Castle Trust Bank Pillar 3 Disclosures

Financial Year ended
30 September 2021

Registered No: 12161224

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Financial Year ended 30 September 2021

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Castle Trust Bank

Introduction

Scope

This document sets out the consolidated Pillar 3 disclosures of Castle Trust Holdings Limited ('the Group') which includes Castle Trust Capital plc ('the Bank') and its directly owned subsidiaries as at 30 September 2021. Castle Trust Capital plc is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA (registered number 541910).

The purpose of this document is to provide relevant information on the capital adequacy and risk profile of the Bank, as prescribed by Capital Requirements Regulation (EU) No 575/2013 ("CRR"), Part 8 – Disclosure by institutions and the rules of the PRA.

Castle Trust Capital plc received full authorisation as a bank on 15 June 2020.

Background

The European Union adopted a legislative package, the Capital Requirements Directive IV ("CRD IV") to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. CRD IV is made up of the Capital Requirements Directive (2013/36/EU) ("CRD") which must be implemented through national law and the Capital Requirements Regulation (575/2013) ("CRR"), which is directly applicable to firms across the EU.

Pillar 1 of the Basel III standards sets out the minimum capital requirements firms are required to meet for credit, market and operational risk. Under Pillar 2, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1, assess the suitability of Pillar 1 capital requirements and demonstrate their ability to manage their capital position through a severe stressed scenario. Pillar 3 aims to improve market discipline by requiring firms to publish key details of their risks, capital and risk management.

Business Overview

The Group is a speciality finance provider in the UK and competes in business segments that are experiencing sector specific growth and have the ability to deliver attractive shareholder returns relative to the risks that they represent.

The Group principally provides mortgage finance offering fixed rate mortgages or fixed rate development loans and point of sale finance allowing small to medium-sized retailers to offer finance to their customers in store or online with credit decisions provided within seconds.

These business activities are currently funded by customers who are seeking a stable and attractive return over a medium to long term period offering Term Deposit accounts and Easy Access Savings accounts. Retail customers are protected by the Financial Services Compensation Scheme ("FSCS") up to a maximum of £85,000 per eligible investor.

Basis for this Requirement

These disclosures are based upon the Group's Financial Statements for the year ended 30 September 2021. These disclosures have been prepared for the Group with the exception of Appendix 4 which shows the required disclosures for the Bank as per Article 18 of the Capital Requirements Regulation EU 575/2013 ('CRR'). Both the Group and the Bank use the Standardised Approach for computing capital requirements for credit risk and the Basic Indicator Approach for operational risk. The disclosures in this document have been based on these approaches.

These disclosures were prepared in accordance with the requirements of the Capital Requirements Directive and Regulation ('CRD IV').

Key Metrics for the Business

The key metrics for the Group as at 30 September 2021 under CRD IV are:

Key Metrics	2021	2020
Common Equity Tier 1 Capital (£000's)	85,310	81,994
Risk Weighted Assets (£000's)	494,624	477,452
Common Equity Tier 1 Ratio	17.2%	17.2%
Leverage Ratio	12.9%	11.0%
Liquidity Coverage Ratio	223.2%	480.9%

Tier 1 capital increased in the year following the recognition of audited profits in the financial year ended 30 September 2021. A detailed breakdown of Tier 1 capital can be found in the Capital Resources section on page 17.

Risk Weighted Assets (RWAs) have increased year on year following the growth of the Omni Capital Retail Finance point of sale lending book which saw balances grow 43% year on year. Details of the RWAs by category are shown on page 23.

The Common Equity Tier 1 ratio has remained stable year on year as the growth in Risk Weighted Assets has been offset by the increase in Tier 1 capital.

The leverage ratio has increased from 11.0% to 12.9% as the total assets of the group fell following a reduction in liquid assets. The surplus liquidity the Group had in place following the conversion to a Bank in the prior year reduced to reflect a more normal operating level of liquidity.

This reduction in the liquid assets as highlighted above is the primary driver of the reduction in the Liquidity Coverage Ratio (LCR) year on year.

Frequency of Disclosure

The Group's policy is to publish the Pillar 3 disclosures annually in line with the requirements of Article 433 of the CRR.

The Group will look to update this disclosure should there be a material change in any approach that would impact on the calculations and information within.

Verification

This Pillar 3 disclosure has been subject to internal review and has been approved by the Group Audit Committee on behalf of the Board. This disclosure has not been subjected to external audit.

Location of Document

This document has been published on the Bank's website (www.castletrust.co.uk) and should be read in conjunction with the Financial Statements for the period ended 30 September 2021 which are also available on the Bank's website.

Risk Management and Governance

Purpose of Risk Management

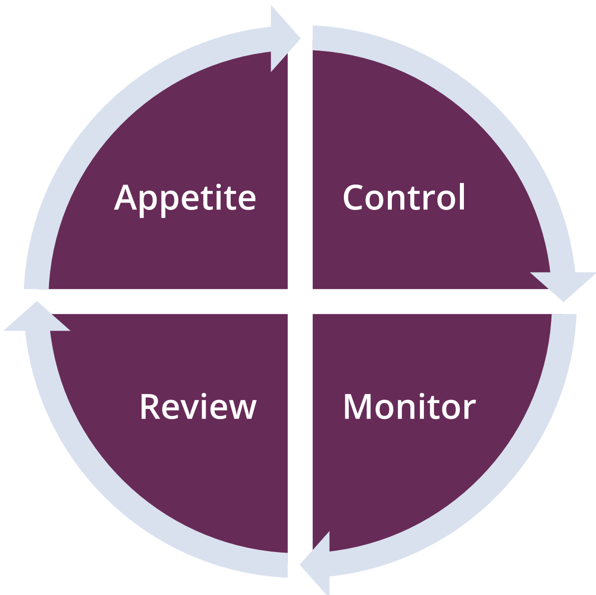
The purpose of the Group's Risk Management Framework is to give stakeholders confidence that risk is understood, monitored and controlled and that the level of risk that the Group takes is aligned to its objectives, including operational, conduct and prudential risk. This ensures that the risks are commensurate to the returns and financial resources of the institution and that treating customers fairly is embedded into its culture and operational processes. The Risk Management Framework ensures that:

- In the normal course of business, the Group's operations, customer outcomes and prudential metrics are stable and in line with objectives; and
- Under stress, the Group can continue to operate, to fulfil its obligations to customers and to meet its prudential requirements.

The Risk Management Framework is owned by the CRO and overseen by the Board Risk Committee. The following sections of the report explain how the Risk Management Framework is applied in the Group.

Risk Management Process Lifecycle

The Group's Risk Management Framework is in conjunction with a comprehensive suite of risk-specific policies, manuals and procedures to specify the Risk Management Processes the Group follows in respect of each risk. The framework groups the Risk Management Processes into four phases, which together form the Risk Management Process Lifecycle.



Lifecycle Phase	Intended outcome	Description
Appetite	To identify the Group's objectives and set appetite having regard for the resilient and sustainable areas of customer need for which an attractive service can be provided and from which an appropriate risk adjusted return can be generated.	A combination of annual, regular and ad hoc processes which ensure that the Group has clear objectives and has the resources and processes in place to meet its objectives. Setting of risk appetite is part of the Plan phase. Examples include: • Setting of operational resilience standards • New product approval • Regular risk appetite and limit calibration reviews • Annual corporate plan, ICAAP and ILAAP
Control	To operate robust controls that ensure that the objectives, including risk appetite, are met.	Regular processes which are designed to control risk and deliver the Group's objectives. Examples include: • Business continuity and disaster recovery scenario test exercises • Affordability and credit checks • Vulnerable customer procedures • Quality assurance • Board limits
Monitor	To provide management with clear measures as to execution of the objectives, the risk incurred and the effectiveness of controls.	Regular information and governance processes that ensure each risk has appropriate monitoring information and that there is a regular forum which has responsibility for reviewing that information. The Group provides regular reporting against operational, customer and prudential objectives.
Review	To undertake periodic stock takes to ensure that the Risk Management Framework is delivering the objectives and risk appetite as intended.	A combination of annual, regular and ad hoc processes which ensure that the Group is meeting the objectives it has set during its planning processes. • Risk based Compliance Monitoring or Internal Audit Reviews • Annual product reviews • Annual CRO reports

Culture, Lines of Defence and Responsibilities

Responsibility for risk management lies with every colleague of the Group. All colleagues are expected to manage the risks of their own area in accordance with the Risk Management Framework and to escalate issues and emerging risks appropriately.

Primary ownership for risk management sits with the 1st line business areas that manage their own specific risks and controls. The 2nd line is responsible for providing independent challenge, specialist advice, risk monitoring and ensuring the Risk Management Framework is operating effectively. The 3rd line provides independent assurance that the Risk Management Framework is working as intended.

Line of Defence	Owner	Oversight	Functional areas	Responsibilities aligned to Risk Management Process Lifecycle
1st	CEO	Board	Business units, HR, Technology and Finance	• Plan – to identify objectives and risk appetite • Control – to operate controls prescribed in the Risk Management Framework • Monitor – to identify and escalate emerging risks
2nd	CRO	Risk and Audit Committees[1]	Risk and Compliance	• Plan – to manage the risk appetite • Control – to provide independent advice and challenge in respect of key decisions / judgements and specialist risk areas • Monitor – to track performance, risk and control effectiveness • Review – to provide periodic stock takes as to effectiveness of Risk Management Framework
3rd	Head of Internal Audit	Audit Committee	Internal Audit	• Review – to provide assurance as to the effectiveness of the Risk Management Framework

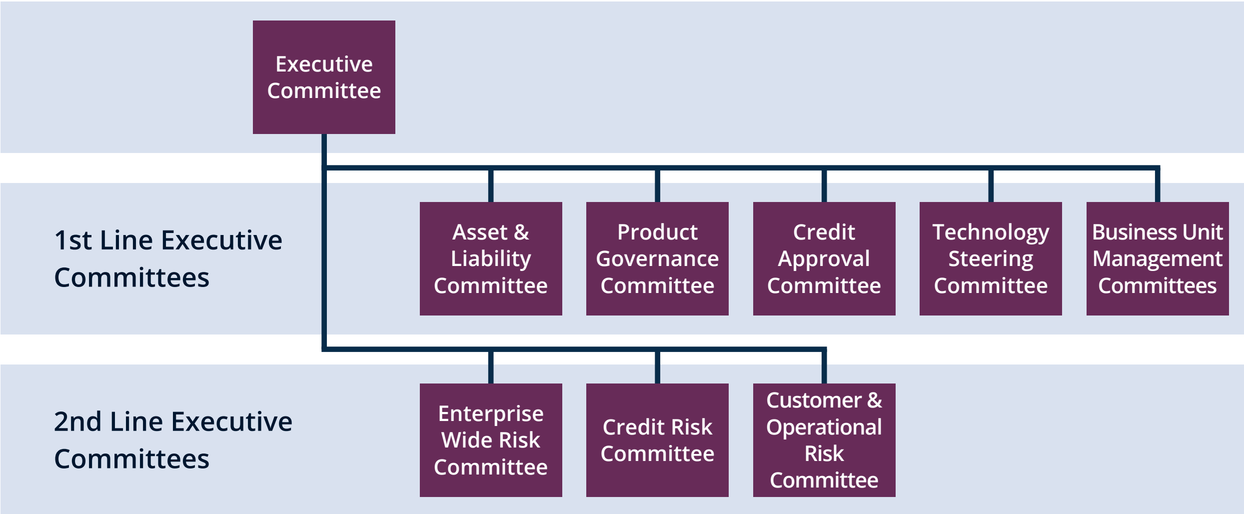
[1] Audit Committee has oversight of Compliance Monitoring; otherwise Risk Committee has oversight

The Board Risk Committee is responsible for agreeing Risk Appetite on behalf of the Board and providing oversight of the application of the Risk Management Framework.

Governance

The Group has a comprehensive suite of governance arrangements to ensure that each risk is effectively managed and has appropriate oversight.

In order to ensure that there is independent challenge, all Executive Committees require the CRO or Head of Compliance to attend in order to be quorate and the Credit Risk Committee and the Customer and Operational Risk Committee are chaired by the CRO and Head of Compliance respectively.



Below the Executive Committees there is a hierarchy of sub-committees and working groups managing specific risks.

Principal Risk Groups

The Group allocates every individual risk to a Risk Group.

Each Risk Group has an Executive Committee member responsible for its oversight and a tailored suite of processes aligned to the Risk Management Process Lifecyle described above. The appetite and exposure to each Risk is monitored at the executive risk committees and also at the Enterprise Wide Risk Committee where the risks are considered in aggregate.

Strategic Risk

The Group defines its strategic risk as being unable to achieve its long-term objectives due to changes in key markets or in the economic or regulatory context.

The Group manages this risk by utilising the following mitigation strategies:

- The Group undertakes a detailed planning process monitoring changes to the external environment.
- Detailed assessments of the adequacy of capital and liquidity.
- A range of recovery options available in case of stress.
- Regular and robust 2nd line challenge and review.

The risk is then monitored for performance with key risk indicators triggering management review and recovery options where necessary.

Credit Risk

The Group defines credit risk as when a borrower or counterparty fails to pay the interest or repay the principal on a loan arising from the inability to meet their obligations. Alternatively, with the Group's Treasury activities there is a risk that acquired securities or cash placed on deposit with other financial institutions are not repaid in full or in part.

The Group manages the risk of part of its overall framework, highlights of which include (but are not limited to):

- The Board Risk Committee sets Limits and Policies covering origination and portfolio.
- Origination and performance characteristics are monitored against risk limits and risk indicators at least monthly and more frequently in some instances.
- Origination is predominantly controlled by an automated decision set; intermediaries are controlled though a hierarchy of approval and review committees.
- Annual and ad-hoc reviews are undertaken by the 2nd line and 3rd line.

Market and Funding Risk

The Group defines market risk as the risk of losses occurring due to market movements, or the inability of a counterparty to meet its obligations. Funding risk is defined as the Group being unable to meet its obligations due to a shortfall of capital or liquidity.

The Group uses the below mitigating strategies:

- Limits and policies covering origination and portfolio are set by the Board Risk Committee.
- Daily monitoring of exposures to market movements and customer behaviour set against limits and risk indicators.
- Ensuring the ability to mitigate risks through controlled market transactions.

Group Operational Risk

Group operational risk is defined as the risk of loss due to operational failings in Group operations and infrastructure. This could be as a result of the failure of processes, systems or human error.

The Group looks to mitigate these risks with:

- Defined policies, processes and procedures with control checks and 2nd Line Assurance to mitigate.
- Staff receive appropriate training with appropriate escalation process/procedures to identify, monitor, manage and report risks.
- Bespoke processes to control risk with internal and external audit of processes and procedures.
- Ongoing breach review and root cause analysis – reviewed at all levels of the business.

Customer Conduct Risk

The Group defines this risk as the risk of customers not being treated fairly or losses occurring because of operational or conduct failings in the Group's dealings with customers or processes.

The Group operates the following mitigation strategies:

- All Products are subject to a structured approval process controlled by Product Governance Committee ('PGC') and reviewed annually.
- A wide variety of controls are deployed including quality assurance, customer satisfaction surveys and complaints root cause analysis.
- Key risk indicators designed to identify unsuitability of the product or poor customer outcomes are monitored at least monthly.
- Regular, annual and ad-hoc reviews are undertaken by the 2nd line and 3rd line.

Emerging Risks

As well as the Risk Groups noted above, the following emerging risks have been noted for enhanced monitoring and the Risk Management Framework continues to evolve to manage these risks.

Climate Change Risk

The Group recognises the significant risk that is brought on by Climate Change and the risk that the Bank incurs losses or is otherwise unable to meet its objectives due to climate change and associated regulatory or other Government intervention.

Regarding the mitigation of these risks, the Group has set origination policy restrictions in respect of property collateral with specific exposure to climate change. In addition, the Group continues to monitor policy evolution to identify risks to its existing property collateral value or liquidity and to the viability of its intermediaries.

Covid-19 Pandemic Risk

The Group recognises the risk that the Bank is unable to adapt to the structural changes brought about by the Covid-19 pandemic, incurring losses or being otherwise unable to meet its objectives.

To mitigate this risk the Group has deployed technology enabling the workforce to be location independent and work from home when required.

All borrowers have now exited the Covid-19 forbearance programs initiated due to the pandemic.

The Group has reviewed its credit risk appetite and adjusted its origination approach in respect of certain segments that have the potential to be adversely impacted by Social Distancing requirements.

Brexit Risk

The Group acknowledges that, due to Brexit, there are heightened and continued economic and political risks facing a UK Bank with a risk that the Group is unable to operate effectively or incurs losses due to Brexit.

The Group continues to monitor the impact of Brexit on its business. At the current time no specific risk mitigation is deemed necessary.

Economic Risk

The Group defines its economic risk as the risk of incurring losses or the risk that it could potentially not meet its objectives due to unforeseen changes in the levels of economic activity.

The Group has reviewed its credit risk appetite and adjusted its origination approach in respect of certain segments likely to be adversely impacted by an adverse economic scenario. In addition, the Group has carefully considered its corporate plan, has assumed a conservative growth strategy and has stress-tested severe but plausible downside scenarios, including a persistent high inflation scenario.

Competitor Risk

The Group views competitor risk as the risk that it is unable to meet its objectives because of competitor action and in particular the under-pricing of cost of risk.

As a Risk mitigation strategy, the Group continues to monitor the impact of competitor risk appetite and pricing on its objectives and risks.

Regulatory Change Risk

The risk that the Group is unable to meet its objectives, because of the costs or restrictions associated with regulatory requirements.

To mitigate this risk the Group continues to work closely with its regulators, adopting an open and co-operative approach at all times.

Regulatory Change is tracked through the committee structure; Change Programmes are instituted to manage required changes to business model, operations and technology.

Cyber Risk

The Group defines this as the risk that it would be unable to operate, incur losses or have breaches to customer confidentiality due to the misuse or misappropriation of data.

To mitigate these risks the Technology team within the Group continually monitors existing customer data and systems for indicators of an external breach along with the use of specialised IT security software which is continually updated.

Operational software operates on a cycle of upgrades to ensure that the latest IT security controls are embedded along with strengthened and rolling programme of review over access controls.

The Group also engages with independent third parties are periodically to test the resilience of key systems to Penetration and Cyber Attacks.

Data and Model Risk

The Group defines this as the risk that the Group is unable to operate, takes inappropriate decisions or otherwise incurs losses due to deficiencies in internal or third-party models, data, system changes and / or reporting.

To mitigate these risks a project is underway to harmonise data repositories and data interrogation tools across the bank has commenced. Updated policies have been agreed and the project to identify and standardize controls across all End User Computing Applications commenced in 2021.

Corporate Governance

The Group's corporate governance is designed to give stakeholders confidence that the Group's objectives have been subject to thorough challenge and review and that performance against objectives is continually monitored, resulting in regular review and evolution of strategy.

The Group's strategy includes the following specific objectives:

Area	Objective	Outcome
Customers	The Group identifies and meets its customer needs and provides a high quality service	The place to do business with
Commercial	The Group has a suite of attractive products with appropriate pricing, and effective distribution	
Technology	The Group has the right technology to deliver its objectives in a secure, resilient, cost efficient and customer friendly manner	
People	The Group's Board, senior management team and wider workforce have the skills, experience and motivation to deliver its objectives	The place to work
Financial Sustainability	The Group has the right financial resources to achieve its objectives, including capital and liquidity resources and generation of sustainable, attractive returns from its activities	The place to invest
Risk	The Group controls and monitors the risks that it takes in order to meet its objectives, including customer, conduct, operational and financial risks, and ensure that the risks are commensurate to the returns and financial resources of the institution	

The Board

The Board of directors has the ultimate responsibility for all aspects of the Group. It has instituted four sub-committees which are shown in the next section. The Board holds formal meetings ten times per year and these are supplemented by ad hoc workshops, site visits, strategy reviews and private meetings of the Non-Executive Directors.

The most important decisions are reserved to the Board, with advice from sub-committees where appropriate. The Board delegates more routine decisions to the Executive Directors who in turn delegate decisions to individuals (as determined by specific mandates) or to committees (as determined by the relevant policy). Executive decisions are taken within the framework of a comprehensive range of Board approved policies and an annual plan setting Group and subsidiary budgets, and product and organisational strategies.

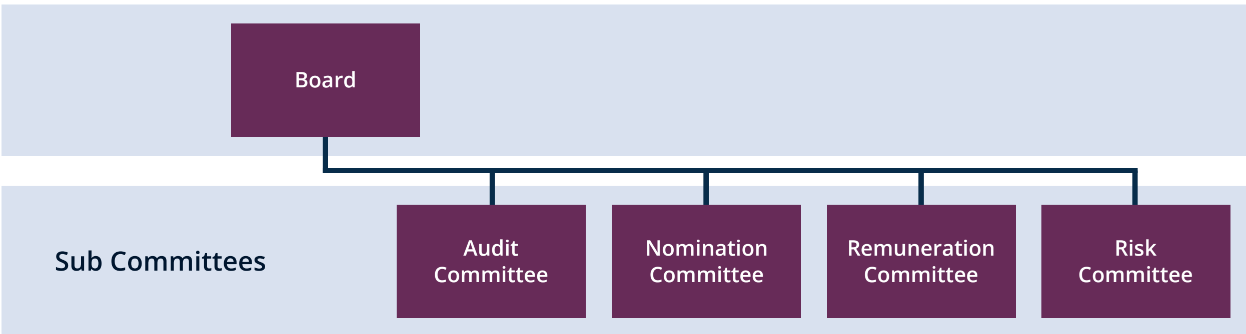
At least annually, and more frequently if required, the Board agrees a corporate plan which sets out the specific objectives of the business and forecasts the financial position based upon that plan and taking into account the prevailing economic outlook. The forecasts must demonstrate that the Group is able to meet its risk appetite.

The Board oversees the effectiveness of the corporate plan delivery through a combination of regular qualitative and quantitative reports summarised into key performance and risk indicators covering all of the key areas in the business, as well as periodic deep dives.

The Board has access to all Executives and any information it requires. The Executives responsible for the 2nd and 3rd lines of defence have direct access to the Board Chair and the Chairs of Risk and Audit.

Board Sub-Committees

The Board operates four standing sub-committees, which enable additional focus to be given to areas of complexity or detail, making recommendations to management and to the Board as appropriate.



Each sub-committee has its own Terms of Reference setting out its objectives.

Board Sub-Committee Membership

Name	Position	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Richard Pym	Group Chairman and Chair of Nomination Committee		✓	✓	✓
Eric Anstee	Chair of Audit Committee and Senior Independent Director	✓			✓
Marian Martin	Chair of Risk Committee	✓			✓
Andrew Doman	Chair of Remuneration Committee		✓	✓	✓
Melba Montague	Non Executive Director	✓			
Tim Hanford	Non Executive Director	✓	✓	✓	✓

Board Directorships Held

The number of external commercial directorships held by the Executive and Non-Executive Directors who serve on the Board, in addition to their roles within the Group, are:

Name	Position	Number of external directorships held
Richard Pym	Chairman and Chair of Nomination Committee	0
Eric Anstee	Chair of Audit Committee and Senior Independent Director	3
Marian Martin	Chair of Risk Committee	2
Andrew Doman	Chair of Remuneration Committee	3
Melba Montague	Non Executive Director	1
Tim Hanford	Non Executive Director	3
Tughan Alioglu	Non Executive Director	1
Martin Bischoff	Chief Executive Officer	0
Paul Lloyd-Jones	Chief Financial Officer	0

Capital Resources and Adequacy

Capital Management

The Group currently maintains a capital ratio significantly above the minimum regulatory requirements, which enables the Group to develop and expand the business whilst also meeting the Capital Requirements of Pillar 1 and 2 at all times. This is due to the Group's approach to capital management that is led by the strategic requirements of the business whilst also being cognisant of the regulatory environment in which it operates.

The Group also annually undertakes an Individual Capital Adequacy Assessment Process ('ICAAP') which assesses the Group's capital position over a 4 year time horizon. Stress scenarios are applied to a base case financial plan, the outcomes of which determine the level of capital required to be maintained by the Group incorporating additional conservative buffer levels set by the Board.

Stress Testing

Stress scenarios are applied to a base case financial plan, the outcomes of which determine the level of capital and liquidity required to be maintained by the Group incorporating additional conservative buffer levels set by the Board.

The stress scenarios applied assume a severe downturn against these forecasts. For capital purposes the following assumptions were applied:

- Significant increase in unemployment and a reduction in house prices greater than base case forecast levels which in turn increase credit losses and impairments.
- Large one-off loss on the property portfolio.
- Significant deposit system failure resulting in lower customer retention and originations.
- Climate change event resulting in material losses
- One off idiosyncratic cost event which drives down profitability.
- High inflation and volatile interest rate environment.

To each of these stress scenarios, management actions were considered to assess the Group's response. These actions included:

- Tightening of risk appetite in response to worsening credit environment.
- Flexible pricing on deposit products to respond to liquidity needs.
- Tighter cost control in line with reduced revenue to maintain profitability.

Furthermore, a reverse stress scenario was performed that considers similar risk drivers in more severe but less plausible scenarios, which if unmitigated would render the business model unviable. The possibility of this outcome has been assessed to be remote, identifying mitigation that would be adopted in such circumstances.

The results of the stress testing indicate that the Group would remain within both its capital and liquidity limits as prescribed by regulatory requirements as well as the additional buffer levels set by the Board.

Capital Resources

The table below summarises the composition of the Group's regulatory capital as at 30 September 2021.

Regulatory Capital Breakdown (£000's)	2021	2020
Share capital	81,497	81,497
Other reserves	58,120	57,916
Retained earnings	(44,448)	(60,370)
Value adjustments for prudent valuation	(6)	(7)
Deductions for intangible assets	(5,230)	(5,454)
Deductions for deferred tax assets that rely on future profitability	(11,550)	0
Adjustments due to IFRS 9 transitional arrangements	6,927	8,412
Total Common Equity Tier 1 (CET1) capital / Total capital	**85,310**	**81,994**

Tier 1 capital increased by just over £3.3m year on year. The 2021 audited profit of £15.9m has been recognised within retained earnings. A large proportion of this profit relates to deferred tax movements, of which £11.6m has been deducted from Tier 1 capital.

The adjustment to Tier 1 capital in relation to IFRS9 transitional arrangements reduced from £8.4m in 2020 to £6.9m in 2021.

Capital Adequacy

The table below summarises the composition of the Group's Risk Weighted Assets (RWAs) and capital ratios as at 30 September 2021.

Breakdown of Risk Weighted Assets (£000's)	2021	2020
Credit risk	429,840	413,800
Market risk	0	0
Operational risk	64,784	63,652
Total Risk Weighted Assets	**494,624**	**477,452**
Common Equity Tier 1 capital ratio	17.2%	17.2%

The movement in Credit Risk RWAs is detailed in the credit risk section on page 23. Operational Risk RWAs increased following the signing of the 2021 financial statements which resulted in an increase in the average operating income of the Bank over the last 3 years.

The Group's total capital requirement, which is the amount of capital the Group has to hold in order to comply with both its Pillar 1 and Pillar 2a requirements, as at 30 September 2021 was 10.27% (2020: 11.27%) of RWAs.

In addition to this the Group must hold enough capital in order to meet the countercyclical capital buffer ('CCyB') and the capital conservation buffer ('CCB') along with any PRA buffer specifically applied to the Group by the regulator. As at the 30 September 2021, the CCB was 2.5% of RWAs (2020: 2.5%) and the CCyB was 0% (2020: 0%). The firm specific Pillar 2B buffer (PRA buffer), which is not subject to disclosure, must be met by CET1 capital and is required to absorb losses in the event of a severe stress.

Minimum Capital Requirement for Pillar 1

As the Group currently has no requirements for market risk or credit valuation adjustment ('CVA') the Group's capital requirements are based on capital resource requirements for credit risk and operational risk. For the Group, total capital requirement at the reporting date is 10.27% (2020: 11.27%) of risk weighted assets which includes a Pillar 1 capital requirement of 8% of risk weighted assets.

The figures in the table below summarises the surplus to the Total Capital Requirement as at 30 September 2021.

Capital Resource Requirements and surplus (£000's)	2021	2020
Credit risk	34,387	33,104
Market risk	0	0
Operational risk	5,183	5,092
Total Capital Resource Requirement for Pillar 1	**39,570**	**38,196**
Total Capital Resources	85,310	81,994
Capital Resources surplus over Pillar 1	**45,740**	**43,798**
Pillar 2a requirement	11,228	15,613
Capital Resources surplus to Total Capital Requirement	**34,512**	**28,185**

The increase year on year of the capital surplus to the Pillar 1 capital requirement is driven by the increase in capital resources due to audited profits from 2021.

The larger movement in the capital surplus to the Total Capital Requirement is as a result of a reduction in the pillar 2a requirement of 1% year on year.

Leverage Ratio

As part of CRD IV firms are required to calculate and disclose a leverage ratio that is unaffected by risk weightings which make it comparable across banks. It is calculated by dividing total Tier 1 capital by total on and off-balance sheet assets (after application of credit conversion factors).

Under CRR2, the leverage ratio requirement is set at a binding 3.25% minimum for reporting periods after 1 January 2022. The Group monitors its leverage ratio and is regularly assessed on this basis.

The following three tables detail the Leverage Ratio position and calculation as at 30 September 2021:

Summary reconciliation of accounting assets and leverage ratio exposures (£000's)	2021	2020
Total assets as per published financial statements	666,467	742,109
Adjustment for off-balance sheet items	10,109	9,454
Other adjustments	(13,673)	(5,461)
Leverage ratio total exposure measure	**662,903**	**746,102**

The fall in total balance sheet assets is principally due to the fall in liquid assets year on year. The surplus liquidity the Group had in place following the conversion to a Bank in the prior year reduced to reflect a more normal operating level of liquidity.

Other adjustments capture balance sheet items that are deducted from Tier 1 capital when calculating Capital Resources. This increased in 2021 following the recognition of deferred tax assets, a portion of which is deducted from Tier 1 capital.

Leverage ratio common disclosure (£000's)	**2021**	**2020**
On-balance sheet items	666,467	742,109
(Asset amounts deducted in determining Tier 1 capital)	(13,673)	(5,461)
Total on-balance sheet exposures	**652,794**	**736,648**
Off-balance sheet exposures at gross notional amount	31,690	27,178
(Adjustments for conversion to credit equivalent amounts)	(21,581)	(17,724)
Other off-balance sheet exposures	10,109	9,454
Tier 1 capital	85,310	81,994
Leverage ratio total exposure measure	662,903	746,102
Leverage ratio	12.9%	11.0%

The overall Leverage Ratio has increased by 1.9% year on year, principally due to a reduction in balance sheet asset values.

Split-up of on balance sheet exposures (£000's)	**2021**	**2020**
Total on-balance sheet banking book exposures (excluding derivatives, SFTs, and exempted exposures), of which:	666,467	742,109
Exposures treated as sovereigns	*38,500*	*106,911*
Institutions	*38,356*	*46,867*
Secured by mortgages of immovable properties	*312,742*	*341,983*
Retail exposures	*166,125*	*116,247*
Corporate	*3,654*	*11,654*
Exposures in default	*59,857*	*60,904*
Other exposures	*47,234*	*57,543*

The table above details the balance sheet assets by exposure category. The large movement in exposures treated as sovereigns relates to the reduction in UK Government Gilts and Treasury Bills as the Group reduced its liquid asset surplus.

The reduction in balances secured against mortgages reflects the movements in the mortgage loan book with the continued run off and maturity of the legacy product set. The increase in Retail exposures reflects the growth in the Omni Capital point of sale finance loan book.

Credit Risk

Sources of Credit Risk

Credit risk is the risk of losses due to a counterparty's inability to fulfil its financial obligations. The Group primarily incurs credit risk in its customer lending and wholesale exposures in connection to liquidity management. Credit risk is also incurred in respect of its certain intermediaries in its Omni business and from time to time various suppliers. This section describes the credit risk exposure incurred through the Group's customer and wholesale exposures.

Appetite

The Group deliberately seeks to incur credit risk as part of its strategy.

Each year the Group reviews a base case financial forecast and severe but plausible stress test, taking into account the prevailing economic scenario. Risk appetite is set to deliver the strategy with an appropriate level of risk in both the base and stress cases. In the event that credit risk caused excessive losses then the strategy and/or risk appetite would be reviewed.

Granular limits determine the level of credit risk and exposure to credit segments that may be incurred. Limits are also set against performance metrics in order to ensure the origination strategy delivers risk within risk appetite.

The amount of Pillar 2A Capital the Group holds in respect of credit risk is set by referencing PRA benchmarks for credit and credit concentration, overlaid with idiosyncratic assessments of severe loss scenarios where appropriate.

Control

Credit Risk is controlled through onboarding and collections processes segmented by lending type.

For assets allocated to the Property class, onboarding is manual with reliance placed upon underwriter judgement; independent property valuations; affordability assessments; and for the largest and more complex cases site visits and escalation to Credit Approval Committee (Executive) or Risk Committee (Board).

Property collections are manual with a reliance placed upon bespoke forbearance / restructuring strategies tailored to customers' individual circumstances and, where credible repayment strategies cannot be agreed upon, the appointment of a Law of Property Act receiver to act on behalf of the Group and legal action to take possession of property collateral.

For assets allocated to the Retail class, onboarding is automated with reliance placed on credit scoring and affordability assessment using data sourced from Credit Reference Agencies. Changes to onboarding policy are escalated to Credit Risk Committee (Executive).

Retail collections are manual and automated with reliance placed on automated communications triggered by non-payment and manual follow up when required. Customers who have not responded after several contact attempts or whose circumstances require specialist expertise are referred to specialist Debt Collection Agencies.

Monitor

Credit risk profile and performance is monitored against risk appetite monthly through the Credit Risk Committee. The top 5 metrics or limits are summarised as follows:

Secured on Residential Property Exposure		Retail Credit Exposures	
Risk	**Metric / Limit**	**Risk**	**Metric / Limit**
Collateral shortfall	Average Origination LTV	Credit performance	Average Origination Credit Score
Income shortfall	Average Origination Rental Income: Stressed Interest Payments	Income shortfall	Disposable income: instalment
Concentration to high risk	% Originations marginal LTV and marginal rental interest	Concentration to high risk	% Originations marginal credit score and marginal
Concentration to 2nd Charge	% Originations 2nd charge	New lending adverse performance	% Cohort arrears at 6 months
Credit adverse performance	% Portfolio arrears	Portfolio adverse performance	% Portfolio arears emergence / month

Review

Each year the independent Risk Function reviews the overall credit risk strategy and performance. Internal Audit also reviews specific risks, processes and areas in accordance with the plan agreed with the Audit Committee.

As part of the audit of the financial statements, impairment levels are reviewed in detail by the external auditor.

Outlook

The Group has repositioned its credit risk appetite over the last three years and notes the robust impairment performance this year. However, noting the overarching economic uncertainty and the significant deviation between inflation and the statutory target, the Group expects to maintain a relatively cautious approach. The proportion of Property exposures that are 1st Charge and the proportion of Retail exposures in the top four (out of twenty) risk grades are expected to increase during the course of 2022.

Credit Exposures

The figures in the tables below detail the credit exposures of the Group subject to standardised credit risk assessment:

As at 30 September 2021

Exposure class composition of exposures subject to standardised credit risk	Exposures (£000's)	RWA (£000's)	Minimum Capital Requirement (£000's)
Central governments or central banks	38,500	0	0
Institutions	38,356	7,671	614
Corporates	3,654	3,654	292
Retail	173,719	130,289	10,423
Secured by mortgages on immovable property	318,369	156,438	12,515
Exposures in default	59,857	87,355	6,988
Items associated with particular high risk	25,214	37,820	3,026
Other items	5,241	6,612	529
Total	**662,909**	**429,840**	**34,387**

As at 30 September 2020

Exposure class composition of exposures subject to standardised credit risk	Exposures (£000's)	RWA (£000's)	Minimum Capital Requirement (£000's)
Central governments or central banks	106,911	0	0
Institutions	46,867	9,373	750
Corporates	11,654	11,654	932
Retail	123,519	92,640	7,411
Secured by mortgages on immovable property	343,960	135,774	10,862
Exposures in default	60,904	88,913	7,113
Items associated with particular high risk	46,860	70,289	5,623
Other items	5,156	5,156	413
Total	**745,832**	**413,800**	**33,104**

The significant fall in balance sheet exposures year on year is driven primarily by a reduction in liquid assets, principally UK Government Gilts and Treasury Bills. The impact on capital of this reduction was minimal as these exposures do not attract a risk weighting.

On the lending side the increase in the OMNI Capital point of sale lending book increased both exposures and RWAs significantly. This was partially offset by a reduction in secured Mortgage and Property Development Finance (classified as high-risk item) balances.

Property Lending Credit Concentration

Credit concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group manages its exposure to credit concentration risk by monitoring the level of concentration on each of its portfolios through several dimensions and in some cases limiting the exposure.

The risk committee reviews concentrations and agreed strategies to reduce where appropriate.

The below table shows the carrying value of the property lending book split by geographic location as at 30 September 2021.

Concentration of property lending by location	2021	2020
East Anglia	13,639	42,055
East Midlands	8,548	4,765
Greater London	200,174	230,971
North	2,553	6,501
North West	6,192	1,444
South East	97,687	97,666
South West	20,040	21,287
Wales	2,167	29,123
West Midlands	36,996	1,131
Yorkshire & Humberside	19,674	22,815
Total	**407,670**	**457,758**

The below table shows the carrying value of the property lending book split by loan-to-value (“LTV”) bandings as at 30 September 2021. Where a property has more than one individual loan, the loans have been aggregated to create an LTV on a combined basis.

	2021		2020	
Loan to Value % of property lending	**£000’s**	**% of total**	**£000’s**	**% of total**
0% - 20%	13,470	3%	7,129	2%
21% - 50%	55,464	14%	62,713	14%
51% - 70%	208,450	50%	249,822	55%
71% - 85%	104,477	26%	124,739	27%
86% - 90%	2,384	1%	8,034	2%
91%+	23,425	6%	5,321	1%
Total	**407,670**		**457,758**	

The overall LTV profile of the property book has remained relatively consistent year on year. The increase in the 91%+ bucket is due to the legacy defaulted Mortgage and Development Finance book in run off. Updated valuations on a distressed basis have resulted in increased LTV ratios.

The below table shows the carrying value of the property lending book split by loan origination value bandings as at 30 September 2021.

Loan origination value banding	2021 £000's	2020 £000's
Less than £250,000	71,449	93,545
Greater than £250k to £500k	43,888	59,754
Greater than £500k to £1m	53,517	60,523
Greater than £1m to £2.5m	74,656	70,736
Greater than £2.5m to £5m	49,220	68,112
Greater than £5m to £10m	74,675	54,778
Greater than £10m	40,264	50,309
Total	**407,670**	**457,758**

The below table shows the carrying value of the property lending book split by original loan tenor as at 30 September 2021.

Original Tenor buckets	2021 £000's	2020 £000's
0-2 years	25,369	57,588
2-4 years	162,532	245,184
4-6 years	107,621	108,352
6-8 years	23,328	4,693
8-10 years	2,908	1,562
10 years +	85,911	40,378
Total	**407,670**	**457,758**

Consumer Loans Concentration

Consumer loan concentration risk focusses principally on individual retailers with specific limits in place set by the Board Risk Committee or Group Credit Risk Committee.

The Group's exposure to specific industry sectors is also closely monitored to ensure a diversified portfolio.

The below table shows the carrying value of the consumer lending book split into cohorts reflecting the agreed credit value as at 30 September 2021.

Origination loan value	2021 £000's	2020 £000's
Up to and including £500	4,283	6,337
£500 up to and including £1,000	11,844	14,032
£1,000 up to and including £5,000	94,483	74,346
£5,000 up to and including £10,000	45,658	28,061
£10,000 up to and including £20,000	20,740	11,168
Greater than £20,000	2,023	1,220
Total	**179,031**	**135,164**

The below table shows the carrying value of the consumer lending book split by original tenor buckets as at 30 September 2021.

Original Tenor buckets	2021 £000's	2020 £000's
0-2 years	80,857	54,509
2-4 years	57,714	51,652
4-6 years	26,134	16,182
6-8 years	1,575	2,060
8-10 years	12,748	10,760
10 years +	4	0
Total	**179,031**	**135,164**

The below table shows the carrying value of the consumer lending book split by credit risk bands with A being the highest rated as at 30 September 2021.

Risk Bands	2021 £000's	2020 £000's
Band A	130,792	84,984
Band B	37,311	31,283
Band C	5,969	11,869
Band D	2,883	4,960
Unknown	2,076	2,067
Total	**179,031**	**135,164**

Carrying value of the lending exposures by days past due

The table below represents our lending exposures split by days past due which includes both maturity and payment arrears. This is an indicator of non-performing loans in the Group portfolio. All exposures not past due are included in the less than 30 days category.

30 September 2021 (£000's)

Lending Type	Total	< 30 days	30 - 60 days	61 - 90 days	91 - 120 days	> 120 days
Consumer Loans	**179,031**	164,077	1,288	586	433	12,647
Wholesale Loans	**3,654**	3,654	-	-	-	-
Property Loans	**407,670**	340,246	5,833	2,802	9,128	49,661
Total	**590,355**	**507,977**	**7,121**	**3,388**	**9,561**	**62,308**

30 September 2020 (£000's)

Lending Type	Total	< 30 days	30 - 60 days	61 - 90 days	91 - 120 days	> 120 days
Consumer Loans	**135,164**	115,264	1,451	729	505	17,215
Wholesale Loans	**11,654**	11,654	-	-	-	-
Property Loans	**457,758**	377,702	595	17,470	41,738	20,253
Total	**604,576**	**504,620**	**2,046**	**18,199**	**42,243**	**37,468**

Overall arears have improved year on year with exposures <30 days overdue increasing from 83% to 86% of total balances.

The reduction in the consumer loans balance greater than 120 days is due to ongoing program of targeted debt sales of defaulted balances.

In Property, a proportion of the balances in the 91-120 days cohort from the prior year have rolled into >120 past due in the current year. These relate to the legacy defaulted Mortgage and Development Finance book which is in run off. These balances are individually assessed at a detailed level from an impairment perspective to ensure robust provisioning.

Lending exposures by residual maturity

The below table represents our lending exposures split by residual maturity.

30 September 2021 (£000's)

Lending Type	Past Maturity	Less than 3 months	3 months to 1 year	1 to 5 years	Greater than 5 years	Total
Consumer Loans	5,334	3,219	48,172	107,638	14,668	**179,031**
Wholesale Loans	-	3,654	-	-	-	**3,654**
Property Loans	69,546	32,763	136,462	105,356	63,543	**407,670**
Total	**74,880**	**39,636**	**184,634**	**212,994**	**78,211**	**590,355**

30 September 2020 (£000's)

Lending Type	Past Maturity	Less than 3 months	3 months to 1 year	1 to 5 years	Greater than 5 years	Total
Consumer Loans	7,327	2,868	30,503	82,069	12,398	**135,164**
Wholesale Loans	-	2,475	7,297	1,881	-	**11,653**
Property Loans	80,967	78,741	116,512	174,224	7,314	**457,758**
Total	**88,294**	**84,083**	**154,312**	**258,174**	**19,712**	**604,575**

The strategic realignment of the property lending book into longer term lending has seen the proportion of exposures with a contractual maturity date of greater than 5 years increase from 2% to 16% year on year.

The large proportion of balances in the prior year with a maturity date of less than 3 months reflects the large volume of short-term maturity extensions provided as a result of the Covid-19 pandemic. At the current year end date, these forbearance measures were no longer in place.

Castle Trust Bank

Interest Rate Risk and Liquidity

Sources of Interest Rate Risk in the Banking Book

Interest rate risk is the risk of losses due to changes in interest rates relative to expectations. The Group primarily incurs interest rate risk when mismatches in quantum, tenure or customer behaviour occur between its fixed rate customer loans, fixed rate deposits and any fixed rate wholesale positions held from time-to-time. Interest rate risk is also incurred in credit recoveries and customer affordability. This section describes the interest rate risk exposure incurred through mismatches in the Group's customer loans, deposits and wholesale exposures.

The Group does not run a trading book or otherwise incur material other Market Risk.

Appetite

The Group incurs interest rate risk as a by-product of its lending and funding activities and seeks to limit its exposure.

Each year the Group reviews a base case financial forecast and severe but plausible stress test, taking into account the prevailing interest rate risk forecasts. Risk appetite is set to deliver the strategy with an appropriate level of risk in both the base and stress cases. In the event that interest rate risk caused excessive losses then the strategy and/or risk appetite would be reviewed.

An exposure limit is set annually and is reflected in the amount of Pillar 2A capital the Group holds against interest rate risk.

Control

Interest Rate Risk is controlled through portfolio monitoring and monthly stress testing.

Monitor

Interest Rate Risk profile and exposure is monitored against risk appetite monthly through the Asset & Liability Committee. The top 5 metrics or limits are summarised as follows:

Group portfolio Risk	Metric / Limit
Overall exposure	Portfolio Present Value change due to yield curve parallel shift
Exposure to different yield curve shift	Portfolio Present Value change due to non-parallel yield curve movements as prescribed by EBA
Short vs Long mismatch	Portfolio Present Value change due to yield curve shift in certain specified time buckets
Fair Value exposure	Fair Value change due to yield curve parallel shift
Basis risk mismatch	% non-discretionary rate net exposure % assets

Review

Each year the exposure limit is reviewed and the ICAAP processes reviews the capital allocation of Interest Rate Risk.

Outlook

The Group is naturally relatively well matched and, subject to market demand and pricing, will continue to seek out matching assets and liabilities. Recognising that this is not always possible, the Group plans to complete its build out of the legal, accounting and risk management infrastructure to be able to enter into simple interest rate swaps for the purpose of interest rate hedging during the course of 2022.

Liquidity Risk

Liquidity within the Group is actively monitored by the Group's Treasury function using a range of indicators and reported to the Asset and Liability Committee and the Board on a monthly basis. Additionally, a range of daily and intra-day reports are used to monitor liquidity.

As part of this monitoring the key metric used is the Liquidity Coverage Ratio ('LCR'). The LCR shows the proportion of high-quality liquid assets held by the Group which are available to meet the required outflows of the organisation over a stressed 30-day period. The Group has remained well in excess of the regulatory required LCR of 100% throughout the past financial year.

This table shows the Group LCR as at 30 September 2021.

Liquidity Coverage Ratio (£000's)	**2021**	**2020**
Liquidity buffer	38,501	106,901
Net liquidity outflow	17,251	22,228
LCR%	**223.2%**	**480.9%**

The fall in liquid assets year on year is driven primarily by a reduction in holdings of UK Government Gilts and Treasury Bills. The impact has been to reduce the liquidity coverage ratio from 480.9% to 223.2%. This decrease was expected following the reduction of surplus liquidity related to the banking authorisation in the prior year.

Whilst this is a significant reduction, this ratio is still a long way above the regulatory requirement of 100% and all internal minimum targets.

Operational Risk

Sources of Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. The Group incurs operational risk in all its operations. The risks are amplified in its customer lending and deposits and financial operations where failures can result in large scale losses.

Appetite

The Group incurs operational risk as a by-product of its lending and funding activities and seeks to limit its exposure.

Each year the Group reviews a base case financial forecast and severe but plausible stress test, taking into account the prevailing operational loss frequencies and costs. In the event that operational risk caused excessive losses then the strategy and or exposure limit would be reviewed.

The amount of Pillar 2A Capital the Group holds in respect of operational risk is set in by referencing a severe combined stress event including multiple correlated operational losses.

Control

Operational risk is controlled through a wide variety of controls appropriate to each individual risk. Where possible and cost-effective controls are automated. Examples of controls include:

Whole Group Risk	Control
Cyber	3rd party monitoring of Cloud Estate for attacks
Inappropriate customer interactions	Risk based Quality Assurance call monitoring programme for customer facing staff
Unfair customer promotions	Independent compliance sign off for all promotional material
Money laundering	Automated AML, PEPS & Sanctions checking for high volume business units; manual checks otherwise
Data integrity	Automated reconciliations between payments and core platform in high volume business units; manual reconciliations otherwise

Monitor

Operational risk performance is monitored against risk appetite monthly through the Conduct and Operational Risk Committee. Top 5 metrics or limits are summarised as follows:

Whole Group Risk	Metric / Limit
Control Failings	Breaches or near misses by type
Inadequate infrastructure	Technology outages or similar failures
Cyber	Attacks detected / incurred
Impact of losses	Estimated cost of operational losses
Process errors	% of colleagues passing Quality assurance

Review

Each year the independent Risk Function facilitates a Risk and Controls Self Assessment for every area of the business, including a scoring methodology designed to evaluate control effectiveness and identify unacceptable levels of risk.

Outlook

The Group has a significant reliance upon manual processes and controls. Recognising that this reliance creates a high inherent risk of control failure, the Group has instituted a change programme to deliver greater automation. The Group plans to re-platform its Property origination eco-system and Property data and to enhance its Property servicing platform during the course of 2022.

Capital Requirement

The operational risk capital charge for the Group under Pillar 1 is calculated using the Basic Indicator Approach as per Chapter 2 of Title III of the CRR, whereby a 15 per cent multiplier is applied to the 3-year historical average net interest and fee income to calculate the own funds requirement.

The below table shows the Operational Risk exposure and own funds for the Group as at 30 September.

Operational Risk under the BIA (£000's)	2021	2020
Own funds requirement	5,183	5,092
Total operational risk exposure amount	64,784	63,652

The Capital requirement in relation to operational risk is driven by the overall operating income of the Group, calculated by taking an average of the last 3 years of audited results.

Following the signing of the latest financial statements, the average operating income has increased marginally resulting in a small increase in the operational risk own funds requirement.

Remuneration Policy

As a UK Dual-Regulated firm, the Group must comply with all relevant remuneration requirements published by the FCA, the PRA and the European Banking Authority (EBA) subject to the application of proportionality. As a result of these requirements, the Group must establish, implement, and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale, and complexity of the firm's activities.

The Group follows the PRA and FCA rules and guidance on pay and reward, as set out in the BIPRU Remuneration Code (the Code). The Code is applied to regulated firms based upon three proportionality categories defined by the PRA: The Group is categorised as Tier 3.

The PRA Remuneration Code requires firms to identify Material Risk Takers (MRTs), being those colleagues, whose activities have a material impact on the firm's risk profile and to take reasonable steps to ensure MRTs understand the implications of their status. The Group identified 20 individual's as MRTs for the financial year ended 30 September 2021.

The Group's approach in relation to remuneration reinforces its core values by ensuring that its employees are incentivised and rewarded for focusing on customer satisfaction and engaging in behaviours that are aligned with the long-term success of the business whilst delivering value for shareholders and avoiding unnecessary risk-taking.

Remuneration Committee

The Remuneration Committee (RemCo) is a sub-committee of the Board and is responsible for establishing clear remuneration principles and standards of governance. It reviews, amends (if appropriate) and approves the Group Remuneration and Reward Policy annually, taking into account general economic conditions, business performance, the regulatory environment and conduct / other considerations.

RemCo review levels of remuneration across the firm to ensure that the firm remains competitive in attracting and retaining individuals of high calibre, whilst also ensuring that the right behaviours are rewarded.

RemCo is comprised of three non-executive members of the management body, two of whom are independent. The Committee meets formally four times a year, although it can meet more frequently as required. There were 4 meetings during the financial year ended 30 September 2021.

Only members of the Committee have the right to attend and vote. However, during the year the CEO and Chief People Officer have attended meetings by invitation when appropriate or necessary. No individual is present at discussions relating to their own remuneration.

RemCo Terms of Reference provide the criteria for determining the appropriateness of individual remuneration. The Committee may take external professional advice as appropriate.

Remuneration for members of the management body is approved by RemCo on recommendation of the Chairman. Material changes in remuneration for members of the senior management is approved by RemCo on the recommendation of the CEO.

During the year the Committee undertook the following activities:

- Mid-year and year-end performance reviews and distribution curves
- Annual salary review and discretionary bonus allocation
- Remuneration Policy Statement
- Remuneration Risk Adjusted Framework Policy
- Sales Incentive Scheme (Omni & Property)
- Oversight of the Gender Pay analysis (albeit there is no legal requirement at this stage given the current size of the Bank)
- Oversight of the LTIP scheme
- Job levelling and salary benchmark framework
- Total compensation benchmark review of Executive Committee roles

RemCo's Terms of Reference were last reviewed in March 2021.

Recruitment and Selection

The Group is committed to its Equal Opportunity Policy at every stage. The purpose of this policy is to provide a sound framework for the recruitment and selection of colleagues based upon key principles, which also meet the requirements of the Equality Act 2010 and all other relevant employment legislation.

The Group aims to avoid discrimination in relation to recruitment and selection, including selection for promotion, development, training and redundancy. Recruitment and selection will be based on merit using objective and competency-based selection criteria. When vacancies are advertised, the Bank ensures that the placement and content of such advertising is compatible with equal opportunities aims and principles and that no applicants with protected characteristics are unintentionally excluded or discouraged.

Remuneration policy and structure – linking pay and performance

The Remuneration Policy and Remuneration Risk Adjusted Framework ensure greater alignment between risk and individual reward, discourage excessive risk taking and short-termism, encourage more effective risk management and support positive behaviours and a strong and appropriate conduct culture within the Group.

The overall aim of the Group Remuneration and Reward Policy is to attract, motivate and retain individuals of high calibre who can deliver sustained performance consistent with strategic goals, appropriate risk management and to reward them for enhancing value.

The following key principles underpin these themes:

- Attract and retain high calibre colleagues;
- Remuneration will not be excessive;
- Remuneration is aligned to the long-term success of the business;
- Proportion of variable pay is appropriate and balanced and has due regard to any impact of risk;
- No reward for under-performance;
- No conflict of interest in decision making processes; and
- It is fair and equitable, reflecting the Group's commitment to diversity and equality of opportunity.

The Group introduced a formal job grading structure with salary bands in 2021, which supports the key principles noted above and provides clear pathways for career development within the organisation.

Changes in remuneration of senior management are made via recommendation to RemCo by the CEO and take account of individual performance among other important considerations, such as general economic conditions, market rates for similar jobs, business performance, conduct considerations, the competitiveness of total remuneration and the appropriateness of the blend of fixed, variable and/or deferred remuneration. RemCo will review the CEO's recommendation and has ultimate responsibility for the approval of remuneration.

Remuneration for non-executive members of the management body is reviewed on an individual case by case basis by RemCo following consultation with the shareholders. RemCo is guided but not bound by the policy rules, limits, and principles as they apply to senior management. RemCo will, in turn, make recommendations to the Board for its ultimate approval.

The table below summarises the key components of the Remuneration Policy that are applied to all MRTs (excluding Non-Executive Directors, whom a fixed fee is payable).

Remuneration Element	Purpose and Operation
Salary	Employees are paid a fixed base salary, which is reviewed annually at the end of the performance year (December), with any adjustments taking effect from 1 January each year. The level of fixed pay reflects the individual's experience, responsibilities, and contribution.
Annual Discretionary Bonus Scheme	Individual payments are considered on the overall performance of the Group against its plan of financial and non-financial measures, business unit performance and individual performance against agreed objectives, including alignment with corporate values and behaviours and the outcome of an independent risk adjustment process.
	Annual bonus payments are subject to malus and clawback provisions for the CEO and CFO; for the year ending 30th September 2022 this will be extended to MRTs.
Quarterly Discretionary Bonus Scheme	Commercial colleagues in the Omni and Property business functions are eligible to participate in this scheme. Payments are considered on the basis of achievement against sales targets and non-financial risk objectives, including alignment with values and behaviours and the outcome of independent risk adjustment.
	Quarterly bonus payments are subject to malus and clawback provisions for all participants.
Pension	New joiners are automatically enrolled into the Group's pension scheme after 3 months service unless they chose to opt in earlier. They can also opt out at any time.
	ExCo members have the option to receive a cash allowance in lieu of a pension contribution, which is paid monthly at the same rate as employer pension contributions.
Benefits	In order to provide a competitive and appropriate benefits package, employees also receive benefits including EAP, healthcare cover, life insurance, Perkbox, holiday allowance, annual flu vaccination, eye-care voucher and discounted gym membership.
Long Term Incentive Plan (LTIP)	LTIP is offered to senior colleagues by invitation only, is share based and vests over a 4 year period.

Design Characteristics of the Remuneration System

All remuneration will contain a fixed salary element. Dependent on the role and level of experience, each member of the senior management may receive one or more additional optional benefits. Where an optional benefit is offered and taken up, it will become an element of fixed remuneration. Variable remuneration is not guaranteed and is dependent upon organisation performance in terms of corporate goals, targets, and risk triggers, as well as individual performance against individual objectives, which include conduct considerations.

In the absence of traded or new equity, variable remuneration may take the form of cash bonuses.

Deferred remuneration is provided through the LTIP which is entirely share based. Members of management are awarded B shares (held by a nominee) which provides them with a beneficial interest in the Group's holding company, CTC Holdings (Cayman) Limited. The scheme is equity settled and vests over a period of four years.

Total Remuneration

The total remuneration of the Group's employees in the year ended 30 September 2021 was £15,013k (£14,604k in 2020), this agrees to the Statutory Accounts and includes wages and salaries, social security costs, company contributions to defined pension plans, termination costs and other personnel costs. The Group does not operate disclosable business units.

Material Risk Takers (MRTs)

The number of MRTs during the financial year ended 30 September 2021 is 20. NEDs are not included in variable pay schemes.

Remuneration Type (£000's)	Aggregate Remuneration (2021)
Fixed Remuneration (including BIK and Pension contributions)	3,264
Variable Remuneration (cash)	428
Total	3,692

In the prior year Pillar 3 Remuneration Policy disclosures, the total fixed and variable reward of the Group's code staff was disclosed for the year ended 30 September 2020 which has now been replaced with MRTs. This is prepared on a different basis to the MRT remuneration in the table above and therefore has not been included as a comparator.

11 of the MRTs participate in the LTIP. There were no individuals remunerated more than €1m in the financial year ended 30 September 2021 for services to the Group.

Castle Trust Bank

Appendix 1. Own Funds Disclosures

The figures in the below table are as at 30 September

Common Equity Tier 1 capital: instruments and reserves (£000's)	2021	2020
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	81,497	81,497
of which: Ordinary Shares	81,497	81,497
Retained earnings	(44,448)	(60,370)
Accumulated other comprehensive income (and other reserves)	58,120	57,916
Common Equity Tier 1 capital before regulatory adjustments	95,168	79,043
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	6,921	8,405
Intangible assets (net of related tax liability)	(5,230)	(5,454)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(11,550)	0
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(9,858)	2,951
Common Equity Tier 1 (CET1) capital	**85,310**	**81,994**
Tier 1 capital (T1 = CET1 + AT1)	**85,310**	**81,994**
Total capital (TC = T1 + T2)	85,310	81,994
Total risk weighted assets	494,624	477,452
Capital Ratios and Buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.2%	17.2%
Tier 1 (as a percentage of total risk exposure amount)	17.2%	17.2%
Total capital (as a percentage of total risk exposure amount)	17.2%	17.2%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	2.50%	2.50%
of which: capital conservation buffer requirement	2.50%	2.50%
of which: countercyclical buffer requirement	0.00%	0.00%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.98%	5.90%

Appendix 2. Capital Instruments

Capital instruments' main features template	
Issuer	Castle Trust Holdings Limited
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
Governing law(s) of the instrument	English
Regulatory treatment	
Transitional CRR rules	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1
Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Solo and Consolidated
Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
Amount recognised in regulatory capital (£m - 30 September 2021)	81.497
Nominal amount of instrument	0.001
Issue price	Various
Redemption price	N/A
Accounting classification	Shareholder' Equity
Original date of issuance	Various
Perpeptual or dated	Perpetual
Original maturity date	N/A
Issuer call subject to prior supervisory approval	N/A
Optional call date, contingent call dates, and redemption amount	N/A
Subsequent call dates, if applicable	N/A
Coupons / dividends	
Fixed or floating dividend/coupon	N/A
Coupon rate and any related index	N/A
Existence of a dividend stopper	N/A
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Existence of step up or other incentive to redeem	N/A
Noncumulative or cumulative	Non cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	N/A
If convertible, fully or partially	N/A
If convertible, conversion rate	N/A
If convertible, mandatory or optional conversion	N/A
If convertible, specifiy instrument type convertible into	N/A
If convertible, specifiy issuer of instrument it converts into	N/A
Write-down features	N/A
If write-down, write-down trigger (s)	N/A
If write-down, full or partial	N/A
If write-down, permanent or temporary	N/A
If temporary write-down, description of write-up mechanism	N/A
Position in subordination hierachy in liquidation	N/A
Non-compliant transitioned features	N/A
If yes, specifiy non-compliant features	N/A

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Appendix 3. Omissions

The Group has omitted a number of disclosures on the basis of relevance which are summarised in the below table. The CRR article references are taken from the Capital Requirements Regulation (EU) number 575/2013.

CRR Article	Summary	Reasoning for Omission
439	Exposure to counterparty credit risk	The Group does not have any exposures to counterparty credit risk.
441	Indicators of global systemic importance	Castle Trust Bank is not identified as a G-SII in accordance with Article 131.
442	Credit Risk adjustments	Disclosures for credit risk exposures by industry or counterparty type are excluded on the basis of materiality.
443	Unencumbered assets	The Group does not currently have any encumbered assets
444	Use of ECAIs	The Group does not currently use any ECAI's as assess any external counterparties.
445	Exposure to market risk	As at the reporting date, the Group did not currently have a trading book nor meet specific thresholds for market risk.
447	Exposures to equities not included in the trading book	As at the reporting date, the Group did not currently have a trading book.
449	Exposures to securitisation positions	As at the reporting date, the Group did not have an exposure to any securitisation positions.
452	Use of IRB Approach to credit risk	Currently the Group performs its Credit Risk under the Standardised Approach.
454	Use of the Advanced Measurement Approaches to operational risk	Currently the Group performs its Operational Risk under the Basic Indicator Approach.
455	Use of Internal Market Risk Models	As at the reporting date, the Group did not currently have a trading book.

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Appendix 4. Bank Disclosures

The following tables detail the capital reporting disclosures for Castle Trust Capital plc ('the Bank') as a standalone solo legal entity. In the prior year the Bank's' disclosures also incorporated the financial performance and balances of Castle Trust Capital Management Limited and Castle Trust Direct plc.

Capital Resources

The table below summarises the composition of the Bank's regulatory capital as at 30 September 2021.

Regulatory Capital Breakdown (£000's)	2021	2020
Share capital	15,217	15,217
Share Premium	124,195	124,195
Retained earnings	(47,654)	(54,596)
Other reserves	205	0
Value adjustments for prudent valuation	(6)	(7)
Deductions for Intangible assets	(4,186)	(4,343)
Deductions for deferred tax assets that rely on future profitability	(8,743)	0
Deductions due to significant investments	(8,217)	(9,478)
Adjustments due to IFRS 9 transitional arrangements	867	1,053
Total Common Equity Tier 1 (CET1) capital / Total capital	**71,677**	**72,042**

Capital Adequacy

The table below summarises the composition of the Bank's risk weighted assets and capital ratios as at 30 September 2021.

Breakdown of Risk Weighted Assets (£000's)	2021	2020
Credit Risk	311,424	323,744
Market Risk	0	0
Operational Risk	47,825	48,562
Total Risk Weighted Assets	**359,249**	**372,306**
Common Equity Tier 1 capital ratio	**20.0%**	**19.4%**

Minimum Capital Requirement for Pillar 1

As the Bank currently has no requirements for market risk or credit valuation adjustment (CVA) the Bank's capital requirements are based on capital resource requirements for credit risk and operational risk. The figures in the below table are as at 30 September 2021.

Capital Resource Requirements and surplus (£000's)	2021	2020
Credit Risk	24,914	25,900
Market Risk	0	0
Operational Risk	3,826	3,885
Total Capital Resource Requirement for Pillar 1	**28,740**	**29,784**
Total Capital Resources	**71,677**	**72,042**
Capital Resources surplus over Pillar 1	**42,937**	**42,258**
Pillar 2a requirement	11,747	12,174
Capital Resources surplus to Total Capital Requirement	**31,190**	**30,083**

Leverage Ratio

The three tables below summarise the composition of the Bank's Leverage Ratio as at 30 September 2021.

Summary reconciliation of accounting assets and leverage ratio exposures (£000's)	2021	2020
Total assets as per published financial statements	659,269	742,278
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,515	2,182
Other adjustments	(14,426)	(13,827)
Leverage ratio total exposure measure	**647,358**	**730,632**

Leverage ratio common disclosure (£000's)	2021	2020
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	659,269	742,278
(Asset amounts deducted in determining Tier 1 capital)	(14,426)	(13,827)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**644,843**	**728,451**
Off-balance sheet exposures at gross notional amount	12,575	11,933
(Adjustments for conversion to credit equivalent amounts)	(10,060)	(9,751)
Other off-balance sheet exposures	**2,515**	**2,182**
Tier 1 capital	**71,677**	**72,042**
Leverage ratio total exposure measure	**647,358**	**730,632**
Leverage ratio	**11.1%**	**9.9%**

Split-up of on balance sheet exposures (£000's)	2021	2020
Total on-balance sheet banking book exposures, of which:	659,269	742,278
Exposures treated as sovereigns	*38,500*	*106,911*
Institutions	*196,482*	*168,203*
Secured by mortgages of immovable properties	*315,879*	*341,983*
Retail exposures	*44*	*72*
Corporate	*0*	*0*
Exposures in default	*57,860*	*58,956*
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	*50,503*	*66,152*

Credit Risk

The table below summarises the exposure class composition of the Bank's risk weighted assets:

30 September 2021.

Exposure class composition of exposures subject to standardised credit risk	Exposures (£000's)	RWA (£000's)	Minimum Capital Requirement (£000's)
Central governments or central banks	38,500	0	0
Institutions	196,482	27,182	2,175
Retail	44	33	3
Secured by mortgages on immovable property	318,369	156,438	12,515
Exposures in default	57,860	85,358	6,829
Items associated with particular high risk	25,214	37,820	3,026
Other items	4,142	4,592	367
Total	**640,611**	**311,424**	**24,914**

30 September 2020.

Exposure class composition of exposures subject to standardised credit risk	Exposures (£000's)	RWA (£000's)	Minimum Capital Requirement (£000's)
Central governments or central banks	106,911	0	0
Institutions	168,203	25,190	2,015
Retail	72	54	4
Secured by mortgages on immovable property	343,960	135,774	10,862
Exposures in default	58,956	86,965	6,957
Items associated with particular high risk	46,860	70,289	5,623
Other items	5,472	5,472	438
Total	**730,434**	**323,744**	**25,900**

Own Funds Disclosure

The figures in the below table are as at 30 September 2021.

Common Equity Tier 1 capital: instruments and reserves (£000's)	2021	2020
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	139,413	139,413
of which: Ordinary Shares	15,217	15,217
Retained earnings	(47,654)	(54,596)
Accumulated other comprehensive income (and other reserves)	205	0
Common Equity Tier 1 capital before regulatory adjustments	91,963	84,816
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	(7,356)	(8,431)
Intangible assets (net of related tax liability)	(4,186)	(4,343)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(8,743)	0
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(20,286)	(12,774)
Common Equity Tier 1 (CET1) capital	**71,677**	**72,042**
Tier 1 capital (T1 = CET1 + AT1)	**71,677**	**72,042**
Total capital (TC = T1 + T2)	71,677	72,042
Total risk weighted assets	359,249	372,306
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**20.0%**	**19.4%**
Tier 1 (as a percentage of total risk exposure amount)	20.0%	19.4%
Total capital (as a percentage of total risk exposure amount)	20.0%	19.4%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	2.50%	2.50%
of which: capital conservation buffer requirement	2.50%	2.50%
of which: countercyclical buffer requirement	0.00%	0.00%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.68%	8.08%

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