# Secure Trust Bank PLC

## Pillar 3 disclosures for the period ended 30 September 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 30 September 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 30 September 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 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 31 March 2018 with the only additional requirements being disclosure of the Net Stable Funding Ratio (NSFR) which was implemented from 30 June 2018, included in section 2.1 and disclosure of the Group’s Total Capital Requirement (TCR) in section 2.3.

# 2. Overview of Key Prudential Metrics and RWA

## 2.1 Key Metrics (at consolidated Group level)

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | 30-Sep-18 | 30-Jun-18 | 31-Mar-18 | 31-Dec-17 | 30-Sep-17 |
| | | £'m | £'m | £'m | £'m | £'m |
| | **Available capital (amounts)** | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 235.6 | 226.7 | 237.7 | 238.9 | 214.9 |
| 1a | Fully loaded ECL accounting model CET1 | 211.1 | 202.2 | 213.5 | - | - |
| 2 | Tier 1 capital | 235.6 | 226.7 | 237.7 | 238.9 | 214.9 |
| 2a | Fully loaded ECL accounting model Tier 1 | 211.1 | 202.2 | 213.5 | - | - |
| 3 | Total capital | 260.1 | 226.7 | 237.7 | 243.3 | 220.2 |
| 3a | Fully loaded ECL accounting model total capital | 235.6 | 202.2 | 213.5 | - | - |
| | **Risk weighted assets (amount)** | | | | | |
| 4 | Total risk weighted assets (RWA) | 1,785.1 | 1,729.2 | 1,666.2 | 1,446.1 | 1,423.5 |
| | **Risk based capital ratios as a percentage of RWA** | | | | | |
| 5 | Common Equity Tier 1 (CET1) ratio (%) | 13.2% | 13.1% | 14.3% | 16.5% | 15.1% |
| 5a | Fully loaded ECL accounting model CET1 (%) | 11.8% | 11.7% | 12.8% | - | - |
| 6 | Tier 1 ratio (%) | 13.2% | 13.1% | 14.3% | 16.5% | 15.1% |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | 11.8% | 11.7% | 12.8% | - | - |
| 7 | Total capital ratio (%) | 14.6% | 13.1% | 14.3% | 16.8% | 15.5% |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | 13.2% | 11.7% | 12.8% | - | - |
| | **Additional CET1 buffer requirements as a percentage of RWA** | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 1.9% | 1.9% | 1.9% | 1.3% | 1.3% |
| 9 | Countercyclical buffer requirement (%) | 0.5% | 0.5% | 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) (%) | 2.4% | 2.4% | 1.9% | 1.3% | 1.3% |
| 12 | CET1 available after meeting the bank's specific buffer requirements (%) | 10.8% | 10.7% | 12.4% | 15.3% | 13.8% |
| | **Basel III leverage ratio** | | | | | |
| 13 | Total Basel III leverage ratio exposure measure | 2,336.7 | 2,267.7 | 2,084.4 | 1,942.7 | 1,911.8 |
| 14 | Basel III leverage ratio (%) (row 2/row 13) | 10.1% | 10.0% | 11.4% | 12.3% | 11.2% |
| 14a | Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13) | 9.0% | 8.9% | 10.2% | - | - |
| | **Liquidity Coverage Ratio** | | | | | |
| 15 | Total HQLA | 182.9 | 127.4 | 183.1 | 218.7 | 225.6 |
| 16 | Total net cash outflow | 39.5 | 33.0 | 36.5 | 29.7 | 26.7 |
| 17 | LCR ratio (%) | 463.4% | 385.8% | 501.1% | 736.4% | 845.1% |
| | **Net Stable Funding Ratio** | | | | | |
| 18 | Total available stable funding | 2,172.6 | 2,041.2 | - | - | - |
| 19 | Total required stable funding | 1,422.9 | 1,364.2 | - | - | - |
| 20 | NSFR ratio | 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 30 September 2018 has increased by £8.9m compared to June 2018 primarily attributable to the addition of £9.2m of H1 2018 profits which were certified during Q3. 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. £24.5m of new Tier 2 capital was raised, net of costs, during Q3 2018.

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 Liquidity Coverage Ratio during Q3 remains within the range observed in the year to date.

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 30 September 2018 of 152.7% is comfortably in excess of the required minimum. The NSFR ratio remained consistent with the previous period.

## 2.2 Overview of Risk Weighted Assets

| | | a | b | c | d |
|---|---|---|---|---|---|
| | | Risk Weighted Assets | | Minimum Capital Requirement | |
| | | **30/09/18 £'m** | 31/12/17 £'m | **30/09/18 £'m** | 31/12/17 £'m |
| 1 | Credit Risk (excluding counterparty credit risk) CCR | **1,588.1** | 1,278.6 | **127.0** | 102.3 |
| 2 | Of which standardised approach (SA) | **1,588.1** | 1,278.6 | **127.0** | 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 | **197.0** | 167.5 | **15.8** | 13.4 |
| 20 | Of which Basic Indicator Approach | - | 167.5 | - | 13.4 |
| 21 | Of which Standardised Approach | **197.0** | - | **15.8** | - |
| 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) | **1,785.1** | 1,446.1 | **142.8** | 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 24% in the period, from £102.3m to £127.0m. This is consistent with the 24% increase in total assets, from £1,892m to £2,347m over the same period and reflects the ongoing growth of the lending book.

The operational risk capital requirement at 30 September 2018 of £15.8m is above the £13.4m requirement at 31 December 2017 by virtue of the significant growth of the Group's income. This is despite the adoption of the standardised approach (TSA) methodology during 2018; previously the basic indicator approach (BIA) methodology was adopted.

This represents an increase on the £15.0m disclosed in the 30 June 2018 return because of two factors relating to waivers. During Q3 the PRA granted a waiver to allow the Group to exclude income relating to the Personal Lending Division (PLD) from the operational risk calculation, which reduced the capital requirement by £1.3m. At the same time the Group was required to add back the income of Everyday Loans Group (ELG) because the waiver the Group holds is valid only under the BIA approach. The Group has applied for a new waiver under the TSA approach. This increases the capital requirement by £2.1m.

The PLD business was sold during December 2017 and the Everyday Loans Group (ELG) business was sold in April 2016. It is considered that no residual operational risks relating to either business remain within the Group.

## 2.3 Total Capital Requirement

The capital guidance currently applicable to the Group is to hold a Total Capital Requirement (TCR) of 10.01% of the Group's TRE. This equates to £178.7m at 30 September 2018.

This sets the minimum capital that the Group must hold under Pillar 1 and Pillar 2A requirements and is driven both by balance sheet growth and risk factors determined by the PRA. The Group comfortably meets this requirement with CET1 capital alone. Capital used to meet the TCR may not be used to meet the supplementary Pillar 2B buffers; the Capital Conservation Buffer and Countercyclical Capital Buffer.