Secure Trust Bank PLC

Pillar 3 disclosures for the year ended 31 December 2020

Contents

1. Overview

1.1 Background

This document sets out the Pillar 3 disclosures for Secure Trust Bank PLC and its subsidiaries ('the Group') as at 31 December 2020. These disclosures provide information on the capital requirements and on the management of key risks faced by the Group. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes, as well as remuneration.

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 the Group and cover the applicable Pillar 3 qualitative and quantitative disclosure requirements. They 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.

Preparation is in accordance with the rules laid out in Capital Requirements Regulation ('CRR') Part Eight and the Group's policy describing internal controls and processes around preparation of this document. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

This document reflects the disclosure requirements applicable as at 31 December 2020.

The Group has six subsidiaries:

- Debt Management (Services) Ltd ('DMS')
- Secure Homes Services Ltd ('SHS')
- STB Leasing Ltd ('STBL')
- V12 Finance Group Ltd
- V12 Retail Finance Limited
- V12 Personal Finance Limited - dormant

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

The Group 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.

The Group utilises the standardised approach for credit risk, operational risk and counterparty credit risk. Throughout the document, unless otherwise specified, credit risk exposures are defined as the aggregate of drawn (on-balance sheet) balances, undrawn (off-balance sheet) commitments and contingent liabilities prior to the application of credit risk mitigation ('CRM'), and credit conversion factors ('CCF'), and after IFRS 9 provisions.

1.3 Content of Report and Frequency

The Pillar 3 report is issued annually in conjunction with the 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 2020 Annual Report and Accounts. As such, these disclosures should be read in conjunction with that document.

The Group does not disclose all quantitative metrics and figures relating to its risk appetite, as they are considered to be proprietary information; those that are disclosed can be viewed in the Strategic Report in the Annual Report and Accounts.

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 CRR requires creation of a formal policy to comply with Pillar 3 disclosure requirements and the Board has put in place such a policy. The Policy is reviewed by the Risk Committee and approved on an annual basis by the Board.

The disclosures are subject to annual review by the Risk Committee and approval by Board.

The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of the Group's Annual Report and Accounts.

1.6 Changes in disclosure requirements

The reporting requirements are consistent with those in place for the prior year's report, with the following exception.

As a response to COVID-19 the Basel Committee proposed a number of mitigation measures for the capital regime. These were enacted by the EU on 24 June 2020 as Directive EU/2020/873:

- IFRS9 transitional provisions: an extension of the transitional arrangements, adding back 100% of any new IFRS 9 Expected Credit Losses arising in 2020 and 2021 to Common Equity Tier 1 ('CET1') capital;
- Acceleration of the application date of the revised small or medium-sized enterprise ('SME') supporting factor; and
- Permits "prudently valued software" assets to be exempt from deduction from CET1 capital.

1.7 Impact of the COVID-19 Pandemic

The performance of the UK economy in 2020 was dominated by the COVID-19 crisis. The Group's objectives became focused on preserving capital, keeping our people safe, supporting our customers and preserving employment.

The UK Government responded to the COVID-19 crisis with a range of different measures, including the placing of restrictions on businesses and society, fiscal and monetary actions, initiatives which provide direct support to personal borrowers and businesses, as well as a series of regulatory measures, guidance and reliefs.

The regulatory measures, guidance and reliefs applicable and impacting the capital position have been noted in Section 1.6 and Section 4.4.

Further information about key initiatives which were put in place at the outset of the crisis and the impact on the Group's markets and customers can be found in the 2020 Annual Report and Accounts: Strategic Report, from page 2.

2. Key Prudential Metrics and Risk Weighted Assets

	Including IFRS 9 Transitional Arrangement 31 Dec 2020 £million	**Excluding IFRS 9 Transitional Arrangement 31 Dec 2020 £million**	Including IFRS 9 Transitional Arrangement 31 Dec 2019 £million	Excluding IFRS 9 Transitional Arrangement 31 Dec 2019 £million
Available capital				
Common Equity Tier 1 (CET1)	**283.7**	**256.8**	268.0	245.2
Tier 1 capital	**283.7**	**256.8**	268.0	245.2
Total capital	**328.8**	**301.4**	318.0	295.2
Risk based capital ratios as a percentage of RWA				
Common Equity Tier 1 (CET1) ratio (%)	**14.2%**	**13.0%**	12.7%	11.6%
Tier 1 ratio (%)	**14.2%**	**13.0%**	12.7%	11.6%
Total capital ratio (%)	**16.4%**	**15.2%**	15.0%	13.9%
Basel III leverage ratio				
Basel III leverage ratio (%)	**10.4%**	**9.5%**	9.7%[1]	8.8%

1. Previously disclosed as 9.8%, which has been restated. See Appendix B for further information.

The CET1 balance has increased by £15.7 million compared to December 2019 primarily attributable to:

- the addition of £15.7 million 2020 profits less foreseeable dividends of £8.2 million;
- the reduction of £3.4 million in intangible assets deductions, of which £2.1 million was due to a change in the regulatory treatment of software assets; and
- an increase of £4.1 million relating to the transitional IFRS 9 provisions add back.

Changes made to the buffer levels, and to the IFRS 9 provision transitional rules, have reduced capital requirements over 2020. At the same time, the Group has continued to be profitable, and has conserved capital by withholding the final dividend for 2019 and interim dividend for 2020. As a result, all of the Group's key capital ratios improved over the year. This capital position will help the Group achieve its post- COVID growth ambitions.

The Group has elected to adopt the transitional IFRS 9 provision rules. The Basel Committee proposed a number of mitigation measures for the capital regime in response to the pandemic. These were enacted by the EU on 24 June 2020 as Directive EU/2020/873 and were ratified by the PRA and became applicable from June 2020.

The measure with the most significant impact is the increase in transitional relief in respect of IFRS 9 provisions raised in 2020 and 2021, excluding those provisions relating to defaulted accounts. For these provisions, 100% relief is allowed in 2020 and 2021, with the relief then phased out over the following three years on a straight-line basis (2022: 75%, 2023: 50%, 2024: 25%, 2025: 0%).

For the impact of IFRS 9 implementation to December 2019, 70% of transitional relief was allowed in 2020, with the relief then phased out over the remaining two years on a straight-line basis (2021: 50%, 2022: 25%). Further information on changes of EU/2020/873 are included in Section 1.6.

3. Governance

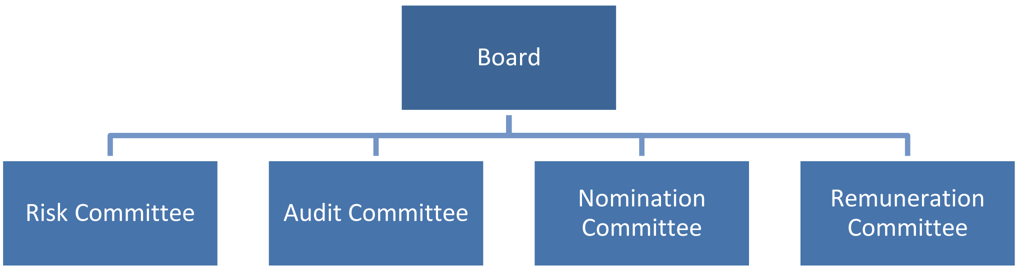
The Board is committed to maintaining and developing high standards of corporate governance. The Board endorses the principles of openness, integrity and accountability, which underlie good corporate governance. The Board establishes the Group's overall purpose, values and strategy and ensures the delivery of these within a robust corporate governance framework.

The Board is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued by the Financial Reporting Council in July 2018. The Group is compliant on an ongoing basis with the Listing Rules and describes its compliance with the UK Corporate Governance Code (the 'Code'), in the Corporate Governance Report in the Annual Report and Accounts from page 62.

The Board discharges some of its responsibilities through, and is supported by, its Committees which provide oversight and make recommendations on the matters delegated to them by the Board.

The Board has established Nomination, Remuneration, Audit and Risk Committees, each with formally delegated duties and responsibilities and with written terms of reference. From time-to-time, other committees may be set up by the Board to consider specific issues when the need arises.

3.1 Board committees



Summary information on these committees is set out below.

3.1.1 Risk Committee

The Risk Committee reviews the design and implementation of risk management policies and risk related strategies and the procedures for monitoring the adequacy and effectiveness of this process. It considers the Group's risk appetite in relation to the current and future strategy of the Group; oversees the Group's Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') and outputs from these; and exercises oversight of the risk exposures of the Group. The Risk Committee meets a minimum of four times a year, plus ad-hoc meetings as required. The report of the Risk Committee can be found on page 79 of the Group's 2020 Annual Report & Accounts.

3.1.2 Remuneration Committee

The Remuneration Committee assists the Board in performing its responsibilities in relation to remuneration. Its responsibilities include making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors, members of the Executive Committee, the Company Secretary and other Material Risk Takers. In addition, the Committee is able to review and make recommendations regarding the terms and conditions of employment, remuneration and benefits, including pension rights, of other employees of the Group. The Remuneration Committee meets formally at least twice a year and otherwise as required. The report of the Remuneration Committee can be found on page 83 of the Group’s 2020 Annual Report & Accounts.

3.1.3 Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the structure, size and composition of the Board. The Nomination Committee is responsible for, amongst other matters, evaluating the balance of skills, knowledge, independence, experience and diversity of the Board, and makes recommendations to the Board on such matters. The Nomination Committee also considers succession planning for Directors and other senior Executives overseeing the development of a diverse pipeline for succession and taking into account the challenges and opportunities facing the Company, and the skills and expertise that will, therefore, be needed on the Board in future. The report of the Nomination Committee can be found on page 70 of the Group’s 2020 Annual Report & Accounts.

3.1.4 Audit Committee

The Audit Committee assists the Board in, amongst other matters, discharging its responsibilities with regard to regulatory reporting and financial reporting. Its responsibilities include reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment, reappointment, removal and independence of external auditors, reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems and reviewing the effectiveness of whistleblowing arrangements in adherence to the Financial Conduct Authority Rules on Whistleblowing, in addition to receiving issues raised via the whistleblowers’ reporting lines. The Chairman of the Audit Committee is the Whistleblowers’ Champion.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. The Audit Committee meets formally at least four times a year and otherwise as required. The report of the Audit Committee can be found on page 74 of the Group’s 2020 Annual Report & Accounts.

Further information about the Group’ corporate governance arrangements and how the Group has complied with the Code can be found in the Annual Report and Accounts: Corporate Governance Report, from page 62.

The Group Committee framework and terms of reference formally approved by the Board, detailing the remit and delegated authorities are available to view on the Group website http://www.securetrustbank.com/investors/corporate-information/corporate-governance.

3.2 Risk Management

A fundamental element of the Group's strategy is the effective management of risk in order to protect the Group's depositors, borrowers and shareholders, and to ensure that the Group maintains sufficient capital, liquidity and operational control at all times, and acts in a reputable way. This is reflected in the Group's strategy and values, in particular the 'Sustain' strategy and 'Risk Aware' value, which demonstrate the Group's commitment to protect the reputation, integrity and sustainability of the Group for all of its customers and stakeholders through prudent balance sheet management, investment for growth and robust risk and operational control.

The Group's Chief Risk Officer is responsible for leading the Group's Risk Function, which is independent from the Group's operational and commercial functions. The Risk Function is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust, so as to ensure that key risks are identified, assessed, monitored and mitigated.

The Chief Risk Officer is responsible for providing assurance to the Board that the Group's principal risks are appropriately managed and that it is operating within its risk appetite.

Further information on Risk management objectives, policies, and strategies to manage those risks can be found on the Risk Management page of the Group website: http://www.securetrustbank.com/investors/corporate-information/risk-management.

3.3 Risk Culture

The Group assesses and actively promotes its risk culture based on the 'Ten Attributes of a Strong Risk Culture' (as broadly defined by the Institute of Risk Management).

The ten attributes of a strong risk culture:

- **Tone** - A distinct and consistent tone from the top from the board and senior management in respect of risk taking and avoidance
- **Behaviours -** Appropriate risk-taking behaviours are rewarded and encouraged and inappropriate behaviours are challenged and sanctioned
- **Ethics** - A commitment to ethical principles, reflected in a concern with the ethical profile of individuals and the application of ethics and the consideration of wider stakeholder positions in decision making
- **Ownership** - A common acceptance throughout the Group of the importance of continuous management of risk, including clear accountability and ownership of specific risks and risk areas
- **Transparency** - Transparent and timely risk information flows up and down the Group, with bad news rapidly communicated, without the fear of blame
- **Challenge -** Sufficient diversity of perspectives, values and beliefs to ensure that the status quo is consistently and rigorously challenged
- **Engagement** - Alignment of risk culture with employee engagement and people strategy to ensure that people are supportive socially, but also strongly focused on the task in hand
- **Escalation** - Encouragement of incident reporting and whistle blowing, actively seeking to learn from mistakes
- **Complexity** - Processes or activities are not too complex or too obscure for the risks to be readily understood
- **Skills** - Risk management skills and knowledge are valued, encouraged and developed, with a properly resourced risk management function. Professional qualifications and technical training are supported

On an annual basis, all business units and support functions across the Group assess their risk culture and embedding of the Operational Risk Management Framework. The outputs of this assessment are discussed at the Risk Committee and where required actions are taken for further improvement.

3.4 Risk Management framework

An Enterprise-wide Risk Management Framework ('ERMF') governs the way in which the Group identifies and manages its risks across all principal risk categories.

The purpose of the ERMF is to:

- Set out clear standards of risk management to protect the Group, our clients/customers and markets.

- Support the Board and Executive in embedding a strong risk culture across the firm by setting out risk management practices and requirements.
- Identify the principal risks faced by the Group.
- Describe the way in which the firm establishes risk appetite, in aggregate and for each principal risk, and thereafter operates within it. The risk appetite is the level of risk that the Group is prepared to accept in the pursuit of its strategy.
- Describe the Governance of risk within the Group.

3.4.1 Risk Appetite

The Group's Board approves the firm's risk appetite statement that confirms 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 a comprehensive suite of risk appetite statements and metrics which underpin the strategy of the Group:

Risk	Statement
Credit	The Group is profit and growth oriented whilst seeking to maintain a conservative and controlled risk profile. The Group manages credit risk through a pricing for risk model which drives a potential return on equity aligned with the stated target.
Liquidity and Funding	The Group's liquidity risk appetite is to ensure that adequate liquid resources are held to meet its Overall Liquidity Adequacy Requirement and to meet the minimum Liquidity Coverage Ratio at all times such that there is no significant risk that its liabilities cannot be met as they fall due, whether in business as usual or in a stress. The Group's funding risk appetite is to ensure that the Bank has access to stable funding markets and is not reliant on any single source of funding. The Group places no material reliance on wholesale funding markets. The Group's primary source of funding is retail deposits from individuals.
Operational	The Group's appetite for operational risk is to have well defined, scalable and controlled processes, running on robust and resilient systems, effective delivery of change and business continuity management. The Group has a low tolerance for operational losses but understands that losses may occur in the pursuit of its Business objectives.
Capital	The Group's risk appetite is to maintain capital levels above minimum regulatory requirements. The Group's capital management policy is focused on optimising shareholder value, in a safe and sustainable manner, ensuring capital resources are sufficient to support planned levels of growth.
Market	The Group's interest rate risk appetite is to ensure that under a severe change in rates the impact on earnings and overall value of the Group remains within agreed thresholds.
Conduct	As a result of the way the Group conducts its business we seek to avoid negative outcomes by consistently treating our customers fairly. The Group is straightforward and fair with its customers and seeks to achieve excellent customer service standards. The Group's aim is to be seen as a sound and professional business in the marketplace. The Group has no appetite for reputational risk arising from the way in which we, or our partners behave.
Regulatory	The Group seeks to remain compliant with all relevant regulatory requirements.

Details on the overall risk profile of the Group, can be found in the Principal Risks & Uncertainties section of the Group's 2020 Annual Report & Accounts, from page 38. Key ratios and figures relating to a number of the risks noted above can be seen within the Strategic Report in the Group's Annual Report and Accounts.

The Board reviews and approves the Group's risk appetite on an annual basis or more frequently in the event of changes to the risk environment, with the aim of ensuring that it is consistent with the Group's strategy, business and regulatory environment.

3.4.2 Risk Governance

The Group's risk management frameworks, policies and procedures are regularly reviewed and updated to ensure that they accurately identify the risks that the Group faces in its business activities and are appropriate for the nature, scale and complexity of the Group's business. The Group's risk management frameworks support decision-making across the Group and are designed to ensure that each risk is managed, monitored and overseen through a dedicated risk-specific committee.

Effective risk committees are operating at Board, Group and individual business unit level to ensure there is clear accountability for risk management, a robust framework and risk identification and mitigation strategies are in place across the Group.

The Group operates a 'Three Lines of Defence' model for the management of its risks in which each risk has a defined risk appetite which is controlled and managed through documented policies and frequent reporting and is overseen by one or more committees as part of the Group's governance process.

The Three Lines of Defence, when taken together, control and manage risks in line with the Group's risk appetite. The three lines are:

- First Line: business line managers who own and manage risk;
- Second Line: functions that oversee or specialise in risk management or compliance (Information Security, Operational Risk, Credit Risk, Financial Crime and Compliance Teams); and
- Third Line: Internal Audit.

Each line of defence effectively ensures a robust risk framework within the Group. The Group ensures that each line understands its respective responsibilities and those of the other lines and has the appropriate resource and expertise in order to fulfil its responsibilities.

The Group's governance structure in respect of risk is summarised in the table over the page, which sets out for each risk the relevant governing policy, the method of reporting and the responsible committee(s).

Risk	Credit	Liquidity and Funding	Operational	Capital	Market	Conduct	Regulatory
Key control documents	Consumer Credit Risk Policy Business and Commercial Credit Risk Policies	Treasury Policy and ILAAP	Operational Risk Policy and Framework	Capital Management Policy and ICAAP	Treasury Policy	Conduct Risk Policy	Compliance Manual
Reporting	Credit Risk Reports	ALCO[1] and Treasury Reports	Operational Risk MI and Reporting	ICAAP and other capital reports	ALCO and Treasury Reports	Conduct Risk MI and Reporting	Compliance Reports
Monitoring Committee	Consumer Credit Risk Committee SME Credit Committee	ALCO	Group and Business Level Operational Risk Committees	ALCO	ALCO	Customer Focus Committee	Group Compliance and Regulatory Risk Committee
Oversight Committee	Risk Committee	Risk Committee	EXCO[1] and Risk Committee	Risk Committee	Risk Committee	Risk Committee	Risk Committee

1. Note - Assets and Liabilities Committee ('ALCO') and Executive Committee ('EXCO').

The monitoring and control of risk is a fundamental part of the Group's management processes. The responsibilities of the Board, Risk Committee and Audit Committee in this respect are described in the Corporate Governance Report within the Group's 2020 Annual Report and Accounts, from page 62.

3.5 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.

3.5.1 ICAAP

The ICAAP is the Group's evaluation of its capital position and requirements, assessed under the CRR and Capital Requirements Directive ('CRD V') framework. The ICAAP provides details of the current approaches used to manage risk across the Group. As part of that assessment, the ICAAP assesses 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 against stressed scenarios that take into account those specified by the regulator.

3.5.2 ILAAP

The 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.

3.5.3 Reverse stress testing

Reverse stress testing is integrated into existing stress testing within the ICAAP and ILAAP processes and 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.

3.5.4 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.

3.6 Board assessment of risk management arrangements

The Risk Committee has reviewed and confirmed that the Group is operating under an effective and adequate risk management framework and system of internal controls covering all relevant categories of risk (Credit, Liquidity and Funding, Operational, Capital, Market, Conduct and Regulatory). This declaration was recommended to and approved by the Board.

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 2020. This is presented in accordance with Annex IV of the Commission Implementing Regulation (EU 1423/2013):

		Including IFRS 9 Transitional Arrangement 31 Dec 2020 £million	Including IFRS 9 Transitional Arrangement 31 Dec 2019 £million
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	**89.7**	88.6
	Of which: ordinary shares	**7.5**	7.4
	Of which: share premium	**82.2**	81.2
2	Retained earnings	**179.9**	164.4
3	Accumulated other comprehensive income (and other reserves)	**0.9**	1.1
5A	Independently reviewed interim profits net of any foreseeable charge or dividend[1]	**(8.2)**	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**262.3**	254.1
Common Equity Tier 1 capital: regulatory adjustments			
8	Intangible assets (net of tax related liability)	**(5.5)**	(8.9)
	Other regulatory adjustments (IFRS 9)	**26.9**	22.8
28	**Total regulatory adjustments to Common Equity Tier 1**	**21.4**	13.9
29	**Common Equity Tier 1 capital (CET1)**	**283.7**	268.0
45	**Tier 1 capital (T1=CET1+AT1)**	**283.7**	268.0
Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	**45.1**	50.0
51	**Tier 2 (T2) capital before regulatory adjustments**	**45.1**	50.0
58	**Tier 2 (T2) capital**	**45.1**	50.0
59	**Total capital (TC = T1 + T2)**	**328.8**	318.0
60	**Total risk weighted assets**	**2,001.5**	2,118.1
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**14.2%**	12.7%
62	Tier 1 (as a percentage of total risk exposure amount)	**14.2%**	12.7%
63	Total capital (as a percentage of total risk exposure amount)	**16.4%**	15.0%
64	Institution specific buffer requirement	**3.1%**	3.5%
65	Of which: capital conservation buffer requirement	**2.5%**	2.5%
66	Of which: countercyclical buffer requirement	**-**	1.0%
	Of which: PRA buffer requirement	**0.6%**	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**7.4%**	5.0%

1. Foreseeable dividend of £8.2 million.

The Group's regulatory capital comprises of:

- CET1 capital which comprises shareholders' funds, after adding back the IFRS 9 transition adjustment and deducting intangible assets, both of which are net of attributable deferred tax
- Tier 2 capital, which is solely subordinated debt net of unamortised issue costs, capped at 25% of the capital requirement.

For further information on the capital instruments currently issued by the Group, please refer to the EBA Capital instruments key features disclosure template in Appendix C.

The Group's Total Loss Absorbing Capacity ('TLAC') at 31 December 2020 is equal to its total capital requirement (Pillar 1+2A capital), as described in section 4.6. The Group is not required by the PRA to hold a Minimum Requirement for own funds and Eligible Liabilities ('MREL') recapitalisation reserve.

4.2 Reconciliation of statutory equity to regulatory capital resources

The table below reconciles the Group's statutory equity shown within the ARA to the total regulatory capital balance.

	31 Dec 2020 £million	31 Dec 2019 £million
Equity per statement of financial position	**270.5**	254.1
IFRS 9 transitional adjustment	**26.9**	22.8
Regulatory adjustments		
Less: intangible assets	**(5.5)**	(8.9)
Add: foreseeable dividend	**(8.2)**	-
Add: Subordinated liabilities	**45.1**	50.0
Total regulatory capital resources	**328.8**	318.0

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 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 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 annually using the annual budget process as a foundation, 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.

4.4 Capital Requirements

The Pillar 1 capital requirement calculations set a capital resources requirement of 8% of Risk Weighted Assets ('RWA'). Total Risk Exposure ('TRE') is calculated as the sum of the risk-weighted exposure amounts for credit, counterparty, operational and Credit Valuation Adjustment ('CVA') risks. Where it is considered that this level is insufficient to reflect the actual level of risk, an additional Pillar 2A capital add-on is required. The Total Capital Requirement ('TCR') set by the PRA represents the combined Pillar 1 and 2A capital requirements. The ICAAP is a key input into the PRA's TCR setting process, as it includes an internal assessment of the Group's Pillar 2A capital requirements. The PRA's approach is to monitor the available capital resources in relation to the TCR.

The Group maintains an extra internal buffer as a safety margin and capital ratios are reviewed on a monthly basis to ensure that external and internal requirements are adhered to.

To promote the conservation of capital and the build-up of adequate buffers, calculated as a percentage of RWA that can be drawn down in periods of stress, CRD V requires the holding of supplementary Pillar 2B capital buffers. These are met solely with CET1 capital and comprise:

- A Capital Conservation Buffer ('CCoB') set at 2.5% of TRE)
- A Counter Cyclical Buffer ('CCyB'), currently set at 0% of TRE
- A PRA buffer ('PRAB'), set for firms on an individual basis.

The Bank of England's Financial Policy Committee ('FPC') uses the CCyB as a tool to adjust the resilience of the banking system. During 2020 the FPC announced a reduction in the UK CCyB from 1% to 0% with immediate effect, in response to the impact of COVID-19. The FPC expects to maintain the 0% rate until at least March 2022.

4.5 Pillar 1 Capital Requirements

The Group's minimum capital requirement under Pillar 1 is the sum of the credit risk, operational risk and counterparty credit risk (including the CVA) capital requirements.

The following table shows the credit, operational and counterparty credit risk exposure and risk weighted assets for each of the Group's exposure classes after CRM and the associated Pillar 1 minimum capital requirements (being 8% of risk weighted assets).

	Risk Weighted Assets		Minimum Capital Requirement	
	31 Dec 2020 £million	31 Dec 2019 £million	**31 Dec 2020 £million**	31 Dec 2019 £million
Institutions	16.0	8.6	1.3	0.7
Corporates	166.2	266.0	13.3	21.3
Retail	704.9	760.4	56.4	60.8
Secured on Immovable Property	715.0	724.8	57.2	58.0
Exposures in default	97.3	90.6	7.8	7.2
Other	58.7	54.6	4.7	4.4
Credit Risk (Standardised Approach)	**1,758.1**	1,905.0	**140.7**	152.4
Counterparty credit risk (Mark to Market Approach)	2.6	1.7	0.2	0.1
Operational risk (Standardised Approach)	240.8	211.4	19.3	16.9
Total	**2,001.5**	2,118.1	**160.2**	169.4

The credit risk capital requirement has decreased by 7.7% in the period. This is primarily attributable to a reduction in the lending book, which decreased by 3.7% during the period as a result of the pandemic.

Total assets decreased from £2,682.8 million to £2,664.1 million over the same period. The greater proportional decrease in the capital requirement is attributable to a significant year-on-year increase in balances with the Bank of England which are risk weighted at zero and reduced exposures to corporate and retail lending as a consequence of the pandemic.

Further details of the impact of the pandemic on the Group can be found in the Business Review section of the Group's 2020 Annual Report and Accounts, from page 14.

4.5.1 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 6.13.

Counterparty credit risk is initially measured using the mark-to-market method and subsequently risk weighted under the standardised approach. The Group also calculates a CVA charge due to the risk of adverse moves in the credit valuation adjustments associated with expected credit losses on derivative transactions.

The capital required under this approach was £0.2 million at 31 December 2020 (2019: £0.1 million).

4.5.2 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 from page 44 of the Group's 2020 Annual Report and Accounts.

CRD V 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 of the Group's income over the past three years.

The capital required under this approach was £19.3 million at 31 December 2020 (2019: £16.9 million), the increase being attributable to the historic strong growth of the business.

4.6 Total Capital Requirement

The PRA's capital guidance currently applicable to the Group is to hold a TCR of 9.01% of the Group's risk weighted assets. This equates to £180.3 million at 31 December 2020.

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 TCR may not be used to meet the supplementary Pillar 2B buffers: the CCoB, CCyB and PRAB.

5. Leverage Ratio

CRD V includes a non-risk based leverage ratio requirement 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 FPC direction to introduce a UK leverage ratio framework. The UK leverage ratio framework sets a minimum ratio of 3%. The Group 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.

For the purposes of the Group, this normally means the risk that borrowers will be unable to repay their loan obligations, market counterparties will be unable to meet their margin payment commitments as they fall due or that a financial institution will not repay funds invested by the Group in that institution.

All Group lending takes place within the United Kingdom.

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 on page 38 of the Group's 2020 Annual Report and Accounts.

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

The Group's 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 through appropriate concentration risk limits. The Board Risk Committee approves the Consumer and Business Credit Policies annually. The policies detail the core product lending parameters including maximum lending limits in terms of product exposure limits, aggregate exposures to customers and concentration risk to any one particular introducer.

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

The Group operates a three lines of defence model to manage 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 ensuring that the business adheres to the Board credit risk 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 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 prepared 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 Total and average net amount of exposures

Credit risk exposures by exposure class are shown in the table below, together with the associated average credit risk exposure (calculated using the previous four quarters exposure per the EBA's Common Reporting returns). The table also includes risk-weighted assets and minimum capital requirements under Pillar 1 for each of the respective exposure classes.

The exposure amounts disclosed are pre-application of CRM and pre-application of CCF.

At 31 December 2020:

	Credit risk exposure – before CCF and CRM £million	Average credit risk exposure £million
Central Government and Central Banks	181.5	158.2
Institution	69.2	62.1
Corporates	332.6	283.3
Retail	1,023.0	1,059.9
Secured on Immovable Property	1,193.7	1,214.6
Exposures in default	97.3	102.1
Other	49.7	49.4
Total	**2,947.0**	**2,929.6**

At 31 December 2019:

	Credit risk exposure – before CCF and CRM £million	Average credit risk exposure £million
Central Government and Central Banks	130.8	181.7
Institution	44.2	50.7
Corporates	288.3	271.7
Retail	1,089.2	1,057.9
Secured on Immovable Property	1,184.3	1,126.5
Exposures in default	90.6	63.2
Other	43.1	40.5
Total	**2,870.5**	**2,792.2**

6.6 Concentration of exposures by industry

The table below shows credit risk exposure (before CCF and CRM) by customer industry classification, including small and medium-sized enterprises (SME) exposures.

At 31 December 2020:

	Central banks £million	Credit institution £million	Other financial corporate £million	Non-financial corporate £million	Household £million	Other £million
Central Government and Central Banks	181.5	-	-	-	-	-
Institutions		69.2	-	-	-	-
Corporates	-	-	-	332.6	-	-
Retail	-	-	0.1	45.7	977.2	-
Secured on Immovable Property	-	-	-	1,115.8	77.9	-
Exposures in default	-	-	-	0.9	96.4	-
Other	-	-	-	-	-	49.7
Total	**181.5**	**69.2**	**0.1**	**1,495.0**	**1,151.5**	**49.7**
Of which SMEs	-	-	-	1,259.1	-	-

At 31 December 2019:

	Central banks £million	Credit institution £million	Other financial corporate £million	Non-financial corporate £million	Household £million	Other £million
Central Government and Central Banks	130.8	-	-	-	-	-
Institutions	-	44.2	-	-	-	-
Corporates	-	-	-	288.3	-	-
Retail	-	-	-	73.8	1,015.4	-
Secured on Immovable Property	-	-	-	1,080.2	104.1	-
Exposures in default	-	-	-	-	90.6	-
Other	-	-	-	-	-	43.1
Total	**130.8**	**44.2**	**-**	**1,442.3**	**1,210.1**	**43.1**
Of which SMEs	-	-	-	1,417.6	-	-

6.7 Credit risk exposures by residual contract maturity

The maturity of exposures shown are based on a contractual basis rather than the actual redemptions experienced by the Group.

At 31 December 2020:

	On demand £million	<1 year £million	> 1 year £million	Total £million
Cash and balances at central banks	180.5	1.0	-	**181.5**
Loans and advances to banks	63.3	-	-	**63.3**
Debt securities	-	-	-	**-**
Loans and advances to customers	-	668.6	1,690.3	**2,358.9**
Other assets	-	21.5	38.9	**60.4**
Total	**243.8**	**691.1**	**1,729.2**	**2,664.1**

At 31 December 2019[1]:

	On demand £million	<1 year £million	> 1 year £million	Total £million
Cash and balances at central banks	105.8	-	-	**105.8**
Loans and advances to banks	48.4	-	-	**48.4**
Debt securities	-	25.0	-	**25.0**
Loans and advances to customers	-	966.4	1,483.7	**2,450.1**
Other assets	-	27.4	26.1	**53.5**
Total	**154.2**	**1018.8**	**1,509.8**	**2,682.8**

1. Restated to reflect a late amendment to the 2019 Annual Report and Accounts.

6.8 Credit risk adjustments

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's impairment provisions are calculated in line with the requirements of IFRS 9. IFRS 9 requires that impairment is evaluated on an expected credit loss ('ECL') basis. ECLs are based on an assessment of the probability of default ('PD') and loss given default ('LGD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward-looking economic assumptions and a range of possible outcomes. Provision may be based on either twelve month or lifetime ECL, dependent on whether an account has experienced a significant increase in credit risk.

Further details of the following can be found in the Group's 2020 Annual Report and Accounts

- the Group IFRS 9 impairment policy in note 1.8;
- details of impairment allowances (credit risk adjustments) by business in note 16;
- details of the loans and advances impairment allowances at the reporting date and a reconciliation of the opening and closing allowances, including the charge to the income statement in note 16;
- details of impaired exposures (stage 3) and past due exposures by business in note 35; and
- information on the Group's forbearance approach in note 35.2.

Additional information on the impact of the COVID-19 pandemic can be found in the 2020 Annual Report and Accounts: Strategic Report, from page 2.

6.9 Ageing analysis of past due exposures by industry sector

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

At 31 December 2020:

	Assets without significant increase in credit risk since initial recognition (Stage 1) £million			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
Non-financial corporate	1.4	-	-	2.4	37.1	-	-	-	12.5
Households	0.6	-	-	25.4	4.0	-	0.5	1.2	88.3
Total	**2.0**	**-**	**-**	**27.8**	**41.1**	**-**	**0.5**	**1.2**	**100.8**

At 31 December 2019:

	Assets without significant increase in credit risk since initial recognition (Stage 1) £million			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
Non-financial corporate	-	-	-	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**

6.10 Credit risk mitigation

a. CRM 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. The retail motor and closed regulated consumer mortgage books are secured by a charge on the underlying client assets funded. Mortgage portfolio valuations are calculated quarterly using the latest available Nationwide HPI data.
c. All commercial business lending is provided on a secured basis at prudent loan-to-value ratios and therefore is considered adequately mitigated. The form of collateral is dependent upon the business.

- Real Estate Finance: all loans are secured against property at prudent loan-to-values ('LTV'; investment assets) or loan-to-gross development values ('LTGDV'; development assets), based on a formal 'red book' valuation provided by a Member of the Royal Institution of Chartered Surveyors ('MRICS'). The bank also maintains a specific collateral valuation policy for real estate assets which sets out the bank's expectations for all real estate valuations.
- Commercial Finance: loans are primarily secured by a charge over the full debtor book of clients, with additional security provided by debentures over all unencumbered assets and in some cases supported by personal guarantees from beneficial owners. The bank maintains a specific collateral valuation policy for non-real estate assets which sets out the bank's approach to valuing common asset classes such as inventory or plant and machinery.
- Asset Finance: the Group holds full legal title to the assets financed.
- Wholesale Motor: loans are secured by ownership of the underlying vehicles.

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:

- A legal agreement is in place for the for the STB Leasing book (£3.9 million) whereby the Group's counterparty assumes responsibility for all credit risk under the agreement.
- Cash collateral is provided by a number of our counterparties, with the collateral held being sufficient to meet in some instances the full exposure on our books exposed.
- The Government provides a guarantee for 80% of lending advanced by the Commercial Finance business under the Coronavirus Business Interruption Scheme ('CBILS') and Coronavirus Large Business Interruption Loan Scheme ('CLBILS') schemes.
  The Group does not make significant use of any netting agreements to reduce original exposures, the only form of netting currently applied relates to derivative contracts. Refer to the Counterparty Credit Risk section 6.13 for further detail on derivative netting.

At 31 December 2020:

	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 Exposure – pre SME SF £million	RWA density
Central Government and Central Banks	181.5	-	181.5	-	-	0%
Institutions	69.2	-	69.2	-	16.0	23%
Corporates	221.0	111.6	180.2	-	180.2	100%
Retail	937.4	85.6	931.7	13.8	709.2	75%
Secured on Immovable Property	1,130.2	63.5	1,130.2	31.8	715.0	62%
Exposures in default	97.3	-	97.3	-	97.3	100%
Other	49.7	-	49.7	-	58.7	118%
Total	**2,686.3**	**260.7**	**2,639.8**	**45.6**	**1,776.4**	**66%**

The majority of the off-balance sheet commitments relate to unutilised Commercial Finance invoice financing facilities.

At 31 December 2019:

	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 Exposure – pre SME SF £million	RWA density %
Central Government and Central Banks	130.8	-	130.8	-	-	0%
Institutions	44.2	-	44.2	-	10.3	23%
Corporates	279.4	8.9	279.4	-	266.0	98%
Retail	1,015.7	73.5	1,007.4	6.7	760.4	75%
Secured on Immovable Property	1,063.4	120.9	1,063.4	60.5	724.8	64%
Exposures in default	90.6	-	90.6	-	90.6	100%
Other	43.1	-	43.1	-	54.6	127%
Total	**2,667.2**	**203.3**	**2,658.9**	**67.2**	**1,906.7**	**70%**

6.11 Standardised approach - exposures by asset class and risk weights

At 31 December 2020:

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:									
Central Government and Central Banks	181.5	-	-	-	-	-	-	-	181.5
Institutions	-	62.0	-	7.2	-	-	-	-	69.2
Corporates	-	-	-	-	-	180.2	-	-	180.2
Retail	-	-	-	-	945.5	-	-	-	945.5
Secured on Immovable Property	-	-	847.2	-	0.4	106.7	207.7	-	1,162.0
Exposures in default	-	-	-	-	-	97.3	-	-	97.3
Other	-	-	-	-	-	43.7	-	6.0	49.7
Total	**181.5**	**62.0**	**847.2**	**7.2**	**945.9**	**427.9**	**207.7**	**6.0**	**2,685.4**

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:									
Central Government and Central Banks	130.8	-	-	-	-	-	-	-	130.8
Institutions	-	39.3	-	3.3	-	-	-	-	42.6
Corporates	-	-	-	-	27.6	251.8	-	-	279.4
Retail	-	-	-	-	1,015.7	-	-	-	1,015.7
Secured on Immovable Property	-	-	783.9	-	1.5	116.8	221.7	-	1,123.9
Exposures in default	-	-	-	-	-	90.6	-	-	90.6
Other	-	-	-	-	-	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**

6.12 Use of external credit ratings

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

The Group makes limited use of credit assessments by External Credit Assessment Institutions ('ECAI') in assigning risk weights to credit risk exposures under the standardised approach. This typically applies in the case of certain Central Government, Central Bank and Institution exposures. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step based on the EBA's mapping of credit assessments to credit quality steps.

The Group uses credit ratings published by Moody's, who are recognised as an ECAI. Details of the credit ratings of the institutions with which the Group places funds are provided in note 12 of the Group's 2020 Annual Report and Accounts.

6.13 Counterparty credit risk - derivatives

Counterparty credit risk is the risk that a counterparty to a derivative instrument to which the Group has an exposure could default. This risk is mitigated by cash collateral deposited with or received from counterparties on a daily basis in line with the European Market Infrastructure Regulation ('EMIR') to mitigate the mark-to-market exposures on derivatives.

The Group uses derivatives to reduce exposure to interest rate risk and are not used for trading or speculative purposes. Derivative activity is documented in standard International Swaps and Derivatives Association ('ISDA') Master Agreements. In all cases a Credit Support Annex ('CSA') is executed in conjunction with the ISDA Master Agreement to mitigate credit risk on the derivatives portfolio.

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' avoids the movement of small amounts of collateral.

If the counterparty fails to post any 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 2020 £million	31 Dec 2019 £million
Gross positive fair value of derivative contracts	4.8	0.9
Potential future exposure	4.1	4.1
	8.9	5.0
Netting benefit	(1.7)	(1.6)
Net derivative credit exposure	**7.2**	**3.4**

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 originated any securitisation transactions and has no investment exposure to securitisation instruments or securities as at 31 December 2020.

8. Market Risk

Market risk is the risk of unexpected market movements leading to unforeseen variance in the Group's earnings or overall value as an entity. The Group's primary market risk exposure is to changes in interest rates. The Group is also exposed to a small amount of Foreign Exchange ('FX') risk through the existence of non-GBP cash and lending balances within the Commercial Finance business.

Market risk is managed by the Group's Treasury function and is overseen by the ALCO. The Group does not take significant unmatched positions and does not operate a trading book.

The Group's risk management framework, policies and procedures are regularly reviewed and updated at least annually to ensure that they accurately identify the risks that the Group faces in its business activities and are appropriate for the nature, scale and complexity of the Group's business.

8.1 Interest Rate Risk

Interest rate risk arises from the timing mismatch between the Group's assets and liabilities. The Group primarily operates a matched funding model and in the first instance, aims to manage the interest rate risk arising from new lending through the raising of term deposits. The Group uses an interest rate sensitivity gap to monitor its exposures and highlight any residual mismatched interest rate risk positions, which in turn are externalised through the execution of interest rate derivatives.

The Group's exposure to interest rate risk is assessed using a set of modelling assumptions, including but not limited to:

- The early repayment of customer assets and the early withdrawal of customer liabilities.
- The investment term for the Group's own equity as set by Board and maintained by Treasury through structural hedging.
- A zero percent interest rate floor is applied for the purposes of Board risk appetite monitoring. ALCO also monitors and sets limits against the Group's exposure to a potential negative interest rate environment.

The Group reports the interest rate mismatch on a monthly basis to ALCO, EXCO and Board, considering Market Value Sensitivity ('MVS') as a proportion of the overall capital position of the Group and Earnings at Risk ('EaR') as a proportion of forecast net interest income. These are mainly assessed against 200 basis point ('bp') and 100bp parallel shifts in rates respectively.

The Group monitors its exposure to the Economic Value of Equity ('EVE') as a proportion of own funds and CET1 against a 200bps parallel shift in rates, as well as the six standardised shocks prescribed by the Basel Committee on Banking Supervision ('BCBS'). The Group also measures its exposure to basis risk and optionality.

All such exposures are maintained within the risk appetite set by the Board and are monitored by ALCO.

Detail on the Group's economic value and earnings exposures at 31 December 2020 can be found in the Market Risk Section in note 36 of the Group's 2020 Annual Report and Accounts.

8.2 Hedging

The Group transacts interest rate swaps for risk mitigation purposes. Interest rate swaps are designated into fair value and cash flow hedge accounting relationships. The effectiveness of the relationships is measured monthly with any ineffectiveness taken through profit and loss.

In order to manage interest rate risk arising from fixed rate financial instruments the Group reviews interest rate swaps requirements on a monthly basis. The exposure from the portfolio frequently changes due to the origination of new instruments, contractual repayments and early prepayments made in each period. As a result, the Group adopts a dynamic hedging strategy (sometimes referred to as 'macro' or 'portfolio' hedge) to hedge its exposure profile by closing and entering into new swap agreements on a monthly basis. Hedge-related management information is submitted to ALCO monthly.

Further detail on the Group's hedging policy can be found within the Group's 2020 Annual Report and Accounts, specifically note 1.9 Derivative Financial Instruments.

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 primary source of encumbered assets are those that have been pledged with the Bank of England in order to secure funding under the Sterling Monetary Framework and more specifically the Term Funding Scheme ('TFS')/ Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises ('TFSME') and Indexed Long-Term Repo ('ILTR') schemes. Assets that the Group can pledge with the Bank of England include loan assets and debt securities. Assets are encumbered with the contractual requirements of these transactions. All encumbered assets reside on the balance sheet of the holding company.

The other source of encumbrance for the Group is through derivative transactions with market counterparties. As the market value of the derivatives fluctuate with changes in market rates additional cash ('margin') is passed between Group and the derivative counterparty. Cash margin paid out by the Group in respect is treated as encumbered.

Due to the permanent nature of the BoE Cash Ratio Deposit requirement, this is also considered to be an encumbered asset.

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 2020 the ratio of encumbered assets was 15.7% (2019: 16.2%) and was largely comprised of Retail Finance loans. £417.0 million of Retail Finance loans were encumbered to support £273.7 million of TFS and ILTR borrowings. The Group had not drawn on the TFSME scheme at 31 December 2020 with the first draw down taking place during March 2021.

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 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:

At 31 December 2020:

		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**	**416.1**	**-**			**2,239.9**	**150.9**		
040	Debt securities	-	-	-	-	25.0	25.0	25.0	25.0
070	Of which: issued by general governments	-	-	-	-	25.0	25.0	25.0	25.0
120	Other assets	416.1	-			2,232.4	122.7		

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

At 31 December 2019:

		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	184.7[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	95.8[1]		

1. The previously disclosed version of the 2019 balances have been restated for reflect the correct median value.

9.2 Encumbered Assets: Amount of collateral received

Collateral received during the period.

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		£million	£million	£million	£million
		010	030	040	060
130	Collateral received by the reporting institution	**3.7**	**-**	**-**	**-**
220	Loans and advances other than loans on demand	3.7	-	-	-
250	Total assets, collateral received and own debt securities issued	2,655.5	150.9	-	-

9.3 Encumbered Assets: Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent 31 Dec 2020 £million	**Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered 31 Dec 2020 £million**	Matching liabilities, contingent liabilities or securities lent 31 Dec 2019 £million	Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered 31 Dec 2019 £million
		010	030	010	030
010	Carrying amount of selected financial liabilities	282.1	414.7	269.8	425.9

10. Liquidity and Funding Risk

Liquidity and Funding Risk is the risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost. The Group maintains adequate liquidity resources and a prudent stable funding profile at all times to cover liabilities as they fall due in normal and stressed conditions. The Group manages liquidity in line with internal and regulatory requirements, and at least annually assesses the robustness of the liquidity requirements as part of the Group's ILAAP.

A description of the Group's approach to Liquidity and Funding Risk can be found within the Principal Risks and Uncertainties section from page 42 of the Group's 2020 Annual Report and Accounts. Detail on the regulatory and Group appetites and key metrics can be found in the Liquidity Risk Section note 37 of the Group's 2020 Annual Report and Accounts.

11. Remuneration

The PRA has defined certain requirements relating to remuneration. Under the requirements of the PRA Supervisory Statement SS2/17 Remuneration the Group is classed as a level 3 firm; this means that the Group is not required to satisfy in full all elements of the Remuneration Code. Notwithstanding this, in formulating and applying the Remuneration Policy the Committee has had regard to the remuneration codes.

All firms subject to the Code must make sure their remuneration policies and practices are consistent with and promote sound and effective risk management.

Some of the features of the Code apply to a firm as a whole, while other requirements, such as those on the structure of awards, apply mainly to Directors and Material Risk Takers, also referred to as Remuneration Code staff or Identified Staff. Examples of such individuals include:

- Senior Management
- Risk takers and staff in control functions
- Those earning in the same remuneration bracket as the above, whose professional activities have a material impact on the firm's risk profile

11.1 Role of the Remuneration Committee

The Remuneration Committee assists the Board in fulfilling its responsibilities in relation to remuneration including, amongst other matters, determining the policy for individual remuneration and benefits package 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 and with regard to the culture of the Group.

The Remuneration Committee is composed of three members. Victoria Stewart was appointed as the Chairman of the Committee on 21 July 2017. During 2020 there were two changes in Committee membership: Paul Marrow stepped down from the STB Board and his Committee memberships following the 2020 AGM. Paul Myers joined the Committee on 1 January 2020.

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 their alternate, 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, Human Resources 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.

11.2 Key features of the Remuneration Policy

Remuneration policy is overseen by the Remuneration Committee. 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.

The application of the Remuneration Policy, details of external consultants used and information on the link between pay and performance can be seen in the Remuneration Report on page 83 of the 2020 Annual Report and Accounts.

In determining appropriate rewards for executive management, the Remuneration Committee has had regard to the year's achievements, 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.

11.3 Remuneration awarded during the financial year of code staff by business area

At 31 December 2020:

	Senior managers		Other material risk takers			
	Central £million	Total £million	Consumer Finance £million	Business Finance £million	Central £million	Total £million
Number of employees	8	8	4	5	19	28
Fixed remuneration	1.8	1.8	1.0	1.1	3.1	5.2
Variable remuneration	0.3	0.3	0.4	1.7	1.0	3.1
Total remuneration	**2.1**	**2.1**	**1.4**	**2.8**	**4.1**	**8.3**

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'.

11.4 Statement of Directors' external directorships

The number of other directorships of Board members as at 31 December 2020, outside the Group, is disclosed in accordance with Article 435 of the CRR 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	1
Rachel Lawrence	Chief Financial Officer	-
Ann Berresford	Senior Independent Director	1
David McCreadie	Non-Executive Director	3
Paul Myers	Non-Executive Director	-
Baroness Lucy Neville-Rolfe	Non-Executive Director	5
Victoria Stewart	Non-Executive Director	4

11.5 Recruitment Policy and Diversity

Further information on the recruitment policy for the selection of members of the management and diversity is included in Nominations Committee Report on page 70 and 72 respectively, of the Group's 2020 Annual Report and Accounts.

Appendix A: Countercyclical Capital Buffer

Geographical distribution of credit exposures used in the Countercyclical Capital Buffer (CCyB)

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

At 31 December 2020:

		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	2,434.7	139.4	139.4	1.0	0%
020	**Total**	**2,434.7**	**139.4**	**139.4**	**1.0**	**0%**

At 31 December 2019:

		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 FPC applies to it. The CCyB rate applicable in the United Kingdom at 31 December 2020 was 0%.

Amount of institution-specific CCyB

		010 31 Dec 2020 £million	010 31 Dec 2019 £million
010	Total risk exposure amount	2,001.5	2,118.1
020	Institution-specific countercyclical buffer rate	0%	1%
030	Institution-specific countercyclical buffer requirement	**0**	**21.2**

Appendix B: Leverage Ratio Disclosures

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

The 2019 results disclosed below have been restated to reflect a late amendment to the 2019 Annual Report and Accounts, and inclusion of the IFRS 9 transitional adjustment. This resulted in the leverage ratio moving from 9.8% to 9.7%.

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

		Applicable Amounts 31 Dec 2020 £million	Applicable Amounts 31 Dec 2019 £million
1	Total assets as per published financial statements	2,664.1	2,682.8
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")	21.4	13.9
4	Adjustments for derivative financial instruments	7.2	4.6
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	45.6	72.3
7	Other adjustments	(4.8)	(0.9)
8	**Total leverage ratio exposure**	**2,733.5**	**2,772.7**

Table LRCom: Leverage Ratio common disclosure

		CRR leverage ratio exposures 31 Dec 2020 £million	CRR leverage ratio exposures 31 Dec 2019 £million
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,659.3	2,681.9
2	(Asset amounts deducted in determining Tier 1 capital)	21.4	13.9
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**2,680.7**	**2,695.8**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	4.8	0.5
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2.4	4.1
11	**Total derivative exposures (sum of lines 4 to 10)**	**7.2**	**4.6**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	261.5	203.3
18	(Adjustments for conversion to credit equivalent amounts)	(215.9)	(131.0)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**45.6**	**72.3**
Capital and total exposures			
20	Tier 1 capital	**283.7**	**268.0**
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	**2,733.5**	**2,772.7**
Leverage ratio			
22	Leverage ratio (%)	**10.4%**	**9.7%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transi-tional	Transi-tional

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

		As at 31 Dec 2020 CRR leverage ratio exposures £million	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:	2,659.3	2,681.9
EU-3	Banking book exposures, of which:	2,659.3	2,681.9
EU-5	Exposures treated as sovereigns	181.5	130.8
EU-7	Institutions	62.0	48.3
EU-8	Secured by mortgages of immovable properties	1,128.4	1,063.2
EU-9	Retail exposures	921.6	1,015.9
EU-10	Corporate	220.6	279.5
EU-11	Exposures in default	88.6	90.6
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	56.6	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 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 increased over the year, which has been mainly driven by reduced lending balances as a result of the pandemic.

Appendix C: 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	£89.7 million comprising nominal and premium	£25.0 million	£25.0 million
9	Nominal amount of instrument	£7.5 million	£25.0 million	£25.0 million
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