Secure Trust Bank Plc

Pillar 3 disclosures for the year ended 31 December 2016

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1. Overview

1.1 Background

This document sets out the Pillar 3 disclosures for Secure Trust Bank Plc and its subsidiaries (the Group) as at 31 December 2016. These disclosures provide information on the capital requirements and on the management of key risks faced by the Group.

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

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

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

Further details on risks are included in the "Principal Risks and Uncertainties" section within the 2016 Annual Report and Accounts, which can be found in the investor section of the Secure Trust Bank's website (www.securetrustbank.com/investor-information).

1.2 Basis of disclosures

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

1.3 Content of Report

The Pillar 3 report is issued annually in conjunction with the 2016 Annual Report and Accounts. Pillar 3 disclosures are also required to be issued at the half year and at the March and September quarter ends, although these incorporate a reduced level of information.

1.4 Media and location

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

1.5 Verification

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

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

2. Risk Management

2.1 Risk Overview

The Board has assessed that the principal risks that are inherent in the Group's business, and could impact on its business model, financial performance and future prospects, are as follows:

Risk	Description
Credit Risk	The risk that a counterparty will be unable to pay amounts in full when due
Market Risk	The risk that the value of, or revenue generated from, the Group's assets and liabilities is impacted as a result of market movements, predominantly interest rates
Liquidity Risk	The risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset
Operational Risk	The risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than the risks identified above
Capital Risk	The risk that the Group will have insufficient capital resources to support the business
Conduct Risk	The potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff
Regulatory Risk	The risk that the Group fails to be compliant with all relevant regulatory requirements

2.2 The Risk Governance Structure

The Group's risk management framework supports decision-making across the Group and is designed to ensure that each risk is managed, monitored and overseen through a dedicated risk-specific committee. The Group operates a "Three Lines of Defence" model for the management of its risks in which each risk has a defined risk appetite which is controlled and managed through documented policies and frequent reporting, and is overseen by one or more committees as part of the Group's governance process.

The Group's risk management framework is summarised in the table below, which sets out for each risk the relevant policy governing the risk, the method of reporting and the responsible committee(s).

Risk	Credit	Market	Liquidity	Operational	Capital	Conduct	Regulatory
Key control documents	Consumer Credit Risk Policy Business and Commercial Credit Risk Policy	Treasury Policy and ILAAP	Treasury Policy and ILAAP	Operational Risk Policy and Framework	ICAAP and Other Capital Reports	Conduct Risk Policy	Compliance Manual
Reporting	Credit Risk Reports	ALCO and Treasury Reports	ALCO and Treasury Reports	Operational Risk MI and Reporting	ICAAP and Other Capital Reports	Conduct Risk MI and Reporting	Compliance Reports
Monitoring committee	Consumer Credit Risk Committee SME Credit Committee	ALCO	ALCO	Group and Business Level Operational Risk Committees	ALCO	Customer Focus Committee	Group Compliance and Regulatory Risk Committee
Oversight committee	Risk Committee	Risk Committee	Risk Committee	Risk Committee	Risk Committee	Risk Committee	Risk Committee

2.3 Operation of Risk Management Process

The "Three Lines of Defence" model is implemented by the following individuals and/or units within the Group. These are:
(1) Business Line Managers and Risk Owners;
(2) Risk and Compliance Functions; and
(3) Internal Audit.

Each line of defence effectively ensures a robust operational risk framework within the Group. The Group ensures that each line understands its respective responsibilities and those of the other lines, and has the appropriate resource and expertise in order to fulfil its responsibilities.

First Line of Defence – Business Line Managers and Risk Owners: As the First Line of Defence, the management and staff of each business unit are responsible and accountable for identifying, assessing, controlling and mitigating operational risks. They are the owners of the risks and controls that operate within their business or function. However there may be additional controls that are managed for them elsewhere within the business or functional teams.

Each business unit or subsidiary is responsible for the recording and maintenance of its own risks, and is subject to an annual review and challenge, presented to the Group Operational Risk Committee and the Board Risk Committee. Risks may be managed by a designated manager, but the risk owner is ultimately accountable for the risks in their business.

Second Line of Defence – Information Security, Operational Risk, Financial Crime and Compliance Teams: The role of the Second Line of Defence is to support and guide the Group in order to operate within the risk appetite, by assisting the business in assessing and controlling operational risks, and by reporting to the Board and group risk committees on the effectiveness of the controls. The Second Line of Defence enables the Group to adopt a common strategy and approach to operational risk management. It sets Group-wide policies and designs an operational risk management framework that helps businesses to control risks and that provides consistent insight into the risk profile.

Third Line of Defence – Group Internal Audit: Group Internal Audit periodically gives independent assurance on the organisational setup and effectiveness of operational risk management within the Group. The Third Line of Defence acts as an additional control to prevent risks from remaining unidentified.

Internal Audit provides the Audit Committee, the Board and Senior Managers with detailed independent and objective assurance on the effectiveness of the governance, operational risk management, and internal controls. This includes the manner in which the First and Second Lines of Defence achieve risk management and control objectives.

The scope of this assurance covers a broad range of objectives, including:

- efficiency and effectiveness of operations
- safeguarding of assets
- reliability and integrity of reporting processes
- compliance with laws, regulations, policies, procedures, and contracts.

All elements of the risk management and internal control framework are considered to be within its scope including the internal control environment and the overall risk management framework. The remit extends to a number of areas: group-wide processes; subsidiaries; business units and enabling functions, business processes including customer lifecycle, sales, marketing and operations, and enabling functions such as finance, HR, operational risk, compliance and IT.

The monitoring and control of risk is a fundamental part of the management process within the Group, involving the Board, Risk Committee and Audit Committee. The following committees also form a key part of the Group's risk management governance structure:

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee is a sub-committee of the Risk Committee and is responsible for implementing and controlling the liquidity and asset and liability management risk appetite of the Group, ensuring the high level control over the Group's balance sheet and associated risks. The committee sets and controls capital deployment, Treasury strategy guidelines and limits focusing on the effects of the future plans and strategy on the Group's assets and liabilities.

Consumer Credit Risk Committee

This committee ensures that there is control of credit and lending decisions and related risks. Retail, Motor and Personal Lending loans are reviewed in alternate months to ensure a detailed analysis is undertaken of the entire portfolio. This committee determines whether the credit strategies and risk polices are working and will make recommendations on any changes required.

SME Credit Committees
The Group operates a Credit Committee structure for its Business Finance division with lending authorities approved at the Board Risk Committee. There is no local sales authority with all deals going via the respective Credit Risk functions for manual underwrite and where required under the mandate approval at the STB Credit Committee level.

Group Operational Risk Committee
This committee reviews and monitors the adequacy, the implementation and the level of embeddedness of the operational risk management framework across the Group. It recommends and undertakes improvements where required. The committee assesses the operational risks across the Group and recommends, initiates and monitors any further mitigating action required.

Group Compliance and Regulatory Risk Committee
This committee reviews and monitors regulatory change with which the Group is required to comply and it provides oversight that appropriate co-ordinated and controlled action is taken to deliver the required changes to an acceptable standard, which achieves compliance in a timely manner. This committee also reviews and approves the compliance risk management framework, the compliance universe and annual monitoring plan, anti-money laundering and financial crime systems of governance and control. It ensures that the Compliance function offers close and continual support to the first line of defence in understanding regulatory requirements and delivery of required outcomes.

Customer Focus Committee
This committee reviews and challenges customer experience ensuring its treating customers fairly principles, conduct risk and customer service excellence requirements are met and good customer outcomes are achieved.

Information Security Management Committee
This committee oversees the Group’s management of information, including safeguarding the personal information of its customers.

2.4 Qualitative Information on Stress Testing

Stress testing of the bank’s capital position is performed as part of the annual Internal Capital Adequacy Assessment Process (ICAAP), the outputs of which are approved by the Board and made available to the Prudential Regulatory Authority (PRA).

The stress scenarios adopted are modelled across all the Group’s product lines and include a ‘macro-economic’ scenario, which is based on PRA issued guidance, a harsher ‘severe shock’ scenario and a ‘reverse stress test’ scenario which evaluates the combination of stresses which would result in the capital of the bank falling to a level at which it would be unable to continue to trade. The results of the stress scenarios are considered with and without the impact of mitigating management actions.

A similar scenario modelling process is utilised to ensure that the Group holds sufficient liquidity in times of severe stress to continue to meet its liabilities as they fall due. The results of this are made available to the PRA annually through the annual Internal Liquidity Adequacy Assessment Process (ILAAP).

2.5 Scope and main features of risk measurement systems and processes used to hedge and mitigate risks

Credit Risk

Credit risk is managed through the Group's internal controls and credit risk policies and is monitored on a monthly basis by the Credit Risk Committee, with oversight provided by the Board Risk Committee. The Credit Risk Committee reviews the performance of significant portfolios including new business volumes, collections performance, provisioning levels and provisioning methodology across the Group's consumer and commercial business areas.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers or groups of borrowers.

Exposure to credit risk is also managed in part by obtaining collateral. Motor Finance loans are secured against motor vehicles. Real Estate Finance and Asset Finance loans are secured against property and tangible assets respectively.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

Market Risk

For the Group, market risk is primarily limited to interest rate risk, being the potential adverse impact on the Group's future cash flows from changes in interest rates arising from the differing interest rate risk characteristics of the Group's assets and liabilities. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the Group’s assets, liabilities and off-balance sheet instruments and hence its economic value. Changes in interest rates also affect the Group’s earnings by altering interest-sensitive income and expenses, affecting its net interest income.

The Group is also exposed to market risk as a result of the Non Standard Finance plc (NSF) Shareholding resulting from the Everyday Loans Group (ELG) disposal in April 2016. Any deterioration in NSF's financial performance could negatively impact the price of NSF's shares and reduce the value of the Group's holding in NSF exposing the Group to potential losses.

The principal currency in which the Group operates is Sterling, although a small number of transactions are completed in US dollars and Euros in the Commercial Finance business. All currency exposures are swapped to sterling. The Group has no significant exposures to foreign currencies and therefore there is no significant currency risk.

Market risk is managed by the Company's Treasury function and is overseen by the Assets and Liabilities Committee (‘ALCO’). The Group's policy is not to take significant unmatched own account positions in any market. The key measure used to monitor the risk is the Interest Rate Sensitivity Gap pursuant to which, the Group seeks to 'match' interest rate risk on either side of the Statement of Financial Position.

Liquidity Risk

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are the key factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

The liquidity requirements of the Group are met through withdrawing funds from its Bank of England reserve account to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The Group is exposed to daily calls on its available cash resources from maturing deposits and loan draw-downs, and maintains significant cash resources to meet all of these needs as they fall due.
The Group has a formal governance structure in place to manage and mitigate liquidity risk on a day to day basis. The Board sets and approves the Group's liquidity risk management strategy. The ALCO, comprising senior executives of the Group, meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and Internal Liquidity Adequacy Assessment Process ('ILAAP') metrics. Key liquidity risk management information is monitored daily. The Group has a Board approved ILAAP, which is updated annually. The liquidity buffer required by the ILAAP is in place and liquidity resources outside of the buffer are made up of deposits placed at the Bank of England.

Operational Risk

The Group has adopted an Operational Risk Policy and Framework designed in accordance with the 'Principles for the Sound Management of Operational Risk' issued by the Basel Committee on Banking Supervision. The approach ensures appropriate governance is in place to provide adequate and effective oversight of the Group's operational risk. The governance framework includes the Board Risk Committee and Group Operational Risk Committee. The Group has a defined set of qualitative and quantitative Operational Risk Appetite measures. Quantitative measures cover operational losses, complaints, key operational risks, systems' availability and information security. The appetite measures are reported and monitored on a monthly basis.

The Group's operational risk process and standards are defined and communicated through a formal Operational Risk Framework and Policy. This Framework defines and facilitates the following activities:

- A biannual Risk and Control Self Assessments process to identify, assess and mitigate risks across all business units through improvements to the control environment.
- The Governance arrangements for managing and reporting these risks.
- All risk appetite measures and associated thresholds and metrics.
- An incident management process that defines how incidents should be managed and associated remediation, reporting and root-cause analysis.

Capital Risk

Capital risk is the risk that the Group will have insufficient capital resources to meet minimum regulatory requirements and to support the business. The Group adopts a conservative approach to managing its capital and at least annually assesses the robustness of the capital requirements as part of the Group's Internal Capital Assessment Adequacy Process ('ICAAP').

The Group's capital management policy is focused on optimising shareholder value, in a safe and sustainable manner. The Board regularly reviews the capital position to ensure capital resources are sufficient to support planned levels of growth.

In accordance with the EU's Capital Requirements Directive IV ('CRD IV') and the required parameters set out in the EU's Capital Requirement Regulation, the Group maintains an ICAAP which is updated at least annually. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.
Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a 'Pillar 1 plus' approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequately to cover management's

anticipated risks. Where it is considered that the Pillar 1 calculations do not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Individual Capital Guidance issued by the PRA.

Conduct Risk

The Group defines conduct risk as the risk that the Group's products and services, and the way they are delivered, result in poor outcomes for customers, or harm to the Group. This could be as a direct result of poor or inappropriate execution of the Group's business activities or staff behaviour.

The Group takes a principles based approach and includes retail and commercial customers in its definition of 'customer', which covers all business units and both regulated and unregulated activities.

Across the Group, conduct risk exposure is managed via monthly review and challenge of key risk indicators ('KRIs') at the Customer Focus Committee. Conduct risk management information is also reviewed at Executive Committee meetings at product level.

The Key Risk Indicators vary across the business units to reflect the relevant conduct risks; the business units' Key Risk Indicators are aggregated for measurement against the Group's risk appetite, which is reported to the Group Executive Committee and the Board.

Regulatory Risk

Regulatory risk is the risk that the Group fails to be compliant with all relevant regulatory requirements. This could occur if the Group failed to interpret, implement and embed processes and systems to address regulatory requirements, emerging risks, key focus areas and initiatives or deal properly with new laws and regulations.

The Group seeks to manage regulatory risks through the Group wide risk management framework. The Group Compliance and Regulatory Risk Committee is responsible for reviewing and monitoring regulatory changes, and ensuring that appropriate actions are taken, and also reviewing and approving the compliance risk management framework.

2.6 Overview of Risk Weighted Assets

		a	b	c
		RWA		Minimum Capital Requirements
		2016 £'m	2015 £'m	2016 £'m
1	Credit Risk (excluding counterparty credit risk) CCR	1,147.7	862.6	91.8
2	Of which standardised approach (SA)	1,147.7	862.6	91.8
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	119.2	136.0	9.5
20	Of which Basic Indicator Approach	119.2	136.0	9.5
21	Of which Standardised Approach	-	-	-
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the threshold for deduction (subject to 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	1,266.9	998.6	101.4

The increase of 33% in the credit risk RWA is attributable to the 21% increase in total assets in the year, from £1,247m to £1,510m, and the impact of a change in the business mix. Changes in RWA guidance, specifically real estate development loans, which are now weighted at 150% (2015: 100%), contributed to the overall increase. Further detail is provided in section 4 below.

The operational risk requirement has reduced year on year, from £136m to £119m, following the sale of the Everyday Loans Group in April 2016.

3 Capital Resources

The table below summarises the composition of regulatory capital for the Group as at 31 December 2016:

	2016 £'m	2015 £'m
Tier 1		
Share capital	7.4	7.3
Share premium	81.2	79.3
Retained earnings	140.2	53.1
Revaluation reserve	1.2	0.2
Goodwill	(0.3)	(0.3)
Intangible assets net of attributable deferred tax	(5.9)	(3.8)
Available for sale reserve (1)	(2.8)	-
Common Equity Tier 1 capital	**221.0**	**135.8**
Tier 2		
Collective allowance for impairment of loans and advances (2)	5.3	3.1
Total Tier 2 capital	**5.3**	**3.1**
Total Tier 1 & Tier 2	**226.3**	**138.9**

(1) The available for sale reserve relates to an investment holding which was acquired during 2016 through the sale of the Everyday Loans Group Ltd to Non Standard Finance plc.
(2) Includes assets held for sale as at 31 December 2015 but not 31 December 2016.

4 Capital Adequacy

In order to protect the capital adequacy of the Group, internal capital is held to provide a cushion for unexpected losses. In assessing the adequacy of its capital, the Group considers its risk appetite, the material risks to which the Group is exposed and the appropriate management strategies for each of the Group's material risks, including whether or not capital provides an appropriate mitigant.

The Internal Capital Adequacy Assessment Process (ICAAP) is a key element of the Group's implementation of the EU Capital Requirements Directive (CRD). It is a process that brings together the risk management framework of the Group and the financial discipline of budgeting and business planning.

The ICAAP is reviewed and updated each year in conjunction with the annual budget process, unless there are any changes in the control environment or other events that warrant a more immediate update. When performing the annual update the Board will review the continued appropriateness of the stated risk appetite and compare it against actual performance. It will also request the performance of stress testing, to assess the Group's capital adequacy in a range of scenarios.

The Group's capital management policy is focused on optimising shareholder value over the long-term. Processes exist to ensure that capital is allocated to achieve targeted risk adjusted returns whilst ensuring appropriate surpluses are held above the minimum regulatory requirements. The Board reviews the capital position at every Board meeting

The Board has adopted the PRA Pillar 2A capital guidance methodology to determine the level of capital that needs to be held. This method takes the Pillar 1 capital formula calculations (for credit, market and operational risk) as a starting point and then considers whether each of these calculations delivers an adequate capital sum to cover all anticipated risks. Where the PRA and Board consider that the Pillar 1 calculations do not adequately reflect the risks, additional Pillar 2A capital is held.

The following table shows the Group's Pillar 1 capital requirements by asset class (credit risk requirements represent gross exposures and exposures after credit risk mitigants):

Pillar 1 Requirement	2016	2015
Credit Risk requirements arising from exposures to:	£'m	£'m
Institutions	0.3	0.2
Corporates	12.2	5.3
Retail	38.6	35.1
Secured on immoveable property	35.9	25.3
Exposures in default	0.6	0.3
Other	4.3	2.8
Market risk capital requirement	-	-
Operational risk capital requirement	9.5	10.9
Total Pillar 1 Capital Requirement	**101.4**	**79.9**

The increase in the Pillar 1 requirement for corporates is driven by the year on year increase in bank balances held with other financial institutions. The 42% increase, from £25.3m to £35.9m in the requirement in respect of loans secured on immovable property is attributable both to growth of 23% in the overall portfolio, from £368m to £451m, and also an increase in the risk weighting for development loans from 100% to 150%. The operational risk capital requirement has reduced compared to the prior year due to the sale of Everyday Loans Group in April 2016.

5 Linkages between financial statements and regulatory exposures

5.1 Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement risk categories with regulatory risk categories

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Assets							
Cash and balances at central banks	112.0	112.0	112.0	-	-	-	-
Loans and advances to banks	18.2	18.2	-	18.2	-	-	-
Loans and advances to customers	1,321.0	1,321.0	1,321.0	-	-	-	-
Debt securities held to maturity	20.0	20.0	20.0	-	-	-	-
Equity instruments available for sale	13.5	13.5	13.5	-		-	-
Property, plant and equipment	11.4	11.4	11.4	-	-	-	-
Intangible assets	9.0	9.0	9.0	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Other assets	4.9	4.9	4.9	-	-	-	-
Total assets	**1,510.0**	**1,510.0**	**1,491.8**	**18.2**	**-**	**-**	**-**
Liabilities							
Due to banks	70.0	70.0	70.0	-	-	-	-
Deposits from customers	1,151.8	1,151.8	1,151.8	-	-	-	-
Current tax liabilities	1.7	1.7	1.7	-	-	-	-
Deferred tax liabilities	0.2	0.2	0.2				-
Other liabilities	49.0	49.0	49.0	-	-	-	-
Provisions for liabilities and charges	1.3	1.3	1.3	-	-	-	-
Total liabilities	**1,274.0**	**1,274.0**	**1,274.0**	**-**	**-**	**-**	**-**

Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
		£'m	£'m	£'m	£'m	£'m
1	**Asset carrying value under scope of regulatory consolidation (as per template LI1)**	**1,510.0**	**1,510.0**	**-**	**-**	**-**
2	Liabilities carying amount under regulatory scope of consolidation (as per template LI1)	1,274.0	1,274.0	-	-	-
3	Total net amount under regulatory scope of consolidation	236.0	236.0	-	-	-
4	Off balance sheet amounts	177.9	177.9	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9						
10	**Exposure amounts considered for regulatory reporting purposes**	**1,687.9**	**1,687.9**	**-**	**-**	**-**

Explanation of differences between accounting and regulatory exposure amounts

There are no differences between the reported carrying values within the financial statements and the regulatory balances as reported in our financial regulatory returns (template LI1).

The difference between our net carrying value per table LI1 of £1,510.0m and our regulatory reporting exposure amount of £1,687.9m (table LI2) is represented by off balance sheet commitments of £177.9m. These represent agreed loan facilities which remain undrawn at the balance sheet date.

Where financial assets are individually evaluated for impairment, management uses their best estimates in calculating the net present value of future cash flows. Management has to make judgements on the financial position of the counterparty and the net realisable value of collateral (where held), in determining the expected future cash flows.

The Group recognises identifiable assets and liabilities at their acquisition date fair values. The exercise of attributing a fair value to the balance sheet of the acquired entity requires the use of a number of assumptions and estimates, which are documented at the time of the acquisition. These fair value adjustments are determined from the estimated future cash flows generated by the assets.

6 Credit Risk

General qualitative information about credit risk

6.1 How the business model translates into the components of the bank's credit risk profile

The Bank's business model is predominately targeted at loans and advances to customers. The loan books are split into two distinct segments being Business Finance and Consumer Finance. Each of these segments is split further into their respective product areas.

Business Finance

For Real Estate Finance and Commercial Finance, lending decisions are made on an individual transaction basis, using expert judgement and assessment against criteria set out in the lending policies. Asset Finance lending is outsourced to Haydock, who operate in line with the Group's credit policies and risk appetite. The Group's employees based in Haydock's premises assess this lending for compliance with policy.

Lending to this segment has continued to grow, with continued application of robust risk governance, credit appetite and lending policies, alongside the significant experience within the lending teams. This has served the Group well to date as it continues to assess the impacts of the Referendum result, particularly in the Central London Real Estate Market, where risk appetite has been substantially reduced.

A programme to develop probability of default modelling for each of the Business Finance portfolios commenced in 2015 and is now entering into a testing and calibration phase. Ultimate delivery will be during 2017.

Consumer Finance

The Bank's Credit Risk appetite is managed by the employment of a bespoke scorecard. All applications are assessed against the scorecard and, in addition to being utilised to determine accepted and declined proposals; it is also the key determinant in the rate for risk model used in the Bank. The scorecard is utilised in association with a suite of policy rules that reject applicant's that may marginally pass the scorecard, yet the Bank has no appetite to write. For example customers who are insolvent, over-indebted, fraudulent or unable to manage their current repayments.

The Bank has confidence in the decisions made using the scorecard and policy rules and therefore has a low threshold for exceptions. Overrides are not permitted to exceed 0.05% by value per month. For 2016 the actual exception rate was 0.027% representing a total loan value of £162,000. Exposures are managed by maximum individual loan exposures of £15,000.

6.2 Criteria and approach used for defining credit risk management policy and for setting credit risk limits

The Secure Trust Bank strategy is to have a balanced lending portfolio that will constitute one third unsecured lending, one third secured residential lending and one third commercial finance, comprising asset finance, real estate finance and invoice finance. This composition is agreed by the Board. The Board also agrees maximum lending limits in terms of individual loan to customers and concentration risk to any one particular introducer.

6.3 Structure and organisation of the credit risk management and control function

The Bank operates a three lines of defence model to credit risk:

Underwriting and Quality Assurance - First Line of Defence Consumer Lending

The Underwriting and Operational Quality Assurance teams are the first line of defence, headed up by the STB Head of Motor Operations for Personal Lending and Motor portfolios, with the V12 Underwriting Manager having first line responsibility for the Retail Finance business.

Credit Committee Process - First Line of Defence Business Lending

Responsibility and accountability lies with the line management in the individual SME businesses. Line management are responsible for the identification and management of Credit Risk at business unit level including implementation of controls and reporting for the Bank in respect of all major risk events. Business Units are accountable for Credit Risk arising in their businesses and are the first line of defence for managing them.

Operational/ Credit Risk - Second Line of Defence

The Operational Risk and Credit Risk functions, inclusive of STB Credit Committee functions, are the second line of defence. Credit Risk is headed up by the STB Group Heads of Credit Risk (Consumer and Business). Reporting to the Chief Risk Officer and to the STB Credit Committee functions, the STB Group Heads of Credit Risk are responsible for credit strategy and credit risk mitigation for all the Bank's lending products from new acquisition to write-off, through portfolio analysis.

The Head of Operational Risk facilitates the risk assessment process and the quarterly review of risk registers, which encompasses the Credit Risk Department and credit risks within first line areas of operation. A reporting process exists to highlight key risks to the Bank's Senior Management and Risk Committees.

A Hits and Near Misses process with subsequent high level reporting is also operated. This seeks to proactively identify weaknesses in controls, including credit risk controls, and to ensure that root causes are identified and addressed.

Internal Audit – Third Line of Defence

The Bank has an independent internal audit function managed by a Chief Internal Auditor who has right of attendance at the STB ExCo meeting. Credit Risk is audited annually with different elements of Credit Risk reviewed at the specific request of the STB Board Risk Committee.

Relationships between the credit risk management, risk control, compliance and internal audit functions

The Internal Audit function provides the third line of defence. The function is managed by the Chief Internal Auditor who reports to the Chairman of the Audit Committee and who attends STB ExCo meetings. All STB processes, business units and support functions are in scope for internal audit review. The Internal Audit plan, which is risk based, covers all significant business processes and enabling functions over a four year period and the plan is updated each year and approved by the Board Audit Committee. Credit risk features in the internal audit plan every year, in both business process reviews (reviewing credit risk management as operated by the underwriting teams and supported by QA at application stage and in-life) and in audits of the effectiveness of the second line of defence functions. Although not every business unit or second line function is covered every year, all are covered over a four year period and the processes or functions that are regarded as highest risk are subject to review more frequently.

6.4 Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

A Portfolio review pack is created on a monthly basis to monitor trends in applicant quality and portfolio performance. Metrics are generated to review the effectiveness of the scorecard and designed to identify any deterioration of its discriminatory strength.

Data is scrutinised at application level but furthermore by introducers. Introducer statistics include application volumes, and quality, written rates/ quality and post acceptance the performance of the written loans.

6.5 CR1 Credit quality of assets

		a	b	c	d
		Gross carrying values of:		Allowances/ Impairments £'m	Net values (a+b+c) £'m
		Defaulted exposures £'m	Non-defaulted exposures £'m		
1	Loans	59.7	1,321.8	(60.5)	1,321.0
2	Debt Securities	-	-	-	-
3	Off-balance sheet exposures	-	177.9		177.9
4	**Total**	**59.7**	**1,499.7**	**(60.5)**	**1,498.9**

6.6 CR2 Changes in stock of defaulted loans and debt securities

		2016 £m
1	**Defaulted loans and debt securities at end of the previous period**	**24.8**
2	Loans and debt securities which have defaulted since the last reporting period	54.4
3	Returned to non-defaulted status	(8.8)
4	Amounts written off	(10.7)
5	Other changes	-
6	**Defaulted loans and debt securities at end of the reporting period (1+2+3+4+5)**	**59.7**

6.7 Additional disclosure related to the credit quality of assets

The Group follows the regulatory definition for past due and impaired exposures for accounting purposes. All exposures greater than 90 days overdue are considered as impaired.

Impairments are calculated based on criteria including the number of months overdue and the likelihood of recovery.

The Group does not restructure accounts.

All lending takes place within the United Kingdom.

Residual Maturity of Assets

	Within 3 months £'m	3-6 months £'m	6-9 months £'m	9-12 months £'m	After 12 months £'m	**Total** **£'m**
Cash and balances at central banks	112.0	-	-	-	-	**112.0**
Loans and advances to banks	18.2	-	-	-	-	**18.2**
Loans and advances to customers	149.0	65.0	52.4	65.0	989.6	**1,321.0**
Debt securities held to maturity	-	20.0	-	-	-	**20.0**
Other assets	2.6	0.4	0.5	0.6	34.7	**38.8**
Total	**281.8**	**85.4**	**52.9**	**65.6**	**1,024.3**	**1,510.0**

Ageing analysis of past due exposures by industry sector

	Past due but not impaired (£'m)						Carrying Amount of the impaired assets	Specific allowances for individually assessed financial assets	Specific allowances for collectively assessed financial assets	Accumulated write offs
	Up to 30 days	31 - 60 days	61 - 90 days	91-180 days	181 days - 1 Year	More than 1 Year	£'m	£'m	£'m	£'m
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	0.2	0.1	-	-	-	-	-	(0.8)	(0.7)	-
Households	45.3	10.2	5.1	-	-	-	20.4	(54.4)	(4.6)	(17.4)
Total	**45.4**	**10.3**	**5.1**	**-**	**-**	**-**	**20.4**	**(55.2)**	**(5.3)**	**(17.4)**

6.8 Qualitative disclosure required related to credit risk mitigation techniques

a. Credit risk mitigation for the unsecured retail business is principally facilitated through use of the bespoke scorecard described in section 6.1 above. This is considered a robust approach as overrides are only allowed by exception and the proportion and absolute value of such exceptions are capped.

b. All commercial business lending is secured at prudent loan to value ratios and therefore is considered adequately mitigated.

6.9 CR3 Credit risk mitigation techniques -overview

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
		£'m	£'m	£'m	£'m	£'m	£'m	£'m
1	Loans	460.1	860.9	722.2	18.9	18.9	-	-
2	Debt Securities	-	-	-	-	-	-	-
3	**Total**	**460.1**	**860.9**	**722.2**	**18.9**	**18.9**	**-**	**-**
4	Of which defaulted	35.7	24.0	18.5	-	-	-	-

Unsecured loans represent the retail business. Secured exposures represent the retail Motor business and the commercial business channels.

6.10 Qualitative disclosure on the banks use of external credit ratings under the standardised approach for credit risk

The Group does not currently make use of external credit ratings in the assessment of credit risk.

6.11 CR4 Standardised approach- credit risk exposure and CRM effects

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
		On-balance sheet amount £'m	Off-balance sheet amount £'m	On-balance sheet amount £'m	Off-balance sheet amount £'m	RWA £'m	RWA density £'m
	Asset Classes:						
1	Sovereigns and their central banks	132.0	-	132.0	-	-	0%
2	Non central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	16.5	-	16.5	-	3.3	20%
5	Securities firms	-	-	-	-	-	-
6	Corporates	194.9	19.4	194.9	-	171.2	88%
7	Regulatory retail portfolios	659.1	59.1	640.3	6.0	484.7	75%
8	Secured by residential property	0.2	-	0.2	-	0.1	35%
9	Secured by commercial real estate	451.4	99.4	451.4	49.7	448.9	90%
10	Equity	-	-	-	-	-	-
11	Past due loans	7.6	-	7.6	-	7.6	100%
12	Higher risk categories	-	-	-	-	-	-
13	Other Assets	47.8	-	47.8	-	53.5	112%
14	**Total**	**1,509.5**	**177.9**	**1,490.7**	**55.7**	**1,169.2**	**76%**

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

		a	b	c	d	e	f	g	h	i	j
	Asset Classes / Risk Weight	0% £'m	10% £'m	20% £'m	35% £'m	50% £'m	75% £'m	100% £'m	150% £'m	Other £'m	Total credit exposures amount post CCF and post CRM £'m
1	Sovereigns and their central banks	132.0	-	-	-	-	-	-	-	-	132.0
2	Non central government public sector entities	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	16.5	-	-	-	-	-	-	16.5
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	95.0	99.9	-	-	194.9
7	Regulatory retail portfolios	-	-	-	-	-	646.3	-	-	-	646.3
8	Secured by residential property	-	-	-	0.2	-	-	-	-	-	0.2
9	Secured by commercial real estate	-	-	-	248.5	-	-	34.1	218.5	-	501.1
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past due loans	-	-	-	-	-	-	7.6	-	-	7.6
12	Higher risk categories	-	-	-	-	-	-	-	-	-	-
13	Other Assets	-	-	-	-	-	-	44.0	-	3.8	47.8
14	**Total**	**132.0**	**-**	**16.5**	**248.7**	**-**	**741.3**	**185.6**	**218.5**	**3.8**	**1,546.4**

7 Counterparty Credit Risk

7.1 Qualitative disclosure related to counterparty credit risk

The bank is exposed to counterparty risk through placing their excess funds with banking institutions. A failure of one of these counterparties was considered, but thought unlikely, as the bank's policy is to place funds with institutions considered systemically important in the UK. Following the approval and successful opening of the bank's own Bank of England reserve account during 2015 exposure to these banking institutions has substantially reduced.

The Bank has transactional accounts with Barclays and the Royal Bank of Scotland group. The balances are within counterparty limits approved by the Board, which are set out in the Wholesale Counterparty and Credit Risk Policy (approved by the bank's Assets & Liabilities Committee).

The bank does not have any derivative or security financing transaction (SFT) exposures at 31st December 2016 nor have there been any during the 2016 year. Accordingly the board have no risk appetite for counterparty exposures relating to derivatives or SFT's.

Therefore the Board believe that the Bank is not significantly exposed to counterparty risk and accordingly no capital add-on is required.

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

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

7.3 CCR2 Credit valuation adjustment (CVA) capital charge

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

7.4 **CCR3 Standardised approach – CCR by regulatory portfolio and risk weights**

	a	b	c	d	e	f	g	h	i	j
Risk Weight / Regulatory Portfolio	0% £'m	10% £'m	20% £'m	35% £'m	50% £'m	75% £'m	100% £'m	150% £'m	Others £'m	Total credit exposures £'m
Sovereigns and their central banks	132.0	-	-	-	-	-	-	-	-	132.0
Non central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	-	-	16.5	-	-	-	-	-	-	16.5
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	251.1	-	95.0	153.5	265.6	-	765.2
Regulatory retail portfolios	0.5	-	-	0.3	-	669.8	36.5	-	-	707.1
Other assets	-	-	-	-	-	-	44.0	3.8	-	47.8
Total	**132.5**	**-**	**16.5**	**251.4**	**-**	**764.8**	**234.0**	**269.4**	**-**	**1,668.6**

7.5 **CCR5 Composition of collateral for CCR exposure**

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

7.6 **CCR6 Credit derivatives exposure**

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

7.7 **CCR8 Exposure to central counterparties**

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

8 Securitisation

The bank has not entered into any securitisation transactions during the year, nor does it have any securitisation exposure at 31 December 2016. Accordingly table SEC1 has not been provided.

9 Market Risk

The bank does not hold any capital in respect of market risk at 31st December 2016, apart from that related to Interest Rate Risk in the Banking Book (IRRBB) which is described in part 11 below.

No entity within the STB Group trades in securities, there is no appetite for foreign exchange risk and all treasury transaction are undertaken on a matched basis, thereby eliminating settlement risk.

10 Operational Risk

Operational risk is the risk to achieving the Group's strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external factors.

Operational risk relates to all aspects of the business and can relate to breaches of law and regulations, error or omission, unauthorised activities and fraud, system failure or external events.

Operational risk losses can include the following:

- breach of regulatory or legal requirements
- fraudulent or external criminal activities
- system failure or impact of external attacks on systems
- Internal process and control process failure; both through human error and malicious or attempted criminal activity
- financial losses arising from the mis-selling of products

CRD IV requires that the Group holds Pillar 1 capital against operational risk. The amount of capital the Group is required to hold is determined by the Basic Indicator Approach. The table below sets out the operational risk capital requirement:

Year Ending			**BIA Indicator £'000**
2014 £'000	2015 £'000	2016 £'000	
57,103	88,157	116,987	***13,112***

Organisation and responsibilities

Responsibility for managing operational risk lies with all the staff of the Group. However within the second line there is a dedicated Operational Risk team, a Compliance team, a Financial Crime team and an Information Security team who provide guidance and set appropriate frameworks and policies to ensure that the Group is managing their risks in line with sector standards or formal regulations.

The overarching operational risk framework has the following primary goals:

- Identify and manage operational risks within acceptable levels and defined risk appetite statements, metrics and thresholds and to limit operational losses
- Develop a transparent risk culture that seeks to understand its risk profile, the incidents and losses as they occur and to respond with proportionate and expeditious action to thematic areas of concern
- Develop consistent and robust policies and controls that are understood and embedded across all business areas

Measurement and monitoring

The Group has a defined set of qualitative and quantitative Operational Risk Appetite measures. Quantitative measures cover operational losses, complaints, key operational risks, systems availability and information security. The appetite measures are reported and monitored on a monthly basis.

Recording

The Group uses a formal risk system to record the results of our operational risk management process. Operational risks and control assessments are input and maintained by the relevant business areas. Risk and Compliance teams will review and follow up to ensure that any identified corrective action is performed.

Operational risk reporting

In addition, business units report individual losses and incidents and will undertake root cause analysis where necessary to prevent re-occurrence.

11 Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk is the potential adverse impact on the Group's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate savings and lending products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows.

The Bank operates a broadly matched asset and liability model. The mismatches in terms of assets and liabilities and different re-pricings create exposure to interest rate risk.

This potential exposure is managed by the Group treasury function and overseen by the Assets and Liabilities Committee (ALCO). The policy is not to take significant unmatched own account positions in any market.

The Group uses two key metrics against which interest rate risk is managed, being Earnings at Risk and Value at Risk.

Earnings at Risk projects the impact on Net Interest Income of a parallel shift of +/- 100 basis points. The risk appetite that the Group is currently prepared to accept are differences of up to £2m.

Value at Risk considers the impact on the economic value of the Banks balance sheet from a parallel shift in interest rates of +/- 200 basis points. The risk appetite that the Group is currently prepared to accept are differences of up to £1m.

The principle currency in which the bank operates is Sterling, although a small number of transactions are completed in US Dollars and Euros. These exposures are fully hedged using short term swaps of no more than 30 days in length, which ensures that the Group has no exposures to currency fluctuations.

12 Remuneration

In addition to the disclosures made in the Report and Accounts the Group is required to make disclosures regarding remuneration awards made by the Group to eighteen Code Staff in respect of the 2016 performance year.

12.1 Code Staff

The following have been identified as Code Staff across the Group:

1. All Directors and Non-Executive Directors of Secure Trust Bank Plc ("STB")
2. Members of the Executive Committee of STB.
3. CEOs of V12 and Debt Managers (Services) Limited ("DMS").
4. Significant influence FCA approved persons not caught by 1-3.

During the performance year 2016, there were no other staff identified who are both highly remunerated and could have an impact on the Group's risk profile.

12.2 Aggregate Remuneration Expenditure (Code Staff)

STB Directors	Others	Total
£4,179,693	£5,714,167	£9,893,860

These figures exclude the non-executive directors where the management charge paid by the Group to the Arbuthnot Banking Group is inclusive of these fees (Andrew Salmon and Sir Henry Angest).

12.3 Breakdown of remuneration between Fixed and Variable amounts

	Fixed Pay	Variable Pay	Total
Directors	£1,810,943	£2,368,750	£4,179,693
Others	£2,224,165	£3,490,002	£5,714,167
Total	£4,035,109	£5,858,752	£9,893,860

12.4 Decision making process used to determine the remuneration policy

The Group has had a Remuneration Committee since the admission to AIM in 2011. The step up to the main market has provided an opportunity for STB plc to review its executive remuneration arrangements and to develop a new Remuneration Policy that is appropriate for a main market premium listed company.

The key principles behind the Group's Remuneration Policy are:

- to be simple and transparent in order to reflect the Group's mission statement of straightforward, transparent banking,
- to promote the long term success of the Group, with transparent and demanding performance conditions,
- to provide alignment between executive reward and the Group's values, risk appetite and shareholder returns, and
- to have a competitive mix of base salary and short and long term incentives, with an appropriate proportion of the package linked to the delivery of sustainable long term growth.

In developing the policy there has been regard to regulatory requirements and the responsibilities of senior managers under the current regulatory regime.

The Group is currently a level 3 firm within the classifications applied by the regulators for their remuneration codes for regulated entities. That means that the Group is not required to satisfy in full all elements of the remuneration codes. Notwithstanding this, in formulating the Remuneration Policy the Committee has sought to achieve a high level of compliance with the remuneration codes.

12.5 Composition of the Remuneration Committee

The Remuneration Committee assists the Board in fulfilling its responsibilities in relation to remuneration including, amongst other matters, making recommendations to the Board on the Group's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level.

The UK Corporate Governance Code contemplates that, in relation to the Company, the board should establish a Remuneration Committee of at least two independent Non-Executive Directors. The Company chairman may also be a member of the Committee where, as is the case with STB, he was considered independent on appointment as chairman. The Remuneration Committee now comprises five members including the Board Chairman. Victoria Stewart joined the Committee on her appointment as a Director on 22 November 2016. All the members of the Committee are Non-Executive Directors and Paul Marrow and Victoria Stewart are independent Non-Executive Directors. The Company therefore now complies with the Code provision in relation to the composition of the Remuneration Committee.

The Remuneration Committee meets as frequently as its chairman may require and also at regular intervals to deal with routine matters and in any event not less than twice in each financial year. A full copy of the terms of reference of the Remuneration Committee can be obtained by request to the Company Secretary or via the Group's website at www.securetrustbank.com.

12.6 Link between performance and pay

Remuneration arrangements are determined throughout the Group based on the same principle that reward should be achieved for delivery of the business strategy and should be sufficient to attract and retain high calibre talent.

The general principle for the Group is that staff will be paid a salary, plus benefits and they will be eligible for an annual discretionary bonus.

Both salary increases and the payment of a discretionary bonus are subject to good performance, company profitability and compliance with risk policies and risk appetite limits.