Secure Trust Bank PLC

Pillar 3 Interim Disclosures for 30 June 2024

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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 2024. Pillar 3 disclosures promote market discipline and consistency through a set of prescribed requirements set out within the UK Capital Requirements Regulation ('UK CRR') which specifically require the Group to publicly disclose details of key capital positions semi-annually.

The Group's capital is calculated for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision ('Basel'), as implemented in the UK. The Basel framework primary goal is promoting the safety and soundness of the financial system and is structured around three pillars, Pillar 1 sets out the minimum capital requirement that firms are required to meet for credit, market and operational risk, Pillar 2 concerns the supervisory review process and Pillar 3 on market discipline.

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. The UK CRR is currently split across the PRA Rulebook and primary legislation.

In November 2022, the PRA issued CP16/22 'The PRA consults on proposals for implementation of the Basel 3.1 standards' setting out its proposed changes to regulatory requirements, which are now expected to become effective from 1 July 2025. The proposals set out changes to the regulatory environment, including significant changes to the capital requirements for credit risk and operational risk. In PS17/23 issued in December 2023, the PRA issued a near final approach for several areas, including operational risk. Confirmation for the remaining areas, including credit risk, are now expected during Q3 2024.

During 2023, the PRA set out their initial proposals for a strong and simple prudential liquidity framework, as well as the Phase 1 proposed liquidity and Pillar 3 disclosure-related rules for the new regime. PS15/23 'The Strong and Simple Framework: Scope Criteria, Liquidity and Disclosure Requirements' confirmed the final eligibility criteria for the regime, set Phase 1 implementation date as 1 July 2024 and renamed the regime as the Small Domestic Deposit Takers ('SDDT') regime. It also confirmed the associated liquidity and Pillar 3 rules, which primarily reduces the scope of the annual disclosures. The Group has received confirmation of its successful application to join the SDDT regime with immediate effect.

The SDDT capital rules are the subject of a further consultation, which is expected later in 2024. The PRA has indicated that the Basel 3.1 rules will be the starting point for designing the SDDT regime capital requirements. The implementation date of the SDDT capital regime is still to be announced but is expected to be during the first half of 2026. In the short-term, the PRA proposes that SDDT firms can choose to enter a transitional regime based on current CRR provisions, (the 'Transitional Capital Regime') during the interim period between the proposed implementation date for the Basel 3.1 standards and the future implementation date for a permanent risk-based capital regime for SDDT firms.

Adoption of the SDDT Regime will likely result in changes in the way Group calculates risk weighted exposure amounts ('RWEAs') for the purposes of calculating its capital ratios. Applicable reporting and disclosures requirements would also be impacted with the PRA intention to reduce complexity for small firms, while still maintaining firm resilience and market discipline. The Group will continue to monitor and assess the future impact of the SDDT regime.

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 (CRR) 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 is expected to comply with the requirements as set out in Article 433b Disclosures by Small Domestic Deposit Takers, SDDT Consolidation Entities and Small and Non-Complex Institutions of the PRA Rulebook.

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.

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.

The comparative figures are as published in the prior period where applicable. 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 (a sub-committee of the Executive 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 (CRR) 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, 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/International Financial Reporting Standard (IFRS) 9-FL presents key metrics in relation to capital, leverage, and liquidity and funding as at 30 June 2024. Capital figures and ratios are reported with and without the application of Article 473a IFRS 9 transitional arrangements.

		30 Jun 2024 £million	31 Dec 2023 £million	30 Jun 2023 £million
	Available own funds (amounts)			
1	Common Equity Tier 1 (CET 1) capital	**348.2**	337.9	326.8
	CET 1 capital as if IFRS 9 transitional arrangements had not been applied	**348.2**	335.8	324.5
2	Tier 1 capital[1]	**348.2**	337.9	326.8
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**348.2**	335.8	324.5
3	Total capital[1]	**409.7**	397.6	383.5
	Total capital as if IFRS 9 transitional arrangements had not been applied	**409.7**	395.5	381.1
	Risk weighted exposure amounts[1]			
4	Total RWEAs[1]	**2,735.3**	2,653.4	2,518.5
	Total RWEAs as if IFRS 9 transitional arrangements had not been applied	**2,735.3**	2,651.7	2,516.5
	Capital ratios (as a percentage of risk-weighted exposure amount)[1]			
5	CET 1 ratio (%)[1]	**12.7%**	12.7%	13.0%
	CET 1 as if IFRS 9 transitional arrangements had not been applied	**12.7%**	12.7%	12.9%
6	Tier 1 ratio (%)[1]	**12.7%**	12.7%	13.0%
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**12.7%**	12.7%	12.9%
7	Total capital ratio (%)[1]	**15.0%**	15.0%	15.2%
	Total Capital as if IFRS 9 transitional arrangements had not been applied	**15.0%**	14.9%	15.1%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)[2]			
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 (%)	**2.0%**	2.0%	1.0%
11	Combined buffer requirement (%)	**4.5%**	4.5%	3.5%
UK 11a	Overall capital requirements (%)	**13.5%**	13.5%	12.5%
12	CET1 available after meeting the total SREP own funds requirements (%)[3]	**7.7%**	7.7%	7.9%
	Leverage ratio			
13	Total exposure measure excluding claims on central banks[2]	**3,528.7**	3,472.8	3,248.6
14	Leverage ratio excluding claims on central banks (%)[2]	**9.9%**	9.7%	10.1%
	Leverage ratio excluding claims on central banks (%) as if IFRS 9 transitional arrangements had not been applied	**9.9%**	9.7%	10.0%
	Liquidity Coverage Ratio[4]			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**389.2**	358.0	328.9
UK 16a	Cash outflows - Total weighted value	**379.9**	355.1	330.3
UK 16b	Cash inflows - Total weighted value	**198.8**	181.1	177.1
16	Total net cash outflows (adjusted value)	**181.1**	174.0	153.2
17	Liquidity coverage ratio (%)	**216.3%**	208.0%	217.0%

1 The capital and RWEAs values presented for 2024 do not receive the benefit 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 2024 is 25% (2023: 50%) for any increases in expected credit loss provisions on non-defaulted assets recognised since 2020. There has been a reduction between 2020 and H1 2024 in ECL's, resulting in no transitional relief for this period.

2 Rows UK 7a-c, reflect the allocation of additional capital requirements to each tier of capital.

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 are calculated as the simple averages of month-end results from 31 July 2023 to 30 June 2024.

The Group has complied with and remained above all capital, leverage and liquidity and funding regulatory requirements applicable under the UK CRR and UK Leverage Framework throughout the first half of 2024.

At 30 June 2024 the Group comfortably exceeded the 9.0% SREP own funds requirement and 13.5% overall capital requirement under the UK CRR regulatory framework.

The CET 1 and Tier 1 ratio remained at 12.7% (31 December 2023: 12.7%) reflecting half year profitability being offset by lending growth. Total risk weighted assets (RWEAs) increased by £81.9 million during the year, mainly driven by lending growth attributable to the Consumer Finance businesses. The impact of the increased RWEAs was partially offset by an £10.3 million increase in CET 1 capital, primarily associated with profit after tax of £12.8 million net of an interim dividend of £2.2 million and a £2.1 million reduction in IFRS9 transitional relief.

The Group continues to adopt IFRS 9 transitional rules, with the remaining provisions permitting relief for increases in provisions since 1 January 2020 to be added back to eligible capital, except where these provisions relate to defaulted accounts. At 30 June 2024 no add back was applied as the closing provisions were lower than the opening position, representing a reduction of £2.1 million compared to December 2023. Consequently, the CET1/Tier 1 capital ratios without application of IFRS9 transitional relief are identical to the transitional ratios at 12.7% and 15.0% respectively.

The total capital ratio remained at 15.0% (31 December 2023: 15.0%).

Whilst the Group remains outside the scope of the full UK Leverage Ratio Framework, it adheres to the supervisory expectations in a similar manner to those falling within scope. As at 30 June 2024, the leverage ratio was 9.9% (31 December 2023: 9.7%), which exceeded the UK Leverage Framework's expectation of 3.25%.

The Group's average Liquidity Coverage Ratio ('LCR') over the 6 months to 30 June 2024 increased to 216.3% (31 December 2023: 208.0%) due to higher reserves held at the Bank of England, despite a slight increase in total net cash outflows.

SDDT firms with an average retail deposit ratio ('RDR') above 50% over four consecutive quarters are not required to disclose the Net Stable Funding Ratio ('NSFR'). There are currently no disclosure expectations in relation to the RDR and PS15/23 specifies no NSFR reporting is required for the 30 June 2024 reporting period, consequently the key metrics table on page 4 no longer includes this.