Secure Trust Bank PLC

Pillar 3 disclosures for the period ended 30 June 2019

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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 30 June 2019. 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 'Risk Management and Principal Risks' section within the 2019 Interim Report, 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 at 30 June 2019.

1.3 Content of Report

The full Pillar 3 report is issued annually in conjunction with the 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/investors).

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 2018 with no additional requirements coming into force during the period.

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

2.1 Key Metrics (at consolidated group level)

		a	b	c	d	e
		30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18
		£'m	£'m	£'m	£'m	£'m
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	238.5	247.3	251.8	235.6	226.7
1a	Fully loaded ECL accounting model CET1	216.2	225.0	227.3	211.1	202.2
2	Tier 1 capital	238.5	247.3	251.8	235.6	226.7
2a	Fully loaded ECL accounting model Tier 1	216.2	225.0	227.3	211.1	202.2
3	Total capital	287.8	295.3	297.5	260.1	226.7
3a	Fully loaded ECL accounting model total capital	265.5	273.0	273.0	235.6	202.2
	Risk weighted assets (amount)					
4	Total risk weighted assets (RWA)	1,987.8	1,916.3	1,824.6	1,785.1	1,729.2
	Risk based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 (CET1) ratio (%)	12.0%	12.9%	13.8%	13.2%	13.1%
5a	Fully loaded ECL accounting model CET1 (%)	10.9%	11.7%	12.5%	11.8%	11.7%
6	Tier 1 ratio (%)	12.0%	12.9%	13.8%	13.2%	13.1%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	10.9%	11.7%	12.5%	11.8%	11.7%
7	Total capital ratio (%)	14.5%	15.4%	16.3%	14.6%	13.1%
7a	Fully loaded ECL accounting model total capital ratio (%)	13.4%	14.2%	15.0%	13.2%	11.7%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	1.9%	1.9%	1.9%
9	Countercyclical buffer requirement (%)	1.0%	1.0%	1.0%	0.5%	0.5%
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) (%)	3.5%	3.5%	2.9%	2.4%	2.4%
12	CET1 available after meeting the bank's specific buffer requirements (%)	8.5%	9.4%	10.9%	10.8%	10.7%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	2,598.1	2,421.9	2,432.8	2,336.7	2,267.7
14	Basel III leverage ratio (%) (row 2/row 13)	9.2%	10.2%	10.4%	10.1%	10.0%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13)	8.3%	9.3%	9.3%	9.0%	8.9%
	Liquidity Coverage Ratio					
15	Total HQLA	140.8	172.6	197.1	182.9	127.4
16	Total net cash outflow	38.6	41.7	35.5	39.5	33.0
17	LCR ratio (%)	365.2%	414.5%	539.3%	463.4%	385.8%
	Net Stable Funding Ratio					
18	Total available stable funding	2,424.3	2,263.4	2,245.8	2,172.6	2,041.2
19	Total required stable funding	1,657.3	1,549.0	1,523.1	1,422.9	1,364.2
20	NSFR ratio	146.3%	146.1%	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 capital balances stated above reflect the reported regulatory position at 30 June 2019 and do not include any profits earned in the current year. The profit for the 6 months to 30 June 2019 has been subsequently certified by the PRA and will be reflected in the 30 September 2019 return.

The CET 1 capital balance at 30 June 2019 has decreased by £8.8m compared to 31 March 2019 primarily attributable to the payment of the 2018 final dividend of £11.8m. This is partially offset by a £3.0m reduction in intangible assets, which are deducted from CET 1 capital.

During 2018 new subordinated debt instruments were issued, raising £49.3m net of costs: £24.5m in Q3 and £24.7m in Q4 2018. These instruments are eligible to be treated as Tier 2 capital.

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. 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 Net Stable Funding Ratio (NSFR) ratio at 30 June 2019 of 146.3% is comfortably in excess of the required minimum. The NSFR ratio remained broadly consistent with previous periods.

2.5 Overview of Risk Weighted Assets

	Risk Weighted Assets		Minimum Capital Requirement	
	30-Jun-19	31-Dec-18	**30-Jun-19**	31-Dec-18
	£'m	£'m	**£'m**	£'m
Credit Risk (excluding counterparty credit risk) CCR	**1,776.4**	1,653.5	**142.1**	132.3
Of which standardised approach (SA)	**1,776.4**	1,653.5	**142.1**	132.3
Of which internal rating-based approach (IRB)	**-**	-	**-**	-
Counterparty credit risk	**-**	-	**-**	-
Of which standardised approach for counterparty credit risk (SA-CCR)			**-**	-
Of which internal model method (IMM)	**-**	-	**-**	-
Equity positions in banking book under market based approach	**-**	-	**-**	-
Equity investments in funds - look through approach	**-**	-	**-**	-
Equity investments in funds - mandate-based approach	**-**	-	**-**	-
Equity investments in funds - fall-back approach	**-**	-	**-**	-
Settlement risk	**-**	-	**-**	-
Securitisation exposures in banking book	**-**	-	**-**	-
Of which IRB ratings-based approach (RBA)	**-**	-	**-**	-
Of which IRB supervisory formula approach (SFA)	**-**	-	**-**	-
Of which SA/simplified supervisory formula approach (SSFA)	**-**	-	**-**	-
Market risk	**-**	-	**-**	-
Of which standardised approach (SA)	**-**	-	**-**	-
Of which internal model approaches (IMM)	**-**	-	**-**	-
Operational risk	**211.4**	171.1	**16.9**	13.7
Of which Basic Indicator Approach	**-**	-	**-**	-
Of which Standardised Approach	**211.4**	171.1	**16.9**	13.7
Of which Advanced Measurement Approach	**-**	-	**-**	-
Amounts below the threshold for deduction (subject to 250% risk weight)	**-**	-	**-**	-
Floor adjustment	**-**	-	**-**	-
Total (1+4+7+8+9+10+11+12+16+19+23+24)	**1,987.8**	1,824.6	**159.0**	146.0

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 7% in the period, from £132.3m to £142.0m. This is in line with a 7% increase in total assets, from £2,444m to £2,607m over the same period.

The operational risk capital requirement at 30 June 2019 of £16.9m is above the £13.7m requirement at 31 December 2018 by virtue of the growth of the Group's income. The standardised approach (TSA) methodology utilised to calculate the capital requirement is based on a historic three year rolling average income calculation.

3 Composition of Capital

3.1 Composition of regulatory capital

The table below summarises the composition of the Group's regulatory capital as at 30 June 2019:

	Amounts £'m
Common Equity Tier 1 capital: instruments and reserves	
Directly issued quaifying common share capital plus related stock surplus	88.6
Retained earnings	157.9
Accumulated other comprehensive income (and other reserves)	1.1
Common Equity Tier 1 capital before regulatory adjustments	**247.6**
Common Equity Tier 1 capital: regulatory adjustments	
Prudent valuation adjustments	-
Goodwill (net of tax related liability)	(1.0)
Other intangibles other than mortgage servicing rights (net of tax related liability)	(8.1)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of tax related liability)	-
Shortfall of provisions to expected loss	-
Securitisation gain on sale	-
Gains and losses due to changes in own credit risk on fair valued liabilities	-
Total regulatory adjustments to Common Equity Tier 1	- **9.1**
Common Equity Tier 1 capital (CET1)	**238.5**
Additional Tier 1 capital: instruments	
Directly issued additional tier 1 instruments plus related stock surplus	-
Of which: classified as equity under applicable accounting standards	-
Of which: classified as liabilities under applicable accounting standards	-
Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments	
Total regulatory adjustments to additional Tier 1 capital	-
Additional Tier 1 capital (AT1)	**-**
Tier 1 capital (T1=CET1+AT1)	**238.5**
Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	49.3
Provisions	
Tier 2 capital before regulatory adjustments	49.3
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	
Tier 2 capital (T2)	**49.3**
Total regulatory capital(TC=T1+T2)	**287.8**
Total risk weighted assets	**1,987.8**
Common Equity Tier 1 (as a percentage of risk weighted assets)	**12.0%**
Tier 1 (as a percentage of risk weighted assets)	**12.0%**
Total capital (as a percentage of risk weighted assets)	**14.5%**
Institution specific buffer requirement (expressed as a percentage of risk weighted assets)	**3.5%**
Of which: capital conservation buffer requirement	2.5%
Of which: bank-specific countercyclical buffer requirement	0.0%
Common Equity Tier 1 (as a percentage of risk weighted assets) available after meeting the bank's minimum capital requirements	**1.0%**

The Group's Total Loss Absorbing Capacity (TLAC) at 30 June 2019 is equal to its total capital requirement (Pillar 1+2A capital), as described in section 2.5. The Group is not required by the PRA to hold a MREL recapitalisation reserve.

3.2 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.

3.3 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	30-Jun-19	31-Dec-18
Credit Risk requirements arising from exposures to:	£'m	£'m
Institutions	1.1	0.7
Corporates	18.5	16.7
Retail	59.2	53.8
Secured on immoveable property	55.1	54.1
Exposures in default	4.0	2.8
Other	4.2	4.2
Market risk capital requirement	-	-
Operational risk capital requirement	16.9	13.7
Total Pillar 1 Capital Requirement	**159.0**	**146.0**

Credit Risk
The retail capital requirement has increased by 10% in the year due to continued strong growth in both the Retail Finance business (+13%) and Motor Finance (+8%).

The capital requirement for immovable property lending was relatively flat, with a 2% increase, which was lower than the overall 14% increase in Real Estate Finance lending from £770m to £879m. This difference is attributable to mix effects within the portfolio with the majority of new business consisting of residential investment lending being weighted at 35% rather than development lending, which attracts a 150% risk weighting.

The Consumer Mortgage business launched in late 2017 with lending of £113m at 30 June 2019 (2018: £85m), 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). The capital required under this approach was £16.9m at 30 June 2019.

4 Macro-Prudential Supervisory Measures

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

The countercyclical capital buffer (CCyB) rate applicable in the United Kingdom at 30 June 2019 was 1.0%. The underlying credit exposures arise solely within the UK.

5 Credit Risk

5.1 Credit quality of assets at 30 June 2019

	Gross carrying values of:		Allowances/ Impairments £'m	Net values (a+b+c) £'m
	Defaulted exposures £'m	Non-defaulted exposures £'m		
Loans	69.7	2,277.1	(68.5)	2,278.3
Debt Securities	-	-	-	-
Off-balance sheet exposures	-	199.3	-	199.3
Total	**69.7**	**2,476.4**	**(68.5)**	**2,477.6**

5.2 Changes in stock of defaulted loans

	2019 £m
Defaulted loans and debt securities at 31 December 2018	**54.2**
Loans and debt securities which have defaulted since the last reporting period	34.0
Returned to non-defaulted status	(1.2)
Amounts written off	(16.7)
Other changes	(0.6)
Defaulted loans and debt securities at 30 June 2019	**69.7**

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

5.3 **Credit risk mitigation techniques - overview at 30 June 2019**

	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
Loans	1,006.9	1,442.6	1,261.8	9.8	9.8	-	-
Debt Securities	-	-	-	-	-	-	-
Total	**1,006.9**	**1,442.6**	**1,261.8**	**9.8**	**9.8**	**-**	**-**
Of which defaulted	59.1	10.6	10.5	-	-	-	-

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.

5.4 **Standardised approach - credit risk exposure and CRM effects at 30 June 2019**

	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:						
Sovereigns and their central banks	212.0	-	212.0	-	-	0%
Non central government public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Banks	67.3	-	67.3	-	13.5	20%
Securities firms	-	-	-	-	-	-
Corporates	249.2	5.2	249.2	-	239.6	96%
Regulatory retail portfolios	993.2	64.8	983.4	6.3	742.5	75%
Secured by residential property	114.0	-	114.0	-	40.8	36%
Secured by commercial real estate	872.6	129.3	872.6	64.6	648.8	69%
Equity	-	-	-	-	-	-
Past due loans	49.3	-	49.3	-	49.3	100%
Higher risk categories	-	-	-	-	-	-
Other Assets	40.5	-	40.5	-	52.4	129%
Total	2,598.1	199.3	2,588.3	70.9	1,786.9	67%

Secured by commercial real estate represents lending by the Group's Real Estate Finance business. On-balance sheet lending at 30 June 2019 can be further analysed as follows:

- Residential investment lending £611.2m
- Commercial investment lending £32.4m
- Development lending £229.0m

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

5.5 Standardised approach - exposures by asset class and risk weights at 30 June 2019

Asset Classes / Risk Weight	0% £'m	10% £'m	20% £'m	35% £'m	50% £'m	75% £'m	100% £'m	150% £'m	Other £'m	Total credit exposures amount post CCF and post CRM £'m
Sovereigns and their central banks	212.0	-	-	-	-	-	-	-	-	212.0
Non central government public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	-	-	67.3	-	-	-	-	-	-	67.3
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	38.4	210.8	-	-	249.2
Regulatory retail portfolios	-	-	-	-	-	989.7	-	-	-	989.7
Secured by residential property	-	-	-	114.0	-	-	-	-	-	114.0
Secured by commercial real estate	-	-	-	610.8	-	2.1	104.4	219.9	-	937.2
Equity	-	-	-	-	-	-	-	-	-	-
Past due loans	-	-	-	-	-	-	49.3	-	-	49.3
Higher risk categories	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	32.5	-	8.0	40.5
Total	**212.0**	**-**	**67.3**	**724.8**	**-**	**1,030.2**	**397.0**	**219.9**	**8.0**	**2,659.2**

6 Counterparty Credit Risk

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

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

6.2 Credit valuation adjustment (CVA) capital charge

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

6.3 Standardised approach - CCR by regulatory portfolio and risk weights at 30 June 2019

Regulatory Portfolio / Risk Weight	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	212.0	-	-	-	-	-	-	-	-	212.0
Non central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	-	-	67.3	-	-	-	-	-	-	67.3
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	730.1	-	40.5	339.5	259.4	-	1,369.5
Regulatory retail portfolios	0.1	-	-	0.3	-	1,015.5	82.4		-	1,098.3
Other assets	-	-	-	-	-	-	32.5	-	8.0	40.5
Total	**212.1**	**-**	**67.3**	**730.4**	**-**	**1,056.0**	**454.4**	**259.4**	**8.0**	**2,787.6**

6.4 Composition of collateral for CCR exposure

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

6.5 Credit derivatives exposure

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

6.6 Exposure to central counterparties

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

7 Securitisation

The Group has not entered into any securitisation transactions during the period, nor does it have any securitisation exposure at 30 June 2019. Accordingly table SEC1 has not been provided.

8 Market Risk

The Group does not hold any capital in respect of market risk at 30 June 2019, apart from that related to Interest Rate Risk in the Banking Book (IRRBB).