# Secure Trust Bank PLC

## Pillar 3 disclosures for the year ended 31 December 2019

# Contents

1. Overview ... 3
 1.1 Background ... 3
 1.2 Basis of disclosures ... 3
 1.3 Content of Report ... 4
 1.4 Media and location ... 4
 1.5 Verification ... 4
 1.6 Changes in disclosure requirements ... 4
2. Key Prudential Metrics and Risk Weighted Assets ... 5
3. Risk Management ... 5
 3.1 Risk Management ... 5
 3.2 Risk Appetite ... 5
 3.3 Stress Testing ... 6
4. Composition of Capital ... 7
 4.1 Composition of regulatory capital ... 7
 4.2 Main Features of Capital Instruments ... 8
 4.3 Management of Capital ... 9
 4.4 Pillar 1 Capital Requirements ... 9
 4.5 Total Capital Requirement ... 11
5. Leverage Ratio ... 11
6. Credit Risk ... 11
 6.1 How the business model translates into the components of the Group's credit risk profile ... 11
 6.2 Criteria and approach used for defining credit risk management policy and for setting credit risk limits ... 11
 6.3 Structure and organisation of the credit risk management and control function ... 12
 6.4 Credit risk management ... 12
 6.5 Credit quality of assets ... 13
 6.6 Credit risk adjustments ... 13
 6.7 Changes in stock of defaulted loans ... 13
 6.8 Additional disclosure related to the credit quality of assets ... 13
 6.9 Credit risk exposures by residual contract maturity ... 13
 6.10 Ageing analysis of past due exposures by industry sector ... 14
 6.11 Qualitative disclosure required related to credit risk mitigation techniques ... 14
 6.12 Credit risk mitigation techniques - overview ... 14

6.13 Use of external credit ratings ........ 15
6.14 Standardised approach - credit risk exposure and credit risk mitigation effects ........ 15
6.15 Standardised approach - exposures by asset class and risk weights ........ 16
6.16 Counterparty credit risk ........ 16
7. Securitisation ........ 17
8. Market Risk ........ 17
8.1 Interest Rate Risk ........ 17
9. Asset Encumbrance ........ 17
9.1 Amount of encumbered and unencumbered assets ........ 18
9.2 Encumbered Assets: Amount of collateral received ........ 18
9.3 Encumbered Assets: Sources of encumbrance ........ 18
10. Remuneration ........ 18
10.1 Role of the remuneration committee ........ 18
10.2 Key features of the remuneration policy ........ 19
10.3 Remuneration awarded during the financial year ........ 19
10.4 Statement of Directors' external directorships ........ 20
10.5 Recruitment Policy ........ 20
10.6 Diversity ........ 20
Appendix A: Countercyclical Capital Buffer ........ 21
Appendix B: Leverage Ratio Disclosures ........ 22

# 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.

This document sets out the Pillar 3 disclosures for Secure Trust Bank PLC and its subsidiaries ('the Group') as at 31 December 2019. These disclosures provide information on the capital requirements and on the management of key risks faced by the Group.

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

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 2019 Annual Report and Accounts, which can be found in the investor section of the Secure Trust Bank's website (www.securetrustbank.com/investors).

This document reflects the disclosure requirements applicable as at 31 December 2019.

The Group has four subsidiaries:

- Debt Management (Services) Ltd ('DMS')
- Secure Homes Services Ltd ('SHS')
- STB Leasing Ltd ('STBL')
- V12 Finance Group Ltd.

Regulatory capital ratios are calculated on both a Group and an Individual Consolidated (or solo) basis.

STB has been granted permission by the PRA to include SHS and STBL for Individual Consolidated purposes.

The basis of consolidation for the Group is the same for accounting and prudential purposes.

There is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the Group's parent undertaking or subsidiaries.

### 1.3 Content of Report

The Pillar 3 report is issued annually in conjunction with the 2019 Annual Report and Accounts. Where there is a material change in any approach used for the calculation of capital, the business structure or regulatory requirements, the frequency of disclosure will be reviewed.

Where appropriate, cross references have been made to supporting disclosures that are included within the 2019 Annual Report and Accounts. As such, these disclosures should be read in conjunction with that document.

### 1.4 Media and location

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

### 1.5 Verification

The Pillar 3 disclosure report is prepared in accordance with the Group's policy describing internal controls and processes around preparation of this document. The Policy is reviewed by the Board Risk Committee and approved on an annual basis by the Board.

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 2018 with an additional requirement implemented from 31 December 2019 being the disclosure of Asset Encumbrance in section 9.

During the second half of the year, the Group started utilising derivative instruments for hedging purposes as part of a risk reduction strategy. As a result, the Group is required to provide certain disclosures for the first time. These are principally contained in section 6.16 Counterparty Credit Risk.

## 2. Key Prudential Metrics and Risk Weighted Assets

| | **31 Dec 2019 £million** | 31 Dec 2018 £million |
|---|---|---|
| **Available capital (amounts)** | | |
| Common Equity Tier 1 (CET1) | **268.0** | 240.0 |
| Tier 1 capital | **268.0** | 240.0 |
| Total capital | **318.0** | 285.7 |
| **Risk weighted assets (amount)** | | |
| Total risk weighted assets (RWA) | **2,118.1** | 1,824.6 |
| **Risk based capital ratios as a percentage of RWA** | | |
| Common Equity Tier 1 (CET1) ratio (%) | **12.7%** | 13.2% |
| Tier 1 ratio (%) | **12.7%** | 13.2% |
| Total capital ratio (%) | **15.0%** | 15.7% |
| **Basel III leverage ratio** | | |
| Total Basel III leverage ratio exposure measure | **2,740.8** | 2,539.0 |
| Basel III leverage ratio (%) | **9.8%** | 9.5% |

The CET1 balance has increased by £28.0m compared to December 2018 primarily attributable to the addition of £31.1m of 2019 profits less dividends of £2.8m.

The Group has elected to adopt the IFRS 9 transitional rules. For 2019 this allowed 85% of the IFRS 9 impact to be added back to eligible capital.

## 3. Risk Management

### 3.1 Risk Management

Further information on Risk Management can be found in the 2019 Annual Report and Accounts

- Risk management objectives and policies, and strategies to manage those risks and risk reporting: Principal Risks and Uncertainties section, from page 40 of the 2019 Annual Report and Accounts.
- Risk Committee: Risk Committee Report on from page 78 of the 2019 Annual Report and Accounts.

### 3.2 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 2019 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/investors/corporate-information/corporate-governance.

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).

### 3.3 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 in line with that 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.

# 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 2019. This is presented in accordance with Annex IV of the Commission Implementing Regulation (EU 1423/2013):

| | | **31 Dec 2019 £million** | 31 Dec 2018 £million |
|---|---|---|---|
| **Common Equity Tier 1 capital: instruments and reserves** | | | |
| 1 | Capital instruments and the related share premium accounts | 88.6 | 88.6 |
| | Of which: ordinary shares | 7.4 | 7.4 |
| | Of which: share premium | 81.2 | 81.2 |
| 2 | Retained earnings | 164.4 | 147.4 |
| 3 | Accumulated other comprehensive income (and other reserves) | 1.1 | 1.1 |
| 5A | Independently reviewed interim profits net of any foreseeable charge or dividend | - | (11.8) |
| **6** | **Common Equity Tier 1 capital before regulatory adjustments** | **254.1** | **225.3** |
| **Common Equity Tier 1 capital: regulatory adjustments** | | | |
| 8 | Intangible assets (net of tax related liability) | (8.9) | (9.8) |
| | Other regulatory adjustments (IFRS 9) | 22.8 | 24.5 |
| **28** | **Total regulatory adjustments to Common Equity Tier 1** | **13.9** | **14.7** |
| **29** | **Common Equity Tier 1 capital (CET1)** | **268.0** | **240.0** |
| 45 | **Tier 1 capital (T1=CET1+AT1)** | **268.0** | **240.0** |
| **Tier 2 capital: instruments and provisions** | | | |
| 46 | Capital instruments and the related share premium accounts | 50.0 | 50.0 |
| | Other regulatory adjustments (eligible Tier 2 capped at 25% of capital requirement) | - | (4.3) |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **50.0** | **45.7** |
| **58** | **Tier 2 (T2) capital** | **50.0** | **45.7** |
| **59** | **Total capital (TC = T1 + T2)** | **318.0** | **285.7** |
| **60** | **Total risk weighted assets** | **2,118.1** | **1,824.6** |
| **Capital ratios and buffers** | | | |
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 12.7% | 13.2% |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | 12.7% | 13.2% |
| 63 | Total capital (as a percentage of total risk exposure amount) | 15.0% | 15.7% |
| 64 | Institution specific buffer requirement | 3.5% | 2.9% |
| 65 | Of which: capital conservation buffer requirement | 2.5% | 1.9% |
| 66 | Of which: countercyclical buffer requirement | 1.0% | 1.0% |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 5.0% | 5.7% |

No foreseeable dividend has been deducted from the CET 1 capital balance at 31 December 2019 due to the cancellation of the 2019 final dividend as a consequence of the COVID 19 pandemic.

The Group's Total Loss Absorbing Capacity (TLAC) at 31 December 2019 is equal to its total capital requirement (Pillar 1+2A capital), as described in section 4.5. The Group is not required by the PRA to hold a MREL recapitalisation reserve.

## 4.2 Main Features of Capital Instruments

Presented in accordance with Annex II of the Commission Implementing Regulation (EU) 1423/2013:

| | | 1 | 2 | 3 |
|---|---|---|---|---|
| | | **Equity** | **Fixed Rate Reset Callable Subordinated Notes Due 2028** | **Fixed Rate Reset Callable Subordinated Notes Due 2028** |
| 1 | Issuer | Secure Trust Bank plc | Secure Trust Bank plc | Secure Trust Bank plc |
| 2 | Unique Identifier | ISIN GB00B6TKHP66 | ISIN XS1854025415 | ISIN XS1881799834 |
| 3 | Governing laws of the instrument | England & Wales | England & Wales | England & Wales |
| **REGULATORY TREATMENT** | | | | |
| 4 | Transitional Basel III rules | Common Equity Tier 1 | N/A | N/A |
| 5 | Post-transitional Basel III rules | Common Equity Tier 1 | Tier 2 | Tier 2 |
| 6 | Eligible at solo/consolidated | Solo and Consolidated | Solo and Consolidated | Solo and Consolidated |
| 7 | Instrument type | Ordinary Shares | Subordinated debt | Subordinated debt |
| 8 | Amount recognised in regulatory capital | £88.6m comprising nominal and premium | £25.0m | £25.0m |
| 9 | Nominal amount of instrument | £7.4m | £25.0m | £25.0m |
| 10 | Accounting classification | Shareholders' Equity | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | Original listing date: 02/11/11 | 17/07/2018 | 02/10/2018 |
| 12 | Perpetual or dated | Perpetual | Dated | Dated |
| 13 | Original maturity date | No maturity | 17/07/2028 | 02/10/2028 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | N/A | 17/07/2023 | 02/10/2023 |
| 16 | Subsequent call dates if applicable | N/A | N/A | N/A |
| **COUPONS/DIVIDENDS** | | | | |
| 17 | Fixed or floating dividends/coupon | Floating | Fixed | Fixed |
| 18 | Coupon rate and related index | N/A | 6.75% | 6.75% |
| 19 | Existence of a dividend stopper | N/A | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | Mandatory | Mandatory |
| 21 | Existence of a step up or other incentive to redeem | No | No | No |
| 22 | Non-cumulative or cumulative | Non-cumulative | N/A | N/A |
| 23 | Convertible or non-convertible | N/A | Non-convertible | Non-convertible |
| 24 | If convertible, conversion triggers | N/A | N/A | N/A |
| 25 | If convertible, fully or partially | N/A | N/A | N/A |
| 26 | If convertible, conversion rate | N/A | N/A | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A | N/A | N/A |

| | | 1 | 2 | 3 |
|---|---|---|---|---|
| | | **Equity** | **2018 Corporate Bond: issue 1** | **2018 Corporate Bond: issue 2** |
| 28 | If convertible, specify issuer of instrument it converts into | N/A | N/A | N/A |
| 29 | If convertible, specify instrument type convertible into | N/A | N/A | N/A |
| 30 | Write down features | N/A | Yes (PRA) | Yes (PRA) |
| 31 | If write down, write down trigger(s) | N/A | Statutory approach: PRA at point of non-viability | Statutory approach: PRA at point of non-viability |
| 32 | If write down, full or partial | N/A | Fully or Partially | Fully or Partially |
| 33 | If write down, permanent or temporary | N/A | Permanent | Permanent |
| 34 | If temporary write down, description of write up mechanism | N/A | N/A | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Tier 2 | Unsecured Creditors | Unsecured Creditors |
| 36 | Non-compliant transitioned features | No | No | No |
| 37 | If yes, specify non-compliant features | N/A | N/A | N/A |

### 4.3 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). The process 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 review 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.

### 4.4 Pillar 1 Capital Requirements.

The following tables show the credit and operational risk exposure and risk weighted assets for each of the Group's exposure classes (after credit risk mitigation and the associated Pillar 1 minimum capital requirements (being 8% of risk weighted assets).

| | Risk Weighted Assets | | Minimum Capital Requirement | |
|---|---|---|---|---|
| | **31 Dec 2019 £million** | 31 Dec 2018 £million | **31 Dec 2019 £million** | 31 Dec 2018 £million |
| Institutions | 8.6 | 8.8 | 0.7 | 0.7 |
| Corporates | 266.0 | 208.8 | 21.3 | 16.7 |
| Retail | 760.4 | 672.3 | 60.8 | 53.8 |
| Secured on immovable property | 724.8 | 676.1 | 58.0 | 54.1 |
| Exposures in default | 90.6 | 35.0 | 7.2 | 2.8 |
| Other | 54.6 | 52.5 | 4.4 | 4.2 |
| **Credit Risk (Standardised Approach)** | **1,905.0** | **1,653.5** | **152.4** | **132.3** |
| Counterparty credit risk (Mark to Market Approach) | 1.7 | - | 0.1 | - |
| Operational risk (Standardised Approach) | 211.4 | 171.1 | 16.9 | 13.7 |
| **Total** | **2,118.1** | **1,824.6** | **169.4** | **146.0** |

The credit risk capital requirement has increased by 15% in the period, from £132.3m to £152.4m. This is primarily attributable to the growth in the lending book, which increased by 16% during the period.

This is greater than the 9% increase in total assets, from £2,444m to £2,674m over the same period. The greater proportional increase in the capital requirement is largely attributable in to a significant year on year reduction in balances with the Bank of England and Treasury Bills, which are risk weighted at zero.

Corporates have increased by 27% in the year principally due to the continued strong growth of the Invoice Finance business.

The retail capital requirement has increased by 13% in the year due to continued strong growth in both the V12 Retail Finance and Motor Finance businesses.

The capital requirement for immovable property lending increased by 7%, which was considerably lower than the overall 25% increase in Real Estate Finance loan book from £770m to £962m. This difference is attributable to mix effects within the portfolio with the majority of new business consisting of residential investment lending being risk weighted at 35% with a lower proportion of development lending, attracting a 150% risk weighting.

The capital requirement for exposures in default increased by 157% during the year, from £2.8m to £7.2m. This is directly attributable to the DMS business, which has actively grown during the year predominantly through the purchase of external books of debt in addition to undertaking group-wide debt management. The DMS loan book increased by 157% during the year from £32.3m to £83.1m.

### Counterparty Credit Risk

The counterparty credit risk exposure has arisen during the year as the Group has utilised derivatives to manage interest rate risk. Further information on counterparty credit risk can be found in Section 6.16.

### 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 2019 Annual Report and Accounts.

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'), where risk weighted assets are calculated is based on the average Group income over the past three years.

The capital required under this approach was £16.9m at 31 December 2019 (2018: £13.7m), the increase being attributable to the continued strong growth of the business.

### 4.5 Total Capital Requirement

The PRA's capital guidance currently applicable to the Group is to hold a Total Capital Requirement ('TCR') of 10.01% of the Group's risk weighted assets. This equates to £212.0m at 31 December 2019.

This sets the minimum total 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 total capital requirement may not be used to meet the supplementary Pillar 2B buffers: the Capital Conservation Buffer and Countercyclical Capital Buffer.

## 5. 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. On this basis the Group is not captured by this requirement.

The UK leverage ratio framework sets a minimum ratio of 3.25%. 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.

Summary details of the Group's leverage ratio are included within section 2 above. The leverage ratio disclosures required by Annex I of EU 2016/200 are included in Appendix B.

## 6. 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

### 6.1 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 2019 Annual Report and Accounts (page 41).

### 6.2 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 and Business Finance. The composition of the business mix is agreed by the Board. The Board also agrees maximum lending limits in terms of product exposure limits, aggregate exposures to customers and concentration risk to any one particular introducer. During 2019 the Group ceased new lending within the residential consumer mortgage market.

## 6.3 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**

In the Business Finance divisions, the client relationship management teams are the first line of defence. These teams are responsible for ensuring that new business origination meets the Group's credit policies and risk appetites, as well as in-life monitoring of all loans. These teams report into the line management of each business line and a portfolio reporting process is in place to highlight key risks 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 appetite, 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 quality assurance 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.

## 6.4 Credit risk management

A Portfolio Review pack is created on a monthly basis to monitor trends in both the consumer and business finance portfolios, covering applicant quality and portfolio performance including staging and expected credit losses metrics under IFRS9.

In the Consumer Finance books in particular, metrics are generated to review the effectiveness of the acquisition scorecards and designed to identify any deterioration of the predictive power of the scorecard.

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.

### 6.5 Credit quality of assets

| | Gross carrying values of: | | | |
|---|---|---|---|---|
| | **Defaulted exposures £million** | **Non-defaulted exposures £million** | **Allowance/ impairments £million** | **Net values £million** |
| Loans | 102.1 | 2,407.7 | (60.6) | 2,449.2 |
| Off-balance sheet exposures | | 203.3 | (0.4) | 202.9 |
| Total | **102.1** | **2,611.0** | **(61.0)** | **2,652.1** |

### 6.6 Credit risk adjustments

Details of credit risk adjustments can be found in note 14 in the 2019 Annual Report and Accounts.

### 6.7 Changes in stock of defaulted loans

| | £million |
|---|---|
| Defaulted loans and debt securities at 31 December 2018 | 54.2 |
| Loans and debt securities which have defaulted since the last reporting period | 33.2 |
| Returned to non-defaulted status | (6.1) |
| Amounts written off | (23.0) |
| Other changes | 43.8 |
| **Defaulted loans and debt securities at 31 December 2019** | **102.1** |

Defaulted exposures are defined as loans which are greater than 90 days past due and impaired. The closing balance includes externally originated debt purchased by DMS. External debt purchases during the year are included within 'other changes'.

### 6.8 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.

### 6.9 Credit risk exposures by residual contract maturity

| | **Within 3 months £million** | **3 to 6 months £million** | **6 to 12 months £million** | **After 12 months £million** | **Total £million** |
|---|---|---|---|---|---|
| Cash and balances at central banks | 105.8 | - | - | - | **105.8** |
| Loans and advances to banks | 39.3 | - | - | - | **39.3** |
| Loans and advances to customers | 444.0 | 194.2 | 328.2 | 1,482.8 | **2449.2** |
| Debt securities | 25.0 | - | - | - | **25.0** |
| Other assets | 25.0 | - | 2.4 | 27.0 | **54.4** |
| **Total** | **639.1** | **194.2** | **330.6** | **1,509.8** | **2673.7** |

### 6.10 Ageing analysis of past due exposures by industry sector

| | Carrying amount of assets without significant increase in credit risk since initial recognition (Stage 1) £million | | | Carrying amount of assets with significant increase in credit risk since initial recognition (Stage 2) £million | | | Carrying amount of credit impaired assets (Stage 3) £ million | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | - | - | - | 2.2 | 3.2 | - | 0.1 | - | 3.6 |
| Households | 0.4 | - | - | 31.3 | 3.2 | - | 0.5 | 1.2 | 88.4 |
| **Total** | **0.4** | **-** | **-** | **33.5** | **6.4** | **-** | **0.6** | **1.2** | **92.0** |

The table above excludes impaired accounts which are up to date. The majority of the stage 3 over 90 days balance represents externally purchased debt managed by DMS.

### 6.11 Qualitative disclosure required related to credit risk mitigation techniques

a. Credit risk mitigation for the unsecured retail business is principally facilitated through use of bespoke scorecards. 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. The form of collateral is depended on the business.
    - Real Estate Finance: all loans are secured against property at prudent loans to value levels.
    - Commercial Finance: loans are secured by a charge against the invoices being funded.
    - Asset Finance: loans are secured by a charge against the asset being financed.

### 6.12 Credit risk mitigation techniques - overview

| | Exposures unsecured: carrying amount £million | Exposures secured by collateral £million | Exposures secured by collateral, of which: secured amount £million | Exposures secured by financial guarantees £million | Exposures secured by financial guarantees, of which: secured amount £million |
|---|---|---|---|---|---|
| Loan exposures | 931.8 | 1,662.5 | 1,469.9 | 8.3 | 8.3 |
| Of which defaulted | 83.8 | 18.3 | 16.0 | - | - |

The unsecured exposures under loans 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.

### 6.13 Use of external credit ratings

Credit risk of bank and treasury counterparties is controlled through the Group's Treasury Policy document which defines a Treasury Dealer Authority which limits the maximum exposure and term by entity where the Group can deposit or invest.

The Group uses external credit ratings to assess the credit worthiness of central government and institutions.

The Group uses credit ratings published by Moody's, who are recognised as an eligible External Credit Assessment Institution ('ECAI'). Details of the credit ratings of the institutions with which the Group places funds are provided in note 11 of the 2019 Annual Report and Accounts.

### 6.14 Standardised approach - credit risk exposure and credit risk mitigation effects

| | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWA and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance sheet amount £million | Off-balance sheet amount £million | On-balance sheet amount £million | Off-balance sheet amount £million | RWA £million | RWA density |
| Sovereigns and their central banks | 130.8 | - | 130.8 | - | - | 0% |
| Banks | 44.2 | - | 44.2 | - | 10.3 | 23% |
| Corporates | 279.5 | 8.9 | 279.5 | - | 266.0 | 98% |
| Regulatory retail portfolios | 1,015.7 | 73.5 | 1,007.4 | 6.7 | 760.4 | 75% |
| Secured by residential property | 106.3 | - | 106.3 | - | 37.8 | 36% |
| Secured by commercial real estate | 957.2 | 120.9 | 957.2 | 60.5 | 687.0 | 68% |
| Past due loans | 90.6 | - | 90.6 | - | 90.6 | 100% |
| Other Assets | 43.1 | - | 43.1 | - | 54.6 | 127% |
| **Total** | **2,667.2** | **203.3** | **2,658.9** | **67.2** | **1,906.7** | **70%** |

Secured by commercial real estate represents lending by the Group's Real Estate Finance business. On balance sheet lending at 31 December 2019 can be further analysed as follows:

- Residential investment lending £681.5m
- Commercial investment lending £30.9m
- Development lending £244.8m.

The majority of the off-balance sheet balance represents exposure to development projects.

Credit Conversion Factors ('CCF') are utilised to reduce the exposure attributed to the undrawn element of a loan commitment. A lower exposure is applied to the undrawn element of the exposure in the leverage ratio calculation to reflect that it may be withdrawn.

Credit Risk Mitigation ('CRM') is a technique used by an institution to reduce the credit risk associated with an exposure that the institution continues to hold. The Group utilises CRM as follows:

- For Real Estate lending secured on residential investment property the Group utilises the treatment defined in Article 402 of the CRR to reduce its exposure to qualifying loans.
- A legal agreement is in place in respect of one book of business whereby the Group's counterparty assumes responsibility for all credit risk under the agreement.
- Cash collateral is provided by the counterparty in the case of one book of business, with the collateral held sufficient to meet the current exposure of that book.

## 6.15 Standardised approach - exposures by asset class and risk weights

At 31 December 2019:

| Risk Weight | 0% £million | 20% £million | 35% £million | 50% £million | 75% £million | 100% £million | 150% £million | Other £million | Total credit exposures amount post CCF and post CRM £million |
|---|---|---|---|---|---|---|---|---|---|
| **Asset Class:** | | | | | | | | | |
| Sovereigns and central banks | 130.8 | - | - | - | - | - | - | - | 130.8 |
| Banks | - | 39.3 | - | 3.3 | - | - | - | - | 42.6 |
| Corporates | - | - | - | - | 27.6 | 251.8 | - | - | 279.4 |
| Regulatory retail portfolios | - | - | - | - | 1,015.7 | - | - | - | 1,015.7 |
| Secured by residential property | - | - | 104.8 | - | 1.5 | - | - | - | 106.3 |
| Secured by commercial real estate | - | - | 679.1 | - | - | 116.8 | 221.7 | - | 1,017.6 |
| Past due loans | - | - | - | - | - | 90.6 | - | - | 90.6 |
| Other Assets | - | - | - | - | - | 35.5 | - | 7.6 | 43.1 |
| **Total** | **130.8** | **39.3** | **783.9** | **3.3** | **1,044.8** | **494.7** | **221.7** | **7.6** | **2,726.1** |

## 6.16 Counterparty credit risk

Secure Trust Bank uses derivatives to reduce exposure to interest rate risk and are not used for trading or speculative purposes. Derivative activity is documented in standard ISDA Master Agreements, in all cases a CSA is executed in conjunction with the ISDA Master Agreement to mitigate credit risk on the derivatives portfolio.

Counterparty credit risk is the risk that a counterparty to a derivative instrument to which Secure Trust Bank has an exposure could default. This risk is mitigated by cash collateral deposited with or received from counterparties to mitigate the mark to market exposures on derivatives.

Collateralisation of derivatives introduces two material changes in credit exposure, namely:

- The posting of collateral reduces the impact of the current market value to the difference between the market value of the derivatives and the value of the collateral. The use of ‘thresholds’ and ‘minimum transfer amounts’ avoid the movement of small amounts of collateral; and
- If the counterparty fails to post additional collateral required, a default can be enforced within a very short timeframe resulting in a substantial reduction in the potential future increases in credit exposure. This rapid default enforcement shortens the timescale within which future changes in interest rates would affect the value of the exposure.

Derivative positions and collateral are valued daily and compared with counterparty valuations to agree collateral settlement, cash is the only collateral allowed. Any disputes in value are monitored and escalated by the dispute resolution procedures.

Liquidity is held for additional collateral that would have to be posted in the event of adverse movements in market rates.

The counterparty credit risk for derivative contracts is calculated under the mark to market method, and is presented in the following table:

| | **31 Dec 2019**<br>£million |
|---|---|
| Gross positive fair value of derivative contracts | 0.9 |
| Potential future exposure | 4.1 |
| | 5.0 |
| Netting benefit | (1.6) |
| **Net derivative credit exposure** | **3.3** |

The Group is not currently exposed to wrong way risk (defined as the risk that occur when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, occurring when default risk and credit exposure increase together). Secure Trust Bank plc has no public credit rating.

## 7. Securitisation

The Group has not entered into any securitisation transactions during the year, nor does it have any securitisation exposure at 31 December 2019.

## 8. Market Risk

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. There are no significant exposures to foreign currencies and therefore there is no significant currency risk. The Group does not operate a trading book and accordingly did not hold any capital in respect of market risk at 31 December 2019, apart from that related to Interest Rate Risk in the Banking Book (IRRBB) which is described below.

### 8.1 Interest Rate Risk

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 the Market Risk Section on page 46 Note 35 of the Group's 2019 Annual Report and Accounts.

## 9. Asset Encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The Group's encumbered assets are those that have been pledged with the Bank of England in order to secure funding under the TFS and ILTR schemes. Assets are encumbered with the contractual requirements of these transactions. All encumbered assets reside on the balance sheet of the holding company.

Unencumbered assets include cash, unpledged loan assets, property, plant and other fixed assets, intangible assets including goodwill and deferred tax assets.

As illustrated below, at 31 December 2019 the ratio of encumbered assets was 16.2% (2018: 17.2%) and was fully comprised of Retail Finance loans. £433.4m of Retail Finance loans were encumbered to support £305.5m of TFS and ILTR borrowings.

As at 31 December 2019, the Group held a single Treasury bill valued at £25m. The intention is to hold such instruments until maturity as contingency for collateral.

### 9.1 Amount of encumbered and unencumbered assets

The table below sets out the assets of the Group, (the median of the sums of the four quarter end-of-period values over the previous 12 months as prescribed by the EBA), analysed between those pledged as security or otherwise encumbered and unencumbered assets, both at their carrying amounts and fair values (where reported), split by category of asset, and in some cases, further analysed.

| | | Carrying amount of encum-bered assets £million | of which notionally eligible EHQLA and HQLA £million | Fair value of encum-bered assets £million | of which notionally eligible EHQLA and HQLA £million | Carrying amount of unencu-mbered assets £million | of which notionally eligible EHQLA and HQLA £million | Fair value of unencu-mbered assets £million | of which notionally eligible EHQLA and HQLA £million |
|---|---|---|---|---|---|---|---|---|---|
| | | 010 | 030 | 040 | 050 | 060 | 080 | 090 | 100 |
| **010** | **Assets of the reporting institution** | **425.9** | **-** | | | **2,232.1** | **104.1** | | |
| 040 | Debt securities | 4.4 | 4.4 | 4.4 | 4.4 | 72.0 | 72.0 | 72.0 | 72.0 |
| 070 | Of which: issued by general governments | 4.4 | 4.4 | 4.4 | 4.4 | 72.0 | 72.0 | 72.0 | 72.0 |
| 120 | Other assets | 390.7 | - | | | 2,139.0 | 104.1 | | |

The HQLA eligible assets reported in row 010 represent balances held on demand with the Bank of England.

### 9.2 Encumbered Assets: Amount of collateral received

No collateral was received during the period.

### 9.3 Encumbered Assets: Sources of encumbrance

| | | Matching liabilities, contingent liabilities or securities lent £million | Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered £million |
|---|---|---|---|
| 010 | Carrying amount of selected financial liabilities | 269.8 | 425.9 |

## 10. Remuneration

### 10.1 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. There were no changes to the membership of the Committee in 2019.

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 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 policy, individual remuneration and benefits package of each of the Executive Directors and the senior management below Board level. The Committee reviews workforce remuneration, related policies and how executive and wider workforce pay are aligned with regard to the culture of the Group.

| Item | Comment |
|---|---|
| Appointment of Remuneration Consultants | The Committee conducted a competitive tender to appoint a Remuneration Consultant as set out below and engaged with the consultants in designing the Directors' Remuneration Policy and other executive remuneration matters. |

## 10.2 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 on page 82 of the 2019 Annual Report and Accounts. In determining appropriate rewards for executive management the Remuneration Committee has had regard to the achievements of 2019, 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.

## 10.3 Remuneration awarded during the financial year

| | **Senior managers** | **Other material risk takers** |
|---|---:|---:|
| Number of employees | 8 | 28 |
| Fixed remuneration | £2.2m | £5.3m |
| Variable remuneration | £0.9m | £1.8m |
| **Total remuneration** | **£3.1m** | **£7.1m** |

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'.

### 10.4 Statement of Directors' external directorships

The number of other directorships of Board members, outside the Group, is disclosed in accordance with Article 435 of the CRR is set out below. For the purposes of this disclosure directorships of related entities are counted as a single appointment.

| Director | Position | Number of external appointments |
|---|---|---|
| The Rt Hon Lord Forsyth | Chair of the Board | 1 |
| Paul Lynam | Chief Executive Officer | 2 |
| Paul Marrow | Senior Independent Director | 1 |
| Ann Berresford | Non-Executive Director | 1 |
| David McCreadie | Non-Executive Director | 3 |
| Paul Myers | Non-Executive Director | - |
| Baroness Lucy Neville-Rolfe | Non-Executive Director | 3 |
| Victoria Stewart | Non-Executive Director | 2 |

### 10.5 Recruitment Policy

Further information on the recruitment policy for the selection of members of the management is included in Nominations Committee Report section of the Annual Report and Accounts.

### 10.6 Diversity

Further information on the diversity policy and targets for the selection of members of the management is included in Corporate Governance section of the Annual Report and Accounts.

# Appendix A: Countercyclical Capital Buffer

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

The template discloses information relevant for the calculation of the countercyclical buffer in accordance with the requirements of Annex I of the Commission Delegated Regulation (EU) 2015/1555 is presented below:

| | | General Credit Exposures: | Own Funds Requirements | | | |
|---|---|---|---|---|---|---|
| | | Exposure value for SA £million | Exposure value for SA £million | Total £million | Own funds require-ments weights | Counter-cyclical capital buffer rate |
| | | 010 | 070 | 100 | 110 | 120 |
| 010 | Breakdown by country: UK | 2,551.1 | 151.7 | 151.7 | 1.0 | 1% |
| **020** | **Total** | **2,551.1** | **151.7** | **151.7** | **1.0** | **1%** |

All of the Group's underlying credit exposures are considered to arise solely within the UK in accordance with the definition of the geographic location of credit exposures set by the Commission Delegated Regulation (EU) 2014/1152.

Therefore only the CCyB set by the Financial Policy Committee applies to it. The countercyclical capital buffer (CCyB) rate applicable in the United Kingdom at 31 December 2019 was 1.0%.

## Amount of institution-specific countercyclical capital buffer

| | | 010 |
|---|---|---|
| 010 | Total risk exposure amount | £2,118.1 |
| 020 | Institution-specific countercyclical buffer rate | 1% |
| 030 | Institution-specific countercyclical buffer requirement | **£21.2m** |

## Appendix B: Leverage Ratio Disclosures

Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200.

### Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

| | | As at 31 Dec 2019 Applicable Amounts £million |
|---|---|---|
| 1 | Total assets as per published financial statements | 2,673.7 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR") | (8.9) |
| 4 | Adjustments for derivative financial instruments | 4.6 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 72.3 |
| 7 | Other adjustments | (0.9) |
| **8** | **Total leverage ratio exposure** | **2,740.8** |

### Table LRCom: Leverage ratio common disclosure

| | | As at 31 Dec 2019 CRR leverage ratio exposures £million |
|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 2,672.8 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (8.9) |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | **2,663.9** |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 0.5 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 4.1 |
| **11** | **Total derivative exposures (sum of lines 4 to 10)** | **4.6** |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 203.3 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (131.0) |
| **19** | **Other off-balance sheet exposures (sum of lines 17 to 18)** | **72.3** |
| **Capital and total exposures** | | |
| 20 | Tier 1 capital | **268.0** |
| 21 | Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | **2,740.8** |
| **Leverage ratio** | | |
| 22 | Leverage ratio | **9.8%** |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | Fully phased in |

**Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

| | | As at 31 Dec 2019 CRR leverage ratio exposures £million |
|---|---|---|
| EU-1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 2,672.8 |
| EU-3 | Banking book exposures, of which: | 2,672.8 |
| EU-5 | Exposures treated as sovereigns | 130.8 |
| EU-7 | Institutions | 39.3 |
| EU-8 | Secured by mortgages of immovable properties | 1,063.2 |
| EU-9 | Retail exposures | 1,015.9 |
| EU-10 | Corporate | 279.5 |
| EU-11 | Exposures in default | 90.6 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 53.6 |

**Table LRQua – Qualitative information on risk of excessive leverage and factors impacting the leverage ratio**

**1: Description of the processes used to manage the risk of excessive leverage**

The risk of excessive leverage is the risk that the business lends excessively in relation to its capital and deposit base, thereby increasing the Group’s vulnerability to environmental factors and thereby increasing the risk of failure. The Group has defined processes and controls in place to manage this risk including active tracking of the leverage ratio. This ratio is monitored against defined early warning and trigger points and reported to the Assets and Liabilities Committee (ALCO) on a monthly basis.

**2: Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers**

The leverage ratio has decreased over the year, which has been mainly driven by the growth in the balance sheet.