Secure Trust Bank PLC

Pillar 3 disclosures for the period ended 31 March 2019

Contents

1. Overview

1.1 Background

The European Union ('EU') implemented the Basel III proposals published in December 2010 through the Capital Requirements Regulation ('CRR') and Capital Requirements Directive (together referred to as 'CRD IV') which came into force on 1 January 2014. This provides consistent capital adequacy standards governing the level of capital that banks must hold to protect their depositors and shareholders and an associated supervisory framework.

The Prudential Regulation Authority ('PRA') is responsible for the implementation of rules and guidance and enforcement within the UK. The rules include disclosure requirements known as 'Pillar 3' which apply to banks and other financial institutions. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

The Basel framework consists of three pillars:

- **Pillar 1**: Defines the minimum capital requirements that institutions are required to hold for credit, market and operational risks.
- **Pillar 2**: This builds on Pillar 1 and incorporates the Group's own assessment of additional capital resources needed in order to cover specific risks that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('SREP') and is used to determine the overall capital resources required by the Group.
- **Pillar 3**: Aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

1.2 Basis of disclosures

The disclosures have been prepared for Secure Trust Bank PLC, and cover the Pillar 3 qualitative and quantitative disclosure requirements. Further details on risks are included in the 'Principal Risks and Uncertainties' section within the 2018 Annual Report and Accounts, which can be found in the investor section of the Secure Trust Bank's website (www.securetrustbank.com/investor-information).

The Pillar 3 disclosure requirements have been updated by the Basel Committee on Banking Supervision with revised guidance issued in January 2015 and March 2017. This document reflects the disclosure requirements applicable at 31 March 2019.

1.3 Content of Report

The full Pillar 3 report is issued annually in conjunction with the Annual Report and Accounts. Pillar 3 disclosures are also required to be issued at the half year and at the March and September quarter ends; these incorporate a reduced level of disclosure.

1.4 Media and location

The Pillar 3 disclosures will be published on the Secure Trust Bank PLC corporate website (www.securetrustbank.com/investor-information).

1.5 Verification

The Pillar 3 disclosure report is prepared in accordance with an approved policy describing internal controls and processes around preparation of this document.

The Pillar 3 disclosures have been prepared to explain the basis on which the Group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

1.6 Changes in disclosure requirements

The reporting requirements are in line with those in place for the previous quarterly return at 30 September 2018.

2. Overview of Key Prudential Metrics and RWA

2.1 Key Metrics (at consolidated Group level)

		a	b	c	d	e
		31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18
		£'m	£'m	£'m	£'m	£'m
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	247.3	251.8	235.6	226.7	237.7
1a	Fully loaded ECL accounting model CET1	225.0	227.3	211.1	202.2	213.5
2	Tier 1 capital	247.3	251.8	235.6	226.7	237.7
2a	Fully loaded ECL accounting model Tier 1	225.0	227.3	211.1	202.2	213.5
3	Total capital	295.3	297.5	260.1	226.7	237.7
3a	Fully loaded ECL accounting model total capital	273.0	273.0	235.6	202.2	213.5
	Risk weighted assets (amount)					
4	Total risk weighted assets (RWA)	1,916.3	1,824.6	1,785.1	1,729.2	1,666.2
	Risk based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 (CET1) ratio (%)	12.9%	13.8%	13.2%	13.1%	14.3%
5a	Fully loaded ECL accounting model CET1 (%)	11.7%	12.5%	11.8%	11.7%	12.8%
6	Tier 1 ratio (%)	12.9%	13.8%	13.2%	13.1%	14.3%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	11.7%	12.5%	11.8%	11.7%	12.8%
7	Total capital ratio (%)	15.4%	16.3%	14.6%	13.1%	14.3%
7a	Fully loaded ECL accounting model total capital ratio (%)	14.2%	15.0%	13.2%	11.7%	12.8%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	1.9%	1.9%	1.9%	1.9%
9	Countercyclical buffer requirement (%)	1.0%	1.0%	0.5%	0.5%	0.0%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (rows 8-10) (%)	3.5%	2.9%	2.4%	2.4%	1.9%
12	CET1 available after meeting the bank's specific buffer requirements (%)	9.4%	10.9%	10.8%	10.7%	12.4%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	2,421.9	2,432.8	2,336.7	2,267.7	2,084.4
14	Basel III leverage ratio (%) (row 2/row 13)	10.2%	10.4%	10.1%	10.0%	11.4%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13)	9.3%	9.3%	9.0%	8.9%	10.2%
	Liquidity Coverage Ratio					
15	Total HQLA	172.6	197.1	182.9	127.4	183.1
16	Total net cash outflow	41.7	36.5	39.5	33.0	36.5
17	LCR ratio (%)	414.5%	539.3%	463.4%	385.8%	501.1%
	Net Stable Funding Ratio					
18	Total available stable funding	2,263.4	2,245.8	2,172.6	2,041.2	-
19	Total required stable funding	1,549.0	1,523.1	1,422.9	1,364.2	-
20	NSFR ratio	146.1%	147.4%	152.7%	149.6%	-

Total Risk Exposure (TRE), which represents Risk Weighted Assets (RWA) plus the Operational Risk component has been reported in row 4. Capital ratios are calculated based on TRE.

The CET 1 capital balance at 31 March 2019 has decreased by £4.5m compared to 31 December 2018. This is primarily attributable to a capital impact of £2.2m due to the IFRS 9 transitional rules, as noted below, and an increase of £2.3m in intangible assets, which are disallowed for capital purposes. The profits earned by the business in Q1 2019 are still to be certified through audit and are therefore excluded from available capital.

During 2018 new subordinated debt instruments were issued, raising £49.2m net of costs; £24.5m in Q3 and £24.7m in Q4 2018. These instruments are eligible to be treated as Tier 2 capital. Only £48.0m has been included as Tier 2 capital in the calculation of total capital (row 3) at 31 March 2019 as the amount of eligible Tier 2 capital cannot exceed 25% of the capital requirement (calculated as the TRE x Total Capital Requirement (TCR) percentage).

The Group has elected to adopt the IFRS 9 transitional rules. For 2019 this allows 85% of the IFRS 9 impact to be added back to eligible capital (2018: 95%). The ‘fully loaded ECL accounting model’ disclosure above shows what the capital position would be without the IFRS 9 transitional adjustment. Further details of the impact of IFRS 9 on the Group’s capital position can be found in note 38 of the Group’s 2018 Annual Report and Accounts.

The Liquidity Coverage Ratio during Q1 remains broadly consistent with previous periods.

High quality liquid assets (row 15) principally represent the Group’s Bank of England reserve account and treasury bills. The data points used in creating the average figures for the table are the Group’s monthly liquidity returns. In calculating the net cash outflow figure (row 16), the cap limiting the allowable cash inflow to 75% of the cash outflow has been applied.

The Net Stable Funding Ratio (NSFR) is required to be disclosed from 30 June 2018 onwards. The NSFR ratio at 31 March 2019 of 146.1% is comfortably in excess of the required minimum. The NSFR ratio remained broadly consistent with previous periods.

2.2 Overview of Risk Weighted Assets

		a	b	c	d
		Risk Weighted Assets		Minimum Capital Requirement	
		31/03/19 £'m	31/12/18 £'m	**31/03/19 £'m**	31/12/18 £'m
1	Credit Risk (excluding counterparty credit risk) CCR	**1,704.9**	1,653.5	**136.4**	132.3
2	Of which standardised approach (SA)	**1,704.9**	1,653.5	**136.4**	132.3
3	Of which internal rating-based approach (IRB)	-	-	-	-
4	Counterparty credit risk	-	-	-	-
5	Of which standardised approach for counterparty credit risk (SA-CCR)			-	-
6	Of which internal model method (IMM)	-	-	-	-
7	Equity positions in banking book under market based approach	-	-	-	-
8	Equity investments in funds - look through approach	-	-	-	-
9	Equity investments in funds - mandate-based approach	-	-	-	-
10	Equity investments in funds - fall-back approach	-	-	-	-
11	Settlement risk	-	-	-	-
12	Securitisation exposures in banking book	-	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-	-
14	Of which IRB supervisory formula approach (SFA)	-	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-	-
16	Market risk	-	-	-	-
17	Of which standardised approach (SA)	-	-	-	-
18	Of which internal model approaches (IMM)	-	-	-	-
19	Operational risk	**211.4**	171.1	**16.9**	13.7
20	Of which Basic Indicator Approach	-	-	-	-
21	Of which Standardised Approach	**211.4**	171.1	**16.9**	13.7
22	Of which Advanced Measurement Approach	-	-	-	-
23	Amounts below the threshold for deduction (subject to 250% risk weight)	-	-	-	-
24	Floor adjustment	-	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	**1,916.3**	1,824.6	**153.3**	146.0

The minimum capital requirement above represents the Group's Pillar 1 capital requirement and excludes any additional Pillar 2A capital add-ons. The total on line 25 represents the Total Risk Exposure (TRE) of the Group.

The credit risk capital requirement has increased by 3% in the period, from £132.3m to £136.4m. This is consistent with the increase in total assets, from £2,347m to £2,434m over the same period and reflects the ongoing growth of the lending book.

The operational risk capital requirement at 31 March 2019 of £16.9m is significantly above the £13.7m requirement at 31 December 2018. This attributable to the annual recalculation of the capital requirement, following approval of the annual accounts for the previous year. The 2019 calculation is based on a weighted average of income in the years 2016 to 2018 inclusive, whereas the 2018 calculation was based on 2015 to 2017 inclusive. The increase in capital requirement is therefore indicative of the rate of growth of the business in recent years.