Secure Trust Bank PLC

Pillar 3 Interim disclosures for 30 June 2023

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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 30 June 2023. Pillar 3 disclosures promote market discipline and consistency through a set of prescribed requirements set out within the UK Capital Requirements Regulation ('CRR') which specifically require the Group to publicly disclose details of key capital positions semi-annually.

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 split across the PRA Rulebook and primary legislation.

1.3 Basis of disclosures

The disclosures have been prepared for the Group in accordance with the Disclosure (CRR) Part of the PRA Rulebook and the Group's approved policy, which facilitates 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.

The Group adopts the standardised approach to calculate the capital requirements for credit risk, operational risk and counterparty credit risk.

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. 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 Executive Risk Committee.

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

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. 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.

2 Key metrics

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

		30 Jun 2023 £million	31 Dec 2022 £million[1]	30 Jun 2022 £million[1]
	Available own funds (amounts)[2]			
1	Common Equity Tier 1 (CET 1) capital	**326.8**	326.9	313.5
2	Tier 1 capital	**326.8**	326.9	313.5
3	Total capital	**383.5**	376.8	363.3
	Risk weighted exposure amounts[2]			
4	Total risk-weighted exposure amount	**2,518.5**	2,334.6	2,237.1
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	**13.0%**	14.0%	14.0%
6	Tier 1 ratio (%)	**13.0%**	14.0%	14.0%
7	Total capital ratio (%)	**15.2%**	16.1%	16.2%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
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 (%)	**1.0%**	1.0%	0.0%
11	Combined buffer requirement (%)	**3.5%**	3.5%	2.5%
UK 11a	Overall capital requirements (%)	**12.5%**	12.5%	12.0%
12	CET1 available after meeting the total SREP own funds requirements (%)[3]	**7.92%**	8.94%	8.95%
	Leverage ratio			
13	Total exposure measure excluding claims on central banks	**3,248.6**	3,049.4	2,949.5
14	Leverage ratio excluding claims on central banks (%)	**10.1%**	10.7%	10.6%
	Liquidity Coverage Ratio[4]			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**328.9**	283.6	248.0
UK 16a	Cash outflows - Total weighted value	**330.3**	298.3	244.5
UK 16b	Cash inflows - Total weighted value	**177.1**	187.3	180.5
16	Total net cash outflows (adjusted value)	**153.2**	112.6	71.4
17	Liquidity coverage ratio (%)	**217.0%**	270.1%	363.0%
	Net Stable Funding Ratio[5]			
18	Total available stable funding	**3,053.9**	2,820.5	
19	Total required stable funding	**2,023.2**	1,846.3	
20	NSFR ratio (%)	**150.9%**	152.8%	

1. Prior period figures and ratios restated to reflect a change in accounting policy adopted in respect of Group land and building, which are now presented at historical cost. See Note 1.3.1 of the 2023 Interim Report for further details.
2. 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 and updated in June 2020 to reflect extended transitional arrangements to 2024 in line with COVID-19: CRR quick fix guidance. IFRS 9 transitionary relief applicable on 30 June 2023 50% (2022: 75%) for any increases in expected credit loss provisions on non-defaulted assets recognised since 2020.
3. Represents, 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.
4. Liquidity balances quoted are calculated as the simple averages of month-end positions from July 2022 to 30 June 2023.
5. Measures calculated based on a simple average of the September 2022, December 2022, March 2023, June 2023 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 the first half of 2023.

At 30 June 2023 the Group comfortably exceeded the 9.0% SREP own funds requirement and 12.5% overall capital requirement under the UK CRR regulatory framework.

The CET 1 balance decreased by £0.1 million compared to December 2022 primarily due to the 2023 half year profit after tax totalling £11.1 million less a foreseeable dividend of £3.0 million, being offset by a £9.3 million decrease in IFRS 9 transitional relief.

The CET 1 ratio reduced to 13.0% (31 December 2022: 14.0%) due to the reduction in the IFRS 9 transitional relief, representing 0.4% and a £183.9 million increase in total risk weighted exposure amounts ('RWEAs'), associated with lending growth within the Retail Finance and Real Estate Finance businesses.

The total capital ratio reduced to 15.2% (31 December 2022: 16.1%), due to the increase in RWEAs and IFRS 9 reduction described above, partially offset by an additional £6.8 million of allowable Tier 2 due to an increase in the Group's Tier 2 holdings following a new issuance of eligible debt.

The Group meets all total capital and combined buffer requirements with the highest quality CET 1 capital.

Excluding the impact of the IFRS 9 transitional rules, the Group's CET 1 capital ratio and total capital ratio would reduce to 12.9% and 15.1% respectively.

As at 30 June, the leverage ratio excluding claims on central banks was 10.1%, which exceeded the UK Leverage Framework's 3.25% minimum requirement. The leverage ratio decreased by 0.6% relative to year end, the driver being an increase in leverage exposure, primarily from increased lending balances.

The Group's average Liquidity Coverage Ratio ('LCR') over the 12 months to 30 June 2023 reduced to 217.0% (31 December 2022: 270.1%). Although the average HQLA balance is higher for the 12-month period to June 2023, this has been offset by higher overall net cash outflows.