Secure Trust Bank PLC

Pillar 3 disclosures for the year ended 31 December 2022

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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 2022. Pillar 3 disclosures promote market discipline and consistency through a set of prescribed requirements set out within the UK Capital Requirements Regulation ('CRR') which require the Group to publicly disclose details of key capital positions, risk exposures, risk assessment processes and remuneration arrangements.

1.2 Regulatory framework

Basel III consists of the UK CRR and the Capital Requirements Directive ('CRD'). On departure of the UK from the European Union ('EU') the CRD was retained in UK law. In October 2021 the Prudential Regulatory Authority ('PRA') published its final rules for implementing the remaining Basel III standards into the UK prudential regulatory framework, the UK CRR, PS22/21 'Implementation of Basel standards: Final rules', effective from 1 January 2022. The UK CRR is currently split across the PRA Rulebook and primary legislation.

The introduction of the UK CRR impacted a number of regulatory requirements applicable to the Group, in particular those relating to Pillar 3. As a result, the required level of disclosure has significantly reduced at the year end, although half year disclosures became mandatory.

1.3 Basis of disclosures

The disclosures have been prepared for the Group in accordance with the UK CRR rules laid out in the Disclosure Part of the PRA Rulebook and the Group's approved policy, which ensures compliance with regulatory requirements and describes the internal controls and processes that support preparation of this document.

The Group has assessed itself as 'small and non-complex' based on the criteria prescribed in the UK CRR (Article 4(145)), thus complying with the requirements incorporated in the PRA Rulebook under Article 433b.

The disclosures cover all applicable Pillar 3 qualitative and quantitative disclosure requirements and, where appropriate, supplementary information and cross referencing has been added for the purposes of enhancing the readability and understandability of these disclosures.

The disclosures portray the Group's risk profile, no material disclosures have been omitted and no information excluded on the grounds of proprietary or confidentiality.

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

The Group has permission to include all Group entities within the Individual Consolidation with the exception of AppToPay Ltd, which was newly acquired in May 2022 and has immaterial assets, liabilities and reserves. A request to include AppToPay has been made in the Group's last triennial application to the PRA in early 2023.

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

1.4 Content of Report and Frequency

The Pillar 3 disclosures are issued every six months at the same time as the Group's Interim Report or 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.

Note the comparative figures are as published in the prior period where applicable and, where disclosures are new, the Group has not restated or provided prior period comparatives. Furthermore, where specific rows and columns in the tables prescribed by the PRA are not applicable, these are omitted.

1.5 Media and location

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

1.6 Verification

The disclosure guidance within the PRA Rulebook requires creation of a formal Pillar 3 disclosures reporting policy and the Board has put this policy in place. The policy is reviewed and approved on an annual basis by the Risk Committee (a sub-committee of the Board).

The Annual Pillar 3 disclosures are subject to review by the Risk Committee and approval by Board in conjunction with the Group's Annual Report and Accounts.

The Chief Financial Officer attests that the disclosures have been prepared in accordance with the approved Pillar 3 disclosures policy which conforms with the Disclosure part of the PRA Rulebook, which includes revised disclosure requirements applicable from 1 January 2022. The Group has operated a framework of disclosure controls, procedures and governance throughout the period, in order to ensure the completeness and accuracy of the Group's Pillar 3 disclosures.

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 Interim Report or Annual Report and Accounts.

2 Key metrics

The table below UK KM1 presents key metrics in relation to capital, leverage, and liquidity and funding:

		31 Dec 2022[1] £million	30 Jun 2022[1] £million	31 Dec 2021[1/2] £million
	Available own funds (amounts) [3]			
1	Common Equity Tier 1 (CET 1) capital	**327.4**	**313.8**	**303.6**
2	Tier 1 capital	**327.4**	**313.8**	**303.6**
3	Total capital	**377.3**	**363.6**	**350.6**
	Risk weighted exposure amounts[3]			
4	Total risk-weighted exposure amount	**2,335.0**	**2,237.1**	**2,087.4**
	Capital ratios (as a percentage of risk-weighted exposure amount)[3]			
5	Common Equity Tier 1 ratio (%)	**14.0%**	**14.0%**	**14.5%**
6	Tier 1 ratio (%)	**14.0%**	**14.0%**	**14.5%**
7	Total capital ratio (%)	**16.2%**	**16.3%**	**16.8%**
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount) [4]			
UK 7a	Additional CET1 SREP requirements (%)	**0.6%**	**0.6%**	**0.6%**
UK 7b	Additional AT1 SREP requirements (%)	**0.2%**	**0.2%**	**0.2%**
UK 7c	Additional T2 SREP requirements (%)	**0.3%**	**0.3%**	**0.3%**
UK 7d	Total SREP own funds requirements (%)	**9.0%**	**9.0%**	**9.0%**
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	**2.5%**	**2.5%**	**2.5%**
9	Institution specific countercyclical capital buffer (%)[5]	**1.0%**	**0.0%**	**0.0%**
11	Combined buffer requirement (%)	**3.5%**	**2.5%**	**2.5%**
UK 11a	Overall capital requirements (%)	**12.5%**	**12.0%**	**12.0%**
12	CET1 available after meeting the total SREP own funds requirements (%)[6]	**8.95%**	**8.96%**	**9.48%**
	Leverage ratio			
13	Total exposure measure excluding claims on central banks	**3,049.9**	**2,949.8**	
14	Leverage ratio excluding claims on central banks (%)	**10.7%**	**10.6%**	
	Liquidity Coverage Ratio[7]			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**283.6**	**248.0**	
UK 16a	Cash outflows - Total weighted value	**298.3**	**244.5**	
UK 16b	Cash inflows - Total weighted value	**187.3**	**180.5**	
16	Total net cash outflows (adjusted value)	**112.6**	**71.4**	
17	Liquidity coverage ratio (%)	**270.1%**	**363.0%**	
	Net Stable Funding Ratio[8]			
18	Total available stable funding	**2,820.5**		
19	Total required stable funding	**1,846.3**		
20	NSFR ratio (%)	**152.8%**		

1 Ratios and figures requiring disclosure for the first time under new PS22/21 guidance from 1 January 2022 do not include comparatives.
2 Ratios and figures quoted are based on rules applicable prior to 1 January 2022 (CRR regulation no 575/2013).
3 The capital and risk weighted exposure values presented are net of IFRS 9 transitional relief as set out in Article 473a of the UK CRR. Transitional relief permits phasing of the IFRS 9 accounting implementation over a 5-year period. IFRS 9 transitionary relief applicable on 31 December 2022, 25% (2021: 50%) for all exposures up to June 2020, following which COVID-19 transitional relief of 75% (2021:100%) is applicable.
4 Group has changed its interpretation of rows UK 7a-c, it now reflects the allocation of additional capital requirements to each tier of capital; prior period restated to align.
5 The UK Countercyclical Capital Buffer rate increased from 0% to 1% on 13 December 2022. On 5 July 2022, the Financial Policy Committee ('FPC') announced a further increase to 2% effective from 5 July 2023.
6 Row 12 comparatives have been restated to represent, as a percentage, the level of CET1 capital surplus after subtracting the minimum amount of CET1 capital required to meet the total SREP own funds requirements. The minimum CET1 requirement is equivalent to 56.25% of Pillar 1 and 2A.
7 Liquidity balances are calculated as the simple averages of month-end results from 31 January 2022 to 31 December 2022.
8 Measures calculated based on a simple average of the March, June, September and December 2022 quarter end positions.

The Group has complied with and remained in excess of all capital, leverage and liquidity and funding regulatory requirements applicable under the UK CRR and UK Leverage Framework throughout 2022.

At year end the Group maintained a strong capital position and comfortably exceeded the 9.0% SREP own funds requirement and 12.5% overall capital requirement under the UK CRR regulatory framework.

The CET 1 ratio reduced to 14.0% (2021: 14.5%) due to a £247.6 million increase in total risk weighted exposure amounts ('RWEAs'). More specifically credit risk RWEAs associated with lending growth within the Consumer Finance business. The increase in RWEAs has been partially offset by a £23.8 million increase in CET 1 capital.

The CET 1 balance increased compared to December 2021 primarily due to: -

- Recognition of 2022 profit after tax totalling £33.7 million less a paid interim dividend of £3.0 million and final foreseeable/proposed dividend of £5.4 million; and
- a £2.2 million decrease in CET 1 regulatory adjustments specifically relating to IFRS 9 transitional relief. The reduction reflects the nearing end of the capital benefit associated with the original CRR article 473a five-year transitional arrangements in December 2022.

The total capital ratio reduced to 16.2% (2021: 16.8%).

As at 31 December the Group held two £25.0 million tranches of 6.75% Fixed Rate Callable Subordinated Notes ('2018 Notes'). The 2018 Notes qualify as Tier 2 capital. In February 2023 the Group issued £90.0 million of 10.5 year 13.0% Fixed Rate Callable Subordinated Notes, which also qualify as Tier 2 regulatory capital (subject to a cap of 25% of Pillar 1 and 2A requirements). Both tranches of our existing 2018 Notes were repurchased in February and March 2023.

The Combined Buffer requirement shown in UK KM1 reflects an increase in UK Countercyclical Capital Buffer ('CCyB') rate from 0% to 1% for UK exposures applicable from 13 December 2022 and the release of the temporary PRA Buffer. The Group meets all of its total capital and combined buffer requirements with the highest quality CET 1 capital.

Whilst the Group remains outside the scope of the full UK Leverage Ratio Framework (effective January 2021), it adheres to the supervisory expectations in a similar manner to those falling within scope. As at 31 December, the leverage ratio was 10.7%, which exceeded the UK Leverage Framework's 3.25% minimum requirement.

The Group's average Liquidity Coverage Ratio ('LCR') over the 12 months to 31 December 2022 reduced to 270.1% (June 2022: 363.0%) despite an increase in HQLA, the driver being increases in requirements for retail deposit outflows.

3. Overview of risk weighted exposure amounts

The Pillar 1 capital own funds requirement calculations, set a capital resource requirement of 8% of RWEAs. More specifically, the sum of the RWEAs for credit, counterparty, operational and Credit Valuation Adjustment ('CVA') risks. The Group adopts the standardised approach for calculating its Pillar 1 own funds requirements for credit risk, operational risk and counterparty credit risk ('CCR') including CVA.

Under the UK CRR CCR is calculated using the Original Exposure Method ('OEM').

The table below 'UK OV1 Overview of risk weighted exposure amounts', details RWEAs and minimum capital own funds requirements by risk type and approach.

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements	
		31 Dec 2022 £million	31 Dec 2021 £million	31 Dec 2022 £million	31 Dec 2021 £million
1	**Credit risk (excluding CCR)**	**2,062.4**	1,823.7	**165.0**	145.9
2	Of which the standardised approach	**2,062.4**	1,823.7	**165.0**	145.9
6	**Counterparty credit risk – CCR**	**8.1**	5.2	**0.6**	0.4
UK 8b	Of which credit valuation adjustment – CVA	3.5	2.3	0.3	0.2
9	Of which other CCR	4.6	2.9	0.3	0.2
UK 22a	**Large exposures**	**-**	-	**-**	-
23	**Operational risk**	**264.5**	258.5	**21.2**	20.7
UK 23b	Of which standardised approach	264.5	258.5	21.2	20.7
24	**Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)**	**4.0**	3.8	**9.9**	9.4
29	**Total**	**2,335.0**	2,087.4	**186.8**	167.0

Total RWEAs increased by £247.6 million and the overall capital requirement by £19.8 million – see page 5 for further details.

The CCR exposure arises due to the use of derivative hedging contracts to manage interest rate risk. Growth in the derivative portfolio has increased the CCR and CVA capital requirements. The CVA charge arises due to the risk of adverse moves in the credit valuation adjustments associated with expected credit losses on derivative transactions.

The amount of capital the Group is required to hold in relation to Operational risk is determined by the Standardised Approach ('TSA'), where risk weighted assets are based on the average of the Group's income over the past three years. The capital required under this approach was £21.2 million on 31 December 2022 (2021: £20.7 million), the increase being attributable to the growth of the business.

4. Risk management objectives and policies

4.1 Disclosure of concise risk statement approved by the management body succinctly describing the relevant institution's overall risk profile associated with the business strategy

In accordance with Article 435(1)(f) of the UK CRR, the Group's risk management arrangements in line with the Group's strategy and risk profile are as follows:

4.1.1 Risk management

The effective management of risk is a key part of the Group's strategy and is underpinned by our Risk Aware value. This helps to protect the Group's customers and generate sustainable returns for shareholders. The Group is focused on ensuring that it maintains sufficient levels of capital, liquidity and operational control, and acts in a reputable way.

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 teams. The Risk function is responsible for designing and embedding appropriate risk management frameworks, processes and controls, and making sure that they are sufficiently robust, so that key risks are identified, assessed, monitored and accepted or mitigated in line with the Group's risk appetite. The Chief Risk Officer is responsible for reporting to the Board on the Group's principal risks and how these are being managed against agreed risk appetite.

4.1.2 Risk appetite

The Group has identified the risk drivers and major risk categories relevant to the business, which has enabled it to produce a comprehensive suite of risk appetite statements and metrics which underpin the strategy of the Group. The Board approves the Group's risk appetite statements, which define the level and type of risk that the Group is prepared to accept in the achievement of its strategic objectives.

4.1.3 Risk governance

The Group's approach to managing risk is defined within its Enterprise-Wide Risk Management Framework. This provides a clear risk taxonomy for the Group and provides an overarching framework for risk management supported by individual risk discipline frameworks and policies, which set the standards on risk identification and assessment, mitigation, monitoring and reporting.

The Group's risk management frameworks, policies and procedures are regularly reviewed and updated to reflect the risks that the Group faces in its business activities and are appropriate for the nature, scale and complexity of the Group's operations. The Group's risk management frameworks support decision-making across the Group and are designed to ensure that risks are appropriately managed and reported via risk-specific committees.

Established risk committees are in place at Board, Group and individual business unit level to enable clear oversight of risk management, including robust risk identification and mitigation across the Group.

An Executive Risk Committee, chaired by the Chief Risk Officer, reviews key risk management information from across the risk disciplines, with material issues escalated to the Executive Committee and/or the Risk Committee of the Board, as required.

The Group operates a 'Three Lines of Defence' model for the management of its risks. 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: all employees within the business units and associated support functions including Operations, Finance, Treasury, Human Resources and Legal. The first line has ownership of and primary responsibility for their risks;
- Second line: specialist risk management and compliance teams reporting directly into the Chief Risk Officer covering Credit risk, Operational risk, Prudential risk, Compliance and Financial crime. The second line are responsible for developing frameworks to assist the first line in the management of

their risks and providing oversight and challenge designed to ensure these are managed within appetite; and

- Third line: is the Internal Audit function which provides independent assurance on the effectiveness of risk management across the Group.

4.1.4 Risk culture

A strong risk aware culture is integral to the successful delivery of the Group's Strategy and the effective management of risk.

The Group's risk culture is shaped by a range of factors including risk appetite, risk frameworks and policies, values and behaviours, and a clear tone from the top of the organisation.

The Group has an ongoing focus on developing its risk management practises and enhancing its risk culture. In 2022, the Group has revised its risk frameworks and policies, delivered training at all levels of the Group, and has increased accountability and ownership of Risk within the first line of defence.

4.1.5 Key risk management ratios

The key metrics which are monitored to provide a view of the institutions risk profile include;

- CET 1 ratio;
- Total capital ratio;
- Leverage ratio;
- Liquidity Coverage ratio; and
- Net Stable Funding ratio.

See section 2 'Key metrics' for the year end ratios.

Material intragroup transactions

As at the year-end there were no intragroup or related party transactions which would have a material impact on the risk profile of the consolidated group.

4.2 Declaration on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy

In accordance with Article 435(1)(e) of the UK CRR, the Board declares that the Group's risk management arrangements and systems are adequate with regard to the Group's risk profile and strategy.

4.3 Strategies and processes to manage risks for each category of risk

In accordance with Article 435(1)(a) of the UK CRR, the Group maintains the following strategies and processes to manage its principal risks:

4.3.1 Credit risk

Description

The risk of loss to the Group from the failure of clients, customers, or counterparties to honour fully their obligations to the firm, including the whole and timely payment of principal, interest, collateral, or other receivables.

Mitigation

- The Group has a defined Credit risk framework, which sets out how Credit risk is managed and mitigated across the Group.
- Risk appetite is cautious with the Group focusing on sectors and products where it has deep experience.

- Specialist Credit teams are in place within each business area to enable new lending that is originated in line with Group risk appetite.
- For Business Finance, lending is secured against assets, with Real Estate Finance lending, the majority of which is at fixed rates, secured by property at conservative loan-to-value ratios and short dated Commercial Finance lending secured across a range of assets, including debtors, stock and plant and machinery.
- For Consumer Finance, security is taken for Vehicle Finance lending and Retail Finance is unsecured, however positioned towards lower risk sectors. The majority of Retail finance lending is interest free for consumers, with remaining consumer lending at fixed rates, which mitigates the direct impact of rising interest rates on affordability. Consumer Credit risk is assessed through a combination of risk scorecards, credit and affordability policy rules.
- Portfolio performance is tracked closely and reported via specialist management review meetings, into the Executive and Board Risk Committees, with ability to make changes to policy, affordability assessments or scorecards on an active basis.
- Although the Group does not routinely offer forbearance, it may offer temporary arrangements where appropriate.
- Management monitors and assesses concentration risk for all lending against control limits. The diversification of lending activities and secured nature of larger exposures mitigates the exposure of the Group to concentration risk.
- The Group routinely monitors the credit ratings of the counterparties in relation to the Group's loans and advances to banks.

Counterparty credit risk

Default risk associated with a counterparty issuing a derivative instrument is managed through use of a limited number of derivative counterparties, Natwest Markets Plc and Lloyds Corporate Markets Plc, both rated A1 under the Moody's long-term rating methodology. In addition, processes are in place to collateralise mark to market exposures daily in line with the European Market Infrastructure Regulation ('EMIR'). The Group does not use derivatives for trading or speculative purposes.

4.3.2 Liquidity and funding risk

Description

Liquidity risk is the risk that the Group is unable to meet its liquidity obligations as they fall due or can only do so at excessive cost. Funding risk is the risk that the Group is unable to raise or maintain funds to support asset growth, or the risk arising from an unstable funding profile which could result in higher funding costs.

Mitigation

Liquidity and funding risk is managed in line with the Group's Prudential Risk Management Framework and the Liquidity and Funding Risk policy. The framework defines:

- The governance arrangements for managing and reporting these risks;
- Risk appetite statements and associated thresholds and metrics; and
- The escalation process in the event of a breach of risk appetite.

The Group has a defined set of liquidity and funding risk appetite measures which are monitored daily and monthly.

The Group manages its liquidity and funding in line with internal and regulatory requirements, and at least annually assesses its exposure to liquidity risks and adequacy of its liquidity resources as part of the Group's Internal Liquidity Adequacy Assessment Process ('ILAAP').

In line with the Prudential Regulation Authority's PRA self-sufficiency rule, the Group always seeks to maintain liquid resources which are adequate, both as to amount and quality, and managed to ensure that there is no significant risk that its liabilities cannot be met as they fall due under stressed conditions. The Group defines liquidity adequacy as the:

- ongoing ability to accommodate the refinancing of liabilities upon maturity and other means of deposit withdrawal at acceptable cost;
- ability to fund asset growth; and
- otherwise, capacity to meet contractual obligations through unconstrained access to funding at reasonable market rates.

The Group conducts regular and comprehensive liquidity stress testing to identify sources of potential liquidity strain and to check that the Group's liquidity position remains within the Board's risk appetite and prudential regulatory requirements and limits.

Contingency funding plans

The Group maintains a Recovery Plan which sets out how the Group would maintain sufficient liquidity to remain viable during a severe liquidity stress event. The Group also retains access to the Bank of England liquidity schemes, including the Discount Window Facility.

4.3.3 Capital risk

Description

Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support levels of growth.

The Group adopts a conservative approach to managing its capital. It annually assesses the adequacy of the amount and quality of capital held under stress as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP').

Mitigation

Capital Management is defined as the operational and governance processes by which capital requirements are identified and capital resources maintained and allocated, such that regulatory requirements are met while maximising returns and supporting sustainable growth.

The Group manages its capital requirements on a forward-looking basis against minimum regulatory requirements and the Board's risk appetite to ensure capital resources are sufficient to support planned levels of growth.

The Group will take opportunities to increase overall levels of capital and to optimise its capital stack as and when appropriate.

In addition to the ICAAP, the Group performs regular budgeting and reforecasting exercises which consider a five-year time horizon. These forecasts are used to plan for future lending growth at a rate that both increases year-on-year profits and maintains a healthy capital surplus, taking into consideration the impact of known and anticipated future regulatory changes including the estimated impact of the re-introduction of the countercyclical capital buffer requirement. The PRA proposed increase to this buffer is explained on page 4 has been reflected in capital planning.

The Group also models various stressed scenarios looking over a five-year time horizon, which consider a range of growth rates over those years as part of the viability and going concern assessments.

4.3.4 Market risk

Description

Market risk is the risk to the Group's earnings and/or value from unfavourable market movements such as interest rates and foreign exchange rates. The Group's market risk primarily arises from interest rate risk. Interest rate risk refers to the exposure of the Group's financial position, balance sheet and earnings to movements in interest rates.

The Group's balance sheet is predominantly denominated in GBP, although a small number of transactions are completed in US Dollars, Euros and other currencies in support of Commercial Finance customers. The Group has no significant exposures to foreign currencies and hedges any residual currency risks to Sterling.

Mitigation

The Group's principal exposure comes from the term structure of interest rate sensitive items and the sensitivity of the Group's current and future earnings and economic value to movements in market interest rates. The Group does not take significant unmatched positions through the application of hedging strategies and does not operate a trading book. The main contributors to interest rate risk are:

- the mismatch, or duration, between repricing dates of assets and liabilities; and
- customer optionality, for example, early repayment of loans in advance of contractual maturity dates.

The Group uses an interest rate sensitivity gap analysis which informs the Group of any significant mismatched interest rate risk positions that require hedging. This takes into consideration the behavioural assumptions for optionality as approved by ALCO. Risk positions are managed through the structural matching of assets and liabilities with similar tenors and the use of derivative instruments to hedge the residual unmatched position and minimise the Group's exposure to interest rate risk.

The Group has a defined set of market risk appetite measures which are monitored monthly. Interest rate risk in the banking book is measured from an internal management and regulatory perspective taking into consideration both an economic value and earnings-based approach.

The Group monitors its exposure to basis risk and any residual non-GBP positions. Processes are in place to review and react to movements to the Bank of England Base Rate.

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

4.3.5 Operational risk

Description

Operational risk is the risk that the Group may be exposed to direct or indirect loss arising from inadequate or failed internal processes, personnel and succession, technology/ infrastructure, or from external factors.

The scope of operational risk is broad and includes business process, business continuity, third party risk, Change, Human Resources, Information Security and IT risk, including Cyber risk.

Mitigation

The Group has an Operational Risk Framework designed in accordance with the 'Principles for the Sound Management of Operational Risk' issued by the Basel Committee on Banking Supervision. This framework defines and facilitate these activities:

- a risk and control self-assessment process to identify, assess and mitigate risks across all business units through improvements to the control environment;
- the governance arrangements for managing and reporting these risks;
- risk appetite statements and associated thresholds and metrics; and
- an incident management process that defines how incidents should be managed and associated remediation, reporting and root-cause analysis.

The framework is designed to ensure appropriate governance is in place to provide adequate and effective oversight of the Group's operational risks. The governance framework includes the Group Operational Risk, Executive Risk and Board Risk Committees.

The Group has a defined set of qualitative and quantitative operational risk appetite measures. These measures cover all categories of operational risk and are reported and monitored monthly.

In addition to the delivery of framework requirements, the Group has focused on these thematic areas of Operational Risk in 2022:

- Supplier management –The Group recognises that it is important to manage suppliers effectively and has embedded a suite of standard controls for all its material suppliers to reduce the risk of operational impacts. The Group has implemented the regulatory requirements for Third-Party Risk Management.
- Operational and IT resilience – The Operational Risk Framework supports the ongoing resilience of the Group's operational and IT services, including business continuity management, disaster recovery, incident management, process management, and the cyber strategy. The Group has implemented the regulatory requirements for operational resilience.
- Information security and cyber risk – The Group has paid considerable attention to ensuring the effective management of risks arising from a failure or breach of its information technology systems that could result in customer exposure, business disruption, financial losses, or reputational damage.
- Hybrid working – The Group now permanently operates in a hybrid environment. To ensure alignment with the Financial Conduct authority's ('FCA') hybrid/ remote working expectations (published in October 2021), detailed risk and control assessments were performed to check control functions remained effective.

4.3.6 Model risk

Description

Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.

The Group has multiple models which are used, amongst other things, to support pricing, strategic planning, budgeting, forecasting, regulatory reporting, credit risk management and provisioning.

Model risk has been elevated to a principal risk following a review of the Group's Enterprise-Wide Risk Management Framework.

Mitigation

The Group has a Model Risk Management policy which governs its approach to model risk and sets out:

- Model risk appetite
- Model and model risk definitions
- Roles and responsibilities for model risk management

As required within its policy, the Group maintains a model inventory and a risk register incorporating specific model related risks.

4.3.7 Compliance and Conduct risk

Description

The risk that the Group's products and services, and the way they are delivered, result in poor outcomes for customers or markets in which we operate, or cause harm to the Group. This could be as a direct result of poor or inappropriate execution of our business activities or behaviour from our employees. This now incorporates regulatory risk which was presented as a separate principal risk in the 2021 Annual Report and Accounts.

Mitigation

The Group manages this risk through its Compliance and Conduct Risk Management Framework. The Group takes a principles- based approach which includes retail and commercial customers in our definition of 'customer', with coverage across all business units and both regulated and unregulated activities.

Risk management activities include horizon scanning of regulatory changes, oversight of regulatory incidents, and reporting against risk appetite metrics.

The Group's horizon scanning activities track industry and regulatory developments including the PRA's work on a strong and simple prudential framework for non-systemic banks and building societies, the implementation of the Basel 3.1 standard, the Government's national data strategy and the PRA and FCA's transformation agendas related to data.

Key initiatives continuing into 2023 are the Consumer Duty (for which a Group project is in place to deliver the agreed implementation plan); changes to the Appointed Representatives regime; and confirmation of payee requirements.

4.3.8 Financial crime risk

Description

The risk that the Group fails to prevent the facilitation of financial crime by not having effective systems and controls in line with regulatory requirements.

Mitigation

We operate in a constantly evolving financial crime environment, with the economic climate impacting the level and type of threat faced by the financial services industry by those attempting to take advantage of the period of uncertainty.

The Group has no appetite for failing to maintain effective, systems, resources and controls and robust oversight to mitigate the risk of the Group's products and services being used to facilitate financial crime.

The Group has a Financial Crime Framework designed to meet regulatory and legislative obligations which includes:

- Mandatory annual colleague training and awareness initiatives and regular reviews of our policies and standards.
- Horizon scanning and regular management information production and analysis conducted to identify emerging threats, trends and typologies as well as preparing for new legislation and regulation.
- Financial crime focused governance forums and risk committees providing senior management oversight, challenge and risk escalation.
- Participating in key industry forums (or associations) such as those hosted by UK Finance.

4.3.9 Climate change risk

Description

Climate change, and society's response to it, present risks to the UK financial services sector. While some of these risks will only fully crystallise over an extended period, there are some shorter-term risks reflective of the strategic responses from other organisations, governments and regulators.

Mitigation

The Group has now established processes to monitor our risk exposure to both the potential 'Physical' effects of climate change and the 'Transitional' risks from the UK's adjustment towards a carbon neutral economy. A Climate Change Working Group, reporting to the Executive Risk Committee, is in place and meets regularly with senior representation from across the Group.

Stress testing work has been completed for our Vehicle Finance and Real Estate Finance businesses to test the resilience of our portfolios and strategies to manage the risks and opportunities of climate change.

Further information on the Group's approved environmental, social and governance strategy due for implementation in 2023 can be found in the on pages 37 to 39 within the Group's Annual Report and Accounts.

4.4 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 and liquidity 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.

4.4.1 ICAAP

The ICAAP is the Group's evaluation of its capital position and requirements, assessed under the UK CRR and CRD framework. The ICAAP provides details of the current approaches used to manage risk across the Group. As part of that annual assessment, the ICAAP assesses capital requirements both against the Group's current position and during a range of severe but plausible stressed scenarios, both developed internally and specified by the regulator, over the planning horizon.

4.4.2 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.

4.4.3 Reverse stress testing

Reverse stress testing is undertaken within the ICAAP and ILAAP processes to understand and assess vulnerabilities underpinning the Group's business model which could ultimately lead to its failure. Scenarios which take the Group to the point the market loses confidence in the bank, and business activities can no longer be carried out are identified and evaluated. 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 business model or underlying controls.

4.4.4 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.

5. Remuneration policy

The information in this section is provided in accordance with the disclosure requirements set out in the PRA Rulebook Disclosure Part article 433(b) and Supervisory Statement SS2/17 Remuneration. SS2/17 Remuneration applies to all firms regulated by the PRA and sets out how firms should comply with the requirements of the PRA Rulebook Remuneration Part. Under SS2/17 Remuneration the Group is classed as a proportionality level 3 firm; this means the Group is not required to satisfy in full all elements of the PRA Rulebook Remuneration Part. The disclosures below specifically reflect the requirements set out in the Remuneration Part article 450(1) points (a), (b), (g) and (h) only. The format of the disclosure is consistent with the PRA template UK REMA – Remuneration Policy.

The PRA Rulebook has defined certain requirements relating to remuneration of its 'Identified Staff', firms must establish, implement, and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Identified staff being those whose professional activities have a material impact on the firm's risk profile.

During the year, the Group employed a total of 35 individuals who were classed as Identified Staff. Of these, 8 individuals have been categorised for disclosure purposes as the Group's Management Body (being the Executive and Non-Executive Directors), all others are deemed Senior Management.

5.1 Information relating to the bodies that oversee remuneration

5.1.1 Name, composition, and mandate of the main body and number of meetings held in the year

The Remuneration Committee is composed of three members who are each independent Non-Executive Directors. Victoria Stewart was appointed as the Chairman of the Committee on 21 July 2017. The Remuneration Committee meets at least twice and ordinarily four times a year and when required to address non-routine matters. The Committee had five scheduled and one ad-hoc meeting during the course of 2022.

The Remuneration Committee assists the Board in fulfilling its responsibilities in relation to remuneration including, amongst other matters, determining the policy for the individual remuneration and benefits packages of the Executive Directors and the senior management below Board level (Identified Staff). The Committee also reviews workforce remuneration, related policies and how executive and wider workforce pay are aligned to the culture of the Group.

The terms of reference for the Remuneration Committee can be found at: www.securetrustbank.com/investors

5.1.2 External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework

During the year, the Committee received external advice from FIT Remuneration Consultants LLP ('FIT'). The appointment of FIT to advise the Committee was made in September 2020 following a competitive tender process.

FIT has no other significant connection with the Group or its Directors other than the provision of advice on executive and employee remuneration, and related matters. FIT is a member of the Remuneration Consultants' Group and abides by its code of conduct that requires remuneration advice to be given objectively and independently. The total fee paid for the provision of advice to the Committee during the year was £104,221 (excluding VAT). FIT also provided support to the HR and Legal teams on remuneration implementation.

5.2 Information relating to the design and structure of the remuneration system for identified staff

5.2.1 An overview of the key features and objectives of remuneration policy

The Directors' Remuneration policy ('DRP'), which impacts only Executive Directors, the All-Employee Remuneration Policy ('AERP') and the Variable Remuneration Policy encompass the Identified Staff population and are overseen by the Remuneration Committee.

The AERP and Variable Remuneration Policy outline how the remuneration components by Group:

- reward employees fairly and competitively considering the level of individual performance displayed (in relation to their overall remuneration package);
- consider all remuneration components in a gender-neutral capacity;
- promote the long-term success of the Group, sound and responsible risk management, good corporate governance and supports the Group in attracting, engaging, and retaining high calibre people; and
- ensure compliance with FCA and PRA remuneration related requirements.

Further to the above, the key principles behind the DRP are:

- to be simple and transparent;
- promote the long-term success of the Group, with transparent and demanding performance conditions;
- to provide alignment between reward and the Group's values, risk appetite and shareholder returns; and
- to have a competitive mix of base salary and short and long-term incentives, with an appropriate proportion of the package linked to the delivery of sustainable long-term growth.

In determining appropriate rewards for Identified Staff, the Remuneration Committee has had regard to the year's achievements, the balanced business scorecard agreed by the Committee and the parameters of the AERP and the Variable Remuneration Policy. The Remuneration Committee also has regard to the risk culture of the Group, regulatory matters, as well culture and employee engagement.

5.2.2 Decision-making process used for determining the remuneration policy and the role of the relevant stakeholders

The Board has delegated responsibility to the Remuneration Committee to determine policies for remuneration of Identified Staff, including pension rights and any compensation payments.
The Committee determines remuneration policies that:

- support the Group's long-term strategy,
- promotes long-term sustainable success,
- rewards Identified Staff in a manner aligned to company purpose and values,
- aligns the interests of participants within discretionary share plans to those of the shareholders; and
- is clearly linked to the successful delivery of the Group's long-term strategy.

5.3 Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration.

5.3.1 An overview of main performance criteria and metrics for institution, business lines and individuals

The balanced business scorecard for Identified Staff (excluding Non-Executive Directors) is comprised of a collective set of Group objectives, functional objectives and personal objectives, all of which are subject to internal independent review and measurement. The objectives cover both financial and non-financial measures linked to the Group's medium-term financial plan and strategic aims. Individuals may also have performance goals linked to the performance of the business line in which they are based. For Independent Internal Control function employees, variable pay awards are primarily linked to the performance of a specific function rather than the business line they oversee.

All cash performance awards linked to these objectives are subject to three gateway criteria: risk, affordability and a satisfactory level of individual performance assessed against the delivery of individual goals, conduct and behaviours. If certain thresholds in respect of these gateways are not met, then scale back may be applied (including reducing awards to zero).

Non-Executive Directors receive a fee and do not receive performance-related elements of remuneration.

5.3.2 An overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance

Variable pay arrangements for Identified Staff are based on on-target and maximum award opportunities which are set at the start of the performance year and reflect the role of the individual within the Group. Individual award outcomes are determined by reference to an assessment of the performance measures for the Group, as well as the achievement of functional and individual performance measures.

5.3.3 Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments.

In line with requirements of the UK Remuneration Code, Identified Staff receiving a variable remuneration award in respect of 2022 performance have:

- 40% of variable remuneration is awarded in deferred shares over a three-year period, where the total variable award exceeds a regulatory de minimis amount and threshold.
- In the case of Executive Directors at least 50% of variable remuneration is awarded in deferred shares over a three-year period.
- In addition, Executive Directors are subject to additional holding periods for awards which vest, as set out in the Directors' Remuneration Policy as approved by Shareholders.

5.3.4 Information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution’s criteria for determining “weak” performance metrics

Group performance is assessed against a scorecard of measures, which include financial, customer and control measures with maximum, on-target and threshold levels of performance agreed by Remuneration Committee at the start of the performance period.

Awards are determined following the end of the performance period once the extent to which performance targets have been satisfied is known. No award will be made where performance has not met the threshold.

As detailed in section 5.3.1, there are three gateway criteria that must be passed before any payment is made under the Group wide variable pay arrangement for the performance year. The Remuneration Committee receives input from Board Risk and Audit Committees and the Chief Risk Officer to satisfy itself there are no significant current or future conduct, reputational, financial, operational risk or other reasons to suggest gateways are not met.

When considering the formulaic outcomes of the measures and financial gateways, the Remuneration Committee will determine whether these are a true reflection of performance or whether any further adjustments should be applied. Malus and Clawback provisions, set out in the Variable Remuneration Policy may apply for up to two years following payment of any annual bonus.

If certain thresholds are not met in respect of these gateways either individually, by function or by business line then awards may be scaled back, including to zero.

5.4 Table UK REM1 – Remuneration awarded for the financial year

The table below provides aggregate quantitative information on renumeration for all identified staff.

At 31 December 2022:

			Management Body Supervisory function Headcount	Management Body Management function Headcount	Other senior management FTE	Other identified staff FTE
1	Fixed remuneration	Number of identified staff	6	2	27	-
2		Total fixed renumeration	£0.7m	£1.2m	£5.3m	-
9	Variable remuneration	Number of identified staff	6	2	27	-
10		Total fixed renumeration	-	£0.6m	£2.7m	-
17	Total remuneration		£0.7m	£1.8m	£8.0m	**-**

5.5 Table UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

The table below provides aggregate quantitative information for all identified staff split by business area.

At 31 December 2022:

		Management body remuneration			Business areas				
		Management Body Supervisory function FTE	Management Body Management function FTE	Total Management Body FTE	Retail banking FTE	Corporate Functions FTE	Independent internal control functions FTE	All Other FTE	Total FTE
1	**Total number of identified staff**								**35**
2	Of which: members of the MB	6	2	8					
3	Of which: other senior management				2	12	9	5	
4	Of which: other identified staff				-	-	-	-	
		£million	£million	£million	£million	£million	£million	£million	£million
5	**Total remuneration of identified staff**	0.7	1.8	2.5	1.2	3.2	1.7	2.0	8.1
6	Of which: variable remuneration	-	0.6	0.6	0.5	1.1	0.4	0.8	2.8
7	Of which: fixed remuneration	0.7	1.2	1.9	0.7	2.1	1.3	1.2	5.3

Areas shaded grey do not require disclosure in line with REM5 template guidance.