Secure Trust Bank Plc

Pillar 3 disclosures for the period ended 31 March 2018

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

This document sets out the Pillar 3 disclosures for Secure Trust Bank Plc and its subsidiaries (the Group) as at 31 March 2018. These disclosures provide information on the capital requirements and on the management of key risks faced by the Group.

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 2018.

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 for explaining 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

Extensive changes were made to Pillar 3 disclosure at 2016 year end, when the Basel Committee January 2015 guidance was implemented. Further new requirements were implemented in the 2017 year-end report following the implementation of the Basel Committee March 2017 guidance. The following changes have been made to quarterly reporting:

- Overview of risk management key metrics & RWA (section 2), amended requirements
- Disclosure of the leverage ratio (section 3), this is a new requirement
- Liquidity management (section 4), this is a new requirement.

2. Overview of Key Prudential Metrics and RWA

2.1 Key Metrics (at consolidated Group level)

		a	b	c	d	e
		31-Mar-18	31-Dec-17	30-Sep-17	30-Jun-17	31-Mar-17
		£'m	£'m	£'m	£'m	£'m
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	237.7	238.9	214.9	218.5	226.7
1a	Fully loaded ECL accounting model CET1	213.5	-	-	-	-
2	Tier 1 capital	237.7	238.9	214.9	218.5	226.7
2a	Fully loaded ECL accounting model Tier 1	213.5	-	-	-	-
3	Total capital	237.7	243.3	220.2	223.8	232.0
3a	Fully loaded ECL accounting model total capital	213.5	-	-	-	-
	Risk weighted assets (amount)					
4	Total risk weighted assets (RWA)	1,666.2	1,446.1	1,423.5	1,426.6	1,306.4
	Risk based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 (CET1) ratio (%)	14.3%	16.5%	15.1%	15.3%	17.4%
5a	Fully loaded ECL accounting model CET1 (%)	12.8%	-	-	-	-
6	Tier 1 ratio (%)	14.3%	16.5%	15.1%	15.3%	17.4%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	12.8%	-	-	-	-
7	Total capital ratio (%)	14.3%	16.8%	15.5%	15.7%	17.8%
7a	Fully loaded ECL accounting model total capital ratio (%)	12.8%	-	-	-	-
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.9%	1.3%	1.3%	1.3%	1.3%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	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) (%)	1.9%	1.3%	1.3%	1.3%	1.3%
12	CET1 available after meeting the bank's specific buffer requirements (%)	12.4%	15.3%	13.8%	14.1%	16.1%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	2,084.4	1,942.7	1,911.8	1,724.9	1,624.7
14	Basel III leverage ratio (%) (row 2/row 13)	11.4%	12.3%	11.2%	12.7%	14.0%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13)	10.2%	-	-	-	-
	Liquidity Coverage Ratio					
15	Total HQLA	183.1	218.7	225.6	114.0	132.7
16	Total net cash outflow	36.5	29.7	26.7	25.4	26.3
17	LCR ratio (%)	501.1%	736.4%	845.1%	448.7%	504.3%

Total Risk Exposure (TRE) has been reported in row 4 rather than Risk Weighted Assets (RWA). TRE represents RWA plus the Operational Risk component. Disclosure of capital ratios based on TRE is consistent with the basis used in the 2017 Annual Report and Accounts and other regulatory returns and is thus considered more meaningful. As described in section 4.1 the liquidity coverage ratio data represents the quarterly average and not the period end position.

The CET 1 capital balance at 31 March 2018 remains in line with 2017 year end as the profits earned by the business in Q1 2018 are still to be certified through audit. Following the implementation of IFRS 9 from 1 January 2018, the Group is no longer able to treat collective bad debt provisions as Tier 2 capital.

The Group has elected to adopt the IFRS 9 transitional rules. For 2018 this allows 95% of the IFRS 9 impact to be added back to eligible capital. The 'fully loaded ECL accounting model' disclosure above shows what the capital position would be without the IFRS 9 transitional adjustment.

The significant increase in High Quality Liquid Assets (HQLA) and the Liquidity Coverage Ratio during the second half of 2017 principally relates to new borrowing from the Bank of England under the Term Funding Scheme. Initially these additional funds were held in the Group's Bank of England reserve account, which forms the principal component of HQLA. A significant portion of these funds were invested into customer lending during Q1 2018, resulting in the LCR ratio returning towards historic levels.

2.2 Overview of Risk Weighted Assets

		a	b	c	d
		Risk Weighted Assets		Minimum Capital Requirement	
		31/03/18 £'m	31/12/17 £'m	**31/03/18 £'m**	31/12/17 £'m
1	Credit Risk (excluding counterparty credit risk) CCR	**1,450.8**	1,278.6	**116.1**	102.3
2	Of which standardised approach (SA)	**1,450.8**	1,278.6	**116.1**	102.3
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	**215.4**	167.5	**17.2**	13.4
20	Of which Basic Indicator Approach	**215.4**	167.5	**17.2**	13.4
21	Of which Standardised Approach	-	-	-	-
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)	**1,666.2**	1,446.1	**133.3**	115.7

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 13% in the period, from £102.3m to £116.1m. This is greater than the 7% increase in total assets, from £1,892m to £2,023m over the same period. This arises because of an increase of 9% in lending balances whereas sovereign assets, which have a 0% risk weighting, reduced over the period.

The operational risk capital requirement under the basic indicator approach has increased by 28% in the period, from £13.4m to £17.2m, due to the annual recalculation, following approval of the annual accounts for the previous year. The 2018 calculation is based on a weighted average of income in the years 2015 to 2017 inclusive, whereas the 2017 calculation was based on 2014 to 2016 inclusive. The increase in capital requirement is therefore indicative of the rate of growth of the business in recent years.

3. Leverage Ratio

3.1 Summary comparison of accounting assets vs leverage ratio exposures

		31 Mar 18 £m
1	Total consolidated assets per published financial statements	2,023.3
2	Adjustments for investments in banking, financial, insurance or commercial entities that are conslidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustments for securities financing transactions (repos and similar secured lending)	-
6	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	61.1
7	Other adjustments	-
8	**Leverage ratio exposure measure**	**2,084.4**

3.2 Leverage ratio common disclosure template

		31 March 2018 £m	31 Dec 2017 £m
On balance sheet exposures			
1	On balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	2,023.3	1,891.6
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	**Total on balance sheet exposures** (excluding derivatives and SFTs) , (sum of rows 1 & 2)	**2,023.3**	**1,891.6**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)		-
5	Add on amounts for PFE associated with all derivatives transactions		-
6	Gross up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		-
7	(Deductions of receivables asset for cash variation margin provided in derivatives transactions)		-
8	(Exempted CCP leg of client-cleared trade exposures)		-
9	Adjusted effective notional amount of written credit derivatives		-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		-
11	**Total derivative exposures** (sum of rows 4 to 10)		**-**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		-
13	(Netted amounts of cash payable and cash receivables of gross SFT assets)		-
14	CCR exposure for SFT assets		-
15	Agent transaction exposures		-
16	**Total securities financing transaction exposures** (sum of rows 12 to 15)		-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	200.4	177.9
18	(Adjustments for conversion to credit equivalent amounts)	-139.3	- 126.8
19	**Off-balance sheet items (sum of rows 17 and 18)**	**61.1**	**51.1**
Capital and total exposure			
20	**Tier 1 capital**	**237.7**	**238.9**
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**2,084.4**	**1,942.7**
Leverage Ratio			
22	**Basel III leverage ratio**	**11.4%**	**12.3%**

The principal reason for the decrease in leverage ratio between December 2017 and March 2018 is that the growth in total exposures has not been offset by an increase in CET1 capital, as Q1 2018 profits have not yet been certified by audit.

4. Liquidity

4.1 Liquidity Coverage Ratio (LCR)

		a	b
		Total unweighted value (average)	**Total weighted value** (average)
		£'m	£'m
High quality liquid assets			
1	Total HQLA		183.1
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**52.7**	**38.1**
3	Stable deposits	-	-
4	Less stable deposits	52.7	38.1
5	**Unsecured wholesale funding, of which:**	**55.6**	**21.7**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	55.6	21.7
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**	**6.1**	-
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	-	-
14	**Other contractual funding obligations**	**318.3**	**31.8**
15	**Other contingent funding obligations**	**42.0**	**38.3**
16	**TOTAL CASH OUTFLOWS**	**474.8**	**130.0**
Cash inflows			
17	**Secured lending (e.g. reverse repos)**	**-**	**-**
18	**Inflows from fully performing exposures**	**231.5**	**135.1**
19	Other cash inflows	-	-
20	**TOTAL CASH INFLOWS**	**231.5**	**135.1**
			Total Adjusted Value
21	**Total HQLA**		**183.1**
22	**Total net cash outflows**		**36.5**
23	**Liquidity Coverage Ratio (%)**		**501.1%**

High quality liquid assets principally represent the Group's Bank of England reserve account and treasury bills. The Key Metrics table in section 2.1 shows the movement of the LCR ratio over the last 5 quarters.

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 22), the cap limiting the allowable cash inflow to 75% of the cash outflow has been applied.