Secure Trust Bank PLC

Pillar 3 disclosures for the period ended 30 June 2017

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 30 June 2017. These disclosures provide information on the capital requirements and on the management of key risks faced by the Group.

The Group's lead regulator, the Prudential Regulatory Authority (PRA), sets and monitors capital requirements for the Group as a whole and its regulated subsidiaries. The PRA adopted the Basel III capital requirements with effect from 1 January 2014. As a result, the Group's regulatory capital requirements were based on Basel III in 2014 and in subsequent years.

Part 8 of the Capital Requirements Regulations (CRR) initially set out disclosure requirements for banks operating under the regime. This has been further revised in January 2015 by the Basel Committee on Banking Supervision. The revised disclosure requirements took effect from the year ended 31 December 2016.

The disclosure requirements (Pillar 3) aim to describe the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) and aim to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes of the Group.

Further details on risks are included in the "Principal Risks and Risk Management" section within the 2017 Interim Report for the six months ended 30 June 2017, which can be found in the investor section of Secure Trust Bank's website (www.securetrustbank.com/investor-information).

1.2 Basis of disclosures

The disclosures have been prepared for Secure Trust Bank PLC and its subsidiaries. These disclosures cover the Pillar 3 qualitative and quantitative disclosure requirements.

Historically Secure Trust Bank PLC has reported Pillar 3 capital disclosures on a solo-consolidated basis, with the full consolidated position reflected in the group return of its former parent, Arbuthnot Banking Group PLC (ABG). Following the sale of ABG's controlling interest, Secure Trust Bank PLC will now report its Pillar 3 disclosures on a consolidated group basis.

1.3 Content of Report

The 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, although these incorporate a reduced level of information.

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 upon 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.

2. Capital Base

	30/06/2017 £'m	31/12/2016 £'m
CET1 capital	218.5	227.4
Tier 2 capital	5.3	5.3
Total capital	223.8	232.7
Total risk exposure	**1,426.6**	**1,264.0**
CET 1 capital ratio	15.3%	18.0%
Leverage ratio	12.7%	14.2%

The table below summarises the composition of regulatory capital for the Group as at 30 June 2017:

	30/06/17 £'m	31/12/16 £'m
Tier 1		
Share capital	7.4	7.4
Share premium	81.2	81.2
Retained earnings	138.2	149.0
Other reserves and adjustments	(8.3)	(10.2)
Common Equity Tier 1 capital	**218.5**	**227.4**
Tier 2		
Collective allowance for impairment of loans and advances	5.3	5.3
Total Tier 2 capital	**5.3**	**5.3**
Total Tier 1 & Tier 2 capital	**223.8**	**232.7**

Retained earnings within CET 1 capital are reported on a certified basis and therefore do not include uncertified earnings of £11.2m for the period ended 30 June 2017.

3. Overview of Risk Weighted Assets

		a	b	c	c
		Risk Weighted Assets		Minimum Capital Requirement	
		30/06/17 £'m	31/12/16 £'m	**30/06/17 £'m**	31/12/16 £'m
1	Credit Risk (excluding counterparty credit risk) CCR	**1,259.1**	1,137.0	**100.7**	91.0
2	Of which standardised approach (SA)	**1,259.1**	1,137.0	**100.7**	91.0
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	**167.5**	127.0	**13.4**	10.2
20	Of which Basic Indicator Approach	**167.5**	127.0	**13.4**	10.2
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)	**1,426.6**	1,264.0	**114.1**	101.1

The credit risk capital requirement has increased by 11% in the period, from £91.0m to £100.7m. This is in line with the 11% increase in total assets, from £1,510m to £1,674m.

The operational risk capital requirement has increased by 31% in the period, from £10.2m to £13.4m, due to the annual recalculation under the standardised approach, following approval of the annual accounts for the previous year. The 2017 calculation is based on a weighted average of income in the years 2014 to 2016 inclusive, whereas the 2016 calculation was based on 2013 to 2015 inclusive. The increase in capital requirement is therefore indicative of the rate of growth of the business in recent years.

Credit Risk

4.1 CR1 Credit quality of assets

		a	b	c	d
		Gross carrying values of:		Allowances/ Impairments £'m	Net values (a+b+c) £'m
		Defaulted exposures £'m	Non-defaulted exposures £'m		
1	Loans	38.2	1,646.5	(35.6)	1,649.1
2	Debt Securities	-	-	-	-
3	Off-balance sheet exposures	-	177.4		177.4
4	**Total**	**38.2**	**1,823.9**	**(35.6)**	**1,826.5**

4.2 CR2 Changes in stock of defaulted loans and debt securities

		2017 £m
1	**Defaulted loans and debt securities at end of the previous period (restated)**	**30.5**
2	Loans and debt securities which have defaulted since the last reporting period	39.4
3	Returned to non-defaulted status	(10.9)
4	Amounts written off	(12.3)
5	Other changes	(8.5)
6	**Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)**	**38.2**

4.3 CR3 Credit risk mitigation techniques -overview

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount £'m	Exposures secured by collateral £'m	Exposures secured by collateral, of which: secured amount £'m	Exposures secured by financial guarantees £'m	Exposures secured by financial guarantees, of which: secured amount £'m	Exposures secured by credit derivatives £'m	Exposures secured by credit derivatives, of which: secured amount £'m
1	Loans	652.0	997.1	844.2	17.5	17.5	-	-
2	Debt Securities	-	-	-	-	-	-	-
3	**Total**	**652.0**	**997.1**	**844.2**	**17.5**	**17.5**	**-**	**-**
4	Of which defaulted	8.1	30.1	20.5	-	-	-	-

The loans figures in the above tables represent our loans and advances to customers, balances at the Bank of England and loans to other banking institutions. Loans and advances to customers comprises two portfolios: a Business Finance portfolio comprising secured lending to businesses for Real Estate, Asset Finance and Invoice Finance; and a Consumer Finance portfolio including unsecured personal and retail lending as well as secured lending for Motor Finance. The Group has also recently commenced secured residential Mortgage lending.

The Group has changed its policy on the charge-off of debt sold by Secure Trust Bank PLC to Debt Managers (Services) Limited, a wholly owned subsidiary undertaking. A description of this change in accounting policy is set out in note 1.3 of the Group's Interim Report for the six months ended 30 June 2017. Table CR2 above reflects the restated opening balance with the year to date impact reflected in row 5 'other changes'. Defaulted exposures are defined as loans which are greater than 90 days past due and impaired.

4.4 CR4 Standardised approach- credit risk exposure and CRM effects

		a	b	c	d	e	f
		Exposures before CCF and CRM		**Exposures post CCF and CRM**		**RWA and RWA density**	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		£'m	£'m	£'m	£'m	£'m	£'m
	Asset Classes:						
1	Sovereigns and their central banks	114.0	-	114.0	-	-	0%
2	Non central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	25.5	-	25.5	-	5.1	20%
5	Securities firms	-	-	-	-	-	-
6	Corporates	217.0	17.9	217.0	-	193.7	89%
7	Regulatory retail portfolios	732.6	49.6	715.0	4.2	539.5	75%
8	Secured by residential property	0.3	0.4	0.3	0.1	0.1	35%
9	Secured by commercial real estate	541.5	109.5	541.5	54.7	501.8	84%
10	Equity	-	-	-	-	-	-
11	Past due loans	23.4	-	23.4	-	23.4	100%
12	Higher risk categories	-	-	-	-	-	-
13	Other Assets	15.8	-	15.8	-	17.6	111%
14	**Total**	**1,670.1**	**177.4**	**1,652.5**	**59.0**	**1,281.2**	**75%**

4.5 CR5 Standardised approach- exposures by asset class and risk weights

		a	b	c	d	e	f	g	h	i	j
	Risk Weight / Asset Classes	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount post CCF and post CRM
		£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
1	Sovereigns and their central banks	114.0	-	-	-	-	-	-	-	-	114.0
2	Non central government public sector entities	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	25.5	-	-	-	-	-	-	25.5
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	93.1	123.9	-	-	217.0
7	Regulatory retail portfolios	-	-	-	-	-	719.2	-	-	-	719.2
8	Secured by residential property	-	-	-	0.4	-	-	-	-	-	0.4
9	Secured by commercial real estate	-	-	-	326.1	-	-	34.9	235.1	-	596.2
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past due loans	-	-	-	-	-	-	23.4	-	-	23.4
12	Higher risk categories	-	-	-	-	-	-	-	-	-	-
13	Other Assets	-	-	-	-	-	-	14.6	-	1.2	15.8
14	**Total**	**114.0**	**-**	**25.5**	**326.5**	**-**	**812.4**	**196.8**	**235.1**	**1.2**	**1,711.5**

In tables CR4 and CR5 on page 6, the asset class “Secured by commercial real estate” represents the Group’s Real Estate Finance portfolio. Although the regulatory definition requires disclosure within this asset class, this portfolio is primarily secured on residential property. Only £34.9m of on-balance sheet exposures and less than £1m of the off-balance sheet exposures within this class are secured on commercial property.

5 Counterparty Credit Risk

5.1 CCR1 Analysis of counterparty credit risk (CCR) exposure by approach

The bank has not entered into any derivatives or securities financing transactions (SFTs) during the period. Accordingly table CCR1 has not been provided.

5.2 CCR2 Credit valuation adjustment (CVA) capital charge

The bank has not entered into any derivatives or securities financing transactions (SFTs) during the period. Accordingly no CVA capital charge is required and therefore table CCR2 has not been provided.

5.3 CCR3 Standardised approach – CCR by regulatory portfolio and risk weights

	a	b	c	d	e	f	g	h	i	j
Risk Weight / Regulatory Portfolio	0% £'m	10% £'m	20% £'m	35% £'m	50% £'m	75% £'m	100% £'m	150% £'m	Others £'m	Total credit exposures £'m
Sovereigns and their central banks	114.0	-	-	-	-	-	-	-	-	114.0
Non central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	-	-	25.5	-	-	-	-	-	-	25.5
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	329.5	-	93.1	176.6	286.6	-	885.8
Regulatory retail portfolios	0.2	-	-	0.3	-	736.4	51.9		-	788.8
Other assets	-	-	-	-	-	-	14.6	-	1.2	15.8
Total	**114.2**	**-**	**25.5**	**329.8**	**-**	**829.5**	**243.1**	**286.6**	**1.2**	**1,829.9**

5.4 CCR5 Composition of collateral for CCR exposure

The bank has not entered into any derivatives or securities financing transactions (SFTs) during the period. Accordingly table CCR5 has not been provided.

5.5 CCR6 Credit derivatives exposure

The bank has not entered into any derivatives or swaps during the period. Accordingly table CCR6 has not been provided.

5.6 CCR8 Exposure to central counterparties

The bank has not entered into any derivatives or SFTs during the period. Accordingly table CCR8 has not been provided.

6 Securitisation

The bank has not entered into any securitisation transactions during the period, nor does it have any securitisation exposure at 30 June 2017. Accordingly table SEC1 has not been provided.