	Regulatory retail portfolios	-	-	-	-	-	899.2	-	-	-	899.2
8	Secured by residential property	-	-	-	100.5	-	-	-	-	-	100.5
9	Secured by commercial real estate	-	-	-	496.2	-	1.1	115.9	234.5	-	847.7
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past due loans	-	-	-	-	-	-	35.4	-	-	35.4
12	Higher risk categories	-	-	-	-	-	-	-	-	-	-
13	Other Assets	-	-	-	-	-	-	31.8	-	7.9	39.7
14	**Total**	**319.4**	**-**	**44.8**	**596.7**	**-**	**952.9**	**364.6**	**234.5**	**7.9**	**2,520.8**

9 Counterparty Credit Risk

9.1 Qualitative disclosure related to counterparty credit risk

The Group is exposed to counterparty risk through placing their excess funds with banking institutions. Failure of one of these counterparties has been considered, but is thought unlikely, as the Group's policy is to place the majority of funds with institutions considered systemically important in the UK. At 31 December 2018 £39.8m of the Group's exposure to banks was to systemically important institutions. Exposure to these banking institutions has substantially reduced as the majority of available funds are invested in the Group's Bank of England reserve account.

The Group has transactional accounts with Barclays and the Royal Bank of Scotland group. The balances are within counterparty limits approved by the Board, which are set out in the Wholesale Counterparty and Credit Risk Policy (approved by the Group's ALCO).

The Group does not have any derivative or security financing transaction (SFT) exposures at 31 December 2018 nor have there been any during the 2018 year.

Therefore the Board considers that the Group is not significantly exposed to counterparty risk and accordingly no capital add-on is required.

9.2 Analysis of counterparty credit risk (CCR) exposure by approach

The Group has not entered into any derivatives or securities financing transactions (SFTs) during the year. Accordingly table CCR1 has not been provided.

9.3 Credit valuation adjustment (CVA) capital charge

The Group has not entered into any derivatives or securities financing transactions (SFTs) during the year. Accordingly no CVA capital charge is required and therefore table CCR2 has not been provided.

9.4 Standardised approach - CCR by regulatory portfolio and risk weights

	a	b	c	d	e	f	g	h	i	j
Risk Weight / Regulatory Portfolio	0% £'m	10% £'m	20% £'m	35% £'m	50% £'m	75% £'m	100% £'m	150% £'m	Others £'m	Total credit exposures £'m
Sovereigns and their central banks	319.4	-	-	-	-	-	-	-	-	319.4
Non central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	-	-	44.8	-	-	-	-	-	-	44.8
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	609.2	-	53.8	335.2	288.5	-	1,286.7
Regulatory retail portfolios	0.2	-	-	0.3	-	922.2	70.6		-	993.3
Other assets	-	-	-	-	-	-	31.8	-	7.9	39.7
Total	**319.6**	**-**	**44.8**	**609.5**	**-**	**976.0**	**437.6**	**288.5**	**7.9**	**2,683.9**

9.5 Composition of collateral for CCR exposure

The Group has not entered into any derivatives or securities financing transactions (SFTs) during the year. Accordingly table CCR5 has not been provided.

9.6 Credit derivatives exposure

The Group has not entered into any derivatives or swaps during the year, apart from a small number of foreign exchange hedging transactions, which are not material to the Group. Accordingly table CCR6 has not been provided.

9.7 Exposure to central counterparties

The Group has not entered into any derivatives or SFTs during the year. Accordingly table CCR8 has not been provided.

10 Securitisation

The Group has not entered into any securitisation transactions during the year, nor does it have any securitisation exposure at 31 December 2018. Accordingly table SEC1 has not been provided.

11 Market Risk

The Group does not hold any capital in respect of market risk at 31st December 2018, apart from that related to Interest Rate Risk in the Banking Book (IRRBB) which is described in part 12 below.

12 Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk is the risk of potential loss through unhedged or mismatched asset and liability positions, which are sensitive to changes in interest rates. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the Group's assets, liabilities and off-balance sheet instruments and hence its economic value. Changes in interest rates also affect the Group's earnings by altering interest-sensitive income and expenses, affecting its net interest income.

Further details will be found in Note 31 of the Group's 2018 Annual Report and Accounts.

13 Remuneration

13.1 Role of the remuneration committee

Remuneration policy is overseen by the Remuneration Committee. The Remuneration Committee is composed of three members. Victoria Stewart was appointed as the Chairman of the Remuneration Committee on 21 July 2017. Sir Henry Angest and Andrew Salmon retired from the Committee on 31 March 2018. There were no other changes to the membership of the Committee in 2018.

The Remuneration Committee meets at least twice a year and ordinarily four times a year, and additionally when required to address non-routine matters. The Company Secretary or the Deputy Company Secretary acts as Secretary to the Remuneration Committee. Other individuals attend at the request of the Remuneration Committee Chairman and during the year the Chief Executive Officer, HR Director and other senior managers attended meetings to report to the Committee.

The Chairman of the Remuneration Committee reports to the Board on the outcome of Committee meetings and any recommendations arising from the Committee.

The Remuneration Committee assists the Board in fulfilling its responsibilities in relation to remuneration including, amongst other matters, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level.

Item	Comment
Directors Remuneration Report (DRR) and other disclosures in the Annual Report & Accounts.	The Committee considered the disclosures required in the Annual Report & Accounts. The Committee received advice from the Company Secretary and the HR Director when compiling the DRR and the additional disclosures in the Notes.
All Employee Group Remuneration Policy (Policy)	The Committee reviewed and approved for recommendation to the Board the All Employee Group Remuneration Policy, having received advice on the Policy from the HR Director, the Risk Committee, the Chief Compliance Officer and the Company Secretary. The Policy was approved by the Board and became effective 1 January 2019.
Executive Directors bonus arrangements	The Remuneration Committee considered the bonus arrangements in relation to the Executive Directors for 2017 and 2018 in accordance with the Directors’ Remuneration Policy and the targets set as part of a balanced business scorecard. In doing so the Remuneration Committee took into account the financial performance of the Group and personal performance. Details of the 2018 bonus earned by directors during the year can be found within the Group’s 2018 Annual Report and Accounts.

Forward calendar and items for 2019	The Committee agreed a standing agenda and calendar of meetings for 2019. Four meetings are planned to be held in 2019 to address routine matters.
Annual review of terms of reference	The Committee reviewed its term of reference and approved these for recommendation to the Board.
Proposed Grading Structure for 2018	The Committee reviewed the new grading structure within the Group. The structure is backed by a robust analytical job evaluation system, supported by industry based market benchmarking and is intended to provide greater clarity and transparency for staff, allowing individuals to map how their career could develop within the Group. The new structure was implemented in Q3 2018.
Gender Pay Gap Reporting (GPG)	The Committee reviewed the GPG between staff and discussed disclosure of the figures and the differences between Equal Pay and GPG.
Internal Audit reward and incentives governance review	The Committee reviewed the results of the Internal Audit of the reward and incentives governance review and the audit actions arising from that review and will monitor their implementation throughout 2019.
Appointment of Remuneration Consultants	The Committee conducted a competitive tender process in Q1 2019 which culminated in the appointment of Aon Limited as Remuneration Consultants.

The table above is not a complete list of matters considered by the Committee but highlights the most significant matters for the period in the opinion of the Remuneration Committee.

13.2 Key features of the remuneration policy

The key principles behind the Group's Remuneration Policy are:

- to be simple and transparent in order to reflect the Group's mission statement of straightforward, transparent banking,
- to promote the long term success of the Group, with transparent and demanding performance conditions,
- to provide alignment between executive reward and the Group's values, risk appetite and shareholder returns, and

- to have a competitive mix of base salary and short and long term incentives, with an appropriate proportion of the package linked to the delivery of sustainable long term growth.

In developing and implementing the policy the Group has also had regard to regulatory requirements and the responsibilities of senior managers under the senior manager regime.

The Group is currently a level 3 firm within the classifications applied by the regulators for their remuneration codes for regulated entities. That means that the Group is not required to satisfy in full all elements of the remuneration codes. Notwithstanding this, in formulating and applying the Remuneration Policy the Committee has had regard to the remuneration codes.

The application of the remuneration policy is described in the Remuneration Report within the 2018 Annual Report and Accounts. In determining appropriate rewards for executive management the Remuneration Committee has had regard to the achievements of 2018, the balanced business scorecard agreed by the Committee and the parameters of the Remuneration Policy. The Remuneration Committee, in determining appropriate awards for Executive Directors, also has had regard to the risk culture of the Group and regulatory matters, as well culture and employee engagement.

Remuneration arrangements for other employees are determined throughout the Group based on the same principle that reward should be achieved for delivery of the business strategy and should be sufficient to attract and retain high calibre talent.

The Committee considers the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors. There is no consultation with employees on Director remuneration.

The Committee may make minor changes to this policy, which does not have a material advantage to Directors, to aid in its operation or implementation, taking into account the interests of shareholders but without the need to seek shareholder approval.

13.3 Shareholder views

The Company maintains a regular dialogue with its principal shareholders and makes full use of the Annual General Meeting to communicate with investors. All Directors are expected to make themselves available to shareholders at the Annual General Meeting. The Chairmen of the Board Committees will be available at the Annual General Meeting to answer questions about the work of their committees.

The Board recognises the importance of maintaining good relationships with shareholders. The Chief Executive Officer and the Chief Financial Officer would normally expect to meet with institutional shareholders on a regular basis, including following the publication of financial information or updates by the Group. The Chairman has joined them in some meetings throughout 2018 and 2019. The Group’s brokers also facilitate communication between the Group and its institutional shareholders.

The Chairman is responsible for ensuring that appropriate channels of communication are established between the directors (and in particular the Chief Executive Officer and Chief Financial Officer) and shareholders and that the views of shareholders are made known to the Board.

13.4 Existing contractual arrangements

The Committee retains discretion to make any remuneration payment or payment for loss of office outside the Remuneration Policy described in this report:

- where the terms of the payment were agreed before the policy came into effect;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company, and in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company; and
- to satisfy contractual arrangements under legacy remuneration arrangements, including any arrangements in place prior to Admission.

For these purposes, 'payment' includes the satisfaction of awards of variable remuneration, and in relation to an award involving shares the terms of the payment are agreed at the time the award is granted.

The Committee may satisfy any Phantom Share Option granted under the Group's Phantom Share Option Scheme (as disclosed in the Group's Annual Report and Accounts 2018 Remuneration Report) and may adjust the terms of any such Phantom Share Option to take account of any variation of share capital, demerger, delisting, special dividend or other event which may affect the Company's share price.

13.5 Service agreements and letters of appointment

Executive Directors' service agreements are on a rolling basis and may be terminated on 12 months' notice by the Company or the Executive Director. Service agreements for new Executive Directors will generally be limited to 12 months' notice by the Company.

All Non-Executive Directors' letters of appointment are on a rolling basis and may be terminated on six months' notice by the Company or the Non-Executive Directors. All Non-Executive Directors are subject to re-election at intervals of not more than three years.

For further information regarding the operation of the Remuneration Policy please refer to the Remuneration Committee section of the 2018 Annual Report and Accounts.

13.6 Bonus arrangements

Bonuses for the Executive Directors for the financial year ended 31 December 2018 were subject to stretching performance metrics based on a balanced business scorecard of financial, customer, operational and staff metrics. Up to 60% of the bonus was subject to financial performance metrics and 40% of the bonus was subject to a mixture of customer, operational and staff performance metrics. A high level description of the performance metrics and objectives for both Executive Directors is set out in the Remuneration Committee section of the 2018 Annual Report and Accounts.

13.7 Awards granted during the financial year

a) 2017 Long Term Incentive Plan (LTIP)

Share options were granted to senior employees in accordance with the rules of the Secure Trust Bank PLC LTIP. Each of the options granted was subject to the performance conditions and performance period as detailed in the 2018 Annual Report and Accounts. A holding period applies to the awards granted to the Executive Directors. The award will, ordinarily, be released so that the Executive Directors are entitled to acquire the shares following the end of a holding period which ends on the second anniversary of the vesting date.

The Company granted awards under the LTIP to the Executive Directors subject to EPS, Relative TSR and risk management performance metrics. Performance will be assessed over a three year performance period.

The EPS and relative TSR performance targets are set out in the table below:

Vesting (% of maximum)	EPS growth (40% of award)	Relative TSR (40% of award)
0%	Less than 10% per annum	Below Median
25%	10% per annum	Median
100%	30% per annum	Upper quartile
Straight-line vesting between points.		

The Awards made on 20 April 2018 used the following group of selected peers for assessing Total Shareholder Return (TSR) performance: Arbuthnot Banking Group, Charter Court Financial Services Group plc, Close Brothers, OneSavings Bank, Metro Bank, Paragon Banking Group, Provident Financial, S&U and Virgin Money.

20% of the award will be assessed on risk management performance objectives aligned with the Company's risk management framework.

b) 2017 Sharesave plan (SAYE).

Share options over ordinary shares were offered to all eligible employees in accordance with the rules of the Secure Trust Bank PLC SAYE. Options were granted on 19 September 2018 to the successful applicants. Each option has an exercise price per Ordinary Share of 1402.67p. Subject to the rules of the Scheme, the options will ordinarily vest on 1 November 2021 and be exercisable for a period of six months.

115 employees have been granted options under the Scheme in respect of a total of 34,449 Ordinary Shares.

c) 2011 Share option scheme

No awards under the 2011 Share Option Scheme were granted during the financial year ended 31 December 2017.

d) 2017 Deferred Bonus Plan (DBP)

Nominal-cost share options were granted to Executive Directors over 14,690 shares on 20 April 2018 in accordance with the rules of the DBP.

Each award has been granted in the form of an option with an exercise price per share equal to the nominal value of a share and, subject to the rules of the Plan will vest:

- on 20 April 2019 as regards one third of the shares subject to it (Tranche 1);
- 20 April 2020 as regards one third of the shares subject to it (Tranche 2); and
- 20 April 2021 as regards one third of the shares subject to it (Tranche 3).

Each option once vested remains capable of exercise until 20 April 2028.

The awards are subject to malus and clawback provisions as detailed in the rules of the DBP but not subject to further performance conditions.

13.8 Statement of Directors’ shareholding and share interests

No formal shareholding guidelines are currently in place. However, Paul Lynam has committed to building up and maintaining a shareholding of at least 100% of base salary, over time, by retaining all awards under the LTIP that vest (net of income tax and National Insurance).

The interests of the Directors and their connected persons in the Company’s ordinary shares as at 31 December 2018 are set out in the 2018 Annual Report and Accounts.

13.9 Remuneration awarded during the financial year

			a	b
		Remuneration amount	**Senior Managers**	**Other material risk takers**
1	**Fixed Remuneration**	Number of Employees	8	27
2		Total Fixed Remuneration (3+5+7)	£2,215,101	£4,694,593
3		Cash based	£2,215,101	£4,694,593
4		of which: deferred	-	-
5		Shares or share linked instruments	-	-
6		of which: deferred	£279,991	-
7		Other forms		-
8		of which: deferred	-	-
9	**Variable Remuneratic**	Number of Employees	8	27
10		Total Variable Remuneration (11+13+15)	£280,000	£1,494,780
11		Cash based	£280,000	£1,494,780
12		of which: deferred	£0	£0
13		Shares or share linked instruments	£0	
14		of which: deferred	£1,728,628	
15		Other forms	£0	£0
16		of which: deferred	£0	£0
17		**Total Remuneration (2 + 10)**	**£2,495,101**	**£6,189,373**

Senior managers represent the executive and non-executive directors of the Group. Other material risk takers have been determined in accordance with the EBA ‘Material Risk Takers Regulatory Technical Standards’ definition as staff ‘whose professional activities have a material impact on the Group’s risk profile’.

13.10 Special payments made during the financial year

Special payments	Guaranteed Bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior management	-	-	-	-	-	-
Other material risk takers	1.00	£50,000	1.00	£72,619	-	-

13.11 Deferred remuneration at 31 December 2018

		a	b	c	d	e
Deferred and Retained Remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex-post explicit/implicit adjustment	Total amount of amendment during the year due to ex-post explicit adjustments	Total amount of amendment during the year due to ex-post implicit adjustments	Total amount of deferred compensation paid out in the financial year
Senior Managers	Cash		-	-	-	£175,000
	Shares	£2,008,619	£2,008,619	-	£0	-
	Cash-linked Instruments	-	-	-		-
	Other	-	-	-	-	-
Other material risk takers	Cash	-	-	-	-	-
	Shares			-		-
	Cash-linked Instruments	-	-	-	-	-
	Other	-	-	-	-	-
	Total	**£2,008,619**	**£2,008,619**	**-**	**£0**	**£175,000**

None of the deferred remuneration awarded during 2018 or in prior years is subject to direct adjustment clauses. The valuation of share based awards will fluctuate with the market value of the Secure Trust Bank PLC (STB PLC) share price.

The total value of share remuneration disclosed relates to those awarded in 2018 as noted in section 13.9 above. Similar share awards remain outstanding from previous years however no value has been attributed to them as the market value of STB PLC shares at 31 December 2018 is below the option prices of these awards. No share options relating to deferred awards from prior years were exercised during the year.