Secure Trust Bank

> A year of tremendous progress has delivered record profits.

Straightforward transparent banking

Annual Report & Accounts 2016

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* This section of the Report and Accounts contains the Strategic Report required by the Companies Act 2006 to be prepared by the directors of the Bank. It describes the component parts of the Group's business; the principal risks and uncertainties; the development and performance of the business during the financial year; and the position of the business at the end of the year.

Financial and other key performance indicators are used where appropriate. Reference is made to and additional explanations provided about amounts that are included in the Group's Accounts.

Introduction

Secure Trust Bank PLC ('the Bank') is an established, well-funded and capitalised UK retail bank.

The Bank was incorporated in 1954, was admitted to AIM in November 2011 and, in October 2016, successfully listed on the Main Market of the London Stock Exchange. The Bank and its subsidiaries are referred to as 'the Group'.

INVESTORS IN PEOPLE

"Friendly and professional service. Very efficient too – couldn't be happier."

Find out more about our business and how we operate

securetrustbank.com

Group Strategy

The Group's strategy is to build on its current position as an established UK retail bank through a focus on carefully selected and attractively priced segments of the consumer and business markets, prudent underwriting and a prudent approach to capital and liquidity.

Group strategy

The Group intends to continue growing its business through professional and responsible lending across existing and new lending divisions and selective acquisitions of loan books and businesses, funded by capital and customer deposits.

The strategy is underpinned by three strategic themes and six values, which are embedded within the Group's culture and are used to evaluate each employee's personal performance:

Straightforward
Transparent
Banking

Risk Aware
Understanding of risk keeps our customers and us safe and secure.

Customer Focused
Good customer outcomes are at the heart of everything we do.

Teamwork
Companies achieve more when staff work well together.

Change Orientated
Embracing change and implementing good ideas gives us a competitive advantage.

Performance Driven
Secure Trust Bank will only become the best bank in Britain by each employee taking personal accountability for their performance.

Ownership
Personal responsibility and taking tasks through to completion benefits the individual as well as customers.

Grow
To maximise shareholder value through strong lending growth by delivering great customer outcomes in both our existing and new markets.

Sustain
To protect the reputation, integrity and sustainability of the Bank for all of our customers and stakeholders via prudent balance sheet management, investment for growth and robust risk and operational control. Controlled growth is one of the top strategic priorities for the Bank.

Love
To ensure that the fair treatment of customers is central to corporate culture and that the Bank is a highly rewarding environment for all staff and one where they can enjoy progressive careers.

Business Model

The Group's diversified lending portfolio currently focuses on two sectors:

- Business Finance through its Real Estate Finance, Asset Finance and Commercial Finance divisions and
- Consumer Finance through its Personal Lending, Motor Finance and Retail Finance divisions.

The Group intends to use its strong capital base to develop a broad based portfolio, balanced in the longer term across these sectors and residential mortgage lending.

This lending is primarily funded by customer deposits ranging from instant access to seven year bonds. Deposit accounts are promoted to meet funding needs and to broadly match the maturity profiles of loans and deposits. Through carefully targeted lending products, the absence of large fixed overheads in the form of a branch network and a policy of not cross-subsidising loss making products with profitable ones, the Group is able to offer competitive deposit interest rates and has been successful in attracting deposits from a wide range of customers.

The Group operates principally from its head office in Solihull, West Midlands, and had 726 employees (full-time equivalent) as at 31 December 2016. Lending business is sourced primarily through carefully selected business partners and through online channels. The Consumer Finance division utilises underwriting technology to make lending decisions quickly, resulting in high customer satisfaction scores, while exercising strong risk management to minimise losses through bad debts.

Business Finance

PG16
To read more about Business Finance

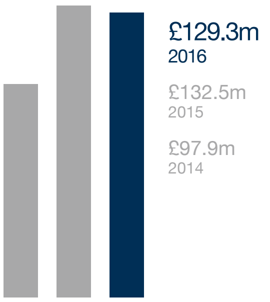
Consumer Finance

PG22
To read more about Consumer Finance

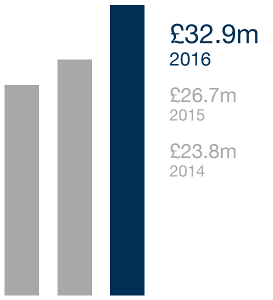
Savings

PG28
To read more about Savings

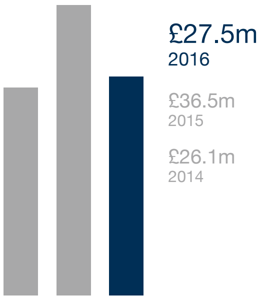
Financial Highlights



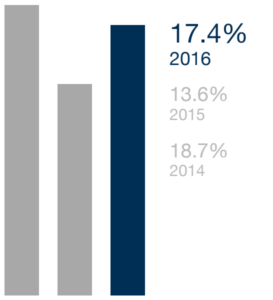
Operating income



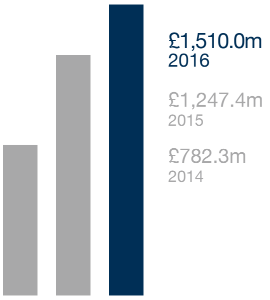
Underlying profit before tax*



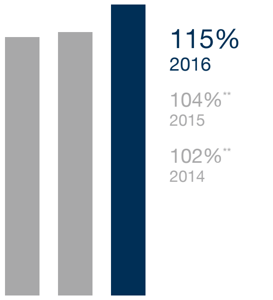
Profit before tax



Common Equity Tier 1 ('CET1') capital ratio



Total assets



Loan to deposit ratio**

£1,510.0m

Total assets
2015: £1,247.4m
2014: £782.3m

754.1p

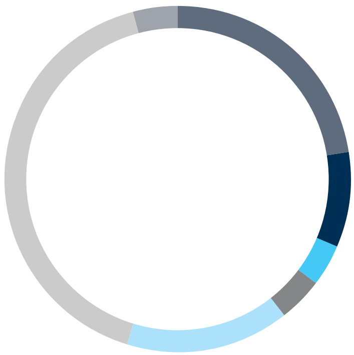
Earnings per share
2015: 157.8p
2014: 122.3p

* Underlying profit is the profit attributable to continuing operations, adjusted for items that are outside of the Group's normal recurring business activities. A reconciliation of underlying profit before tax to statutory profit before tax is provided on page 32.

**This excludes the UK Treasury Bills borrowed from the Bank of England under the Funding for Lending Scheme, which have subsequently been pledged as part of a sale and repurchase agreement. If these were included the loan to deposit ratio would be 108% (2015: 101%, 2014: 100%).

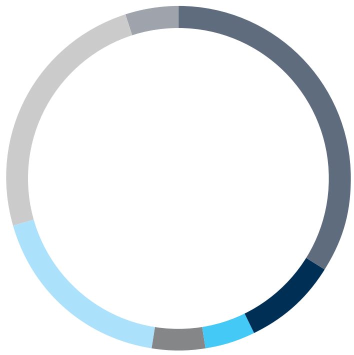
Operational Highlights

- **Total customer lending** balances across the STB Group increased by 23% to £1,321.0 million.
- **Business Finance lending** balances increased by 35% to £631.0 million.
- **Consumer Finance lending** balances increased by 36% to £627.6 million, on a continuing operations basis.
- The Group closed its Current Account business and withdrew its Unsecured Personal Lending product.
- **Customer deposits** increased by 11% to £1,151.8 million.
- **Customer numbers** increased 42% to 754,968.
- Customer FEEFO ratings (from the Feedback Forum, mark out of 5 based on star rating from approximately 400 reviews): 4.5 stars.
- Employee survey engagement score (based on 2016 all staff survey): 85%.
- **The Customer Service Excellence Award** was renewed in 2016. The Group has also achieved gold accreditation for Investors in People.



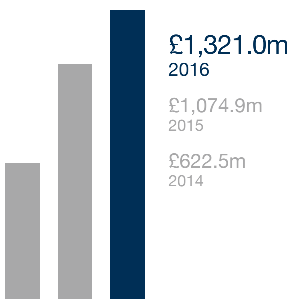
New Business Volumes:

Real Estate Finance	£218.0m
Asset Finance	£84.7m
Commercial Finance	£39.5m
Personal Lending	£39.0m
Motor Finance	£146.8m
Retail Finance	£396.3m
Other	£40.0m
Total:	**£964.3m**



Loans & Advances to Customers:

Real Estate Finance	£451.0m
Asset Finance	£117.2m
Commercial Finance	£62.8m
Personal Lending	£65.5m
Motor Finance	£236.2m
Retail Finance	£325.9m
Other	£62.4m
Total:	**£1,321.0m**



Loans & Advances to Customers

Chairman's Statement

I am delighted to report that Secure Trust Bank has enjoyed another year of excellent progress in 2016. This success is a tribute to the work of our excellent Chief Executive, Paul Lynam and to the outstanding leadership Sir Henry Angest has given as our Chairman for more than three decades.

Henry has diligently and carefully grown the company taking it public with an IPO on AIM in the fourth quarter of 2011. In the five years since, STB has continued to grow in a disciplined manner and rewarded investors with total shareholder returns of 247%[1]. Henry's determination to focus on our customers and prudent lending ensured the bank traded successfully and profitably during the last crisis when others fell by the wayside. I am pleased he is remaining on the Board and consider it a great privilege and challenge to have been chosen to succeed him. I and the Board are committed to building on his considerable legacy in the years ahead.

One of the most important developments, in October of 2016, was the move from AIM to the premium segment of the Main Market of the London Stock Exchange. It was a complex and time consuming exercise and I am grateful to the project team for delivering it so seamlessly.

Since then I have sought to strengthen the Board and was delighted to welcome Ann Berresford and Victoria Stewart as new independent Non-Executive Directors in November. Ann has joined the Audit and Nomination Committees and Victoria serves on the Remuneration Committee. Their skills and experience complement those of the existing directors and they are already making important contributions to our deliberations. Paul Marrow has been appointed Senior Independent Director and was approved by the regulator in December.

The Group continues to focus on customer satisfaction by offering straightforward transparent products delivered by friendly and professional staff and has retained the Customer Service Excellence award, which was introduced by the Cabinet Office in 2010 to replace the kite mark. This independent external assessment of customer service standards is consistent with the feedback provided by FEEFO where consistently high scores are achieved across the product range.

The 2016 annual staff opinion survey was, for the first time, conducted by an independent specialist consultancy. Over 84% participated and STB comfortably exceeded the external benchmarks. This year a record number of employees took advantage of the Group's personal development schemes with qualifications obtained ranging from certificates in Retail Banking to MBAs. Congratulations to all of them. We are also proud of our colleagues who supported local and national charities. STB has a matching funding scheme and the busy charity committee coordinated more than 700 hours of activity this year.

I have no doubt that this commitment by and to our employees contributed to STB being awarded a Gold Standard for Investors in People in late 2016. I helped to launch this scheme as an Employment Minister nearly 25 years ago and it is gratifying to know its exacting standards place the Group in the top 7% of all participating businesses.

Despite the significant growth in the bank's operations and balance sheet in recent years we remain a relatively small player in UK banking. The share of the market controlled by the five largest banks and the Nationwide Building Society is now higher, at 85%, than it was before the demise of Northern Rock and HBOS in the financial crisis of 2008. The somewhat feeble Competition and Market Authority investigation sadly failed to propose remedies, whilst acknowledging the barriers to competition facing smaller banks. These include capital requirement differentials, funding cost disadvantages and increased taxation to part fund a reduction in the bank levy on the systemic banks. We will continue to argue for a fairer competitive market in 2017.

Our management philosophy of exercising prudence in respect of capital, funding and lending remains unchanged. Having generated a profit after tax of £137.5 million, the Group finished 2016 with strong capital and liquidity ratios, notwithstanding the substantial distributions paid to shareholders during the year. The Board proposes to pay a final dividend of 58 pence per share. This, when added to the interim dividend of 17 pence, and the special dividend of 165 pence, would mean a full year dividend of 240 pence per share. If approved, the final dividend will be paid on 12 May 2017 to shareholders on the register as at 18 April 2017.

STB enters 2017 well placed to pursue its strategic priorities by developing its business model organically and pursuing M&A opportunities. This, coupled with the Main Market premium listing and substantial capital resources, means the Group is set fair to navigate an uncertain economic and regulatory environment.

Finally the members of Board would like to express their thanks to all of our colleagues across the Group and to our investors for making this year one of considerable achievement.

Lord Forsyth
Chairman

22 March 2017

[1] Based on the appreciation of the share price since the IPO, assuming all dividends have been reinvested.

“STB enters 2017 well placed to pursue its strategic priorities by developing its business model organically and pursuing M&A opportunities.”

Chief Executive's Statement

"STB started 2016 with shareholders' equity of £141.2 million. The overall profit after tax of £137.5 million represents a 97.4% return on the equity held at the start of the year."

2016 has been a year of tremendous progress for Secure Trust Bank ('STB'). The divestment of the Everyday Loans ('ELG') business was completed in the first half, the move from AIM to a premium listing on the Main Market of the London Stock Exchange was concluded in the second half and throughout the year various external customer service and staff related accolades were awarded.

The move to the Main Market of the London Stock Exchange in October 2016 marked an important milestone in the Group's growth and development.

A year of tremendous progress

In financial terms, the combined performance of the continuing businesses and the one-off profit arising from the sale of ELG resulted in another record annual profit after tax. Setting this in context, STB started 2016 with shareholders' equity of £141.2 million. The overall profit after tax of £137.5 million represents a 97.4% return on the equity held at the start of the year and an 11.9% underlying return on the average equity held over the full year. This has enabled us to significantly increase shareholders' equity whilst paying progressive increases in the ordinary dividend and a special dividend of £30 million (£1.65 per share).

All of this has been achieved whilst continuing to deliver positive outcomes for customers and sustaining very high levels of customer satisfaction.

I would like to echo the Chairman's sentiments by congratulating and thanking all of my colleagues for their unrelenting customer focus and professionalism throughout an exceptionally busy year.

Customer base continues to increase and customer satisfaction levels remain very positive

Across our chosen markets we are serving a record 754,968 customers which is an increase of 42% on the total customer base of 532,278 as at 31 December 2015.

We continue to focus on consistently delivering good outcomes for customers and ensuring that the design of our products is appropriate for their needs. From a conduct and behaviour perspective we do not cross-subsidise losses or low profits on some products with super profits on others. Nor do we discriminate between customers by, for example, paying very low deposit interest rates to existing loyal customers whilst offering relatively high rates to new ones. We believe that our approach is the appropriate way to interact with our customers for the long term benefit of all parties.

Customer satisfaction is measured in a number of ways, including STB being the only bank that uses FEEFO. This data, freely available for all to see on the internet, reflects how our customers actually experience us. Given its importance, customer feedback data and trends remains the first thing we discuss at our weekly management meeting. I am pleased to note that, once again, we have consistently achieved customer satisfaction ratings in excess of 90% across all of our products during the year.

Whilst being pleased with external accolades and ongoing high customer satisfaction scores we are in no way complacent. We are focused on improving our existing service and products and diversifying our customer proposition via targeted investment in people, systems, processes and products.

Chief Executive's Statement
continued

Prudent balance sheet and risk management

Our priority is, as ever, to safeguard the reputation and sustainability of STB through prudent balance sheet management, investment for growth and robust risk and operational controls.

In this respect our funding strategy is unchanged. We seek to limit exposure to short term wholesale funding and interbank markets and to broadly match fixed term fixed rate customer lending with customer deposits of the same tenor and interest rate basis. This helps us to minimise maturity transformation and interest rate basis risk. During 2016 the market rate for retail deposits fell and the differential in the spread between short and longer term deposits narrowed considerably. This enabled us to increase the average duration of the deposit book and the proportion held in fixed rates, whilst achieving an overall reduction in the average funding cost paid.

Our year end loan to deposit ratio was 115% (2015: 104%). We have temporarily used surplus capital to fund some lending activity as this is more effective than raising customer deposits whilst we have excess capital on a reserve account at the Bank of England paying a mere 0.25%. As this surplus capital is invested in balance sheet growth, the loan to deposit ratio will move back towards 100%. As noted, to lock in lower term funding rates we increased the average tenor of our deposits over the year with fixed term deposits rising to 66% of total deposits. This compares to 57% as at 31 December 2015.

Over the last couple of years we have been investing in a new online customer deposit platform. Whilst our existing platform has served us well and remains fit for purpose it does not have the flexibility to offer a wider range of products. The new platform, when launched later this year, will enable us to offer instant access and cash ISA products thereby significantly broadening available markets to provide funding at lower margins. This new technology is expected to enhance our customer service proposition whilst delivering operational efficiencies.

We do not expect any material change in the competitive dynamics in the market for customer deposits and foresee no difficulties in sustaining our current funding strategies.

Very strong capital ratios and modest leverage

Given the profits generated during 2016 our year end CET1 capital levels are extremely robust. The CET1 ratio of 17.4% compares to the 2015 year end position of 13.6%. This is after taking into account the increase in the risk weights on the residential development lending activities from 100% to 150% as advised to us by the Bank of England in December 2016. The net effect of these changes was to reduce the CET1 ratio by 1.6%.

The Bank of England via the Prudential Regulation Authority ('PRA') has acknowledged that the formulaic application of Basel standardised risk weights under Pillar 1 combined with various Pillar 2 add ons can result in situations where some banks end up holding more capital, at the aggregate level, than is required. The PRA have indicated that they will seek to add more judgement to this 'sum of the parts' approach when determining the total amount of capital they require individual firms to hold by flexing the Pillar 2 component of the overall capital calculation, where they consider appropriate. Depending upon how this plays out in practice it could reduce the impact of the increase in capital we now have to hold to support the loans we continue to provide to smaller UK housebuilding firms. The net effect of this new approach should become more apparent in the second half of 2017.

As at 31 December 2016 STB's leverage ratio was 14.1% (2015: 10.4%). This ratio is comfortably ahead of minimum requirements and demonstrates significant capacity to continue growing customer lending balances whilst retaining regulatory capital headroom relative to our minimum requirements.

Record profits

The sale of ELG and the decision to discontinue providing a current account product necessitates an accounting treatment which complicates the presentation of the total profit performance during 2016. Concurrent with the release of these accounts we have published, on the Group's website, an investor presentation which contains slides translating the technical accounting treatment into the underlying performance of the Group during 2016.

In simple terms, the profit before tax from the continuing and discontinued operations amounts to £144.3 million, being profit before tax of £27.5 million and gain recognised on disposal of £116.8 million. The total profit after tax for 2016 equates to £137.5 million.

On an underlying basis, pre-tax profits for 2016 of £32.9 million are 23.2% higher than the prior year of £26.7 million. This growth has been achieved notwithstanding the significant ongoing investment in people and technology, especially in the mortgage operations and the new customer deposit proposition.

Excluding discontinued operations, the Group's operating income grew by 28.3% to a record level of £118.2 million (2015: £92.1 million) whilst operating costs rose 29.7% to £65.5 million from £50.5 million in 2015. Loan impairments of £27.7 million (2015: £16.8 million) rose by 64.9% reflecting growth in sub-prime motor, an increase in the levels of interest bearing balances written in Retail Finance and a further increase in the collective provision relating to the potential for uncertainty in the period ahead.

Costs continue to be robustly managed as reflected in the cost to income ratio of 55.4% (2015: 54.8%). The move to the main market gives rise to increased costs reflecting the different regulatory environment in which the Group now operates and the strengthening of the Board.

Customer lending activities

Strong double digit growth was achieved across the Group's loan portfolio in 2016 notwithstanding the increasingly cautious stance taken as the year progressed. Total new business lending volumes grew 19% to £964.3 million (2015: £808.5 million) which translated to an increase of 37.5% in overall balance sheet lending assets to £1,321.0 million (2015: £960.6 million for continuing operations).

Our strategy remained to prioritise growth in our consumer finance lending in Retail Finance and Motor Finance with a limited appetite to write new unsecured personal loans. Reflecting this, the Retail Finance point of sale business, net of provisions, grew strongly as intended, with balances at 31 December 2016 increasing 47.9% to £325.9 million (2015: £220.4 million). Our Retail Finance business has continued to evolve as our balance sheet has strengthened. Whilst remaining very well established in the cycle and music sectors, we have been able to continue pitching for and win larger retailer relationships across the leisure and home furnishing sectors. As a result we are writing a broader spectrum of business including increased levels of interest bearing lending. This lending has higher levels of impairments compared to interest free finance and this is factored into our pricing to ensure we achieve our targeted risk adjusted return.

2016 was a mixed year for our Motor Finance activities. The non-prime motor finance market, over the last eighteen months, has seen extremely aggressive competition from non-bank new market entrants and certain existing lenders who historically focused only on prime lending. These new players compete by charging relatively low rates of interest to borrowers, offering very high introducer commission rates and competing aggressively to attract customers. Rather than getting sucked into a 'race to the bottom' and permanently resetting loan margins below what we regarded as a sensible risk adjusted yield, the Group took the tactical decision not to compete for the specific customer segments targeted by these lenders. In the short term this affected the mix of new business written as some better quality lending previously presented to STB was instead directed to the newer entrants due to their aggressive pricing and commission. As we expected we have seen the behaviour of competitors moderate during the second half of 2016 and the overall quality of the business written by STB has improved in recent months.

Notwithstanding the challenge to our Motor Finance business, the Group has been able to achieve strong lending with lending balances, net of provisions, growing 42.5% to £236.2 million at 31 December 2016 (2015: £165.7 million). The impairment picture for the year is complicated by a number of factors. The sub-prime lending we began writing in 2015, whilst profitable and generating a higher return on equity than would be achieved leaving surplus equity in our Bank of England reserve account, has not met our expectations and we have needed to address this through changes to credit underwriting and pricing. In view of the current uncertainty in the market we have increased the loan loss emergence period which drives a mathematical increase in provisioning. The Finance and Leasing Association reported an 86% increase in voluntary terminations across the whole motor finance industry. Voluntary terminations arise when customers repay more than half of their credit agreement and use a clause in the Consumer Credit Act to hand the vehicle back to the lender and cancel their agreement. Whilst these are not credit losses, STB has historically accounted for these provisions through the impairment line as the charge has thus far been immaterial. The voluntary termination charge of £1.5 million for 2016 is material and in order to address matters going forward we have adjusted the amortisation profile of our loans such that more customers should have positive equity in the underlying vehicle once they have repaid half of the credit agreement and thus should be less inclined to surrender the vehicle.

> "Once again, we have consistently achieved customer satisfaction ratings in excess of 90% across all of our products during the year."

Unsecured personal lending ('UPL') balances, net of provisions, continued to contract and were reduced by 12% to £65.5 million at 31 December 2016 (2015: £74.3 million). During 2015 and 2016 we consistently highlighted our unease at the competitive dynamics in this market. This is by far the easiest lending market to enter as all that is required is money to on lend and a way to originate loans. As the economy has continued to grow we have seen an increase in the activity of bank and non-bank lenders in this space with inevitable consequences for credit underwriting standards and pricing. The situation that now exists is that despite what many see as a peak in job creation, which could foreshadow an increase in unemployment and a steady increase in inflation which will reduce household disposable income, some lenders are offering fixed rate UPLs at the lowest ever rates. We share the regulators' concerns about the trends in the UPL market which we regard as unsustainable, hence our decision to cease originating new UPL business for the time being. STB has a large amount of experience in the UPL market, having been active since STB's formation in 1952, but at times has elected to reduce our exposure, for instance substantially reducing our UPL activity in 2006–08, in response to an unattractive competitor pricing environment at the time. We intend to re-enter the UPL market once the risk adjusted yields available become more attractive.

Chief Executive's Statement
continued

> Our priority is, as ever, to safeguard the reputation and sustainability of STB through prudent balance sheet management, investment for growth and robust risk and operational controls.

We have grown the Group's SME lending operations as planned having adjusted our risk appetite in the Real Estate and Asset Finance markets in case the outcome of the EU referendum created increased uncertainty. Real Estate Finance lending balances increased by 22.6% to £451.0 million as at 31 December 2016 (2015: £368.0 million). In determining new business volumes we have also been mindful of the potential for the PRA to increase capital requirements in respect of home building activities. The bias of this portfolio is now towards residential investment finance. STB remains wary of commercial property lending and has a very limited appetite for these assets. We continue to see the residential properties financed by us selling faster and for higher prices than anticipated when we made the original loans. This positive feature does mean that loans are being repaid sooner than originally contemplated which enables us to reprice the new front book lending to take account of the increased regulatory capital requirements imposed in December 2016. The exception is inner London where prices have fallen and properties have taken longer to sell. We therefore remain cautious about the London market and retain our maximum Loan to Gross Development Value limit of 50%. We are happy to continue lending to proven residential developers. During 2016 we have recruited a number of highly experienced bankers which is enabling us to structure larger loans with bigger counterparties. We remain confident about the medium term prospects of this sector given fundamental supply and demand dynamics.

Secure Trust Bank Commercial Finance, the invoice finance division of the Bank, has continued to build out a profitable business. We are rapidly approaching the point where we will have funded over £1 billion of customers' invoices, which gives a sense of the progress made since operations began, as a start-up, in late 2014. Customer lending balances, net of provisions grew 114% to £62.8 million at 31 December 2016 (2015: £29.3 million). I believe we have one of the most capable teams of invoice financiers in the UK, supported by a scalable modern IT platform. This, coupled with Group management's experience in SME and corporate lending, gives STB a distinct advantage when it comes to structuring transactions and responding rapidly to opportunities.

As STBCF's profile has risen we have 'punched above our weight' winning and writing complex, and remunerative, transactions in competition with much larger lenders. We expect to make further positive progress in 2017.

We have continued to successfully foster the Asset Finance strategic partnership with Haydock Finance during 2016. Customer lending balances, originated by Haydock Finance Limited but written by STB and fully conforming to STB's credit policies, grew 66% to £117.2 million at 31 December 2016 (2015: £70.7 million). The full year profit contribution and loan impairments have been in line with expectations. Responding to the possibility of an economic slowdown, which could impact used asset values, we reduced our Loan to Value criteria in the second half of 2016. Other lenders have not reacted in the same manner as STB. Indeed some have become more aggressive on price and leverage as they seek to grow market share. Our more prudent stance has resulted in us writing lower volumes of new business albeit of a better quality.

Fee based accounts

As highlighted in the 2016 Interim Report we closed our current account product in September 2016. This decision was influenced by a number of factors not least of which was the agreement between HM Government and the large High Street banks whereby those banks will provide a fee free basic bank account to all customers. It was not equitable for us to continue to charge customers for a product that became available for free elsewhere. The nature of the product also requires constant IT investment and consumes considerable management time and focus. Therefore the closure of the current account is freeing up operational capacity to invest elsewhere across the Group. The financial impact of this decision is relatively immaterial and protects us from the capital consequences of having a substantial current account customer base. I expand on this aspect under Competitive and Regulatory Environment below.

As expected, the OneBill customer numbers continue to decline over time, following its closure to new accounts in 2009, with customer numbers falling to 19,995 by 31 December 2016 compared to 21,236 a year earlier.

Debt Managers Services ('DMS')

The markets for those debt collection agencies fully authorised by the Financial Conduct Authority improved in 2016 as some operators exited the market, in part because they did not wish to pursue full authorisation. There appears to be an upward trend in customer defaults in a number of sectors and the Bank of England Credit Conditions Survey for Q4 2016 noted 'lenders responding to the CCS reported a second consecutive significant increase in the default rate on other unsecured loans in Q4'. Whilst it is difficult to assess definitively how these trends might evolve, it seems likely that a sustained increase in inflation coupled with an increase in unemployment will impact consumer default levels. This will translate into more opportunities for DMS in the third party debt collection and portfolio acquisition spaces.

DMS has purchased a number of portfolios in 2016 which have performed well. Overall the annual loss before tax of £0.5 million incurred in 2015 was reversed in 2016 into a profit before tax of £0.2 million. DMS is in the Group in part because of its counter cyclical nature and we expect this to benefit DMS in 2017.

Competitive and regulatory environment

In my annual statement last year I noted that whilst progress towards a more level competitive playing field had been frustratingly slow there were signs that things were changing and some traction was being achieved with key decision makers. Developments in 2016 have served to vindicate this view and provide grounds for optimism.

The Bank of England in its written submissions to the Competition and Market Authority ('CMA') has acknowledged that some of the differentials in the capital risks weights used by the systemic banks under their own Internal Ratings Basis approach and the multitude of smaller banks using the standardised approach are too high to be justified on prudential grounds. These extremes are most pronounced in the residential mortgage market where, using Bank of England data provided to the CMA, a 50% loan to value owner occupied mortgage would be risk weighted by a systemic bank, on average, at 3.3% whereas smaller lenders would risk weight the exact same loan at 35%. Thus the systemic bank can set aside 960% less capital than a smaller competitor for taking the exact same risks.

It is no surprise therefore that the systemic banks and Nationwide Building Society utterly dominate the mortgage market in both owner occupied and buy to let lending. Lloyds Banking Group alone controls nearly half of the market for buy to let with a 42% market share. RBS's admissions that it will not meet the requirement to divest itself of Williams & Glyn and the announcement by Co-op Bank in January 2017 that it is unlikely to meet its Individual Capital Guidance over the planning period to 2020, illustrate the ongoing issues of the 'Too Big To Fail' banks.

One of the regulatory responses is the introduction of the Minimum Requirement for Own Funds and Eligible Liabilities regime ('MREL'). The Bank of England has directed that 'the largest and most complex firms will be required to maintain sufficient MREL to absorb losses and, in the event of their failure, be recapitalised so that they continue to meet the Prudential Regulation Authority's conditions for authorisation. The aim is that the firm is able to operate without public support'. In layman's terms it seems the plan is to require the systemic banks to hold sufficient bail in capital, in addition to their existing minimum regulatory capital requirements, that they can't go bust. All banks with more than 40,000 current accounts and £15 billion in assets will, by 2022, need to hold MREL equivalent to their existing capital requirements. This effectively doubles their total capital requirements and implies that banks with material current account customer bases will need to hold capital ratios of 20%+ from 2022. Smaller firms (like STB) which the Bank of England 'assesses do not provide services of a scale considered critical', will be subject to a modified insolvency process and will meet their MREL simply by meeting their existing capital requirements.

The Basel Committee on Banking Supervision was due to announce the outcome of its consultations in respect of the capital regimes in January 2017. It now appears that it will be March 2017, at the earliest, before any clarification emerges. I understand that a key sticking point relates to proposals to introduce a capital floor under the IRB approach used by the largest banks, with the US pushing for a floor of 75% of the risk weights used under the standardised approach. There are rumours that a compromise could be for the floor to be initially set at 55% from 2021 with this rising to 75% by 2025 to allow time for the systemic banks to transition to these new standards in an orderly fashion. The risk weight floors proposed will be set as a percentage of the standardised risk weights. This has given rise to the somewhat ironic situation where I have personally witnessed systemic banks claiming that the standardised risk weights are too high and should be reduced. Indeed it is being indicated that the lowest standardised risk weights for residential owner occupied could be reduced from 35% to 20%. The final decisions from Basel are awaited and the picture could become further complicated by the stance of the Trump administration. Smaller banks will certainly welcome the changes being mooted as these have the potential to largely remove the substantial capital advantages enjoyed by the systemic banks in certain lending classes thereby creating a much more level competitive playing field.

I outlined above the PRA's intention to adopt a holistic rather than 'sum of the parts' approach when determining the levels of regulatory capital required to be held by the smaller banks. We wait to see how this will translate in practice but it could be a pragmatic and positive development.

Clearly the positions here are very fluid and it remains to be seen what actually comes to pass. What is apparent is that the direction of travel is to reduce the capital differentials between the systemic and non-systemic firms which should ultimately bode well for smaller banks in the future. It should also benefit consumers and SMEs by fostering competition thereby creating more innovation and choice and reducing the risks that the taxpayer will need to fund the bail out of failed banks in the future.

Chief Executive's Statement continued

Strategic priorities

In the five years since Secure Trust Bank PLC undertook its AIM IPO in November 2011 we have increased customer numbers by 440%, increased our workforce by 176% and generated total underlying shareholder returns over the period of 247%[2]. I believe this reflects the effectiveness of the strategy we agreed and subsequently pursued under Sir Henry Angest's chairmanship. I fully concur with Lord Forsyth's comments about Sir Henry and would add that I have thoroughly enjoyed and am grateful for the close and effective working relationship we have had since I joined STB in September 2010.

It will come as no surprise that we do not intend to deviate much from the current growth strategy which is focused on three strategic priorities: (i) organic growth, (ii) diversification and (iii) M&A activity. Having completed a number of highly complex and time consuming projects during 2016 management now has increased capacity to consider M&A activities which offer a good strategic fit and risk adjusted economic profile.

During 2016 we curtailed new lending to those sectors we considered most exposed to potential uncertainty arising from the EU referendum decision, particularly in higher Loan to Value asset finance and central London housebuilding. We retain a cautious short term stance here and are encouraged to see the Bank of England in February 2017 significantly upgrade its GDP forecasts for the UK for 2017 and 2018. It is however also pertinent to note their forecasts of inflation running persistently above the 2% target over the next three years which could impact consumer spending and business investment.

These factors and the evolving regulatory regime clearly influence our strategic thinking and plans. We will continue to grow our Retail Point of Sale (V12) and Motor propositions in the Consumer Finance sector. V12 has grown its lending balances from £30 million when we acquired it in January 2013, to over £325 million as at 31 December 2016. It has consistently delivered profit growth whilst remaining a modest player in a multi £billion market. In order to support this success we continue to invest heavily in our operations in Cardiff. We have acquired an additional freehold office building of 8,500 square feet to accommodate the expanding workforce needed to provide excellent service to a growing customer base. V12 has a number of competitive advantages not least of which is the quality of its IT platform and the ease that this can be integrated with online and instore retail channels. The pace of IT advancement is relentless and in order to sustain our competitive advantages we remain focused on further improving our core customer propositions and IT capabilities.

The market for Motor Finance in the UK is nearly £20 billion. This is a highly fragmented and competitive space where we have a £0.2 billion share predominantly in non-prime lending. This remains an important and profitable line of business for us.

All of our Motor Finance lending currently trades under our 'Moneyway' brand. This is seen by dealers and brokers as a recognised, trusted and consistent brand. These are positive attributes. However it has become apparent that a brand exclusively associated with the non-prime market does not lend itself to a successful and progressive entry into the prime market. We see opportunities to continue to grow our non-prime franchise whilst building a prime lending business. Putting this in context we note there are bank and non-bank lenders operating at the more prime end of the market with customer lending balances, in aggregate, approaching £2 billion. The reality is that there is nothing these lenders are doing that STB cannot do if we made some targeted investment, recruited the right management and potentially create a new sister brand for Moneyway. In order to progress our thinking we have changed both the Managing Director and Financial Director in our motor finance team and will provide a further strategic update when appropriate.

Mark Twain said, 'buy land, they don't make it anymore'. This neatly summarises the UK's housing crisis. A finite supply of land upon which to construct properties to accommodate a growing population is a major challenge. HM Government is pursuing a pro construction policy agenda and we will be happy to continue supporting proven residential property developers to build homes in areas of known demand. Our Loan to Gross Development Value limits will remain modest to ensure that the borrower has hard equity in any deal and to provide a buffer lest market values fall, however unlikely some might think this is.

The UK Invoice Finance and Asset Finance markets are large, fragmented and growing markets of around £20 billion each. We are pleased with the progress made by STB Commercial Finance and the profits being generated here and in our asset finance business line. We see significant future growth potential and could be interested in acquiring businesses in these spaces if the risk profile and economics of any transaction are attractive.

Our longer term ambition remains to grow a broad based portfolio, balanced across consumer finance, SME finance and residential mortgage lending. During 2016 we have built out the operating platform necessary to support the launch into the residential mortgage market. There are no changes to our plans to initially focus on the owner occupied segment as this is by far the largest part of the market and the area that could benefit most from some of the potential regulatory capital changes. Our lending will be specialist and manually underwritten enabling us to serve those customers shunned by the automated processes used by the systemic banks. We expect to compete against other challenger banks and specialist non-bank lenders. As is to be expected we will incur a 'J' curve effect from this start up business and attractive returns on equity will take time to materialise whilst we work through the front book:back book

[2] Based on the appreciation of the share price since the IPO, assuming all dividends have been reinvested.

dynamic that is a prominent feature of mortgage lending. We are interested in potentially accelerating our entry into this market via acquisition if we can identify existing mortgage lenders and/or portfolios which offer acceptable risk and economic profiles.

Current trading and outlook

There has been no material change to the underlying performance of the business in the early months of 2017. We continue to see potential to grow our lending portfolio in line with our ambition and have a clear growth strategy and a pipeline of organic and external new business opportunities.

We noted, with much interest, RBS's recent announcement that they are proposing a range of measures, including a £750m fund, to promote competition in SME banking. We would consider ourselves one of the 'eligible challenger banks' they refer to and will study in depth their full proposals lest these enable us to profitably deploy our surplus capital faster than we currently envisage.

I am optimistic about the potential, for a variety of different reasons, for a more level and more competitive playing field in respect of regulation to emerge which will ultimately open up a much larger share of the market for smaller non-systemic banks to compete in. I continue to believe greater levels of competition are in the best interests of UK consumers and SMEs by providing more choice, more innovation and less concentration in the UK banking market. This also offers less risk to taxpayers.

The successful completion of a number of complex projects in 2016 including the divestment of the sub-prime unsecured personal loan business of ELG, the closure of the current account product and the step up from AIM to the Main Market puts us in a strong position to pursue our strategic priorities by developing our business model organically and pursuing M&A opportunities. This coupled with the Main Market premium listing and substantial capital resources, positions the Group well to navigate the evolving economic and regulatory environment and to seek to take full advantage of any opportunities that may arise during 2017.

Paul Lynam
Chief Executive Officer

22 March 2017

Business Finance

Real Estate Finance
Real Estate Finance was formed as a division within the Group in 2013. The division supports SMEs in providing finance principally for residential development and residential investment.

Asset Finance
Asset Finance was formed as a division within the Group in December 2014.

Commercial Finance
Commercial Finance was formed as a division within the Group in 2014.

£631.0m

2016 Total Business Finance Lending

35%

Increase in Business Finance Lending
(2015 – £468.0m)

> Strong growth in all Business Finance segments, with balances up 35%.

Business Review
Business Finance

Real Estate Finance

What we do

Residential development
The Group lends to enable the development of new build property, commercial to residential conversions (including those with permitted development rights) and refurbishment projects.

Residential investment
The Group lends on portfolios of residential property where the rental income will repay the underlying borrowing over a term period. The Group has no exposure to the regulated buy to let mortgage sector and has no plans to enter this sector.

Other lending
The Group has limited appetite for commercial lending (either development or investment) and has limited exposure to mixed development schemes.

How we do it

Financing is typically provided over a term of up to five years with prudent loan to value targets, with a 60% Loan to Gross Development Value to residential house builders but more restrictive policies are implemented from time to time as required; for instance the Group reduced its financing of residential developments in Central London in 2015.
The Group's Loan to Gross Development Value/Loan to Value ratios average 58% across all lending areas. The Group has no significant exposure to any one property scheme or developer.

The Real Estate Finance team is staffed by experienced bankers with proven property lending expertise. The team provides full support to customers and introducers over the life of the products.

> "An overall 40% increase in revenue from the book. The balance of the book has continued to shift towards residential investment loans."

Secure Trust Bank is pleased to support Halsbury Homes with the phased development of Richmond Park, Whitfield, Kent.

2016 performance

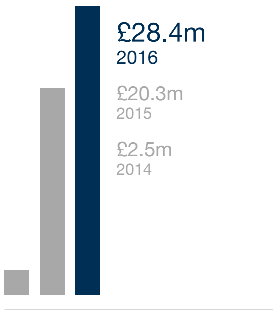
The Real Estate Finance business continued to show controlled growth in 2016, as the Group responded cautiously to the uncertainties created from the UK vote to leave the European Union, as well as addressing the increased capital requirements placed on development lending by the regulator. Lending balances were £451.0 million as at 31 December 2016, a 23% increase in the year, leading to an overall 40% increase in revenue from the book. The balance of the book has continued to shift towards residential investment loans, driven by new business in this sector coupled with repayments of £138 million on the development book as projects have either been completed, part-sold or refinanced. Residential investment represented 63% of the book at the end of December. This has been achieved with no individual credit impairments having arisen to date, reflecting the prudent credit policies that have been adopted, and close monitoring of the portfolio.

The book equally continues to consist primarily of residential lending, with lending with a commercial element remaining low at 7%, most of which is not pure commercial property lending but rather lending with a mix of residential and commercial units.

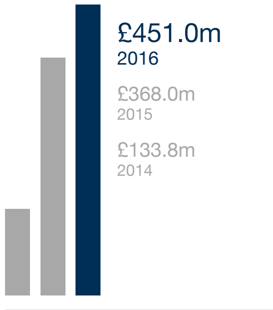
Looking forward

The business remains committed to further growth, with a good pipeline of both development and investment opportunities, albeit the business remains cautious in its outlook given ongoing market uncertainty.

Revenue and lending performance vs prior years



Real Estate Finance lending revenue



Real Estate Finance lending balance at 31 December

Real Estate Finance impairment losses

Business Review
Business Finance

Asset Finance

What we do
The Asset Finance business provides funding to support SME businesses in acquiring commercial assets, such as building equipment, commercial vehicles and manufacturing equipment.

How we do it
The Asset Finance business is operated via a strategic partnership with Haydock, a well-established asset finance company operating across the UK. Haydock provides a full business process outsourcing service to the Group and also assists the Group in sourcing new business and providing support to the Group's clients on an ongoing basis. All of the lending written fully conforms to the Group's credit policies, risk appetite or other specific authorisations.

The current route to market is via introducers who are supported by the Group's marketing resource and a targeted web and social media presence. The Group offers hire purchase and finance lease arrangements with terms of up to five years.

The Group also offers asset refinancing whereby the Group takes ownership of the customer's existing equipment and enters into a hire-purchase financing arrangement with the customer for a set period of time.

2016 performance
The Asset Finance Division achieved strong growth in 2016, with lending balances growing by 66% to £117.2 million at 31 December. This growth has been the driver for the increase in revenues from the business during 2016. Growth has slowed in the second half of the year as a result of two key factors:

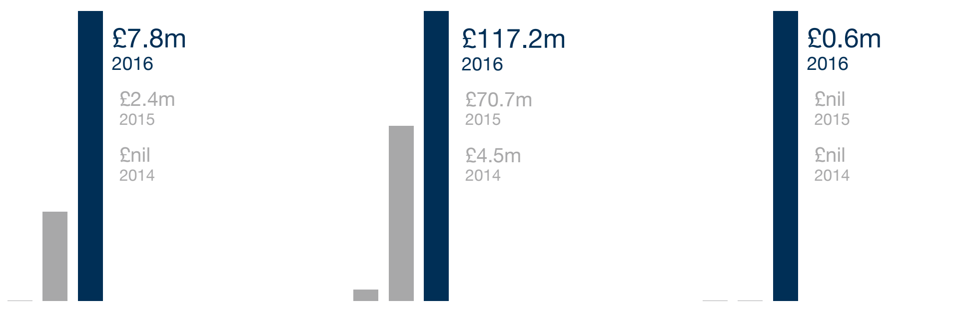
- A reduction of credit appetite amongst corporates, coupled with an adjustment in our credit appetite to take account of the more uncertain credit conditions, particularly in certain sectors, notably construction.
- A desire to maintain yields and not to chase volume at the expense of yield.

Whilst some credit losses have arisen during the year, the level of overall impairment charge has been in line with expectation at 0.6% (based on average lending balances), and the overall levels of arrears remain low in comparison with industry comparatives.

Looking forward
The Group sees clear potential to build a scale and sustainable business either by replicating the successful approach adopted in the Invoice Finance market or by acquiring an existing operator that can be grown with the benefit of our funding and capital.

The asset finance market is extremely competitive as newer players compete aggressively with established asset financiers for market share. Some lenders are underwriting deals that are at very thin margins and there are downward pressures on margins in the sector generally. The Group does not regard this behaviour as sustainable. The Group is therefore tempering its ambition in this sector until the market normalises and capital can be safely and profitably deployed.

Revenue and lending performance vs prior years



Asset Finance lending revenue

Asset Finance lending balance at 31 December

Asset Finance impairment losses

Commercial Finance

What we do

The division specialises in providing a full range of invoice financing solutions to UK businesses including invoice discounting and factoring.

Invoice discounting services provide access to funding and releases typically up to 90% of the value of unpaid invoices in a manner that is non-customer facing and allows customers to stay in control of sales ledger management.

Factoring services, where the sales ledger management is passed onto the Group, may also provide access to funding of typically up to 90% of the value of invoices and often results in the Group managing credit control, cash allocation, statement and reminder letter distribution.

How we do it

Commercial Finance complements the broader SME lending proposition which has been developed by the Group. The business also provides SME commercial owner occupiers with finance to buy the property they trade from in conjunction with other financing facilities.

The division has built a strong team of proven business development, credit and operational professionals who have delivered a robust and compliant operational model.

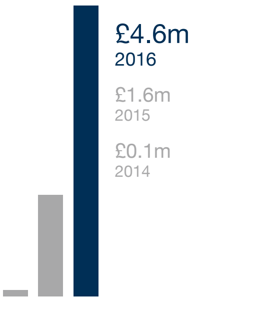
2016 performance

After only two full years of trading STB Commercial Finance moved into the top ten independent providers of Asset Based Lending facilities in the UK, with total facility limits agreed in excess of £125 million. A customer focussed approach has been central to this growth and the team has built key strategic partnerships and shown a high degree of flexibility in the way it manages facilities. The Group has handpicked a team of twenty people and whilst the team's head office is domiciled in Manchester it has both origination and client servicing capability across the UK. The business has been underpinned by robust processes and controls which has been reflected in a strong credit performance to date.

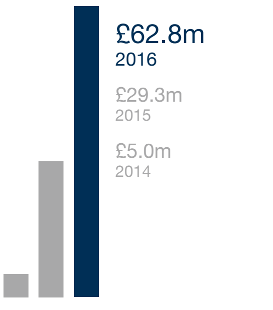
Looking forward

Commercial Finance has continued to deliver on a key strategic objective of fostering strong relationships with the professional community and specifically those involved in the Private Equity market. The portfolio has continued to grow with a range of tailored lending solutions which are genuinely bespoke to the client's needs. New technology and an expanded product offering will continue to allow the team to enhance the client experience and at the same time ensure that it maintains a fully compliant process.

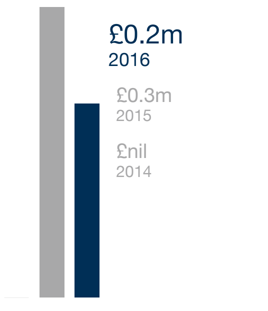
Revenue and lending performance vs prior years



Commercial Finance lending revenue



Commercial Finance lending balance at 31 December



Commercial Finance impairment losses

> "A customer focussed approach has been central to this growth."

Consumer Finance

Personal Lending

Following the sale of ELG in April 2016, the Group continued to provide unsecured personal loans through its Moneyway branded business. In January 2017, the Group announced its intention to cease originating new personal loans and this segment is now closed to new business.

Motor Finance

Finance is arranged through motor dealerships and brokers and involves fixed rate, fixed term hire purchase arrangements, predominantly on used cars.

Retail Finance

Retail Finance includes lending products for in-store and online retailers to enable consumer purchases.

£627.6m

2016 Total Consumer Finance lending

36%

Increase in Consumer Finance lending
(2015 – £460.4m excluding ELG.)

"The Retail Finance business has continued to grow strongly."

Business Review
Consumer Finance

Personal Lending

Personal unsecured loans are fixed rate, fixed term products with payments received monthly in arrears. Loan terms are between 12 months and 60 months with advances varying from £1,000 to £15,000. Loans were provided to customers for a variety of purposes including home improvements, personal debt consolidation and for the purchase of vehicles.

2016 performance

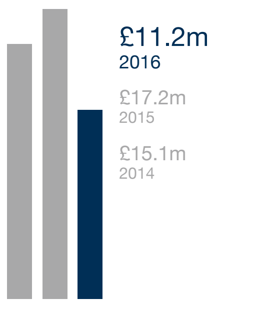
Under the Moneyway brand, the Group took a cautious stance to lending throughout the year, with personal lending volumes in the year of £39.0 million being contained in line with those of the previous year. As a result, lending balances have fallen by 12% to £65.5 million (2015: £74.3 million), with revenue decreasing by 35% to £11.2 million (2015: £17.2 million).

The credit risks in the lending book are continually scrutinised with this data being used, prior to the closure to new business, to inform changes in risk appetite and pricing. Impairment losses were £4.4 million compared to £4.8 million in 2015.

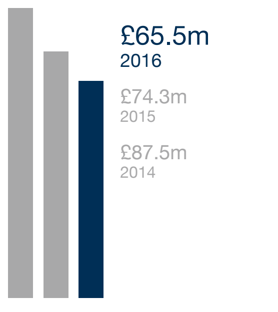
Looking forward

In the light of a potential slowing of the economy, current economic uncertainty and the competitive dynamics in the personal lending market, the Group has reviewed its risk appetite for this product. In January 2017 it announced its intention to withdraw its personal lending offer. The Group intends to re-enter the market once risk adjusted yields become more attractive.

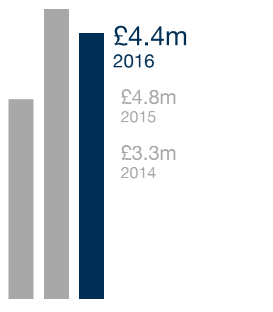
Revenue and lending performance vs prior years



Personal Lending revenue



Personal Lending balance at 31 December



Personal Lending impairment losses

Motor Finance

What we do

The Bank's Motor Finance business began lending in 2008 under the Moneyway brand and provides hire purchase lending products to a wide range of customers including those who might otherwise be declined by other finance companies. The Bank helps our customers gain the freedom and flexibility that motoring gives to their lives as well as helping introducers to sell more cars.

Motor Finance agreements are fixed rate, fixed term hire purchase agreements and are secured against the vehicle being financed.

As the Group is lending into the non-prime market the majority of vehicles financed are predominantly volume franchise used cars.

How we do it

The Bank distributes its Motor Finance products via UK motor dealers, brokers and internet introducers. New dealer relationships are established and managed by our UK-wide Motor Finance sales team with all introducers subject to a strict vetting policy, which is reviewed on a regular basis.

The technology platform used allows Moneyway to receive applications online from its introducers, to provide an automated decision, document production through to pay-out to dealer and ongoing in-life management.

Motor lending is administered in the Group head office in Solihull; however the UK motor dealers and brokers are UK-wide.

2016 performance

New business volumes for motor lending increased from £85.7 million to £146.8 million, an increase of 71% year on year. This generated a significant increase in lending assets during the year. Income has increased by 22% to £40.5 million.

In the second half of 2015 the business widened its credit parameters in order to drive profitable growth supported by our strong introducer relationships.

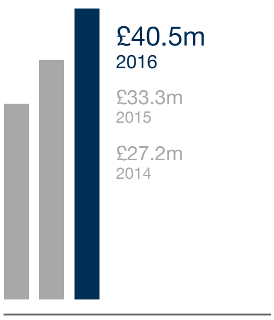
Impairment losses including voluntary terminations for the year increased from £7.3 million to £14.6 million. The motor finance sector has seen an increase in the instance of voluntary terminations and this has featured in our impairment losses as the book matures. This reflects the continued growth and maturity of the loan book, and refinement of the provisioning methodology.

Looking Forward

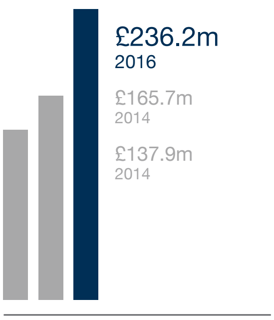
Into 2017 Moneyway will continue to optimise its performance in the non-prime sector of the market through existing introducer channels.

The division will also continue to develop its prime proposition across its existing introducer channels to complement non-prime products, enabling the Group to offer a product for every potential customer.

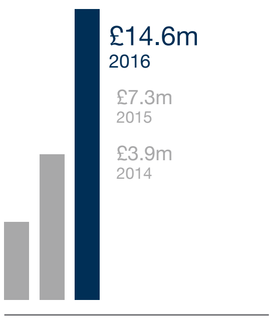
Lending performance vs prior years



Motor Finance lending revenue



Motor Finance lending balance at 31 December



Motor Finance impairment losses

"New business volumes for motor lending increased 71%."

Business Review
Consumer Finance

Retail Finance

What we do
The Bank's Retail Finance business commenced lending in 2009 and provides unsecured, prime lending products to the UK customers of its retail partners to facilitate the purchase of a wide range of consumer products across in-store, mail order and online channels. The acquisition of the V12 Finance Group in January 2013 was complementary to the Group's existing retail finance proposition and the V12 management team continued in the business. V12 Retail Finance has provided finance in cooperation with their retail partners for more than 20 years. The acquisition enabled the Group to integrate its existing retail lending business with that of the V12 Finance Group to generate synergistic benefits from the use of a Group-wide point of sale system. All of the Group's retail partners are now on the V12 platform and Retail Finance is administered in V12 Retail Finance's offices in Cardiff.

Retail Finance products are unsecured, fixed rate and fixed term loans of up to 84 months in duration with a maximum loan size of £25,000. The average new loan is for £900 over a 20 month term. Lending is restricted to UK residents who are either employed or self-employed.

The finance products are either interest bearing or have promotional credit subsidised by retailers, allowing customers to spread the cost of purchases into more affordable monthly payments or paying later for the goods.

How we do it
The Group operates an online eCommerce service to retailers, providing finance to customers through an online paperless processing system. This includes allowing customers to digitally sign their credit agreements, thereby speeding up the pay-out process, and removing the need to handle and copy sensitive personal documents through electronic identity verification.

The Group serves retailers across a broad range of retail sectors including cycle, music, furniture, outdoor/leisure, electronics, dental, jewellery and football season tickets.

The Group provides finance to customers of a large number of retailers including household names such as Evans Cycles, AO.com, Jessops, Halfords, DFS and Watchfinder.

"Providing finance to customers through an online paperless processing system."

Our Retail Finance Business has seen growth in the furniture sector through top brands.

2016 performance

The three largest sub-markets for the Retail Finance business are the provision of finance for the purchase of sports and leisure equipment (including cycles), furniture and consumer electronics. Cycle finance has seen positive new business levels influenced by the continued success of British cyclists in the Tour de France, the Olympics and Paralympics.

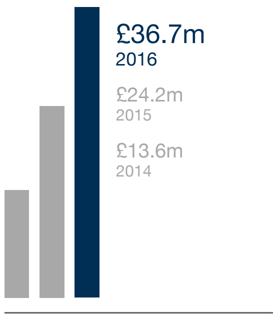
The Retail Finance business has continued to grow strongly, with new lending volumes increasing to £396.3 million (an increase of 35% on the previous year). Each of the core business sectors have contributed towards this growth which has been achieved through a combination of gaining increased market share and sector growth (as seen in the cycle market). This growth has generated a significant increase in lending assets during the year, which at the year-end totalled £325.9 million (December 2015: £220.4 million).

Income from retail lending increased by 52% to £36.7 million (2015: £24.2 million). Impairment losses were well controlled at £9.5 million in 2016 (2015: £5.2 million).

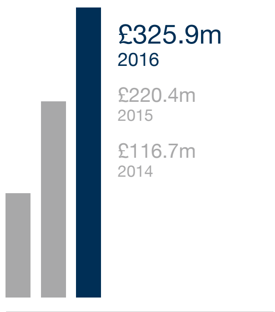
Looking forward

The Group plans continued growth in Retail Finance during 2017 with the focus on acquiring increased market share across its target markets. A number of initiatives are underway to further enhance systems capabilities to ensure that quality of service to both retailers and customers is maintained or improved as the business continues to expand. To further support the maintenance of service levels the business intends to continue the expansion of its workforce whilst investing in additional office and support facilities.

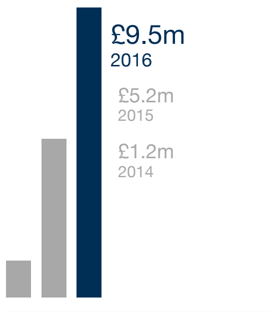
Revenue and lending performance vs prior years



Retail Finance lending revenue



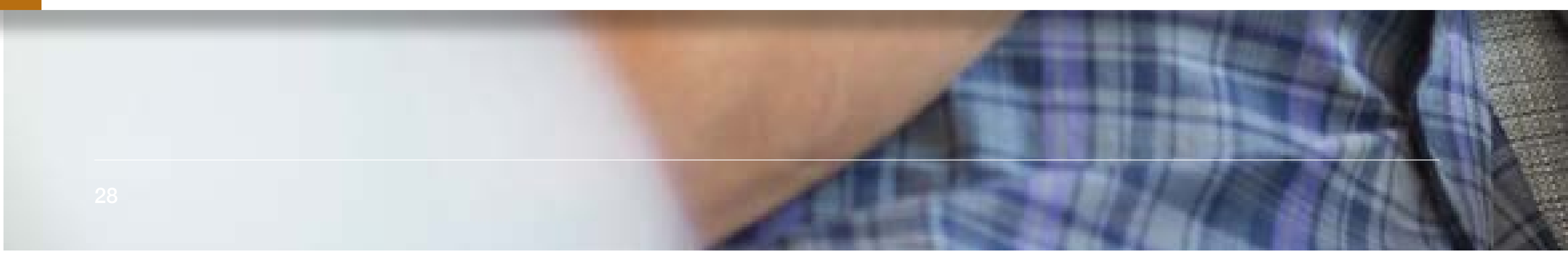
Retail Finance lending balance at 31 December

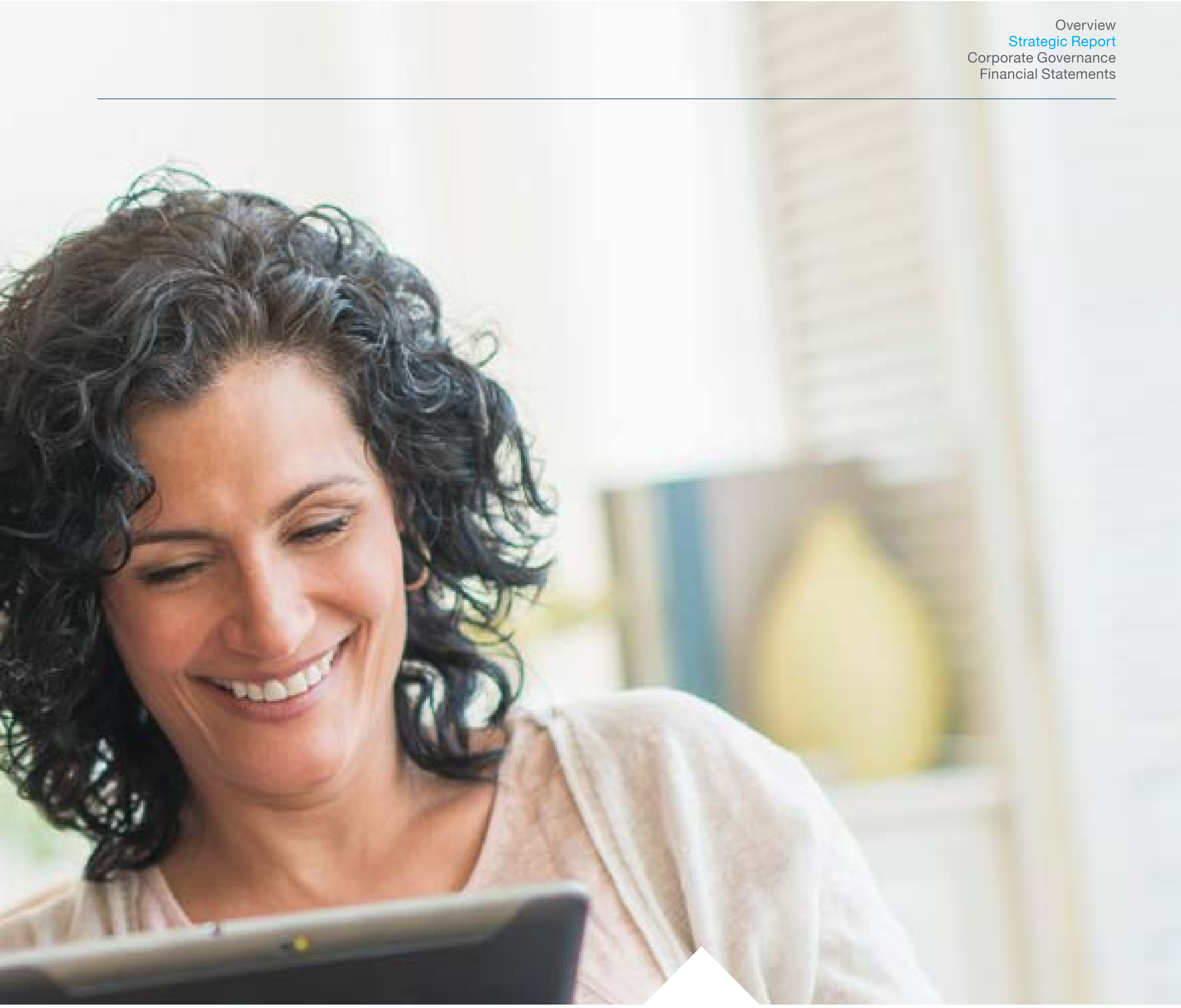


Retail Finance impairment losses

Savings

The Group undertakes its funding primarily via retail savings deposits, attracting balances with competitive rates of interest.





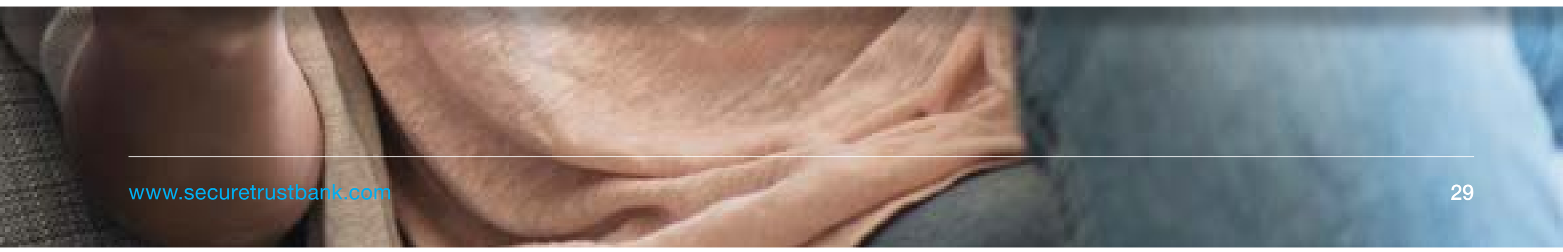
£1,151.8m

2016 Total customer deposits

11.5%

Increase in total customer deposits
(2015 – £1,033.1m)

> “Accounts are simple in design with competitive interest rates easily applied for online.”



Business Review
Savings

What we do
The Group's deposits consist of notice accounts and fixed term savings, with a small proportion of instant access accounts, available to individuals as well as private businesses and non-profit enterprises.

Accounts are simple in design with competitive interest rates easily applied for online and deposits are covered by the UK Financial Services Compensation Scheme (up to the specified limits).

The key terms of accounts that are usually offered from time to time are summarised below:

- Mixture of products ranging from 60 to 183 day notice periods and fixed term savings with one to seven year maturities.
- Minimum balance of £1,000.
- Maximum balance of £1 million for sole account holders and £2 million for business and joint accounts.

The fee-based current account product previously offered by the Group was closed to new applicants at the end of 2015 and all current accounts were closed by the end of September 2016.

The OneBill account had been in operation for many years and was designed to aid customers with their household budgeting and payments process. Customers provided the Group with details of their annual bills (including rent, utility bills, insurance and telephone line rental) which the Group aggregated and then calculated a fixed weekly or monthly payment schedule to ensure the bills were paid on time. This enabled customers to spread the cost of their bills throughout the year in addition to receiving direct debit discounts and all supplier contact being handled by the Group. The Group charges a monthly fee for this service. The product was closed to new customers in 2009.

How we do it
By virtue of a focus on higher margin lending, the absence of a branch network and a policy of not cross-subsidising loss making products with profitable ones, the Group is able to offer competitive rates and has been successful in attracting high volumes of deposits, particularly in short timescales, from a wide range of customers. This provides a funding profile which gives additional financial security to the business.

The Group enters the market for deposits as and when it is necessary and maintains a funding strategy of broadly matching the term and tenor of its customer deposits to the desired maturity profiles of the Group which are primarily determined by the interest rates and terms offered on loans and advances to customers. This strategy seeks to help mitigate maturity transformation and interest basis risks. The marketing methods employed include providing information about the deposit accounts offered on price comparison websites (for example Moneysupermarket), newspaper best buy tables and articles and via online endorsement (for example Money Saving Expert).

> “We are successful in attracting high volumes of deposits, particularly in short timescales, from a wide range of customers.”

Savings accounts offer competitive interest rates and are easily opened online.

The Group is able to adjust the mix of interest rate offered and term of deposit or notice period in a manner that allows it to raise funding quickly. As part of this funding strategy, the Group may only offer deposit accounts for limited periods of time and, from time to time, may not offer deposit accounts to customers at all. The Group will cease offering deposit products when the Group's need for deposit funding at that time has been satisfied.

The Bank is a member of the Financial Services Compensation Scheme.

2016 performance

The Group's customer deposits primarily comprise notice deposits, term deposits, and instant access, as well as OneBill accounts. At 31 December 2016 deposits totalled £1,151.8 million (December 2015: £1,033.1 million). This represents an increase of £118.7 million against the last year end. Balance growth was muted overall in light of the level of free funding the Group had on its balance sheet following the sale of ELG and its moderate use of the Bank of England facilities: the Funding for Lending Scheme and Term Funding Scheme.

During the year the Group was able to adjust its funding costs in light of market conditions whilst retaining its competitive pricing. It also successfully launched 1, 2 and 5 year bonds, closing its 1 year bond within 5 days; evidence of the strength of demand for the Group's savings products and its ability to raise funds promptly.

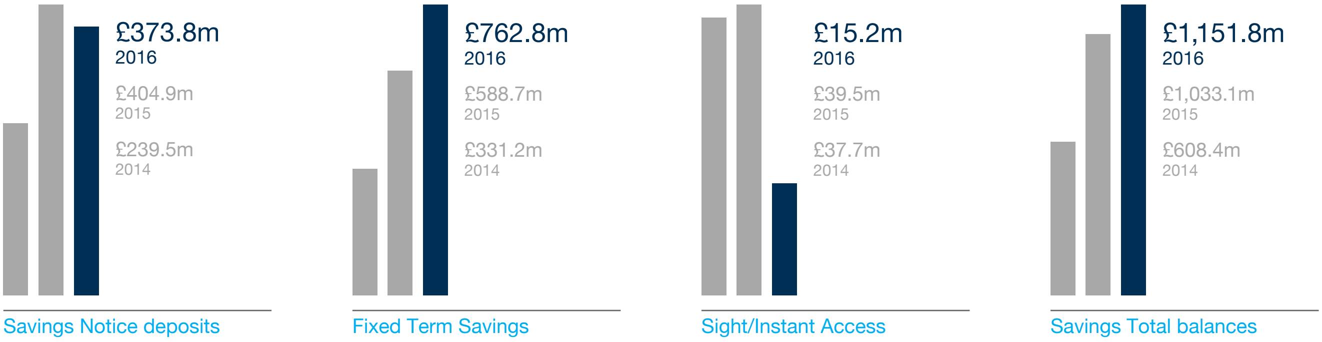
Looking forward

The Group expects interest rates on savings accounts to remain broadly at their current levels in the coming year, with a marginal increase in the market cost of funds for notice and fixed term savings driven by increasing competition as a result of the continued entrance of new providers and now established challengers.

The strategy is to continue to fund the business primarily via retail deposits with balanced use of the Bank of England's Term Funding Scheme following the approach of broadly matching term and interest rates to mitigate both maturity transformation and interest basis risks. The Group will compete for deposits via competitive rates of interest on both personal and business accounts with notice and fixed term products, with customers able to apply online and be covered by the UK Financial Services Compensation Scheme (up to the specified limits).

In the second half of 2017, the Group intends to introduce internet banking for deposit products and diversify its product set to include ISAs, providing access to an additional market of £270 billion of deposits (Source: Bank of England, as at November 2016).

Savings balances vs prior years



Financial Review

Summarised income statement

Income statement	2016 Continuing operations £million	2016 Discontinued operations £million	2016 Total £million	2015 Continuing operations £million	2015 Discontinued operations £million	2015 Total £million
Interest, fee and commission income	146.3	11.2	157.5	117.4	40.7	158.1
Interest, fee and commission expense	(28.1)	(0.1)	(28.2)	(25.3)	(0.3)	(25.6)
Operating income	118.2	11.1	129.3	92.1	40.4	132.5
Impairment losses	(27.7)	(2.6)	(30.3)	(16.8)	(7.5)	(24.3)
Operating expenses	(65.5)	(6.0)	(71.5)	(50.5)	(21.2)	(71.7)
Profit before tax	**25.0**	**2.5**	**27.5**	**24.8**	**11.7**	**36.5**
Fair value amortisation	0.9	–	0.9	0.9	–	0.9
Share based incentive scheme	(0.7)	–	(0.7)	0.7	–	0.7
Net Arbuthnot Banking Group management recharges	0.2	–	0.2	0.3	–	0.3
Transformation costs	3.4	–	3.4	–	–	–
Costs of moving to Main Market	1.4	–	1.4	–	–	–
Discontinued operations	–	(2.5)	(2.5)	–	(11.7)	(11.7)
Bonus payments made in respect of ELG sale	3.5	–	3.5	–	–	–
Other items relating to ELG sale	(0.8)	–	(0.8)	–	–	–
Underlying adjustments to profit	7.9	(2.5)	5.4	1.9	(11.7)	(9.8)
Underlying profit before tax	**32.9**	**–**	**32.9**	**26.7**	**–**	**26.7**
Tax	(6.3)	(0.5)	(6.8)	(5.5)	(2.3)	(7.8)
Tax on underlying adjustments	(1.5)	0.5	(1.0)	(0.4)	2.3	1.9
Underlying tax	**(7.8)**	**–**	**(7.8)**	**(5.9)**	**–**	**(5.9)**
Profit after tax	18.7	2.0	20.7	19.3	9.4	28.7
Underlying adjustments after tax	6.4	(2.0)	4.4	1.5	(9.4)	(7.9)
Underlying profit after tax	**25.1**	**–**	**25.1**	**20.8**	**–**	**20.8**
Underlying basic earnings per share (pence)	**137.7**	**–**	**137.7**	**114.3**	**–**	**114.3**

Summarised income statement

The underlying adjustments to profit relate to items that fall outside of the Group's normal recurring business activities.

Fair value amortisation relates to the acquisition of the Group's subsidiaries, ELG and the V12 Finance Group. The acquisition accounting required identifiable assets and liabilities to be adjusted to their fair value, and these adjustments are subject to amortisation.

The share based incentive scheme movements have been driven primarily by market conditions, specifically the volatility of UK share prices, rather than factors controllable by the Group.

Arbuthnot Banking Group management charges will no longer be levied following the sale of their controlling interest in the Group, and so do not represent recurring expenditure.

Transformation costs comprise the costs of setting up the Group's mortgage operation and of closing the Current Account and Unsecured Personal Lending products.

The move to the Main Market and sale of ELG also represent non-recurring events.

On 13 April 2016 the sale of the Group's branch based non-standard consumer lending business, ELG, to Non-Standard Finance Plc ('NSF') completed generating a gain on disposal of £116.8 million. Results relating to ELG have therefore been analysed as discontinued operations throughout these annual report and accounts. Unless otherwise stated, the analyses presented relate to continuing operations, which represents all of the Group's divisions, excluding ELG.

Operating income

Operating income from continuing operations increased by 28% to £118.2 million. Operating income comprises net interest receivable, being interest earned on assets less interest expense on liabilities, plus net fees and commissions earned.

The Group measures net revenue margin, calculated as operating income as a percentage of the average loan book. The net revenue margin for 2016 was 10.4% compared with 12.4% for 2015.

The Group also measures gross revenue margin, being interest income plus net fees and other income as a percentage of the average loan book. The gross revenue margin for 2016 was 12.9% compared with 15.8% for 2015. The reductions in these margins are driven by the change in the composition of the loan book, with an increase in the proportion of the book represented by lower interest-bearing Business Finance lending. The component parts of operating income are further analysed on page 34.

Interest receivable and similar income, which is predominantly earned on loans and advances to customers, increased to £130.0 million from £100.5 million in 2015, for continuing operations. The increase was driven by the growth of the Group's loan books over the year.

Interest expense and similar charges represents interest in respect of deposits from customers. Interest expense and similar charges increased to £26.3 million from £21.6 million in 2015, for continuing operations. The increase is due to the increase in customer deposits over the year. The cost of funding, measured as interest expense and similar charges as a percentage of the average loan book, reduced from 2.9% for 2015 to 2.3% for 2016. This reflects the market for funding, in which the Group has been able to replace maturing term deposits with new deposits of the same tenor but at lower fixed rates.

Financial Review
continued

The Group's net interest margin, calculated as interest receivable and similar income less interest expense and similar charges as a percentage of the average loan book, reduced from 10.6% in 2015 to 9.2% in 2016. The net interest margin reduced as a result of the change in book composition, partially offset by the reduction achieved in funding costs.

Fees and commissions

Fee and commission income consists principally of weekly and monthly fees from the OneBill and Current Account products, and commissions earned on debt collection activities in DMS. Fee and commission income reduced from £16.9 million in 2015 to £16.3 million in 2016, for continuing operations. The fee income relating to Current Account and OneBill has decreased year on year as these products have been closed to new business; OneBill in 2009 and Current Account in 2015. This income has been replaced in part by increasing levels of fees earned on Commercial Finance and Retail Finance lending.

Fee and commission expense consists primarily of fees and commissions relating to the Current Account product. Fee and commission expense decreased from £3.7 million in 2015 to £1.8 million in 2016, following the closure of the Current Account product.

Impairment losses

Impairment losses during the year were £27.7 million (2015: £16.8 million). This increase is primarily due to the growth of the business and consequent increase in the size of loans and advances to customers.

The Group measures cost of risk, calculated as net impairment losses on loans and advances to customers as a percentage of the average loan book. The cost of risk for 2016 was 2.4%, compared with 2.3% for 2015. Further analysis of the Group's loan book and its credit risk exposures is provided in Notes 10, 12 and 29.

Operating expenses

Operating expenses have increased, reflecting the investments made in the infrastructure and human capital of the Group to achieve growth targets, from £50.5 million in 2015 to £65.5 million in 2016, for continuing operations. The Group's cost to income ratio remained stable at 55.4% (2015: 54.8%).

Net interest receivable

	2016 Continuing operations £million	2016 Discontinued operations £million	2016 Total £million	2015 Continuing operations £million	2015 Discontinued operations £million	2015 Total £million
Interest receivable and similar income	130.0	11.1	141.1	100.5	39.2	139.7
Interest expense and similar charges	(26.3)	–	(26.3)	(21.6)	–	(21.6)
Net interest receivable	**103.7**	**11.1**	**114.8**	**78.9**	**39.2**	**118.1**

Fees and commissions

	2016 Continuing operations £million	2016 Discontinued operations £million	2016 Total £million	2015 Continuing operations £million	2015 Discontinued operations £million	2015 Total £million
Assets						
Fee and commission income	16.3	0.1	16.4	16.9	1.5	18.4
Fee and commission expense	(1.8)	(0.1)	(1.9)	(3.7)	(0.3)	(4.0)
Net fee and commission income	**14.5**	**–**	**14.5**	**13.2**	**1.2**	**14.4**

Taxation

The effective underlying tax rate has increased to 23.7% (2015: 22.1%), which is mainly due to adjustments in respect of prior years of £1.8 million. The new Bank Corporation tax surcharge of 8%, which is effective from 1 January 2016, would apply to any future taxable profits of Secure Trust Bank Plc company that were in excess of £25.0 million.

Distributions to shareholders

The directors recommend the payment of a final dividend of 58 pence per share which, together with the interim dividend of 17 pence per share paid on 18 September 2015, and the special dividend of 165 pence per share paid on 27 July 2016 following completion of the sale of ELG, represents a total dividend for the year of 240 pence per share (2015: 68 pence per share).

Earnings per share

Detailed disclosures of earnings per ordinary share are shown in Note 8 to the financial statements. Basic earnings per share increased by 378% to 754.1 pence per share (2015: 157.8 pence), whilst the underlying basic earnings per share increased by 20% to 137.7 pence per share (2015: 114.3 pence per share).

The assets of the Group, on a continuing basis, increased by 34% to £1,510.0 million, primarily driven by the growth in the Group's loan portfolios. The underlying return on average assets, calculated as the underlying profit after tax for the year as a percentage of average assets, was 1.9% for 2016, compared with 2.2% for 2015.

The liabilities of the Group, on a continuing basis, increased by 16% to £1,274.0 million, primarily driven by the increase in deposits from customers, providing funding for the Group's lending activities.

Summarised balance sheet

	2016 Total £million	2015 Continuing operations £million	2015 Discontinued operations £million	2015 Total £million
Assets				
Cash and balances at central banks	112.0	131.8	–	131.8
Debt securities held-to-maturity	20.0	3.8	–	3.8
Loans and advances to banks	18.2	9.8	1.7	11.5
Loans and advances to customers	1,321.0	960.6	114.3	1,074.9
Other assets	38.8	22.9	2.5	25.4
	1,510.0	**1,128.9**	**118.5**	**1,247.4**
Liabilities				
Due to banks	70.0	35.0	–	35.0
Deposits from customers	1,151.8	1,033.1	–	1,033.1
Other liabilities	52.2	29.4	8.7	38.1
	1,274.0	**1,097.5**	**8.7**	**1,106.2**

The 2016 balance sheet includes only continuing operations.

Financial Review
continued

Loans and advances to customers

Loans and advances to customers includes secured and unsecured loans and finance lease receivables. The following table shows the increase in loans and advances to customers year on year, and the change in composition of the book as the Business Finance loan books continue to grow faster than the more mature Consumer Finance books.

Loan originations in the year, being the total of new loans and advances to customers entered into during the year arising from continuing operations, was £964.3 million (2015: £808.5 million).

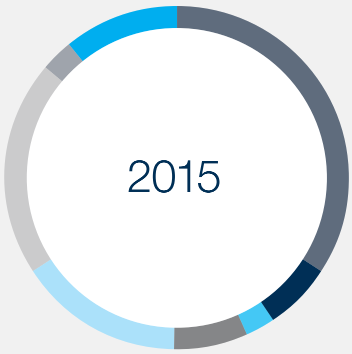
Further analyses of loans and advances to customers, including a breakdown of the arrears profile of the Group's loan books, is provided in Notes 10, 11 and 12.

Deposits from customers

Customer deposits include term, notice and sight deposits, as well as the Group's Current Account and OneBill products. Customer deposits grew by 11.5% during the year to close at £1,151.8 million, to fund the increased lending balances. The Group also held £70.0 million of wholesale deposits at the year-end, following the sale and repurchase of Funding for Lending Scheme Treasury Bills.

Loans and advances to customers

Business Finance:	
Real Estate Finance	£451.0m
Asset Finance	£117.2m
Commercial Finance	£62.8m
Consumer Finance:	
Personal Lending	£65.5m
Motor Finance	£236.2m
Retail Finance	£325.9m
Other	£62.4m
Discontinued operations and assets held for sale:	
Personal Lending	£nil
Total:	**£1,321.0m**



Business Finance:	
Real Estate Finance	£368.0m
Asset Finance	£70.7m
Commercial Finance	£29.3m
Consumer Finance:	
Personal Lending	£74.3m
Motor Finance	£165.7m
Retail Finance	£220.4m
Other	£32.2m
Discontinued operations and assets held for sale:	
Personal Lending	£114.3m
Total:	**£1,074.9m**

Key Performance Indicators

The following key performance indicators are the primary measures used by management to assess the performance of the Group:

The underlying return on average assets and underlying return on average equity have both fallen as expected as a result of the sale of ELG, the proceeds of which have increased the Group's equity and capital and have not yet been fully reinvested.

Comparatives have not been provided for the non-financial KPIs. The customer FEEFO ratings and employee survey scores were not measured on a comparable basis in the prior year. As noted in the Directors' Report, this is the first year of measurement of environmental emissions and this year is being used as the baseline year.

The Remuneration Report, starting on page 82, sets out how executive pay is linked to the assessment of key financial and non-financial performance metrics.

Key Performance Indicators

	2016	2015
Financial KPIs:		
Net Revenue Margin[1]	10.4%	12.4%
Cost of Risk[2]	2.4%	2.3%
Cost to Income Ratio[3]	55.4%	54.8%
Underlying Profit Before Tax[4]	£32.9 million	£26.7 million
Underlying Return on Average Assets[5]	1.9%	2.2%
Underlying Return on Average Equity[6]	11.9%	15.8%
Non-Financial KPIs:		
Customer FEEFO ratings (mark out of 5 based on star rating from 400 reviews)	4.5	N/A
Employee survey engagement score (based on 2016 all staff survey)	85%	N/A
Environmental intensity indicator (tonnes carbon dioxide per £1 million group income)	5.4	N/A

[1] Net revenue margin is calculated as operating income as a percentage of average loan book[7].

[2] Cost of risk is calculated as net impairment losses on loans and advances to customers as a percentage of average loan book[7].

[3] Cost to income ratio is calculated as operating expenses as a percentage of operating income.

[4] Underlying profit is the profit attributable to continuing operations, adjusted for items that are outside of the Group's normal recurring business activities. A reconciliation of underlying profit before tax to statutory profit before tax is provided on page 32.

[5] Annualised underlying return on average assets is calculated as the underlying profit after tax[9] for the previous 12 months as a percentage of average assets[8].

[6] Annualised underlying return on average equity is calculated as the underlying profit after tax[9] for the previous 12 months as a percentage of average equity. Average equity is calculated as the mean of the total equity at the 13 previous month ends.

[7] The calculation of average loan book is the average of the monthly balance of loans and advances to customers, net of provisions and excluding ELG.

[8] The calculation of average assets is the average of the monthly balance of total assets, excluding ELG.

[9] Underlying profit after tax (PAT) is profit after tax attributable to continuing operations, adjusted for items that are outside of the Group's normal recurring business activities. A reconciliation of underlying profit after tax to statutory profit after tax is provided on page 32.

All revenue, income, profit and earnings figures used in the calculation of key performance indicators are on a continuing operations basis.

Principal risks and uncertainties

The directors have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks are as follows:

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.

Notes 28 to 32 to the financial statements provide further analysis of financial risks.

Further details of the principal risks, the changes in risk profile since the previous financial year and the Group's risk management framework are given in the following tables:

Improved
Stable
Deteriorating

Description

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Counterparties include the consumers to whom the Group lends on an unsecured basis and the SMEs to whom the Group lends on a secured basis as well as the market counterparties with whom the Group deals.

Change – STABLE but some deterioration in motor impairments

Mitigation

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.

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.

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.

Forbearance

The Group does not routinely reschedule contractual arrangements where customers default on their repayments. It may offer the customer the option to reduce or defer payments for a short period, in which cases the loan will retain the normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes.

Consumer Finance Credit Risk

The size of the Unsecured Personal Lending product has been reducing over the last 18 months, largely due to excessively aggressive competition by lenders that now offer unsecured loans in the near-prime market driving prices and margins down below the Group's risk appetite. The continuation of this unattractive pricing environment led to the Group's decision to withdraw its Personal Lending offer.

The Retail business continues to grow as expected, with the Group retaining its existing major contracts with retailers and acquiring a number of valuable new relationships. This includes growth of the Interest Bearing and Buy Now Pay Later segments of the book, which carry more inherent risk, particularly in the consumer electronics business. The differential in inherent risks in interest bearing lending relative to interest free finance is built into our pricing methodologies to derive the desired risk adjusted yield. The Credit Risk Team is continually monitoring acquisition and performance trends to ensure this portfolio delivers expected performance. The Group expects this excellent growth and account performance to continue into 2017.

As with Retail Finance, the motor product has seen significant growth, largely through internet brokers. Competition within motor lending has become much greater with companies attracted by the returns that are available within the non-prime sector. The Group decided not to compete directly with a number of lenders using aggressive pricing and commission structures to gain a foothold in the non-prime market. In the short term this affected the mix of new business written as some better quality lending previously presented to STB was instead directed to the newer entrants. This business mix change and a higher volume of sub-prime new business have resulted in an increase in average impairments. This cohort of loans whilst ultimately profitable has failed to meet the Group's expectations in terms of profitability and measures have been taken to address this. We have also noticed, as expected, a tempering of the activity of some competitors. The quality of the loans written has shown a discernible improvement since the final quarter of 2016 and this should have a positive effect on the portfolio mix as 2017 progresses.

Business Finance Credit Risk

Lending to this sector 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.

Business Finance impairments and arrears have remained minimal to date. Management continue to closely monitor the portfolios and the external events and environment that could impact on each of them.

Concentration Risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the well diversified nature of its lending operations, the Group does not consider there to be a material exposure arising from concentration risk.

Principal risks and uncertainties continued

Description

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 NSF Shareholding resulting from the ELG disposal. 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.

Change – STABLE

Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group is funded by capital and customer deposits, comprising deposit accounts and fee based accounts. The Group has limited borrowings under Bank of England schemes, but besides these has no exposure to wholesale markets.

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.

Change – STABLE

- Improved
- Stable
- Deteriorating

Mitigation

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.

The Group monitors the interest rate mismatch on a daily basis, considering the impact across the maturity bandings of the book on a parallel scenario for 100 and 200 basis points movements. This typically results in an immaterial pre-tax mismatch, with the same immaterial impact to equity pre-tax.

The Group has continued to focus on interest rate risk in the banking book by monitoring the Interest Rate Sensitivity Gap. It has continued to operate a broadly matched asset and liability model.

The Group remained within risk appetite in respect of interest rate risk throughout the year.

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 PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. government securities) in the liquidity asset buffer, and it maintains a prudent funding profile. The liquidity assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

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.

During the year ended 31 December 2016, the Group regularly attracted new fixed and variable rate deposits over terms ranging from one to seven years. These were issued to broadly match the term lending by the Group.

The primary measure used by management to assess the adequacy of liquidity is the Overall Liquidity Adequacy Requirement, which is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP. The Group maintained liquidity in excess of the Overall Liquidity Adequacy Requirement through the year ended 31 December 2016.

Other key measures used by the Group for managing liquidity risk are the overall Funding to Loans ratio and the Liquidity Coverage Ratio ('LCR'). The Funding to Loans ratio at 31 December 2016 was 110.4% (2015: 112.5%).

The LCR regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more prudent internal limit than that proposed in guidance from the regulator. The actual LCR has significantly exceeded both limits throughout the year ended 31 December 2016.

Principal risks and uncertainties continued

Description

Operational Risk

Operational Risk is the Risk that the Group may be exposed to direct or indirect loss arising from inadequate or failed internal processes, personnel, technology/ infrastructure, or from external factors.

The scope of Operational Risk is broad and includes Business Process, Business Continuity, Third Party, Financial Crime, Change, Human Resources, Information Security & IT Risk.

Change – IMPROVED

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 Adequacy Assessment Process ('ICAAP').

Change – IMPROVED

Improved
Stable
Deteriorating

Mitigation

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.

In 2016, the Group continued to invest in resource, expertise and systems to support the development of its operational risk capabilities. 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.

Key Risk themes of Operational Risk focus in 2016 include:

- **Supplier Management** – The Group uses a number of third parties to support its IT and operational processes. The Group recognises that it is important to effectively manage these suppliers.
- **IT Resilience** – Having adequate and effective servers, networks and storage systems. The Group tested its disaster recovery and business continuity processes in 2016 and further improved its process of identifying, assessing and managing its critical IT assets and processes.
- **Information Security and Cyber Risk** – As a financial institution, the Group is subject to a heightened risk of actual or attempted IT security breaches by sophisticated cybercrime groups. Any failure by the Group's intrusion detection and anti-penetration software to anticipate, prevent or mitigate a breach of the Group's IT network could significantly disrupt the Group's operations. The Group continues to invest in its information security controls in response to emerging cybercrime threats and to seek to ensure that controls for known threats remain robust.

Cyber risk is considered to be one of the key emerging risks facing the Group and is covered in more detail in the 'Strategic and emerging risks' section below.

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.

Stringent stress tests are performed to ensure that capital resources are adequate over a future three year horizon. At 31 December 2016, the CET1 Ratio was 17.4% (2015: 13.6%) and the Leverage Ratio was 14.1% (2015: 10.4%) on a solo-consolidated basis.

Both ratios are significantly higher than regulatory requirements. The solo-consolidated capital resources increased significantly to £226.3 million as at 31 December 2016 (31 December 2015: £138.9 million) reflecting the gain on the sale of ELG following transaction completion in April 2016.

Principal risks and uncertainties continued

Strategic and emerging risks

In addition to the principal risks, the Board considers strategic and emerging risks, including key factors, trends and uncertainties which can influence the results of the Group. These risks include the following:

Macroeconomic environment and market conditions

The Group operates exclusively within the UK and its performance is influenced by the macroeconomic environment in the UK. The economy affects demand for the Group's products, margins that can be earned on lending assets and the levels of loan impairment.

The UK economy continued to grow in 2016, despite uncertainty inherent both before the referendum to leave the EU and following the result. The longer term effects of the vote remain unclear, though the Group expects that the increase in liquidity in the market and increases in the capital held by banks since the last downturn will act as mitigants against any downward economic pressure. The Group's diverse lending portfolio, strong capital and liquidity positions and relatively low exposure to net interest margin compression leave the Group well placed to compete in the evolving UK economy.

On 4 August 2016, the Monetary Policy Committee announced a base rate cut to 0.25%. Base rate falls have an impact on the net interest margins of lenders. The Group is less exposed to net interest margin compression than the systemically important banks and building societies, and is therefore well positioned to take advantage should these organisations curtail their lending. As rising interest rates may expose borrowers to difficulties making interest payments, the continuing low base rate position has a mitigating effect on credit risk.

House prices recovered to pre-crisis levels in 2013 and have since continued to rise. UK housing stock remains in short supply. The Group will continue to monitor the mortgage market in connection with its residential mortgage product.

Interest rate levels and volatility

The net interest income earned by the Group and hence its levels of profit depend on the growth of the Group's loan portfolios and the net interest margin in respect of those portfolios. Competition between lenders can place downward pressure on lending asset yields and hence on net interest margins. Given the Group's strategy of targeting specialist areas of the market, many of which are under-served by larger lenders, competition has not had a significant impact on the margins achieved over the year.

- Improved
- Stable
- Deteriorating

Description

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.

Change – STABLE

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.

Change – STABLE

Competition

The Group faces competition from established providers of financial services, including banks and building societies, some of which have substantially greater scale and financial resources, broader product offerings and more extensive distribution networks than the Group. In addition, while the Group utilises the Basel 'standardised' approach for assessing credit risk, which tends to overestimate credit risk of lending portfolios, leading to higher risk-weighted assets, larger competitors who utilise the internal ratings-based approach can hold less capital against their lending than the standardised approach, thus making it more economic for them to do lower risk and lower priced lending.

Mitigation

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, which oversees complaints, FEEFO and Customer Service Excellence as well as conduct risk. 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.

In 2016, the Conduct Risk framework was standardised to align to the Operational Risk Framework, the conduct risk and control assessments were refreshed with the business units and integrated into the new Operational Risk Management System, and a regular cycle of self attestations established with first line senior managers.

Monthly review and challenge of Key Risk Indicators in the Customer Focus Committee provides oversight of the first line activities to assure senior management that the first line are identifying conduct risks when they arise and taking appropriate actions to mitigate them.

Further training on conduct risk has been delivered to first line staff, with an eLearning module completed by staff during the year.

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. Further details are given on page 49.

In the year ended 31 December 2016, the Group has delivered changes to address new and revised regulations and legislation that have come into force.

STB Leasing Limited, a wholly owned STB subsidiary which is the lessor of assets to consumers arising out of the activities outsourced to RentSmart Limited, received its authorisation for Limited Permissions for consumer hire at the end of February 2016.

In particular, the Group faces extensive competition from both established banks and specialist finance providers in certain of its niche segments, such as motor finance. Increased competition within the markets in which the Group operates could result in a loss of customers for the Group and increased pressure on the Group's pricing which may lead to narrower margins.

The Group closely monitors the competitive dynamics in all of its key markets, and has shown itself to be adaptable, as evidenced by the diversification into SME lending over recent years and the closure of its personal lending and current account activities. The evolution of financial technology and its impact on the Group's markets is also monitored, and the Group continues to invest in its own technology in order to continually improve its customer proposition.

Cyber crime

The Group continues to increase focus on enabling the effective management of risks arising from a failure or breach of its information technology systems, whether internal or affecting our supply chain. The Group recognises that financial services organisations face an increasing number and variety of cyber-attacks that could result in customer exposure, business disruption, financial losses, legal penalties or reputational damage.

Maintaining resilience against emerging cyber threats requires an understanding of the tactics and motivations of potential attackers. The Group adopts strategies and comprehensive measures to keep abreast of these tactics and to prevent, detect, disrupt and facilitate rapid recovery from attacks.

Going concern and business viability

In assessing the Group as a going concern, the directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, as set out in the Strategic Report.

Going concern

The Group uses various short and medium term forecasts to monitor future capital and liquidity requirements and these include stress testing assumptions to identify the headroom on regulatory compliance measures.

The directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future as going concerns. For this reason they continue to adopt the going concern basis in preparing these financial statements.

Business viability

In accordance with provision C2.2 of the UK Corporate Governance Code, the directors confirm that there is a reasonable expectation that the Company and the Group will be able to continue in operation and meet their liabilities as they fall due, for the period up to 31 December 2019. The assessment of ongoing viability covers this period as it is the Group's planning horizon and the period covered by the Group's stress testing. While the directors are confident of the Group's viability over the longer term, the inherent uncertainties regarding the economic, regulatory and market environment that the Group operates in may compromise the reliability of longer range forecasts.

The directors have based the assessment on:

- The latest annual budget, which contains information on the expected financial position and performance for the period to 31 December 2019 and by considering the potential impact of the principal risks facing the Group, as set out on pages 38 to 45.
- The analysis of key sensitivities, undertaken as part of the budget process, which could impact on profitability for the forthcoming financial year. Assumptions made to calculate risk weighted assets and capital requirements are clearly stated and additional scenarios are modelled to demonstrate the potential impact of risks and uncertainties on capital.
- The Group's ILAAP, which uses stress scenarios to assess the adequacy of liquidity resources.
- The Group's ICAAP, which considers a macroeconomic stress and a severe shock scenario in order to assess the adequacy of capital resources.
- Consideration of the other principal risks as set out on pages 38 to 45, to identify any other severe but plausible scenarios that could threaten the Group's business model, future performance, solvency or liquidity.

In making this statement, the Board has sought input from the Audit Committee and the Risk Committee.

Risk management

A fundamental element of the Group's strategy is the effective management of risk in order to protect the Group's depositors, borrowers and shareholders, and to ensure that the Group maintains sufficient capital, liquidity and operational control at all times, and acts in a reputable way.

Overview

This is reflected in the Group's strategy and values, in particular the 'Sustain' strategy and 'Risk Aware' value, which demonstrate the Group's commitment to protect the reputation, integrity and sustainability of the Bank for all of its customers and stakeholders via prudent balance sheet management, investment for growth and robust risk and operational control.

The Group's Chief Risk Officer is responsible for leading the Group's Risk Function, which is independent from the Group's operational and commercial functions. The Risk Function is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust, so as to ensure that key risks are identified, assessed, monitored and mitigated. The Chief Risk Officer is responsible for providing assurance to the Board that the Group's principal risks are appropriately managed and that it is operating within its risk appetite.

The Group's risk management framework, policies and procedures are regularly reviewed and updated to ensure that they accurately identify the risks that the Group faces in its business activities and are appropriate for the nature, scale and complexity of the Group's business.

Risk appetite statement

The Group's risk appetite statement confirms the risk parameters within which the strategic aims and vision of the Group are to be achieved. The Board has identified risk themes, risk drivers and major risk categories relevant to the business to enable it to produce the following risk appetite statements which underpin the strategy of the Group:

The Group's risk appetite statements are subject to regular monitoring and review.

Risk appetite statement

Key theme	Risk appetite statement	Risk categories
Profitability	The Group is profit and growth orientated whilst seeking to maintain a conservative and controlled risk profile. The Group manages credit risk through a pricing for risk model, which drives a potential post tax return on equity in excess of 20% in aggregate.	Market risk Credit risk
Financial strength	The Group's financial strength is safeguarded by a strong capital base and a prudent approach to liquidity management. The Group's governance and capital planning processes and procedures are designed to ensure that capital levels will not fall below the Group's individual capital guidance requirements. Liquidity is maintained at a level above the overall liquidity adequacy requirement with the majority of loans funded typically by retail deposits.	Credit risk Liquidity risk Capital risk
Conduct with customers and reputation	The Group conducts its business in a way that seeks to avoid negative outcomes for customers by consistently treating them fairly. The Group is straightforward and fair with its customers and seeks to achieve excellent customer service standards. The Group's aim is to be seen as a sound and professional business in the marketplace. It has no appetite for reputational risk arising from the way in which it or its partners behave. It seeks to remain fully compliant with all relevant regulatory requirements.	Conduct risk
Business processes and people	The appetite of the Group for operational risk is to have well defined, scalable and controlled processes, running on robust and resilient systems, effective delivery of change and business continuity management. It does not tolerate operational losses above its pillar 1 capital requirement.	Operational risk Regulatory risk

Risk management
continued

Risk appetite framework

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 at the foot of this page, which sets out for each risk the relevant policy governing the risk, the method of reporting and the responsible committee(s).

Risk governance

The 'Three Lines of Defence' model is implemented by the following individuals and/or units within the Group. These are:

(1) the Business Line Managers and Risk Owners;

(2) the 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. 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.

Risk appetite framework

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	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

Third Line of Defence – Group Internal Audit: Group Internal Audit periodically gives independent assurance on the organisational setup and effectiveness of 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, 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.

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. The responsibilities of the Board, Risk Committee and Audit Committee in this respect are described in the Corporate Governance Report starting on page 55. The following committees also form a key part of the Group's risk management governance structure:

Assets and Liabilities Committee ('ALCO')

The ALCO 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 operations, 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 that is 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.

Lord Forsyth
Chairman of the Board

22 March 2017

Capital, leverage and liquidity

Capital

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.

In accordance with the EU's Capital Requirements Directive and the required parameters set out in the EU's Capital Requirements Regulation, the Group's ICAAP is embedded in the risk management framework of the Group. It is subject to ongoing updates and revisions where necessary, but as a minimum an annual review is undertaken as part of the business planning process. The ICAAP brings together the risk management framework, including stress testing using a range of scenarios, 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 I plus' approach to determine the level of capital the Group needs to hold. This method takes the Pillar I capital formula calculations as a starting point, and then considers whether each of the calculations delivers a sufficient capital sum adequate to cover anticipated risks. Where it is considered that the Pillar I calculations do not reflect the risk, an additional capital add-on in Pillar 2 is applied, as per the Individual Capital Guidance issued to the Bank by the PRA.

The Group's regulatory capital is divided into:

- CET1 which comprises shareholders' funds, after deducting intangible assets and deferred tax assets which have arisen due to losses.
- Tier 2 capital which comprises the collective allowance for impairment.

The ICAAP includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. All regulated entities within the Group have complied during the financial year with all of the externally imposed capital requirements to which they are subject.

The Group operates the standardised approach to credit risk, whereby risk weightings are applied to the Group's on and off balance sheet exposures. The weightings applied are those stipulated in the Capital Requirements Regulation.

The Group is required by the PRA to report its capital on a solo consolidated basis. The solo-consolidated group includes all entities where a solo consolidation waiver has been received from the PRA; this includes all subsidiary undertakings, except the V12 Finance Group and DMS. At the year end the solo-consolidated group had capital resources and Total Risk Exposure as set out in the table below. In accordance with Capital Requirements Regulation, the Total Risk Exposure reflects both credit risks and operational risks.

The increase in CET1 capital has been driven predominantly from the sale of ELG and from the retained profit on continuing operations. An analysis of CET1 capital can be found in Note 32 to the financial statements.

Total Risk Exposure has increased by 27% to £1,266.9 million reflecting the significant growth in both Business Finance and Consumer Lending, and the increase in the risk weights applied to residential development lending activities from 100% to 150% as advised to us by the Bank of England in December 2016.

The CET1 capital ratio is the ratio of CET1 capital divided by the Total Risk Exposure and was 17.4% at the year end. This compares to 13.6% at the end of 2015. The sale of ELG has increased the CET1 capital ratio and provided significant capital for continued growth.

Capital

	2016 £million	2015 £million
Capital		
CET1 capital	221.0	135.8
Total Tier 2 capital	5.3	3.1
Total capital	**226.3**	**138.9**
Total Risk Exposure	**1,266.9**	**998.6**

	2016 %	2015 %
CRD IV ratios		
CET1 capital (solo-consolidated)	17.4	13.6
Leverage Ratio	14.1	10.4

Leverage

The Basel III framework introduced a relatively simple, transparent, non-risk based leverage ratio to act as a supplementary measure to the risk-based capital requirements. The leverage ratio is intended to restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy, whilst reinforcing the risk-based requirements with a complementary simple, non-risk based 'backstop' measure.

The Basel III leverage ratio is defined by the Capital Requirements Regulation as Tier 1 capital divided by on and off balance sheet asset exposure values, expressed as a percentage. The Basel committee on Banking Supervision will continue to test a minimum requirement of 3% for the leverage ratio during the parallel run period (i.e. from 1 January 2013 to 1 January 2017). Based on the results of the parallel run period, any final adjustments to the definition and calibration of the Basel III leverage ratio will be carried out by 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration.

As shown in the table on page 50, the Bank has a leverage ratio at 31 December 2016 of 14.1%, comfortably ahead of the transitional minimum requirement.

Liquidity

The Group continues to manage its liquidity on a conservative basis by holding High Quality Liquid Assets and utilising predominantly retail funding from customer deposits, with only limited funding coming from the wholesale markets. In December 2012, Secure Trust Bank was admitted as a participant in the Bank of England's Sterling Money Market Operations under the Sterling Monetary Framework, to participate in the Discount Window Facility. From July 2013, the Group was permitted to draw down facilities under the Funding for Lending Scheme. Funding for Lending Scheme monies are maintained as a liquidity buffer, above that required to support lending.

At 31 December 2016 and throughout the year, the Group had significant surplus liquidity over the minimum requirements due to its stock of High Quality Liquid Assets, in the form of the Bank of England Reserve Account and Bank of England Treasury Bills. As shown in the table at the foot of this page, total liquid assets increased by 3% from £145.4 million to £150.2 million, with the High Quality Liquid Assets balance of £132.0 million.

The Group has no liquid asset exposures outside of the United Kingdom and no amounts that are either past due or impaired.

The Group's loan to deposit ratio has increased from 104% in 2015 to 115% in 2016, due to the Group using capital generated from the sale of ELG to fund new loans, rather than having to raise new deposits. Additionally, fixed term deposits have increased from 57% in 2015 to 66% in 2016.

The LCR, introduced by the Basel Committee on Banking Supervision in 2013, applied to the Group from 1 October 2015. The objective of the LCR is to promote the short term resilience of the liquidity risk profile of banks, by ensuring that they have an adequate stock of unencumbered High Quality Liquid Assets that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

The PRA completed its consultation on the minimum LCR requirements to apply in the United Kingdom in 2015, and set levels marginally higher than those prescribed in the Capital Requirements Regulation during the transition period. The PRA have set the minimum at 80% from 1 October 2015, 90% from 1 January 2017 and 100% from 1 January 2018, coming into line with the Capital Requirements Regulation at this point.

The Group's LCR, and other measures used by management to manage liquidity risk, are described in the Principal Risks and Uncertainties section of the Strategic Report.

Liquid Assets

	2016 £million	2015 £million
Liquid Assets:		
Aaa – Aa3	132.0	135.6
A1 – A3	13.2	6.2
Unrated	5.0	5.3
	150.2	**147.1**
Less assets held for sale	–	(1.7)
Statutory balance sheet total	**150.2**	**145.4**

Culture and employees

The culture of the Group reflects the Group's promise to deliver straightforward and transparent banking and is based on the core values outlined in its strategy.

These values are supported through an employee culture which has colleague and customer centric attitudes at its heart, rewards innovative and inspiring behaviours and sets work expectations around staff being trustworthy, compliant and safe.

Producing great customer outcomes is central to the Group's strategy. Making sure that this is reflected in the experience of customers and stakeholders is dependent on the Secure Trust Bank team, which is why the Group continues to invest in initiatives which nurture the culture of the Group.

Developing talent

This year the Group built on its existing Business Leader Development Programme with the introduction of a Raising the Bar Programme, aimed at helping business leaders to unlock their full potential. The programme also has features designed to embed the culture and values among employees. This is further supported by a comprehensive in-house learning and development programme and induction process.

In 2016 a record number of employees signed up to take an external Banking Qualification as part of their career development. The Banking Qualifications are delivered by the London Institute of Banking & Finance (previously the IFS) and are available to all employees. Wider career and skills development is also encouraged with financial support and study time allowances to facilitate relevant continued learning. The growth of the Group has also provided career development opportunities as evidenced by the record number of internal promotions made during the year.

The Group takes steps to address the wider needs and concerns of its staff. For example, a focus on health and wellbeing was launched as part of the Group's first 'Wellbeing at Work Week' which encouraged employees to think about their mental and physical health. The Group also held a 'Learning at Work Week' which allowed employees to showcase some of their wider talents.

Investors in People

As an internationally recognised accreditation held by over 14,000 organisations across the world, Investors in People sets the standard for what it means to lead, support and manage people well. This year the Group built on its existing Investors in People accreditation not once but twice. In May Secure Trust Bank was awarded Investors in People Silver across the entire Group and in December it joined a select group of organisations which meet the Investors in People Gold standard.

Only seven per cent of accredited companies achieve the Gold standard which demonstrates the Group's commitment to excellence when it comes to people management. The assessment includes a mix of hard assessment metrics, combined with softer interview based data collection to build a robust picture of performance. The Group's open and transparent culture and a strong commitment to equality and diversity were cited as two reasons why employees demonstrate high levels of trust in the Group's leadership team and are motivated, engaged and proud to work for the Group.

The assessment also acknowledged the clarity of the Group's goal of achieving its vision of building the best bank in Britain and how employees demonstrate a high degree of buy in to the organisation's strategic direction and live this through day-to-day activities.

Employee engagement and recognition

Research has consistently shown a clear link between enhanced levels of performance and teams that are fully engaged and share the values of the organisation that they work for. The annual Your Voice employee engagement survey measures the Group's progress in this area.

This year the Group engaged an independent specialist in employee feedback to run the survey, ensuring enhanced objectivity and allowing us to benchmark results against other similar sized companies in our sector. A participation rate of 84% meant that the results were representative and it was very reassuring to find that positive feedback across 42 key indicators was consistently above the external benchmark in over 95% of areas. The Group continues to look at areas for improvement at both a corporate and team level and is in the process of developing initiatives which will address issues raised by employees.

The progress in employee engagement was also recognised this year at the Midlands and Yorkshire Contact Centre Awards where the Group received the Highly Commended accolade for Employee Engagement Strategy of the Year. The award was judged on various aspects of employee engagement, including communication, empowerment and reward. High standards of communication at a personal level and corporate level were recognised.

Awards

The prestigious Customer Service Excellence Award was developed by the Cabinet Office to acknowledge excellence in public services.

The Group's recognition schemes and annual incentive programme continue to help embed excellence within the culture. Employees who demonstrate behaviour which promotes the customer first culture regularly receive recognition and are rewarded via a number of schemes which include:

Be valued awards: these awards recognise and reward every member of staff who lives and breathes our company values with a gift and certificate. Colleagues can nominate their peers at any time and as often as they like.

Customer Service Excellence Awards: colleagues who go the extra mile when it comes to exceptional internal and external customer service are recognised at our monthly Customer Service Excellence Award.

Outstanding Achievers: these are given to colleagues who stand out for their fantastic contribution to the business. Winners are nominated by their peers and then selected by a panel of judges.

Incentive Programme: the Group's incentive scheme links tangible performance targets which are based on the Group's strategy and values, to the outcomes of the scheme.

Customer focus

Customer focus is at the heart of the Group's business model. It is enshrined in the Group's values and mission to provide straightforward, transparent banking and embedded through the culture. In addition to recognition and reward structures, which embed this behaviour, the Group also uses a number of recognised independent tools to monitor and improve its customer service standards.

Accreditations

IiP is an exacting national standard that helps organisations to improve performance through their people and also strive for continuous improvement.

The Group collects feedback through FEEFO, an independent global ratings and reviews provider used by the world's most trusted brands. Comments and ratings are reported on a daily basis allowing service levels to be maintained and improved. The Group's average FEEFO rating for the year based on nearly 400 reviews stood at 4.5 out of 5 in December 2016 and any poor ratings are followed up by attempting to resolve the issue with the customer. The ratings and comments are available on the Group's websites:

www.securetrustbank.co.uk

www.moneyway.co.uk

The Group is proud to be the only bank to have been awarded the Customer Service Excellence Award which tests organisations in great depth on those areas which are a priority for consumers, with particular focus on delivery, timeliness, information, professionalism and staff attitude. The standard also examines an organisation's ability to develop customer insight, understand its users' experience and put in place robust measures of service satisfaction. It is an award which the Group retained for the fourth year running following on site assessments in December 2016. The report outlined the high standards demonstrated by the Group's employees and made specific reference to their professionalism, honesty and positivity about working at Secure Trust Bank, as well as commenting on the organisation's ethics.

Employees who demonstrate behaviour which promotes the customer first culture regularly receive recognition and are rewarded via a number of schemes.

Culture and employees
continued

Responsible business

As a responsible business the Group seeks to assess the impact of its business model and the delivery of its services on its customers, as well as on the wider community in which it operates. The Board does not consider there to be any environmental social or governance matters that are significant to the business of the Group.

As a financial services provider, the Group's operations do not have a significant impact on the environment. This year, the Group has started to report on its greenhouse gas emissions and, to ensure its environmental impact remains low, has included it as a key performance indicator. The key performance indicators are shown on page 37 and further details of greenhouse gas emissions are given in the Directors' Report, starting on page 88.

As well as through its customer focus, the Group's commitment to social and community issues is demonstrated by the Group's charitable activities. The Group Charity Committee is made up of representatives from its different businesses which drive forward a wide range of successful charitable activities. The committee is supported by business specific charity teams which also organise at least one flagship event each year. This year the Group also introduced a pound for pound matching scheme to encourage and empower staff to raise money for charities and good causes. A wide range of fundraising activities have been held raising over £40,000 for good causes during 2016.

A new community volunteering scheme was also launched by the Group in 2016, allowing employees to take one day paid leave to help make a difference to charities or community groups in their area. The scheme has resulted in more than 700 man hours being given to provide practical support to a wide range of initiatives from homeless charities and foodbanks to environmental community projects.

Human rights and tackling modern slavery

The Group is subject to the European Convention on Human Rights and the UK Human Rights Act 1998. The fair treatment of customers is central to the Group's strategy and values, and the Group opposes all forms of discrimination.

The Group is committed to tackling modern slavery and human trafficking and has taken steps to ensure it is considered and addressed in its business and throughout its supply chain, consistent with its obligations under the Modern Slavery Act 2015. The full Board statement on Slavery and Human Trafficking can be found on the Group's website:

www.securetrustbank.co.uk

Gender diversity

At the year end, the split by gender of the Group's employees is set out in the table at the foot of this page.

By order of the Board

Neeraj Kapur
Chief Financial Officer

22 March 2017

	Male	Female
Directors	75%	25%
Senior managers	83%	17%
Other employees	39%	61%
All employees	**46%**	**54%**

Chairman's Introduction

On behalf of the Board I am pleased to introduce our report on Corporate Governance. This explains the Group's governance arrangements and how the Group has applied the principles of the UK Corporate Governance Code (the 'Code').

On 12 October 2016 the Company's shares were admitted to the premium listing segment of the official list of the Financial Conduct Authority and to trading on the Main Market for listed securities of the London Stock Exchange ('Admission'). At the same time, the admission of the shares to trading on the AIM market operated by the London Stock Exchange was cancelled.

In the prospectus published in connection with Admission the Board stated its intention to comply with the applicable requirements of the Code and to report to shareholders on compliance with the Code.

In our last annual report and accounts, for 2015, the Board confirmed its endorsement of the principles of openness, integrity and accountability which underlie good corporate governance. Following Admission the Group is now required to describe its compliance with the Code and to provide specific information to shareholders about this.

I was appointed as an independent Non-Executive Director of the Group on 1 March 2014. Following Admission and on receipt of regulatory approval Sir Henry Angest stepped down as Chairman and I was appointed Chairman of the Board in his place on 19 October 2016. Further information is provided later in this report about other Board appointments in 2016.

In 2016 and in particular in conjunction with Admission, the Board reviewed the governance arrangements and made some changes that are described further in this report. The governance structures that had served the Company well during its time as a public company on AIM have not been fundamentally changed, and in particular, the structure of Board Committees with separate Audit and Risk Committees has worked well. The opportunity was taken to recognise the particular role and functions of the ALCO which now reports directly to the Risk Committee. The ALCO monitors important indicators relating to the business of the Group.

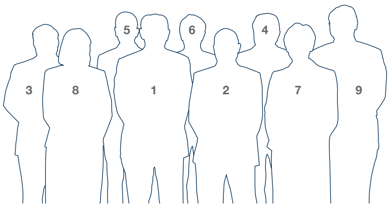
Since Admission, the Remuneration Committee has given careful consideration to remuneration related matters, including the formulation of a Remuneration Policy which is to be put to shareholders at the 2017 Annual General Meeting and which is set out later in this report.

The Board is committed to maintaining and developing high standards of corporate governance. This is an evolving area and it is expected that further developments and improvements in the Group's governance will be made in 2017.

The Annual General Meeting in May 2017 will be the first at which the Group is a premium listed company, marking another milestone in the development of the Group. The Board looks forward to engaging with shareholders at the Annual General Meeting.

Lord Forsyth
Chairman of the Board

Board of Directors



1.
The Rt Hon Lord Forsyth of Drumlean PC Kt
Non-Executive Chairman

Lord Forsyth is a director of J&J Denholm and Denholm Logistics, former Chairman of Hyperion Insurance Group, and former Deputy Chairman of JP Morgan UK and Evercore Partners International. He was appointed to the Privy Council in 1995, knighted in 1997, and joined the House of Lords in 1999. He was a member of the House of Commons for 14 years and served in Government for 10 years, latterly as a Cabinet Minster. He was appointed to the board of Secure Trust Bank on 1 March 2014. Michael is chairman of the Nomination Committee and a member of the Audit and Remuneration Committees. He was appointed Chairman of the Company on 19 October 2016.

2.
Paul Lynam ACIB, AMCT, Fifs
Chief Executive Officer

Paul Lynam joined Secure Trust Bank as Chief Executive Officer in September 2010, having spent 22 years working for NatWest and RBS. He is an Associate of the Chartered Institute of Bankers and has Associate Membership of the Association of Corporate Treasurers. Paul was a governor and trustee of IFS University College. Prior to leaving RBS, Paul was the Managing Director, Banking, for RBS/NatWest's SME banking business across the UK. Before that Paul spent four years as the Managing Director of Lombard North Central PLC. During his career Paul has undertaken roles in branch banking, business banking, corporate and commercial banking, strategy, performance management, lending and central head office functions. Paul is the chairman of the British Bankers Association Challenger Bank Panel and a member of the board of the British Bankers Association. He is a Fellow of the IFS University College and an Associate of the Chartered Institute of Bankers and the Association of Corporate Treasurers. Paul chairs the ALCO and is a member of the Risk Committee. Paul is a director of Arbuthnot Banking Group.

- Audit Committee members
- Risk Committee members
- Assets and Liabilities Committee members
- Remuneration Committee members
- Nomination Committee members

3.
Neeraj Kapur B.Eng, ACGI, FCA, CF, FCIBS
Chief Financial Officer

Neeraj Kapur has over 25 years financial services experience spent in both the accounting and banking industries. He holds a degree in Aeronautical Engineering from Imperial College, London, is a fellow of the Chartered Institute of Bankers in Scotland, a fellow of the Institute of Directors, a fellow and a member of the Council of the Institute of Chartered Accountants in England & Wales ('ICAEW'), and Chair of the ICAEW Financial Services Faculty. Neeraj qualified as a Chartered Accountant in 1993 at Arthur Andersen and spent 11 years working in professional practice. He joined RBS in 2001 and has undertaken a number of roles which included Chief Financial Officer of Lombard North Central PLC. Neeraj was appointed to the board of Secure Trust Bank on 31 May 2011. Neeraj is a member of the ALCO.

4.
Sir Henry Angest LLL
Non-Executive Director

Sir Henry Angest was appointed to the Board by Arbuthnot Banking Group. He is an experienced and respected banker. He is a past Master of the Worshipful Company of International Bankers, Chairman and Chief Executive of Arbuthnot Banking Group and Chairman of Arbuthnot Latham & Co., Limited. He gained extensive national and international experience as an executive of the DOW Chemical Company and DOW Banking Corporation. He was chairman of the banking committee of the London Investment Banking Association and a director of the Institute of Directors. He has a law degree from the University of Basel. Sir Henry stepped down as Chairman of the Company on 19 October 2016. Sir Henry is chairman of the Remuneration Committee and a member of the Nomination Committee and was Chairman of the Company between 1982 and 2016.

5.
Andrew Salmon ACA
Non-Executive Director

Andrew Salmon joined Arbuthnot Banking Group in 1997 and is its Chief Operating Officer and Head of Business Development. He was previously a director of Hambros Bank Limited and qualified as a Chartered Accountant with KPMG. Andrew is appointed by Arbuthnot Banking Group to the board of Secure Trust Bank. Andrew is a member of the Audit, Assets and Liabilities, Remuneration, Risk and Nomination Committees.

6.
Paul Marrow ACIB
Independent Non-Executive Director (Senior Independent Director)

Paul Marrow has over 40 years banking experience and has, in the past, been responsible for the Commercial Banking and Specialist Corporate Banking business divisions of RBS Group in the UK and been the chair of JCB Finance Limited. Paul holds banking qualifications, gained by examination. Paul is also an independent non-executive director of Arbuthnot Latham & Co. Limited, a wholly owned subsidiary of Arbuthnot Banking Group and provides consultancy services to Arbuthnot Latham & Co., Limited. Paul was appointed to the board of Secure Trust Bank on 3 March 2011. Paul is chairman of the Audit and Risk Committees and a member of the Nomination and Remuneration Committees. Paul is the Senior Independent Director.

7.
Ann Berresford
Independent Non-Executive Director

Ann Berresford is a Chartered Accountant with a background in the financial services and energy sectors. She has held positions at Triodos Renewables plc, Hyperion Insurance Group, the Pension Protection Fund, Bank of Ireland Group, Clyde Petroleum plc and Grant Thornton. She is currently a non-executive director of the Bath Building Society and the Pensions Regulator and is an independent trustee to the Avon Pension Fund. Ann was appointed a director of the Company on 22 November 2016. Ann is a member of the Audit and Nomination Committees.

8.
Victoria Stewart
Independent Non-Executive Director

Victoria Stewart has for many years been a fund manager and investor in UK small companies. She has knowledge of corporate structures and capital markets with particular experience in smaller companies listed on the Main Market and AIM. She has held a number of positions at Royal London Group and Chiswell Associates (formerly Cantrade Investment Management Limited and now part of Sarasin & Partners). Victoria was appointed as a director of the Company on 22 November 2016. Victoria is a member of the Remuneration Committee.

9.
Alan Karter LLB (Hons)
Company Secretary

Alan Karter is a Scottish and English qualified solicitor. He joined Arbuthnot Banking Group as Head of Legal Affairs in February 2012 and was appointed Company Secretary of Secure Trust Bank Plc on 31 August 2014. On 1 September 2016 he ceased to be employed by Arbuthnot Banking Group and was appointed General Counsel of Secure Trust Bank. He remains the Company Secretary of Secure Trust Bank.

Corporate Governance Statement

UK Corporate Governance Code ('Code') – Statement of Compliance

The Code sets out principles relating to the good governance of companies. The Code is available at www.frc.org.uk.

Prior to Admission in October 2016 the requirements under the Listing Rules in relation to the Code did not apply to the Group.

The Board confirms that from Admission to the date of this report the Group has complied with the requirements of the Code save that until the appointment of Ann Berresford as a member of the Nomination Committee a majority of the members of the Nomination Committee were not independent Non-Executive Directors. This was rectified on 21 February 2017.

The following sections of this report describe how the Board has applied the principles of the Code and describes the Group's governance arrangements with particular reference to leadership, effectiveness, accountability, remuneration and relations with shareholders.

Role of the Board

The Board provides strategic leadership to the Group, sets the Group's long term strategic objectives and exercises oversight over the implementation of the strategy and the activities of management. The Board is responsible to shareholders for promoting the long term success of the Group. The setting of a risk appetite and the oversight of risk management practices is an important part of the role of the Board.

The Board meets regularly and both as a Board and through its committees provides direction, oversight and challenge of and to management.

The Board has delegated specific authorities to its committees. The Board exercises oversight of the work of its committees.

The Board is led by the Chairman.

There is a schedule of matters reserved for consideration by the Board. Matters reserved for exclusive determination by the Board include the determination of dividends, material acquisitions or disposals and the issue of new shares.

The Board has delegated authority to executive management to run the business and to implement the strategy set by the Board. Two members of executive management, the CEO and the CFO, are members of the Board.

The CEO is supported by an executive management team.

Board composition

The Board is composed of eight members, being the Non-Executive Chairman, two Executive Directors, three independent Non-Executive Directors and two Non-Executive Directors.

Sir Henry Angest and Andrew Salmon were appointed to the Board by Arbuthnot Banking Group when Arbuthnot Banking Group owned the Group's entire issued share capital and remain Non-Executive Directors of the Group. There is an understanding between the Group and Arbuthnot Banking Group that for so long as Arbuthnot Banking Group holds ten per cent. or more of the issued share capital of the Group, Arbuthnot Banking Group would expect two directors of the Group to be nominees of Arbuthnot Banking Group.

In October 2016, following Admission to the Main Market, Sir Henry Angest stepped down as Chairman of the Company (but remained a Non-Executive Director) and Lord Forsyth was appointed Chairman of the Board in his place.

On 22 November 2016 Ann Berresford and Victoria Stewart were appointed as additional independent Non-Executive Directors of the Group. Ann Berresford has become a member of the Audit and Nomination Committees. Victoria Stewart has become a member of the Remuneration Committee.

On 20 December 2016, Paul Marrow's appointment as Senior Independent Director became effective. The Code recommends that the Board should appoint one of the independent Non-Executive Directors as Senior Independent Director. The Senior Independent Director should be available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve or for which such contact is inappropriate.

Appointments to the Board are the responsibility of the full Board, on the recommendation of the Nomination Committee. On appointment, new Non-Executive Directors enter into a formal appointment letter which sets out the terms and conditions of their appointment as Non-Executive Directors. The terms and conditions of appointment of the Non-Executive Directors and the service contracts of Executive Directors are available for inspection at the Group's registered office during normal business hours.

Conflicts of interest

All directors are required to disclose to the Board any outside interests which may pose a conflict with their duties to the Group. The Board is required to approve any actual or potential conflicts of interest. On appointment new directors are required to disclose their other interests. Conflicts of interest are also governed by the Articles of Association of the Company and company law.

Role of the Chairman

The Chairman's role is to ensure good corporate governance and the smooth and effective operation of the Board. His responsibilities include leading the Board, ensuring the effectiveness of the Board in all aspects of its role, ensuring effective communication with shareholders, setting the Board's agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision making process of the Board.

The Chairman of the Board and the Chairman of the Remuneration, Risk and Audit Committees and the Senior Independent Director are all Senior Managers for the purposes of the regulatory regime.

Separation of roles of Chairman and Chief Executive

The roles of the Chairman and the Chief Executive Officer are separate, clearly defined in writing and have been approved by the Board.

Meetings and attendance

The Board meets at regular intervals. There is a comprehensive Board pack and agenda which is circulated in advance of the meeting and minutes and actions are documented. There is an annual Board calendar at which certain items are considered by the Board at certain times of the year, including the report and accounts, regulatory filings and review of risk appetite. Additional meetings of the Board are held as required and, in addition to the standing committees of the Board, the Board may appoint ad hoc committees to deal with particular matters from time to time.

In 2016 the Board was closely involved in the arrangements for Admission, including the review and approval of the prospectus.

The table at the foot of this page sets out attendance of Board and Committee members during the year. Figures are only provided where the Board member is a member of the Committee concerned.

From time to time decisions are taken and recorded by unanimous agreement of the directors. Such decisions are not included in the table at the foot of this page.

Company Secretary

The Company Secretary acts as Secretary to the Board and its Committees and is responsible for ensuring that Board processes and procedures are followed and support effective decision making. All directors have access to the Company Secretary's advice and services. Directors may obtain independent professional advice in the course of their duties, if necessary, at the Company's expense in order to assist them in carrying out their duties.

The Company Secretary provides support and acts as a first point of contact for the Chairman and Non-Executive Directors. The Company Secretary is also responsible for the induction of the new independent Non-Executive Directors.

The role of the members of the Board

The Chairman leads the Board and ensures its effectiveness in all areas. He sets the Board's agenda with the support of the Company Secretary.

The Chief Executive Officer is responsible for the day-to-day management of the Group within the delegated authority and risk appetite approved by the Board. He recommends the Group strategy and leads the executive management team in the execution of the strategy approved by the Board. He leads the relationship with institutional shareholders and ensures that timely and accurate information is disclosed to the market.

The Chief Financial Officer manages the Group's financial affairs and supports the Chief Executive Officer in the management of the business. He has particular responsibility for the financial and regulatory reporting of the Group and balance sheet and liquidity management.

The Senior Independent Director acts as a sounding board for other Non-Executive Directors and the Chairman. The Senior Independent Director also conducts the Chairman's annual performance evaluation, collecting views from the Non-Executive Directors.

The Non-Executive Directors provide independent and constructive challenge of the Executive Directors and scrutinise the delivery of the strategy within the risk and control framework set by the Board. Non-Executive Directors also determine Executive Director remuneration.

Executive management

The Chief Executive Officer and Chief Financial Officer are supported by an executive team who sit on an Executive Committee which operates under authorities delegated from the Board.

Committees

The Board has established Audit, Nomination, Remuneration and Risk Committees. There is also an ALCO which reports to the Risk Committee. Each committee has formally delegated duties and responsibilities and written terms of reference. The terms of reference of the Board committees are available on www.securetrustbank.com.

All Board committees have access to independent advice and the services of the Company Secretary.

The Chairman of each committee reports to the Board.

The terms of reference of each committee are reviewed regularly and each committee monitors its effectiveness.

Further information about the Board committees is set out later in this governance report, including information about membership of the committees, meetings held during the year and the attendance of committee members.

Below the Executive Committee there is a comprehensive governance structure involving a number of committees linked to business lines and functions.

Election of Directors

The Articles of Association contain provisions for the retirement by rotation of Directors.

Since the last Annual General Meeting two new independent Non-Executive Directors have been appointed and, in accordance with the provisions of the Code, they are submitting themselves

Meetings and attendance

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination committee
Number of meetings during 2016	**12**	**6**	**4**	**6**	**3**
Lord Forsyth	12	5	N/A	5	2
Sir Henry Angest	12	N/A	N/A	6	3
Ann Berresford*	1	1	N/A	–	N/A
Paul Lynam	12	N/A	4	–	N/A
Neeraj Kapur	12	N/A	N/A	–	N/A
Paul Marrow	12	6	4	4	2
Andrew Salmon	12	6	4	6	3
Victoria Stewart*	1	N/A	N/A	–	–

* Ann Berresford and Victoria Stewart were appointed to the Board on 22 November 2016.

Corporate Governance Statement continued

to re-election at the first Annual General Meeting following their appointment by the Board.

At the beginning of 2016, Arbuthnot Banking Group controlled the majority of the share capital of the Company. Following sell-down by Arbuthnot Banking Group and Admission, Arbuthnot Banking Group now owns 18.9% of the Company and is no longer classified as a 'controlling shareholder'. The two directors of the Group appointed by Arbuthnot Banking Group, Sir Henry Angest and Andrew Salmon, are proposed for re-election at the forthcoming Annual General Meeting. Sir Henry Angest, who was chairman of the Company before the AIM IPO in 2011, and during the period that the Company was on AIM, has steered the Group through its development. He has demonstrated significant entrepreneurial flair in his leadership of the Group and the Board continues to value his wise counsel. Andrew Salmon, who has been a director of the Company since 2003, has contributed significantly to the success of the Group, providing advice and guidance to oversight of management. The Board recommends both Sir Henry Angest and Andrew Salmon for re-election at the 2017 Annual General Meeting.

The Board also recommends the re-election of Ann Berresford and Victoria Stewart. Although they have only been directors since November 2016 both have already made valuable contributions to Board discussions and the Board looks forward to their further contribution as independent Non-Executive Directors to the long term success of the Company.

In connection with Admission the Board reviewed the composition of the Board and the independence of Non-Executive Directors. The Board concluded that Sir Henry Angest and Andrew Salmon were not independent within the meaning of the Code, having regard to the relationship between the Company and Arbuthnot Banking Group. The Board is satisfied that Ann Berresford, Paul Marrow and Victoria Stewart are all independent Non-Executive Directors within the meaning of the Code and that Lord Forsyth, on his appointment as Chairman, met the independence compliance criteria set out in the Code. As a smaller company within the meaning of the Code, the Company is required to have at least two independent Non-Executive Directors.

Appointments to the Board

Further information about the procedure followed in relation to Board appointments is provided later in this report by reference to the work of the Nomination Committee in 2016.

At the time of Admission the terms of appointment of all Non-Executive Directors were reviewed and new letters of appointment were entered into by Non-Executive Directors. Letters of appointment in a similar form were used in relation to the subsequent Board appointments. The letters of appointment of Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

Induction, training and professional development

On appointment, all new directors receive a comprehensive and tailored induction. The induction involves provision of information about the Group as well as face-to-face meetings with directors and senior management. New directors have access to historic Board material and, in 2016, were provided with information produced in connection with Admission, including the prospectus and other Admission related documentation. New directors are also provided with briefing notes on regulatory and legal matters, including their duties and responsibilities under the Companies Act 2006.

The Board receives detailed reports from executive management on the performance of the Group at its meetings. Updates are provided on relevant legal, corporate governance and financial reporting developments. Directors are encouraged to attend external seminars on areas of relevance to their role.

Training is also made available to directors both by way of internal on-line training and bespoke Board training on topics such as regulatory developments. Directors are also encouraged to devote time to professional development and to record this.

Board effectiveness

The composition of the Board and its committees and the performance of directors were rigorously evaluated as part of the process leading to Admission. Following the appointment of Lord Forsyth as Chairman in October 2016 further consideration has been given to the composition and responsibilities and performance of the Board committees including by way of discussion between the Chairman and the Chairmen of the committees about the work of the committees and any need for improvement.

Formal evaluations of the performance of the Audit and Risk committees took place during the year and the result of those evaluations was that the performance of each committee was considered to be satisfactory.

The Remuneration Committee has been extensively involved in the formulation of the remuneration policy and related matters since Admission. Once that work has been completed it is intended to review the performance of the Remuneration Committee.

The Board has discussed its effectiveness and how it performs, along with other Board related governance matters, including the provision of information to the Board and the induction of new directors. The directors were mindful of the provisions of the Code and their responsibilities as directors and, where applicable, as senior managers under the regulatory regime. Directors are encouraged to monitor their professional development and to keep a record of training and related activities.

A formal self-evaluation of the effectiveness of the Board will be conducted in 2017 and, in some future years, an externally facilitated evaluation will be conducted.

Diversity

The Board embraces the benefits of diversity in the boardroom and considers that diversity benefits governance. In considering the appointment of new directors, the Board will give careful consideration to diversity as well as the skill, experience and knowledge of the candidates. The Board has approved a Board Diversity Policy which operates in conjunction with the Equality and Diversity Policy applicable throughout the Group. Appointments to the Board are made on merit and having regard to the balance of skills and experience of the Board and the candidates. The Board has not set targets for representation of any particular group on the Board. Female membership of the Board currently stands at 25%.

Financial reporting

A description of the responsibilities of the Directors in relation to the preparation of the annual report and accounts is set out on page 93.

The approach taken by the Board to ensuring that the annual report and accounts are fair, balanced and understandable is set out on page 66 and the information necessary for shareholders to assess the Company's position and performance is set out in the Strategic Report starting on page 16.

A statement of the responsibility of the external auditors in relation to the report and accounts is set out on page 99.

The explanation of the business model and the strategy for delivering the objectives of the Company is set out on pages 2 to 3.

The basis on which the Board reached its decision to adopt the going concern basis of accounting is described on page 46.

Internal Control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

The Board has adopted a Group Risk Appetite Statement which sets out the Board's attitude to risk and internal control. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board and are also reviewed by the Risk Committee at its meetings. Key business risks are also identified, evaluated and managed on an ongoing basis. The Board and the Risk Committee also receive regular reports on any material risk matters. Significant risks identified in connection with the development of new activities are considered by the Board and the Risk Committee in conjunction with the approval of any such new activity.

The effectiveness of the internal control system is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the internal audit function. The Audit Committee also receives reports from the external auditors, KPMG LLP, which include details of internal control matters that they have identified. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board and its Committees.

Key elements of the Group's system of internal control include regular meetings of the Executive and business unit risk committees, together with annual budgeting, monthly financial and operational reporting for all businesses within the Group. Conduct and compliance is monitored by management, the Risk team, Internal Audit and Compliance and, to the extent necessary to support its audit report, the external auditor. Oversight is also exercised by the Board and Board Risk Committee.

During 2016 the Group continued to invest in its risk management capability and this on-going investment will continue during 2017.

The Board regularly reviews actual and forecast performance compared with annual plans as well as other key performance indicators described in the report and accounts.

Lines of responsibility and delegated authorities are clearly defined. The Group's policies and procedures are reviewed and regularly updated and a training programme applies in relation to the roll-out of policies.

Relations with shareholders

The Company maintains a regular dialogue with its principal shareholders and makes full use of the Annual General Meeting to communicate with investors. All Directors are expected to make themselves available to shareholders at the Annual General Meeting. The Chairmen of the Board Committees will be available to answer questions about the work of their committees.

The Board recognises the importance of maintaining good relationships with shareholders. The Chief Executive Officer and the Chief Financial Officer would normally expect to meet with institutional shareholders on a regular basis, including following the publication of financial information or updates by the Group. The Chairman has joined them in some meetings following his appointment in October 2016. The Group's brokers also facilitate communication between the Group and its institutional shareholders.

The Chairman is responsible for ensuring that appropriate channels of communication are established between the Directors (and in particular the Chief Executive Officer and Chief Financial Officer) and shareholders and ensuring that the views of shareholders are made known to the Board.

The Chief Executive Officer provides written reports prepared by the Group's brokers to all Directors on meetings held with institutional shareholders.

The Group recognises the importance of ensuring effective communication with all of its shareholders. An annual financial report is distributed to all shareholders. This report, together with the half-yearly financial report, regulatory announcements and current details of the Group's share price are made available on the Company's website.

Annual General Meeting

The Group's first Annual General Meeting as a premium listed entity will be held at Arbuthnot House, 7 Wilson Street, London, EC2M 2SN at 3.00 p.m on Wednesday 3 May 2017. The Notice of Annual General Meeting, together with an explanation of the items of business to be discussed at the meeting will be posted to shareholders and made available at www.securetrustbank.com.

Members of the Board will be in attendance at the 2017 Annual General Meeting which will provide an opportunity to engage with shareholders and to respond to any questions from shareholders.

Approval

This Corporate Governance statement was approved by the Board on 22 March 2017 and signed on its behalf by:

A J Karter
Secretary

Nomination Committee Report

Having assumed the role of Chairman of the Board and of the Nomination Committee on 19 October 2016, I am pleased to present my first report of the work of the Nomination Committee.

The principal activity in connection with Admission and subsequently has been to seek to achieve the right balance of skills, knowledge and experience on the Board. The Group had already been listed on AIM for five years, but it was acknowledged that Admission would result in additional expectations of the Board and that it would benefit the Board to increase the number of independent Non-Executive Directors.

The Committee and the Board were, therefore, engaged in the recruitment and appointment of new Board members in 2016 as well as work relating to my own appointment as Chairman.

The Committee has also considered the composition of the Board in the context of succession planning (for the Board, its Committees and senior management).

On 21 February 2017 Ann Berresford was appointed as an additional member of the Committee.

Further information on the activities of the Committee is provided in the following report.

Lord Forsyth
Chairman of the Nomination Committee

Nomination Committee membership

The Nomination Committee is composed of five members. Three are independent Non-Executive Directors (Lord Forsyth, Ann Berresford and Paul Marrow) and the other two (Sir Henry Angest and Andrew Salmon) are Non-Executive Directors. The Chairman of the Nomination Committee is Lord Forsyth. The Company is therefore compliant with the Code provision regarding the composition of the Nomination Committee.

Lord Forsyth was appointed as Chairman of the Board on 19 October 2016 following the retirement of Sir Henry Angest as Chairman of the Board. At the same time he was also appointed as Chairman of the Nomination Committee, although Sir Henry Angest remains a member of the Nomination Committee.

Ann Berresford was appointed as a member of the Nomination Committee on 21 February 2017.

Role and activities of the Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the structure, size and composition of the Board. The Nomination Committee is responsible for, amongst other matters, evaluating the balance of skills, knowledge, independence, experience and diversity of the Board, and makes recommendations to the Board on such matters. The Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

The Code provides that a majority of the members of the Nomination Committee should be independent Non-Executive Directors and the chairperson should be the Chairman or an independent Non-Executive Director. Between Admission and 21 February 2017 a majority of the members of the Nomination Committee were not independent Non-Executive Directors. That has now been rectified.

From Admission, meetings will be held at least two times per year. The number of meetings held during 2016 and the attending Directors are shown in the table below:

Meetings and attendance

	Nomination Committee
Number of meetings during 2016	**3**
Sir Henry Angest	3
Paul Marrow	2
Lord Forsyth	2
Andrew Salmon	3

The Chairman of the Nomination Committee reports to the Board on the outcome of meetings.

During the year the Nomination Committee was involved in the identification, assessment and appointment of additional independent Non-Executive Directors. This culminated in the recommendations of the Nomination Committee that Ann Berresford and Victoria Stewart be appointed as Directors of the Company.

In connection with Admission the Board considered the structure, size and composition of the Board and, having concluded that the Board should be strengthened as a result of the step up, the Nomination Committee began a process to identify additional independent Non-Executive Directors. The Nomination Committee considered the number of appointments in contemplation. The Nomination Committee considered the process to follow in relation to the recruitment and concluded that, at least initially, the Company should seek to identify candidates by taking advantage of the extensive network of the Directors. This resulted in a number of potential candidates being identified. After consideration of the potential candidates approaches were made to establish the willingness of the candidates to be considered for appointment as an independent Non-Executive Director of the Company. Having completed this initial identification of candidates phase, the Nomination Committee then established a process for the assessment of the candidates, including by way of interview. Following the assessment phase the Nomination Committee selected the two candidates that it proposed to recommend to the Board. At this stage further checks were carried out in relation to the candidates. The appointment process was completed on the appointment of the two recommended candidates by the Board.

The Nomination Committee was also involved in the appointment of Lord Forsyth as Chairman following the decision of Sir Henry Angest to step down as Chairman (but to remain as a Non-Executive Director). The Nomination Committee was satisfied that, subject to regulatory approval, Lord Forsyth, who had expressed a willingness to be appointed as Chairman, satisfied the requirements and would make an excellent Chairman. The decision to appoint Lord Forsyth as Chairman was made before Admission and disclosed in the prospectus issued by the Company in connection with Admission.

The Nomination Committee considered and recommended to the Board a Board policy on diversity, including gender. The policy is described in the opening section of this corporate governance report.

The Nomination Committee has considered the Company's succession plans and focused on Board (Executive and Non-Executive) and Senior Manager succession. Consideration has been given to potential internal candidates, short term solutions in the event of unsuspected changes in circumstances and external recruitment as well as re-allocating responsibilities on a short term or longer basis. The need for regulatory approval of the persons performing Senior Manager functions under the regulatory regime has also been taken into account.

The Nomination Committee considered whether to engage the services of an external search consultancy in relation to the Board changes in 2016 but concluded that the Company would derive minimal benefit from this. The Nomination Committee reached this decision having regard to the Board's wide range of contacts in the financial services sector and the recent experience of Directors who had been involved in a similar search where leading external consultants were appointed. These considerations also informed the Nomination Committee decision not to use open advertising. The Nomination Committee was pleased to have been able to recommend Ann Berresford and Victoria Stewart for appointment as Directors following the selection process described above.

A full copy of the terms of reference for the Nomination Committee can be obtained by request to the Company Secretary or via the Group's website at www.securetrustbank.com.

Audit Committee Report

I am pleased to present the first report of the Audit Committee as a premium listed company.

In 2016 the Audit Committee was involved in both business as usual activities and also activities specific to Admission.

In relation to Admission, the Committee was closely involved in the related financial statements, including the distinction between continuing and discontinued businesses, as well as reviewing the working capital statement and related papers, together with work carried out by external advisers on the financial position and prospects report.

The Committee also considered matters relating to the sale of ELG.

In terms of business as usual, the Committee was closely involved in the review of the 2015 annual accounts and the interim results for the six month period to 30 June 2016 plus the associated press releases and results presentations. The key accounting judgments were reviewed to ensure that they were appropriate and reflected the performance of the business. These included income recognition (the treatment of fees and commissions and whether they should be recognised immediately or included in the effective interest rate and effectively recognised over the behavioural life of the loan) and impairment provisions (including adequacy of provisioning by reference to the emergence period used for each product and whether a provision should be held, in excess of that calculated for individual product portfolios, to reflect continued uncertainty in the UK economy). The Committee was also closely involved in the planning process for the 2016 annual accounts in light of the additional disclosures resulting from Admission.

Following the development of the Group's internal audit function, the Committee has worked closely in 2016 with Internal Audit to support their work in relation to internal control and risk management. The Chief Internal Auditor reports directly to me and we meet monthly to review internal control and risk management and the work of the Internal Audit function.

Other on-going matters that were considered by the Committee include the implementation of the new financial instruments standard IFRS 9, regulatory reporting and whistleblowing.

In November 2016, Ann Berresford was appointed as a member of the Committee following her appointment as an independent Non-Executive Director of the Company.

2017 will be another busy year, particularly as the Group adapts to the requirements of being a main market listed company with the additional regulatory and disclosure responsibilities that brings, and makes final preparations for the adoption of IFRS 9 in 2018.

Further information on the activities of the Audit Committee is provided in the following report.

Paul Marrow
Chairman of the Audit Committee

Audit Committee membership and meetings

	Audit Committee
Number of meetings during 2016	**6**
Paul Marrow	6
Ann Berresford*	–
Lord Forsyth	5
Andrew Salmon	6

* Ann Berresford was appointed to the Board on 22 November 2016 and joined the Audit Committee on that day, but after the meeting of the Audit Committee on that day which she attended as an observer.

Audit Committee membership and meetings

The Audit Committee is composed of four members; the Chairman of the Company (Lord Forsyth), who was considered independent on appointment as Chairman, two independent Non-Executive Directors (Ann Berresford and Paul Marrow) and Andrew Salmon, who is a Non-Executive Director. Andrew Salmon and Ann Berresford are considered by the Board to have recent and relevant financial experience. The Chairman of the Audit Committee is Paul Marrow.

The Code provides that for smaller companies, such as the Company, the Board should establish an Audit Committee of at least two independent Non-Executive Directors. In addition, the Chairman of the Company may be a member of, but not Chair, the Committee if he/she was considered independent on appointment as Chairman. The Company complies with this provision.

The Audit Committee meets formally at least four times a year and otherwise as required.

The number of meetings held during 2016 and the attending Directors are shown in the table opposite.

The Company Secretary acts as Secretary to the Audit Committee. Other individuals attend at the request of the Audit Committee Chairman and during the year the external auditor lead partner, Chief Executive Officer, Chief Financial Officer and Chief Internal Auditor attended meetings to report to the Audit Committee.

Role of the Audit Committee

The Audit Committee assists the Board in, amongst other matters, discharging its responsibilities with regard to regulatory reporting, financial reporting, including reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment, reappointment, removal and independence of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

A full copy of the terms of reference for the Audit Committee can be obtained by request to the Company Secretary or via the Group's website at www.securetrustbank.com.

Matters discussed at Audit Committee meetings since 1 January 2016

The Audit Committee has a schedule of meetings with standing agenda items. Meetings are planned to coincide with key dates in the Group's financial reporting cycle, enabling the Committee to deal with matters on a timely basis over the course of the year. In addition to standing agenda items the Committee also deals with other matters that arise during the year. In 2016 this included matters relating to Admission and the sale of the ELG.

During the year the Audit Committee reviewed and approved its Terms of Reference, the schedule of standing agenda items, the Internal Audit Charter and the engagement contract with the external auditors.

The principal matters considered by the Audit Committee during the year and up to the date of this report are set out below.

Internal controls and risk management

The Audit Committee monitors the effectiveness of the Group's governance, risk and control framework and is encouraged by the progress being made.

Whistleblowing

The Audit Committee has reviewed the effectiveness of whistleblowing arrangements in place within the Group and adherence to the Financial Conduct Authority Rules on Whistleblowing which became effective in September 2016. During the year enhanced arrangements have been implemented to enable staff to whistleblow in complete anonymity. The Chairman of the Committee is the whistleblowing champion for the Group.

External audit

The Audit Committee has reviewed and approved the external audit terms of engagement, the scope of the external audit, timetable, materiality, strategy and fees. The Audit Committee has also considered matters that might impair the independence of the external auditor, including the extent of non-audit fees which in 2016 were substantial, and has confirmed that it was satisfied as to the independence of the external audit firm KPMG. KPMG were the reporting accountants in connection with Admission.

The Audit Committee reviews written reports prepared by the external auditors setting out their audit approach and conclusions on matters of judgment impacting the financial statements, disclosures in relation to non-recurring or sensitive items and any internal control findings identified in the courses of the external audit.

During the year the Audit Committee assessed the effectiveness of the work of the external auditors using a questionnaire which considered matters such as the quality of the team, the scope of the work, communications and fees. The Committee concluded that the external auditors are performing well.

The Committee maintains a close dialogue with the external auditors and undertakes meetings with them without management when considered appropriate.

Audit Committee Report
continued

Financial reporting

The Audit Committee has reviewed the following matters in connection with the annual and interim financial statements:

Subject area	Matters considered
Accounting policies, key judgements and assumptions used in preparing interim and annual financial statements	The Audit Committee reviewed the key accounting judgments made by management in preparing the financial statements for the year ended 31 December 2016 (including comparatives for the year ended 31 December 2015), the interim financial statements for the six months ended 30 June 2016, and historical financial information covering the three and a half years (financial years ending 30 December 2013, 2014, 2015 and the half year ended 30 June 2016) included in the prospectus for the Main Market listing, as well as the press releases and analysts presentations that were prepared when the financial statements were released. In particular the Committee considered at its meeting in November 2016 a paper on the key accounting judgments relating to the 2016 annual report and accounts. Among other matters the Committee considered income recognition and impairments. In relation to income recognition the treatment of fees and commissions was considered together with the assessment of the appropriate expected lives for different products. This is relevant to the calculation of the effective interest rate for the product. In relation to impairment provisions the Committee considered the adequacy of provision cover, including the emergence period for different products, factors relevant to the loss given default assumptions used for consumer products and the need for an overlay to the modelled impairment provision to reflect increased uncertainty in the UK economy. In making its recommendations to the Board to approve the annual and interim financial statements the Committee has taken into account matters raised by the external auditor on matters of judgment and disclosures in relation to non-recurring or sensitive items.
Use of the going concern basis in preparing the financial statements and long term viability of the STB Group	The financial statements are prepared on the basis that the Group and Company are each a going concern. The Audit Committee has reviewed management's explanations as to the appropriateness of the going concern basis in preparing the Group and Company financial statements. The financial statements for 2016 also include statements that provide shareholders with the Board's views on the long term viability of the Group. The Audit Committee has reviewed and challenged the basis for assessing long term viability, including the period by reference to which viability is assessed, the principal risks to long term viability and actions taken or planned to manage those risks.
Presentation of a 'fair, balanced and understandable' Annual Report and Accounts	The Audit Committee, having reviewed the content of the Annual Report and considering relevant matters including the presentation of material sensitive items, the representation of significant issues, the consistency of the narrative disclosures in the 'front half' with the financial statements, the overall structure of the Annual Report and the steps taken to ensure the completeness and accuracy of the matters included, has advised the Board that the 2016 Annual Report and Accounts include a 'fair, balanced and understandable' assessment of the Group and Company's businesses.
The potential impact of future accounting changes	The Committee has considered changes to financial reporting requirements that are not yet effective but that are likely to impact the reported results or financial position of the Group in the future. One significant future development is the implementation of International Financial Reporting Standard 9 (Financial Instruments) which becomes effective in 2018 and for which the Company has established an implementation project. The Committee has reviewed progress in responding to the requirements of IFRS9 and has this matter as a standing agenda item, considering matters such as: key decisions taken; credit loss modelling under the new and existing standards; systems and controls requirements to embed IFRS9; and risks to the successful completion of the project.

At its meeting in September 2016 the Committee assessed the objectivity and independence of KPMG as external auditor. The Committee considered general procedures to safeguard independence and objectivity, independence and objectivity considerations relating to the provision of non-audit services and independence and objectivity considerations relating to other matters. In particular, consideration was given to the fees payable to KPMG for their work as reporting accountants in relation to Admission and other non-audit fees payable to KPMG. KPMG fees incurred during 2016 in respect of audit and non-audit services were respectively £213,000 and £548,000. The non-audit services comprised acting as reporting accountants, non-statutory audit of historic financial information, interim profits verification, tax advisory services and assurance services in connection with the Funding for Lending Scheme. The Committee is satisfied that these non-audit services did not adversely impact the independence of KPMG's audit services.

The Group has agreed a policy on the provision of non-audit services by its external auditor. The policy ensures that the engagement of the external auditor for such services requires approval by appropriate levels of management and does not impair the independence of the external auditor, and that such engagements are reported to the Audit Committee on a quarterly basis. The external auditor will only be selected for such services when they are best suited to undertake the work and there is no conflict of interest.

KPMG has also confirmed to the audit committee that it has policies and procedures in place to satisfy the required standards of objectivity, independence and integrity and that these comply with the Auditing Practices Board's Ethical Standards for Auditors. This ensures that the objectives of the proposed engagement are not inconsistent with the objectives of the audit; allows the identification and assessment of any related threats to KPMG's objectivity; and assesses the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. KPMG do not carry out non-audit services where no satisfactory safeguards exist.

KPMG (and their predecessor firm) were appointed as the Company's auditor in 2009, and therefore the audit will be required to be subject to an external tender process no later than 2019. The current audit partner is Andrew Walker who has been the audit partner for four years and who can therefore continue until 2017 at the latest. The Company would expect to conduct an external tender process following the change in audit partner.

The Committee recommended to the Board that a resolution to re-appoint KPMG be proposed at the 2017 Annual General Meeting. This is addressed in the Notice of 2017 Annual General Meeting.

Internal audit

The Group has an independent Internal Audit function led by the Chief Internal Auditor.

The Audit Committee has reviewed and approved the rolling internal audit plan and does so twice each year. The rolling internal audit plan, which has been developed based on the Internal Audit function's assessment of risk, sets out the matters to be covered by Internal Audit in the following 18 months and the resource requirements to execute that plan. The Audit Committee also reviews other matters which are not currently contemplated in the plan but which may be appropriate for inclusion in the future. The Audit Committee approved the Internal Audit budget and was satisfied that Internal Audit has the appropriate resources to deliver the 2016 and 2017 internal audit plan.

In each meeting the Audit Committee considers the risk and control matters identified in Internal Audit reports issued since the previous meeting along with management's responses to those points and progress in taking action to resolve control weaknesses and any positive or adverse indicators regarding the culture observed throughout the Group from Internal Audit reviews.

The Internal Audit function provides the Audit Committee with an annual assessment of the overall effectiveness of the governance and risk and control framework of the Group.

During the year the Audit Committee commissioned a third party evaluation of the effectiveness of the Group's Internal Audit function. The review involved a qualitative assessment of the work of Internal Audit including its context and role within the Group governance framework and the relevance and quality of the Internal Audit output. The conclusions, which highlighted a number of particular strengths, were that the function provides a good source of assurance for the Audit Committee. Some areas for further enhancement were identified and the Audit Committee is reviewing progress made by the Chief Internal Auditor in adopting these.

The Chief Internal Auditor reports directly to the Chairman of the Audit Committee and they meet regularly.

The Internal Audit function has been further strengthened in 2016 by the recruitment of additional staff. In addition to the internal resource it is also able to draw on a panel of external subject matter experts.

Audit Committee effectiveness

During the year the Committee considered and evaluated its own performance. It did this by means of a questionnaire which members of the Committee completed. The Chairman of the Committee then collected the responses and produced a report to the Committee. The result of the evaluation was that the Committee considered that it was performing effectively.

Risk Committee Report

I am pleased to present the first report of the Risk Committee as a premium listed company on the Main Market.

From the time of joining AIM in 2011, the Group has had separate Audit and Risk Committees.

During the period of being a public company listed on AIM prior to Admission, it had been involved in a process of enhancing the risk management in the Group and this continued in 2016. The adequacy and effectiveness of the Group's risk frameworks and risk management arrangements were also reviewed in connection with Admission and as a result the ALCO now reports to the Risk Committee. The Group has invested in this area of its business and continues to do so.

The Risk Committee is regularly involved in the review of risks and monitoring the management of risk in the Group's businesses. The Committee looks at all areas, including new business areas and emerging regulatory requirements.

In 2016 cyber security has been an important issue that has been considered by the Committee and is now a standing agenda item at meetings of the Committee.

The Committee also considers regulatory filings and compliance monitoring.

Further information on the activities of the Committee during the year is provided in the following report and further information about risk related matters can be found in the sections of the report and accounts on pages 38 to 45.

Paul Marrow
Chairman of the Risk Committee

Risk Committee membership and meetings

The Risk Committee is composed of three members; Andrew Salmon, a Non-Executive Director, Paul Marrow, an independent Non-Executive Director and Paul Lynam, the Chief Executive Officer. Paul Marrow replaced Andrew Salmon as chairman of the Risk Committee with effect from 10 February 2016. This change was prompted by changes in governance arising from the implementation of the individual accountability regime. There were no changes to the membership of the Committee in 2016.

The Risk Committee has met formally at least three times a year and otherwise as required. For 2017 and following the step up to the Main Market there will be a minimum of six meetings a year, plus ad hoc meetings as required.

The number of meetings held during 2016 and the attending directors are shown in the table at the foot of this page.

The Company Secretary acts as Secretary to the Risk Committee. Other individuals attend at the request of the Risk Committee Chairman and during the year the Chief Risk Officer, Chief Internal Auditor and other senior managers attended meetings to report to the Committee.

Role of the Risk Committee

The Risk Committee reviews the design and implementation of risk management policies and risk related strategies and the procedures for monitoring the adequacy and effectiveness of this process; considers the Group's risk appetite in relation to the current and future strategy of the Group; oversees the Group's ICAAP and ILAAP and outputs from these; and exercises oversight of the risk exposures of the Group.

The Committee exercises its internal control and risk management role through the reports it receives from the ALCO, the Chief Risk Officer, the Chief Internal Auditor, the Chief Executive Officer, the Chief Financial Officer and other members of management and its engagement with executive management, internal and external auditors and consultants.

Risk Committee membership and meetings

	Risk Committee
Number of meetings during 2016	**4**
Paul Marrow	4
Paul Lynam	4
Andrew Salmon	4

Other matters within the remit of the Committee are the risk profile of the Group, risk appetite, frameworks and limits, the risk management operating model, the technology infrastructure supporting the risk management framework, operational risk and regulatory and compliance matters.

A full copy of the terms of reference for the Risk Committee can be obtained by request to the Company Secretary or via the Group's website at www.securetrustbank.com.

Key topics discussed at Risk Committee meetings since 1 January 2016

The Risk Committee has a schedule of meetings with standing agenda items so that all relevant matters are dealt with over the course of the year.

During the year the Committee reviewed and approved its Terms of Reference.

The principal matters discussed in the year are set out in the table below:

Further enhancement of the Group's risk management systems and controls will take place in 2017 as the framework established in previous years is embedded throughout the Group. The focus on cyber resilience that came into increasing prominence in 2016 will continue to be an important area of focus of the Committee as the Group implements its cyber strategy. The Committee will also be involved in the 2017 ICAAP. The Committee also expects that the Group's response to further regulatory change, such as implementation of the General Data Protection Regulation, will require overview by the Committee.

Risk Committee effectiveness

During the year the Committee considered and evaluated its own performance. It did this by means of a questionnaire which members of the Committee completed. The Chairman of the Committee then collected the responses and produced a report to the Committee. The result of the evaluation was that the Committee considered that it was performing effectively.

Key topics discussed at Risk Committee meetings since 1 January 2016

Subject area	Matters considered
Group level risk appetite statements and Key Risk Indicators	The Group's key risk appetite metrics, which are reviewed and approved on an annual basis. The Committee reviews last quarter performance on the Key Risk Indicator metrics in each meeting.
Strategic risks	Strategic risks (those arising from the internal environment and the external environment that could have an effect on management's ability to deliver on the Group strategic plan) are discussed and challenged on an annual basis.
Credit risk	Credit risk performance for all businesses and 'deep dive' reviews on status and plans for individual account balances or portfolios that warrant specific focus. The Committee has a mandate to approve some Group-wide mandates and policies including single counterparty limits and Credit Risk policies set for individual business areas.
Operational risk	Oversight of the Operational Risk framework including metrics and KPI reporting and business unit management risk and control self-assessment. Complaints data. Governance, including review of the Group Governance Manual.
Capital risk	The Committee has primary responsibility for reviewing and making a recommendation to the Board on the Bank's ICAAP and ILAAP and the Resolution and Recovery Plans. Specific matters such as the Pillar 2A capital requirement and the results of stress testing were reviewed and debated.
Cyber resilience risk	The strategies undertaken within the Group to understand, identify, monitor and respond to cyber threats including the current state and planned activity.
Regulatory and conduct risk	The key risk exposures and monitoring metrics that are used to manage and mitigate these key risks. The Compliance Monitoring Plan.
Whistleblowing	The arrangements to permit whistleblowing.

Statement by the Chairman of the Remuneration Committee

On behalf of the Board, as Chairman of the Remuneration Committee, I am pleased to present our first Directors' Remuneration Report as a company listed on the Main Market of the London Stock Exchange.

The report is divided into two principal sections:

- the Remuneration Policy report which sets out the Group's forward-looking Remuneration Policy (the 'Remuneration Policy') for Executive and Non-Executive Directors, and
- the Annual Remuneration Report which explains the operation of remuneration related arrangements for 2016 and a summary of the intended operation of the Remuneration Policy in 2017.

The Remuneration Policy will be subject to a binding shareholder vote at the 2017 Annual General Meeting and the Annual Remuneration Report will be subject to an advisory shareholder vote.

The Remuneration Committee assists the Board in fulfilling its responsibilities in relation to remuneration including, amongst other matters, 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.

How we link executive remuneration to our strategy

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 us to review our 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 we have also had regard to regulatory requirements and the responsibilities of senior managers under the 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 had regard to the remuneration codes.

The new Remuneration Policy will bring greater clarity to the criteria that have to be achieved both for a variable pay award and to achieve vesting. In addition, the new variable pay arrangements will be subject to malus and clawback and the annual bonus will be deferred for a longer period than previously applied (three years instead of one year) and to a greater extent (50% of the bonus earned instead of 25% of the bonus earned). In line with best practice, long term incentive awards will be subject to a two year holding period following the end of the three year performance period.

The new Remuneration Policy also limits the normal maximum annual bonus opportunity to 100% of salary and the normal maximum long term incentive opportunity granted in respect of a financial year to 100% of salary which is more restrictive than many peer group companies. The maximum annual bonus may be increased to 200% of salary in exceptional circumstances.

Composition of the Remuneration Committee and remuneration of Non-Executive Directors

Following the step up to the Main Market we strengthened the Board with the appointment of Ann Berresford and Victoria Stewart on 22 November 2016. As contemplated in the prospectus issued in October 2016, I retired as Chairman of the Group and Lord Forsyth was appointed as Chairman in my place.

These changes and the step up to the Main Market have prompted us to review the remuneration arrangements that we have in place for Non-Executive Directors.

As a result of that review which included a comparison with other similar organisations, the Board agreed that the structure of fees for the Non-Executive Directors would include a basic fee and separate fees for further responsibilities (including committee chairmanship fees, committee membership fees and holding the office of Senior Independent Director). The Non-Executive Director fee structure effective from 1 January 2017 is set out in further detail on page 86 of the Annual Remuneration Report.

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.

Performance and variable pay outcomes for the year ended 31 December 2016

2016 was a momentous year for the Group. A number of complex projects were successfully completed, including the sale of ELG and the step up to the Main Market. In determining appropriate rewards for executive management the Remuneration Committee has had regard to the achievements of 2016 and the challenges faced in realising those projects.

The Remuneration Committee considered the bonus arrangements in relation to the Executive Directors for 2016 under the arrangements that applied before the adoption of the Remuneration Policy. These arrangements have to date operated on a largely discretionary basis but the Remuneration Committee has taken into account the financial performance of the Group and personal performance. For the year ended 31 December 2016 bonus awards for the CEO and CFO comprise two separate payments:

- a 2016 bonus award of £500,000 for the CEO and £200,000 for the CFO taking into account the outstanding financial performance in 2016, a successful transition from AIM to the Main Market, the successful implementation of ICAAP and ILAAP procedures and the achievement of high customer satisfaction levels. Further details of the record profits, strong return on equity and operational and regulatory performance is detailed in the Annual Remuneration Report and elsewhere in these financial statements; and
- a one-off bonus to the CEO and CFO equal to £1,500,000 and £200,000 respectively following the sale of ELG. As previously disclosed the Group acquired the Everyday Loans Group in June 2012 for a consideration of £1. Through subsequent effective management and very skilled negotiation the Group disposed of this asset for a consideration of £235,000,000 in April 2016. This was a transformational transaction which generated a profit after tax of £116,800,000 which almost doubled the equity base of the company and facilitated the payment of a special dividend of £1.65 per share or £30m in special distributions to shareholders. The committee considered that one-off bonuses were warranted in recognition of the scale of this exceptional achievement.

The Remuneration Committee, in determining appropriate awards for Executive Directors, also has had regard to the risk culture of the Group and regulatory matters as well as culture and employee engagement.

Share options granted to the CEO, CFO and Andrew Salmon on 2 November 2011 with an exercise price of £7.20 per share vested on 2 November 2016. Secure Trust's mid-market closing share price on the date of vesting was £23.32 and this has been used to calculate the gain at vesting in accordance with the remuneration reporting regulations. Notwithstanding this, the actual value realised by Andrew Salmon on exercise of his vested options was £22.00 per share. The CEO and CFO did not exercise their share options when they vested.

No awards were granted to the Executive Directors under the existing cash settled share based payment scheme in 2016.

Executive remuneration arrangements for 2017

2017 will see the first year of operation of our Directors' Remuneration Policy. The policy is subject to a binding shareholder vote at the 2016 AGM and, subject to approval by shareholders, will become effective from that date. A summary of the intended operation of the Remuneration Policy in 2017 is set out on pages 72 to 81.

In outline:

- As disclosed in the Prospectus, the CEO's base salary was increased to £1,200,000 for 2016. This reflected his leadership and contribution to the Company's growth. He will not receive a salary increase in 2017.
- The CFO's base salary was increased to £400,000 with effect from 1 January 2017, reflecting Admission to the Main Market, his contribution to the business, his experience in his current role and the positioning of his salary compared to peers.
- The maximum annual bonus opportunity for the year ending 31 December 2017 will be equal to 100% of salary. The bonus will be subject to stretching performance metrics based on a balanced business scorecard of financial, customer, operational and staff metrics. Up to an additional 100% of salary may be awarded under the annual bonus in exceptional circumstances (such as in order to recognise exceptional performance during the year).
- 50% of any bonus earned will be deferred into shares under the Deferred Bonus Plan. Deferred shares will vest in equal tranches after one, two and three years following deferral and will be subject to malus and clawback.
- New long term incentive arrangements up to 100% of salary are expected to be implemented in 2017 and are as described further on pages 74 to 77. A summary of the key provisions of the new long term incentive arrangements are set out in the 2017 Circular containing the Notice of AGM.

We encourage an active interest from our investors in our Remuneration Policy and look forward to engaging with our shareholders in relation to the Remuneration Policy. We welcome dialogue with shareholders on remuneration and would expect to engage regularly with shareholders on this topical subject.

Sir Henry Angest LLL
Chairman of the Remuneration Committee

Remuneration Policy

This Directors' Remuneration Policy will be submitted to the 2017 AGM for shareholder approval. If approved by shareholders, it will formally take effect from the date of the AGM. The Directors' Remuneration Policy has been prepared in accordance with the regulations set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Element and purpose
Base salary
To enable the Group to recruit and retain the services of individuals of a suitable calibre.
Benefits
To provide benefits that will be valued by the recipient.
Pension
To provide an appropriate level of retirement benefit (or cash allowance equivalent).

Operation	Maximum opportunity	Performance metrics
Salaries are usually reviewed annually taking into account: • underlying Group performance; • role, experience and individual performance; • competitive salary levels and market forces; and • pay and conditions elsewhere in the Group.	While there is no maximum salary, increases will normally be in line with the typical range of salary increases awarded (in percentage of salary terms) to other employees in the Group. Salary increases above this level may be awarded to take account of individual circumstances, such as, but not limited to: • where an Executive Director has had an increase in responsibility; • where an Executive Director has been promoted or has had a change in scope; • an individual's development or performance in role (e.g. to align a newly appointed Executive Director's salary with the market over time); and • where an Executive Director's salary is no longer market competitive (for example, due to an increase in size and complexity of the business). Increases may be implemented over such time period as the Committee deems appropriate.	N/A
• Executive Directors receive benefits in line with market practice, and these include a car allowance, medical insurance, life assurance and disability insurance. • Other benefits may be provided based on individual circumstances. These may include, for example, relocation and travel allowances.	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.	N/A
Executive Directors are eligible to participate in the Group defined contribution pension plan. In appropriate circumstances, such as where contributions exceed the annual or lifetime allowance, Executive Directors may be permitted to take a cash supplement in lieu of contributions to a pension plan.	Employer pension contributions are limited to 5% of base salary. The maximum cash supplement in lieu of pension is 5% of base salary (less any employer pension contribution).	N/A

Remuneration Policy continued

Element and purpose

Annual bonus

Rewards performance against targets which support the strategic direction of the Group.

Long Term Incentive Scheme ('LTIP')

To provide an effective long-term incentive award to motivate, incentivise and assist in the retention of the services of key individuals.

All employee share schemes

To create alignment with the Group and promote a sense of ownership.

Operation	Maximum opportunity	Performance metrics
Awards are based on performance (measured over a year) against metrics determined by the Committee. Pay-out levels are determined by the Committee after the year end based on performance against those targets. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. To further link the Executive Directors' pay to the interests of shareholders, Executive Directors are required to defer 50% of any bonus earned into shares under the Deferred Bonus Plan ('DBP'). Deferred share awards vest in equal tranches after one, two and three years following deferral. Deferred share awards will typically take the form of a nil-cost / nominal-cost share option but may be structured as an alternative form of share award. The Committee may decide to pay the whole of the bonus earned in cash where the amount to be deferred is less than £50,000 and would therefore, in the opinion of the Committee, make operation of the DBP administratively burdensome. Clawback provisions will apply to annual bonus awards and malus and clawback provisions will apply to deferred share awards as detailed on pages 76 and 77.	The normal maximum annual bonus opportunity is 100% of base salary. An additional annual bonus opportunity of up to 100% of base salary may be awarded in exceptional circumstances.	Targets are set annually reflecting the Group's strategy and aligned with key financial, strategic and/or individual targets. The annual bonus will be assessed against key financial performance metrics of the business and non-financial strategic/ personal objectives, in such proportions as the Committee considers appropriate. Financial metrics At least 50% of the maximum potential will be paid for on-target performance and all of the maximum potential will be paid for maximum performance. Non-financial strategic or individual metrics Vesting of the non-financial strategic or individual metrics will apply on a scale between 0% and 100% based on the Committee's assessment of the extent to which a non-financial performance metric has been met. Deferred share awards are not subject to any additional performance metrics.
The first awards will be granted in 2017, subject to approval of the LTIP at the 2017 AGM. Awards will be in the form of nil-cost / nominal-cost share options, conditional shares or other such form as has the same economic effect. Awards will be granted with vesting dependent on the achievement of performance conditions set by the Committee, normally over at least a three year performance period. Awards will usually be subject to a two year holding period following the end of the performance period (with the exception that sufficient awards may be sold to meet any income tax and National Insurance liabilities). The holding period does not apply to awards with a face value of £150,000 or less at the time of grant. Awards may be settled in cash (or granted as a right to a cash amount) at the election of the Committee. Malus and clawback provisions will apply to awards as detailed on pages 76 and 77.	The normal maximum award is 100% of salary in respect of a financial year. The Committee will take into account Company and personal performance during the preceding financial year when determining the maximum award to be granted.	Performance metrics are selected that reflect underlying business performance. Performance metrics and their weighting where there is more than one metric are reviewed annually to maintain appropriateness and relevance. Awards will vest between 25% and 100% for performance between 'threshold' performance (the minimum level of performance that results in any level of vesting) and 'maximum' performance.
Executive Directors are entitled to participate in a HMRC tax-qualifying all-employee Sharesave Scheme under the same terms as other Group employees.	Participant limits are those set by the UK tax authorities from time to time.	N/A

Remuneration Policy continued

Application of malus and clawback

Malus: The ability to reduce, cancel or impose further conditions on unvested awards in the circumstances set out below.

Clawback: The ability to cancel an award that has not been released (in relation to an award which is subject to a holding period) or exercised (in relation to share options), or require the repayment of some or all of an award in the circumstances set out below.

Malus and clawback provisions will apply over the periods set out opposite.

Malus may apply in the following circumstances:

- The Executive Director's service agreement is terminated for gross misconduct or the Executive Director receives a formal written warning for gross misconduct, as defined by the Company's disciplinary policy.
- The Company suffers a material loss arising from the Executive Director operating outside of agreed risk policy parameters and as such the Committee considers a material failure in risk management has occurred.
- The level of the award is not considered sustainable when assessing the overall financial viability of the Company.
- The Executive Director is subject to regulatory censure in respect of a material failure in control.

Clawback may apply in the following circumstances:

- Discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company.
- The assessment of any performance target or condition in respect of an award was based on material error or materially inaccurate or misleading information.
- The discovery that any information used to determine the DBP and/or LTIP was based on material error, or materially inaccurate or misleading information.
- Action or conduct of an Executive Director which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct.
- The Executive Director is subject to regulatory censure in respect of a material failure in control.

Explanation of performance metrics chosen

Performance metrics are selected that are aligned with the performance of the Group and the interests of shareholders. Stretching performance targets are set each year for the annual bonus and LTIP awards. When setting these performance targets, the Committee will take into account a number of different reference points, which may include the Group's business plans and strategy and the economic environment. Full vesting will only occur for what the Committee considers to be stretching performance.

The annual bonus performance targets have been selected to provide an appropriate balance between incentivising Directors to meet financial targets for the year and achieving strategic and/or personal objectives.

Long-term performance metrics provide a robust and transparent basis on which to measure the Group's performance over the longer term and provide further alignment with the business strategy.

The Committee retains the ability to adjust or set different performance metrics or targets if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the metrics are no longer appropriate and that amendment is required so that they achieve their original purpose.

Awards and options may be adjusted in accordance with the scheme rules in the event of a variation of share capital, demerger, delisting, special dividend or other event which may affect the Company's share price.

Policy for the remuneration of employees more generally

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.

Application of malus and clawback

Element	Malus	Clawback
Annual bonus award	To such time as payment is made.	Up to three years following payment.
Deferred bonus award	To such time as the award vests.	Tranche of award deferred for one year: Up to two years following vesting. Tranche of award deferred for two years: Up to one year following vesting. Tranche of award deferred for three years: No clawback provisions apply.
LTIP award	To such time as the award vests.	Up to two years following vesting.

Non-Executive Directors

Element and purpose	Approach of the Company
Chairman and Non-Executive Director fees To enable the Group to recruit and retain Non-Executive Directors of a suitable calibre.	Fees are normally reviewed annually. Fees paid to Non-Executive Directors for their services are approved by the Board. Fees may include a basic fee and additional fees for further responsibilities (for example, chairmanship and membership of Board committees or holding the office of Senior Independent Director). Fees are based on the level of fees paid to Non-Executive Directors serving on the board of similar-sized UK listed companies and the time commitment and contribution expected for the role. Non-Executive Directors cannot participate in any of the Company's share schemes or annual bonus and are not eligible to join the Company's pension scheme. Non-Executive Directors may be eligible to receive benefits such as private medical insurance, the use of secretarial support, travel costs or other support that may be appropriate.

Remuneration Policy
continued

Illustrations of application of remuneration policy

The charts opposite set out for each Executive Director an illustration of the application for 2017 of the remuneration policy set out above. The charts show the split of remuneration between fixed pay, annual bonus (including amounts deferred under the DBP) and LTIP on the basis of minimum remuneration, remuneration receivable for performance in line with the Company's expectations and maximum remuneration (not allowing for any share price appreciation).

In illustrating the potential reward, the assumptions that have been made are set out in the table at the foot of this page.

Recruitment remuneration

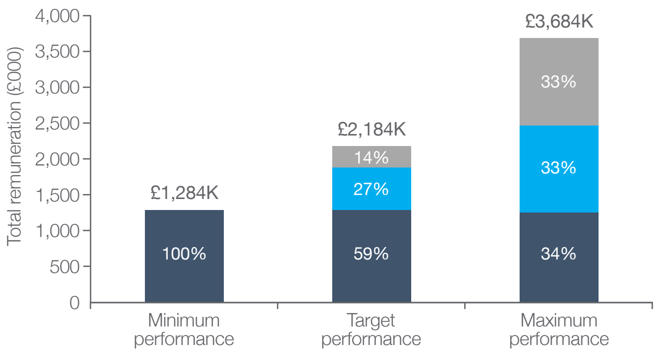
The policy aims to facilitate the appointment of individuals of a suitable calibre. When appointing a new Executive Director, the Committee seeks to ensure that arrangements are in the best interests of the Group and not to pay more than is appropriate.

The Committee will take into consideration a number of relevant factors, which may include the calibre of the individual, the candidate's existing remuneration package, and the specific circumstances of the individual including the jurisdiction from which the candidate was recruited.

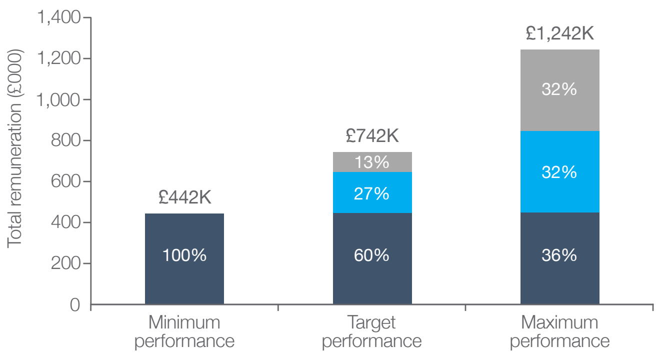
When hiring a new Executive Director, the Committee will typically align the remuneration package with the above policy. The Committee may include other elements of pay which it considers are appropriate, however, this discretion is capped and is subject to the principles and the limits referred to below:

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Pension and benefits will be provided in line with the above policy.

Paul Lynam



Neeraj Kapur



Illustrations of application of remuneration policy

Scenario	Description	Assumptions
Minimum performance	Minimum remuneration receivable.	Fixed elements of remuneration only – salary as at 1 January 2017, benefits and pension. No payments under incentive plans.
Target performance	Remuneration receivable for achieving performance in line with expectations.	Fixed elements of remuneration (as above). 50% of maximum annual bonus earned. 25% of maximum LTIP award vesting.
Maximum performance	Remuneration receivable for achieving performance in excess of the maximum performance targets.	Fixed elements of remuneration (as above). 100% of maximum annual bonus earned. 100% of maximum LTIP award vesting.

- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- Other elements may be included in the following circumstances:
  - an interim appointment being made to fill an Executive Director role on a short-term basis;
  - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis;
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis; and
  - if the Executive Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee may also alter the performance metrics, performance period and vesting period of the annual bonus, DBP or LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) will be within the maximum limits set out in the policy table.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

The Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure buyout awards or payments on a like-for-like basis to the remuneration arrangements forfeited. Any such payments or awards are limited to the expected value of the forfeited awards. Where considered appropriate, such special recruitment awards will be liable to forfeiture or 'malus' and/or 'clawback' on early departure.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.

Fees payable to a newly-appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Service agreements and letters of appointment

Executive Directors' service agreements are on a rolling basis and may be terminated on 12 months' notice by the Company or the Executive Director. Service agreements for new Executive Directors will generally be limited to 12 months' notice by the Company.

All Non-Executive Directors' letters of appointment are on a rolling basis and may be terminated on six months' notice by the Company or the Non-Executive Directors. All Non-Executive Directors are subject to re-election at intervals of not more than three years.

Details of the Directors' service agreements, letters of appointment and notice periods are set out in the table below:

Service agreements and letters of appointment

Names	Commencement of current service/ agreement/ letter of appointment	Notice period
P Lynam	28 July 2010	12 months
N Kapur	27 October 2011	12 months
M Forsyth[1]	6 October 2016	6 months
H Angest[1]	6 October 2016	6 months
A Berresford	22 November 2016	6 months
P Marrow[1]	6 October 2016	6 months
A Salmon[1]	6 October 2016	6 months
V Stewart	22 November 2016	6 months

[1] Entered into new letters of appointment prior to the Company's transition from the AIM to the Main Market.

Remuneration Policy continued

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below.

Where a buy-out award is made under the Listing Rules then the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Where the Committee retains discretion it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the Director's departure and performance.

There is no entitlement to any compensation in the event of Non-Executive Directors' fixed-term agreements not being renewed or the agreement terminating earlier with the exception of a payment in lieu of notice as detailed in the table below.

Consideration of employment conditions elsewhere in the Company

The Committee considers the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors. There is no consultation with employees on Director remuneration.

Payments for loss of office

	Policy
Payment in lieu of notice	The Company has discretion to make a payment in lieu of notice to Executive Directors and Non-Executive Directors. Such a payment would include base salary or fees for the unexpired period of notice.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to award an annual bonus award in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid will normally be pro-rated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances). Any annual bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.
Deferred Bonus Plan	The extent to which any unvested award will vest will be determined in accordance with the rules of the DBP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award will vest at cessation or at the normal vesting date. In either case, the extent of vesting will be determined by the Committee, taking into account, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the deferral period. Awards in the form of nil-cost or nominal-cost share options may then be exercised during such period as the Committee determines. Awards in the form of nil cost or nominal-cost share options which have vested but remain unexercised at the date of cessation may be exercised if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee. Awards may then be exercised for such period as the Committee determines.
LTIP	The extent to which any unvested award will vest will be determined in accordance with the rules of the LTIP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award will vest at cessation or at the normal vesting date. In either case, the extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Awards in the form of nil-cost or nominal-cost share options may then be exercised during such period as the Committee determines. If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during a 'holding period'), his award will ordinarily continue until the normal release date when it will be released. The Committee retains discretion to release awards when the participant leaves. Awards in the form of nil cost or nominal-cost share options which have vested and been released but remain unexercised at the date of cessation may be exercised if a participant leaves for any reason (other than summary dismissal). Awards may then be exercised for such period as the Committee determines.

Shareholder views

The Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Executive and Non-Executive Directors' remuneration. Should any significant changes be proposed to the policy going forward, the Company will engage with its shareholders to seek their views.

Existing contractual arrangements

The Committee retains discretion to make any remuneration payment or payment for loss of office outside the policy in this report:

- where the terms of the payment were agreed before the policy came into effect;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company, and in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company; and
- to satisfy contractual arrangements under legacy remuneration arrangements, including any arrangements in place prior to Admission.

For these purposes, 'payment' includes the satisfaction of awards of variable remuneration, and in relation to an award involving shares the terms of the payment are agreed at the time the award is granted.

The Committee may satisfy any Phantom Share Option granted under the PSOS and may adjust the terms of any such Phantom Share Option to take account of any variation of share capital, demerger, delisting, special dividend or other event which may affect the Company's share price.

The Committee may make minor changes to this policy which do not have a material advantage to Directors, to aid in its operation or implementation, taking into account the interests of shareholders but without the need to seek shareholder approval.

	Policy
Phantom Share Option Plan (PSOS)	The extent to which any unvested award will vest will be determined in accordance with the rules of the PSOS. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, redundancy, the sale of his employer or any other reason at the discretion of the Committee, the award may be exercised for up to six months following the date of cessation or such period as the Committee determines. The extent of exercise will be determined by the Committee taking into account the extent to which the performance metric is satisfied and the period of time elapsed from the date of grant to the date of cessation relative to the performance period, unless the Committee determines otherwise.
Change of control	The extent to which unvested awards under the DBP, LTIP and PSOS will vest will be determined in accordance with the rules of the relevant plan. Awards under the DBP will vest in full in the event of a takeover, merger or other relevant corporate event. Awards under the LTIP will vest early on a takeover, merger or other relevant corporate event. The Committee will determine the level of vesting taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period. In the event of a takeover, merger or other relevant corporate event, awards under the PSOS may be exercised within six months of the relevant corporate event or such period as the Committee determines. The Committee will determine the level of vesting taking into account the extent to which the performance metric is satisfied and the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period, unless the Committee determines otherwise.
Mitigation	Termination payments may be reduced where the Executive Director commences alternative employment during the notice period.
Other payments	Payments may be made either in the event of a loss of office or a change of control under the Sharesave Scheme, which is governed by its rules and the legislation relating to such tax-qualifying plans. There is no discretionary treatment for leavers or on a change of control under these plans. In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.

Remuneration Report

The information provided in this section has been audited.

Single figure table

The following table sets out total remuneration for each Director in respect of the year ended 31 December 2016 and the prior year.

Single figure table

	Salary and fees		Benefits		Annual bonus		2011 share option scheme		Pension		Total remuneration	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Executive Directors												
P Lynam	1,200	900	23	24	2,000[4]	500	2,284[5]	–	35	35	5,542	1,459
N Kapur	325	275	22	22	400[4]	175	571[5]	–	25	25	1,343	497
Non-Executive Directors												
M Forsyth[1]	95	55	1	–	–	–	–	–	–	–	96	55
H Angest[1,2]	55	54	–	–	–	–	–	–	–	–	55	54
A Berresford[3]	7	–	–	–	–	–	–	–	–	–	7	–
P Marrow	102	85	–	–	–	–	–	–	–	–	102	85
A Salmon[2]	55	54	–	–	–	–	2,284[5]	–	–	–	2,339	54
V Stewart[3]	7	–	–	–	–	–	–	–	–	–	7	–
	1,846	**1,423**	**46**	**46**	**2,400**	**675**	**5,139**	**–**	**60**	**60**	**9,491**	**2,204**

1 Lord Forsyth was appointed as Chairman of the Board on 19 October 2016 following the retirement of Sir Henry Angest as Chairman. Sir Henry Angest remains on the Board as a Non-Executive Director.

2 Fees for the services of Sir Henry Angest and Andrew Salmon as Non-Executive Directors are paid to Arbuthnot Banking Group by whom they are employed. Prior to the step up to the Main Market total fees of £81,000 were paid in respect of these directors in 2016. Following the step up, fees of £5,000 per director per month were paid. These figures exclude VAT.

3 Ann Berresford and Victoria Stewart were appointed to the Board on 22 November 2016.

4 Paul Lynam and Neeraj Kapur earned a bonus equal to £500,000 and £200,000 respectively in respect of performance for the financial year ended 31 December 2016. Paul Lynam and Neeraj Kapur also earned a one-off bonus equal to £1,500,000 and £200,000 respectively following the sale of ELG. Further information regarding the one-off bonuses is provided on the following page in the disclosure regarding pre Main Market Admission bonus arrangements.

5 Details of awards vesting under the 2011 share option scheme (a pre Main Market Admission long term incentive) are set out on page 136. Neither Paul Lynam nor Neeraj Kapur exercised their options in 2016 and accordingly they did not receive a cash payment in respect thereof.

The figures in the single figure tables above are derived from the following:

Salary and fees	The amount of salary / fees received in the year.
Benefits	The taxable value of benefits received in the year. These are principally private medical health insurance and car allowances.
Annual bonus	The cash value of the bonus earned in respect of the financial year (including a proportion of the amount earned which is deferred for one year).
2011 share option scheme	The intrinsic value (as at the date of vesting) of share options that vested during the financial year.
Pension	The amount of payments in lieu of Company pension contributions received in the year.

Additional disclosures in respect of the single figure table

Base salary and fees

As disclosed in the Prospectus, base salaries for the Executive Directors in respect of the year ended 31 December 2016 are as follows:

	2016 base salary £000
P Lynam	1,200
N Kapur	325

Secure Trust delivered a fifth straight record year of profits and strong operational and regulatory performance in 2015. In light of this, and to reflect Paul Lynam's leadership and contribution to the Company's growth over recent years and the increase in his responsibilities arising under the regulatory regime, the Committee considered it appropriate to increase his base salary for 2016 to £1,200,000.

The Committee also considered it appropriate to increase Neeraj Kapur's base salary for 2016 to £325,000 to reflect his contribution to the business, his experience in his current role and the positioning of his salary compared to peers.

Pre Main Market Admission bonus arrangements

Bonuses for the Executive Directors for the financial year ended 31 December 2016 comprise two separate payments: one in relation to the normal bonus arrangements applicable before the adoption of the Remuneration Policy; and a one-off bonus following the sale of ELG.

The normal annual bonus for 2016 was determined on a discretionary basis, taking into account Company and personal performance during the year. Paul Lynam earned a bonus equal to £500,000 and Neeraj Kapur earned a bonus equal to £200,000. The bonuses were determined by the Committee taking into account:

- The delivery of record profits;
- Strong Return On Equity performance (underlying return on average equity 11.9%);
- A successful transition from the AIM to the Main Market;
- Strong operational and regulatory performance;
- The successful implementation of ICAAP and ILAAP procedures; and
- The achievement of high customer satisfaction levels

25% of the bonus earned is deferred in cash for one year (Paul Lynam: £125,000, Neeraj Kapur: £50,000).

Paul Lynam and Neeraj Kapur also earned a one-off bonus equal to £1,500,000 and £200,000 respectively following the sale of ELG. As previously disclosed the Group acquired the Everyday Loans Group in June 2012 for a consideration of £1. Through subsequent effective management and very skilled negotiation the Group disposed of this asset for a consideration of £235,000,000 in April 2016. This was a transformational transaction which generated a profit after tax of £116,800,000 which almost doubled the equity base of the company and facilitated the payment of a special dividend of £1.65 per share or £30 million in special distributions to shareholders. The committee considered that one-off bonuses were warranted in recognition of the scale of this exceptional achievement.

Pre Main Market Admission long term incentives

Awards vesting in respect of financial year

2011 Share Option Scheme

On 2 November 2011 Paul Lynam and Andrew Salmon were both granted 283,333 share options with an exercise price of £7.20 per share. On the same day, Neeraj Kapur was granted 70,833 share options with an exercise price of £7.20 per share. 50% of the share options vested and became immediately exercisable on 2 November 2014. 50% of the share options vested and became immediately exercisable on 2 November 2016.

Share options that vested on 2 November 2016 were subject to dividends paid by the Company between the grant date and vest date (the vesting period) increasing in percentage terms (when compared to an assumed dividend of £8 million in respect of the financial year ended 31 December 2012) by a minimum of the higher of: (1) the increase in the Retail Price Index during the vesting period; and (2) 5% per annum during the vesting period.

Secure Trust's mid-market closing share price on the date of vesting was £23.32 and this has been used to calculate the gain at vesting in accordance with the remuneration reporting regulations. Notwithstanding this, the actual value realised by Andrew Salmon on exercise of his vested options was £22.00 per share.

Paul Lynam and Neeraj Kapur have not exercised the share options that vested on 2 November 2016.

Awards granted during the financial year

No awards were granted during the financial year ended 31 December 2016.

Payments made to former Directors during the year

No payments were made in the year to any former Director of the Company.

Payments for loss of office made during the year

No payments for loss of office were made in the year to any Director of the Company.

Remuneration Report
continued

Statement of Directors' shareholding and share interests

No formal shareholding guidelines are currently in place. However, Paul Lynam has committed to building up and maintaining a shareholding of at least 100% of base salary, over time, by retaining all awards under the new LTIP to be put to shareholders for approval at the 2017 AGM that vest (net of income tax and National Insurance).

The interests of the Directors and their connected persons in the Company's ordinary shares as at 31 December 2016 were as set out in the table below. There have been no changes to those interests between 31 December 2016 and the date of signing of these financial statements.

Performance graph and historical Chief Executive Officer remuneration outcomes

The graph opposite shows the total shareholder return ('TSR') performance for the Company's shares in comparison to the FTSE SmallCap Index (excluding Investment Trusts) for the period from 1 January 2012 to 31 December 2016. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 31 December 2016, of £100 invested in the Group over the period compared with £100 invested in the FTSE SmallCap Index (excluding Investment Trusts).

The Company will review in future years whether the FTSE SmallCap Index (excluding Investment Trusts) is the appropriate comparison and may select a comparison involving an appropriate peer group instead.

The table opposite shows details of the total remuneration, bonus and share options vesting (as a percentage of the maximum opportunity) for the Chief Executive Officer over the last five financial years. Pre Main Market Admission bonuses have been determined by the Committee on a discretionary basis taking into account Group financial and individual performance during the financial year.

CEO pay increase in relation to all employees

The table opposite sets out the percentage change (from the financial year ending 31 December 2015) in base salary, value of taxable benefits and bonus for the Chief Executive Officer compared with the average percentage change for all employees.

Paul Lynam earned a bonus equal to £500,000 in respect of performance for the financial year ended 31 December 2016 (equal to the bonus earned in respect of performance for the financial year ended 31 December 2015). Paul Lynam also earned a one-off bonus equal to £1,500,000 following the sale of the Everyday Loans business.

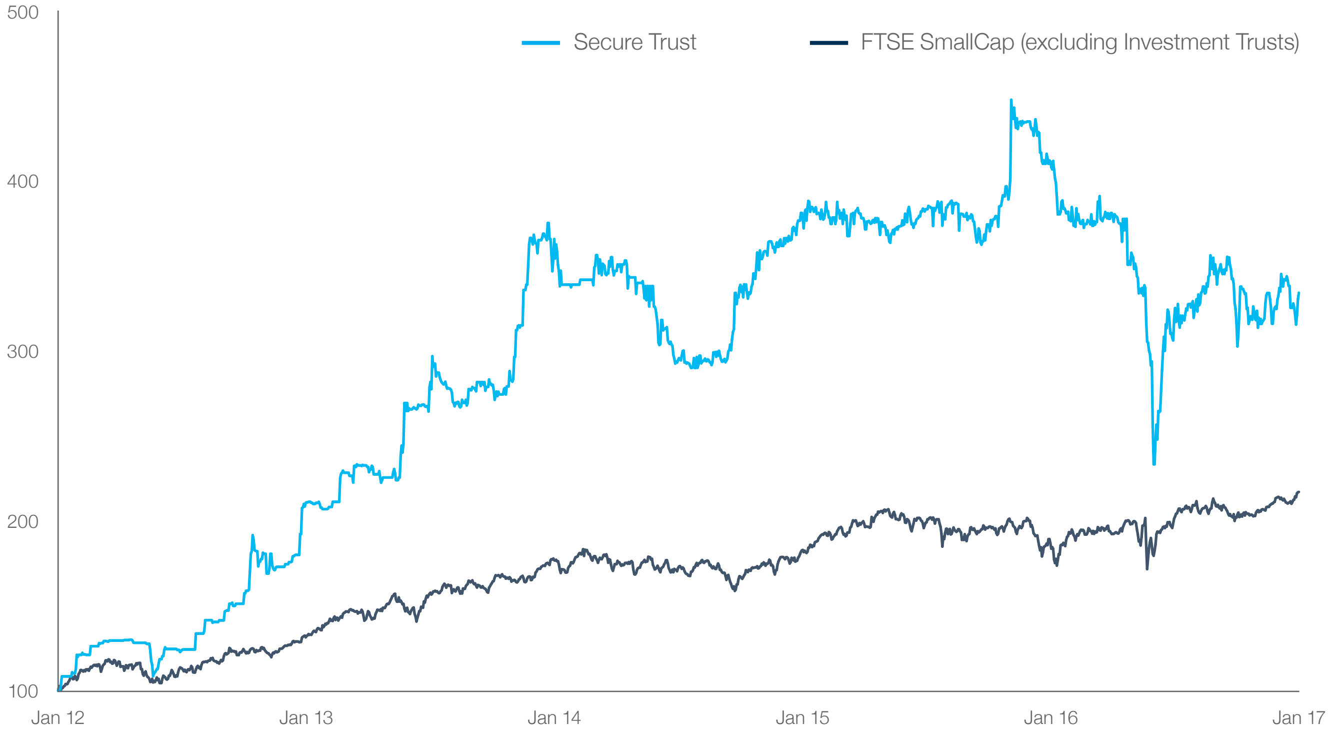
Directors' shareholding and share interests

Director	Type	Owned outright	Vested during the year but unexercised	Vested and exercised during the year	Sold during the year	Unvested, subject to performance conditions	Total as at 31 December 2016
P Lynam	Shares	9,110	–	–	–	–	9,110
	Share Options	–	141,667	–	–	–	141,667
	Phantom share options[1]	–	–	–	–	187,500	187,500
N Kapur	Shares	1,000	–	–	–	–	1,000
	Share Options	–	35,417	–	–	–	35,417
	Phantom share options[1]	–	–	–	–	31,250	31,250
M Forsyth	Shares	2,000	–	–	–	–	2,000
H Angest	Shares	–	–	–	–	–	–
A Berresford	Shares	–	–	–	–	–	–
P Marrow	Shares	5,440	–	–	–	–	5,440
A Salmon	Shares	7,500	–	141,667	(141,667)[2]	–	7,500
V Stewart	Shares	–	–	–	–	–	–

[1] Each Phantom Share Option was granted on 23 March 2015 and entitles the holder on exercise to a cash payment equal to the difference between the market value of a share on the date of exercise and a notional exercise price of £25.00 per share. Each Phantom Share Option may be exercised on or after 3 November 2018 subject to the satisfaction of a performance condition that over the period from 23 March 2015 to 3 November 2018 the dividends paid by the Company have increased in percentage terms when compared to the dividend of £12.3 million in respect of the financial year ended 31 December 2014 by at least the higher of the increase in RPI during that period and 5% per annum.

[2] Andrew Salmon exercised and sold his shares shortly after the date of vesting.

Total Shareholder Return ('TSR') vs FTSE SmallCap Index



Total remuneration and share options

	Total remuneration £'000	Share options as a % of maximum opportunity
2016	5,542	100%
2015	1,459	N/A
2014	3,671	100%
2013	1,031	N/A
2012	870	N/A

CEO pay increase in relation to all employees

Percentage change	Chief Executive Officer	Wider workforce
Salary	33.33%	4.7%[1]
Taxable benefits	0%	0%
Annual bonus	300%[2]	0%

[1] Actual award was 3% for wider workforce but additional spend was applied to address pay concerns in some areas of Lending.

[2] Paul Lynam earned a bonus equal to £500,000 in respect of performance for the financial year ended 31 December 2016 (equal to the bonus earned in respect of performance for the financial year ended 31 December 2015). Paul Lynam also earned a one-off bonus equal to £1,500,000 following the sale of ELG.

Remuneration Report
continued

Spend on pay

The table at the foot of this page sets out the percentage change (from the financial year ending 31 December 2015) in dividends and the overall expenditure on pay (as a whole across the organisation).

	2016 £million	2015 £million	Change %
Dividends and share buybacks	43.1	12.6	242.1
Overall expenditure on pay	39.5	39.7	(0.5)

Implementation of Directors' Remuneration Policy for the financial year ending 31 December 2016

As described in the Chairman's Statement, the Committee has undertaken a detailed review of the Directors' Remuneration Policy in light of the Company's transition from the AIM to the Main Market. Details on how Secure Trust intends to implement the Directors' Remuneration Policy for the financial year ending 31 December 2017 is set out below.

Salary

Paul Lynam will not receive a salary increase in 2017. Neeraj Kapur's salary was increased to £400,000 with effect from 1 January 2017, reflecting Admission to the Main Market, his contribution to the business, his experience in his current role and the positioning of his salary compared to peers.

Fees

The table at the foot of this page sets out the Non-Executive Director fee structure effective from 1 January 2017:

The considerations that were taken into account by the Committee in determining these fees are described in the Chairman of the Remuneration Committee's Statement and taking into account the increased work load reflecting the role and responsibilities of the Non-Executive Directors following the transition to the Main Market, the growth in the business of the Group and additional regulatory responsibilities and time commitment.

The information provided in the remainder of the Directors' Remuneration Report is not subject to audit.

Annual bonus

The proposed maximum annual bonus opportunity for the year ending 31 December 2017 will be equal to 100% of salary. The bonus will be subject to stretching performance metrics based on a balanced business scorecard. 70% of the bonus will be subject to financial performance metrics and the remaining 30% of the bonus will be subject to a mixture of customer, operational and staff performance metrics. The Committee considers that the targets are commercially sensitive. A description of the performance metrics and targets will be disclosed in the Annual Report on Remuneration for the year ending 31 December 2017.

Up to an additional 100% of salary may be awarded in exceptional circumstances (such as in order to recognise exceptional performance during the year). To the extent that any additional bonus is awarded, full details of the award and rationale will be disclosed in the Annual Report on Remuneration for the year ending 31 December 2017.

Fees

Role	2017 fee £'000's
Chairman	200
Non-Executive Director (basic fee)	65
Senior Independent Director	20
Chairman of Audit Committee	20
Chairman of Risk Committee	20
Chairman of Remuneration Committee	10
Member of Audit Committee	5
Member of Risk Committee	5
Member of Remuneration Committee	5

50% of any bonus earned will be deferred into shares under the Deferred Bonus Plan. Deferred shares will vest in equal tranches after one, two and three years following deferral.

LTIP

The Company proposes to grant the first awards under the Secure Trust 2017 LTIP in 2017. Awards will be granted in the form of nil-cost or nominal share options at the level of 100% of salary and will be subject to EPS, Relative TSR and risk management performance metrics. Performance will be assessed over a three year performance period.

The proposed EPS and relative TSR performance targets are set out in the table at the foot of this page.

The Committee intends to use the following group of selected peers for assessing TSR performance: (Aldermore Group, Arbuthnot Banking Group, Close Brothers, OneSavings Bank, Metro Bank, Paragon Group of Companies, Provident Financial, S&U, Shawbrook Group and Virgin Money).

20% of the award will be based on risk management performance objectives aligned with the Company's risk management framework.

Consideration by the Directors of matters relating to Directors' remuneration

The Remuneration Committee is composed of five members; the Chairman of the Board (Lord Forsyth), two independent Non-Executive Directors (Paul Marrow and Victoria Stewart) and two Non-Executive Directors (Sir Henry Angest and Andrew Salmon). The chairman of the Committee is Sir Henry Angest.

The Committee's principal responsibilities are:

- reviewing the on-going appropriateness and relevance of remuneration policy;
- reviewing and approving the remuneration packages of the Executive Directors;
- recommending and monitoring the level and structure of remuneration of senior management; and
- production of the annual report on the Directors' remuneration.

During the financial year ended 31 December 2016, the Committee received assistance from representatives from Management, Human Resources, Risk and Legal.

The Committee received no independent advice from external consultants during the financial year ended 31 December 2016.

Statement of voting at AGM

This will be the first year that the Directors' Remuneration Report is put to shareholders for approval. The results of the vote will be disclosed in the 2017 Annual Report on Remuneration.

Approval

This Report was approved by the Board on 22 March 2017 and signed on its behalf by:

Sir Henry Angest
Chairman of the Remuneration Committee

Proposed EPS and relative TSR performance targets

Vesting (% of maximum)	EPS growth (40% of award)	Relative TSR (40% of award)
0%	Less than 10% per annum	Below Median
25%	10% per annum	Median
100%	30% per annum	Upper quartile
Straight-line vesting between points.		

Directors' Report

The directors submit their report, the related Strategic Report and Corporate Governance Report and the audited financial statements of Secure Trust Bank PLC and its subsidiaries (the 'Group') for the year ended 31 December 2016.

Report and financial statements

The Strategic Report is set out beginning on page 16. This Directors' Report also includes additional disclosures required by the UKLA's Disclosure and Transparency Rules and Listing Rules. Some of the matters normally included in the Directors' Report are included by reference as indicated below.

Principal activities and review

The principal activity of the Group is banking including deposit taking and secured and unsecured lending.

The business review and information about further developments, key performance indicators and principal risks are contained in the Strategic Report.

Corporate governance

The Corporate Governance report contains information about the Group's corporate governance arrangements, includes the Group's compliance with the UK Corporate Governance Code. Until Admission in October 2016 the Code did not apply to the Company although the Company did take account of its principles.

Results

The results for the year are shown on page 100. The Group made a profit before tax for the year of £144.3 million (2015: £36.5 million), being profit before tax of £27.5 million and gain recognised on disposal of £116.8 million and a profit after tax of £137.5 million (2015: £28.7 million). The reconciliation of statutory results to underlying results is set out in the Financial Review in the Strategic Report.

For the purposes of DTR 4.15R2 and DTR 4.1.8 this Directors' Report and the Strategic Report on pages 16 to 54 comprise the management report.

Dividends

The Directors recommend the payment of a final dividend of 58 pence per share which, together with the interim dividend of 17 pence per share paid on 23 September 2016, represents total dividends for the year of 75 pence per share (2015: 72 pence per share) excluding the special dividend of 165 pence per share paid on 27 July 2016 following completion of the sale of ELG. The final dividend, if approved by members at the Annual General Meeting, will be paid on 12 May 2017 to shareholders on the register at the close of business on 18 April 2017.

Dividend Policy

The Directors reviewed the dividend policy of the Company in connection with the step up to the Main Market and have adopted a progressive dividend policy which takes into account the Company's capital requirements, earnings and cash flow in the long term.

The Directors will have regard to current and projected capital, liquidity, earnings and market expectations in determining the amount of the dividend. On occasion, the Company may declare and pay a special dividend resulting from special circumstances, however no such special dividend is currently envisaged.

Share capital

The share capital of the Company comprises one class of ordinary shares with a nominal value of 40p each. As at 31 December 2016 the Company had 18,475,229 ordinary shares in issue. Each ordinary share entitles the holder to one vote.

All the ordinary shares are fully paid and rank equally in all respects and there are no special rights to dividends or in relation to control of the Company.

283,335 shares were issued during 2016.

Details of the Company's share capital and movements in the Company's issued share capital during the year are provided in Note 25 of the consolidated financial statements.

The powers of the Directors, including in relation to the issue or buyback of the Company's shares are set out in the Companies Act 2006 and the Company's Articles of Association. Shareholders will be asked to grant authority to the Directors to issue and allot shares at the 2017 Annual General Meeting.

Under section 551 of the Companies Act 2006, the Directors may allot equity securities only with the express authorisation of shareholders which may be given in General Meeting, but which cannot last more than five years. Under section 561 of the Companies Act 2006, the Board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by special resolution of the shareholders.

Resolutions permitting such actions will be proposed at the 2017 Annual General Meeting. Details of the resolutions for such authority are included in the Notice of the 2017 Annual General Meeting and in the related explanatory notes.

There are no specific restrictions on the transfer of the shares in the Company which are governed by the general provisions of the Articles of Association and prevailing legislation.

On a show of hands, each member has the right to one vote at General Meetings of the Company. On a poll, each member is entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Under section 701 of the Companies Act 2006 a company may make a market purchase of its own shares if the purchase has first been authorised by a resolution of the company.

The Company did not repurchase any of the issued ordinary shares during the year or up to the date of this report, although it was granted authority to do so by shareholders at the 2016 Annual General Meeting on 4 May 2016. That authority expires on 31 May 2017 or, if earlier, the conclusion of the 2017 Annual General Meeting.

At the 2017 Annual General Meeting a special resolution will be proposed authorising the Company to make market purchases of ordinary shares within the limits set out in the resolution. The resolution is in a similar form to that proposed at the 2016 Annual General Meeting. The Directors have no present intention of exercising the authority granted by the resolution, but regard it as a useful tool to have available.

Substantial shareholders

In accordance with Disclosure and Transparency Rules DTR5, the Company as at 20 March 2017 (being the latest practicable date before publication of this report), has been notified of the following disclosable interests in its issued ordinary shares:

Substantial shareholders

	Ordinary shares	Percentage of ordinary share capital
Arbuthnot Banking Group PLC	3,444,538	18.64
Invesco Limited	2,805,262	15.18
Threadneedle Asset Management (Ameriprise Financial, Inc.)	2,426,858	13.14
Steven A Cohen	1,510,412	8.18
Ruffer	1,324,979	7.17
Wellington Management Company	1,297,610	7.02
Unicorn Asset Management	1,091,209	5.91
BAE Systems Pension Fund Investment Management	782,741	4.24
Standard Life Investments	724,967	3.92

Directors' Report
continued

Relationship with major shareholder

On the AIM IPO in 2011 the Company entered into a Relationship Agreement with its majority shareholder, Arbuthnot Banking Group PLC. Following the sell down by Arbuthnot Banking Group in 2016 the Relationship Agreement terminated. Nevertheless, the Company has an understanding with Arbuthnot Banking Group that for so long as Arbuthnot Banking Group holds 10% or more of the issued share capital of the Company, Arbuthnot Banking Group would expect two directors of the Company to be nominees of Arbuthnot Banking Group.

Directors

The directors of the Company are Lord Forsyth, Neeraj Kapur, Paul Lynam, Sir Henry Angest, Paul Marrow, Ann Berresford, Andrew Salmon and Victoria Stewart. All the directors, other than Ann Berresford and Victoria Stewart, served on the Board throughout the financial year and up to the date of signing these financial statements. Ann Berresford and Victoria Stewart were appointed as directors on 22 November 2016. Biographical information about each director is shown on page 56. All the Non-Executive Directors (other than Ann Berresford and Victoria Stewart) entered into new letters of appointment on 6 October 2016 in connection with the step up to the Main Market. Ann Berresford and Victoria Stewart entered into letters of appointment on their appointment. Paul Lynam and Neeraj Kapur are Executive Directors of the Company.

Sir Henry Angest and Mr A A Salmon retire under Article 82 of the Articles of Association and, being eligible, offer themselves for re-election at the 2017 Annual General Meeting

In accordance with the recommendations of the UK Corporate Governance Code, Ann Berresford and Victoria Stewart, who were appointed as directors during 2016, offer themselves for re-election at the 2017 Annual General Meeting.

Directors' Interests

The directors' interests (and those of any persons connected with them) in the share capital of the Company from Admission and as at 31 December 2016 are set out on page 84 in the Directors Remuneration Report.

Powers of directors

The directors' powers are conferred on them by UK legislation and by the Company's Articles of Association. Changes to the Company's Articles of Association must be approved by shareholders by way of a special resolution and must comply with the provisions of the Companies Act 2006 and the Financial Conduct Authority's Disclosure and Transparency Rules.

It is proposed to adopt new Articles of Association at the 2017 Annual General Meeting and a description of the changes to the Articles is set out in the separate Circular giving notice of the Annual General Meeting.

Appointment and retirement of directors

The appointment and retirement of the directors is governed by the Company's Articles of Association, the UK Corporate Governance Code and the Companies Act 2006.

Directors' indemnities

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Company may indemnify any director or former director of the Company or any associated company against any liability and may purchase and maintain for any director or former director of the Company or any associated company insurance against any liability.

The Group has maintained directors and officers liability insurance throughout 2016.

The letters of appointment of the Non-Executive Directors incorporate by reference the provisions of the Articles of Association into the contract established by the letter of appointment between the Non-Executive Director and the Company.

Consideration is being given to each of the directors entering into a deed of indemnity with the Company under which the director is indemnified by the Company in respect of liabilities incurred in his or her role as a director. The deed, when entered into, would indemnify the director to the extent permitted by the Companies Act 2006 and the Articles of Association of the Company.
The indemnities, when entered into, would be qualifying third party indemnities provisions within the meaning of the legislation.

Disclosure of information under Listing Rule 9.8.4R

Item	Page reference
Details of any long term incentive schemes	74 to 75
Allotments of cash of equity securities otherwise than to shareholders in proportion to their holdings	Note 26, page 136

Disclosure of information under Listing Rule 9.8.4R

Additional information, where not already contained in the Directors' Report, where applicable to the Company can be found in the following sections of the Annual Report as set out in the table opposite.

Significant contracts

Details of related party transactions are set out in Note 35 to the financial statements.

There are no contracts of significance in which a director is interested.

There are no agreements between any Group company and any of its employees or any director of any Group company which provide for compensation to be paid to an employee or a director for termination of employment or for loss of office as a consequence of a takeover of the Company.

There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control following a takeover bid for the Company.

Employment policies and equal opportunities

The Group is an inclusive and equal opportunities employer and opposes all forms of discrimination. Applications from people with disabilities will be considered fairly and if existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

Group policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind is not tolerated. This principle applies to all aspects of employment from recruitment and promotion, through to termination and all other terms and conditions of employment.

The Group has processes in place for communicating with its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace and to encourage employees to get involved in social or community events. These communications aim to achieve a common awareness for all employees of the financial and economic factors affecting the performance of the Group. The Group conducts employee surveys and uses the results to improve performance. The Group utilises a range of means of communication with employees, including by means of a staff council.

Employee share schemes

New employee share schemes are proposed to be adopted at the 2017 Annual General Meeting. Further details are set out in the Circular containing the Notice of AGM.

Research and development

The Group does not undertake research and development activities.

Political donations and expenditure

The Group made no political donations and incurred no political expenditure during the year (2015: £nil).

Post balance sheet events

There have been no significant events between 31 December 2016 and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

Disclosure of information to auditor

Each director in office at the date of this Directors' Report confirms that so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Going concern

The financial statements have been prepared on a going concern basis. Further information about this is to be found on page 46.

Fair, Balanced and Understandable

The Directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, strategy and business model.

Details of the governance procedures which have been used to support this assertion can be found in the Audit Committee Report.

Directors' Report
continued

Future developments and financial risk management objectives and policies

Information about future developments, internal control and financial risk management systems in relation to financial reporting and financial risk management objectives and policies in relation to the use of financial instruments can be found in the following sections of the annual report which are incorporated into this report by reference:

Future developments – see Strategic Report on pages 16 to 54.

Internal control and financial risk management systems in relation to financial reporting – see Corporate Governance Report on pages 55 to 93.

Financial risk management objectives and policies in relation to the use of financial instruments – see Risk Management Report on pages 47 to 49 and Note 28 to the financial statements.

Methodology

The Group intends to report on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013. This is the first Greenhouse Gas report that the Group has had to issue under the above Regulation and as such it has only included emission sources where accurate and consistent data is available for the complete reporting period.

Greenhouse Gas emissions from our operations

The Group's Greenhouse Gas emissions are shown in the table at the foot of this page.

Scope 1 emissions resulting from the combustion of natural gas for heating the Group's buildings and Scope 2 and 3 emissions associated with the consumption of purchased electricity are included within the Greenhouse Gas report. The Group has excluded Scope 1 emissions resulting from the use of company owned/leased vehicles and the fugitive escape of refrigerants used in air conditioning and heat pump systems. All Scope 3 sources, except for purchased electricity transmission and distribution emissions, have been excluded from this report.

Systematic procedures have now been established to collect accurate data for Scope 1 company vehicle and fugitive refrigerant emissions with effect from 1 January 2017. It is the Group's intention to set 2017 as its Greenhouse Gas baseline year and reports from 2018 will show emissions for the current year and for each subsequent year following the baseline year.

In compiling this Greenhouse Gas report the Group has used the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition) and energy supplier invoice data. The Group reports its greenhouse gas emissions as a single total, by converting them to the equivalent amount of CO2 using emission factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2016.

Auditor

KPMG LLP was reappointed as auditor at the Annual General Meeting held in 2016. Resolutions for its reappointment as auditor and giving the directors authority to determine their remuneration will be proposed at the 2017 Annual General Meeting. KPMG LLP has indicated its willingness to continue in office.

Annual General Meeting

The 2017 Annual General Meeting will be held at 3pm on 3 May 2017 at Arbuthnot House, 7 Wilson Street, London, EC2M 2SN.

By order of the Board

A J Karter
Secretary

22 March 2017

Greenhouse Gas (GHG) emissions from our operations

	Carbon dioxide (tonnes)
Scope 1 – direct emissions from combustion of fuel	93.0
Scope 2 – indirect emissions from electricity purchased	555.6
Scope 3 – other indirect emissions from purchased electricity transmission and distribution	50.3
Total scope 1 to 3 emissions	698.9
Environmental intensity indicator (tonnes carbon dioxide per £1 million group income)	5.4

Directors' Responsibility Statement

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the Listing Rules they are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of directors on 22 March 2017 and is signed on their behalf by:

P A Lynam
Chief Executive Officer

Neeraj Kapur
Chief Financial Officer

Independent Auditor's Report
to the members of Secure Trust Bank PLC only

Opinions and conclusions arising from our audit.

1. **Our opinion on the financial statements is unmodified**
   We have audited the financial statements of Secure Trust Bank PLC for the year ended 31 December 2016 set out on pages 100 to 160. In our opinion:

   - the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
   - the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
   - the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
   - the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Overview

Materiality: Group financial statements as a whole	£1.1m (2015: £1.4m) 4% of profit before tax (2015: 4% of profit before tax)
Coverage	100% (2015: 100%) of Group profit before tax

Risks of material misstatement vs 2015

Recurring risks Impairment losses on loans and advances to customers	↑
Income recognition on Effective Interest Rate basis	↑

2. Our assessment of risk of material misstatement

The starting point for our audit was our experience as auditors of the Group since 2009, including our assessment of the control environment and capital and liquidity positions. We combined this with a consideration of external and internal developments, the risks they present to the Group's business model and how these risks are mitigated. These were considered in June 2016, were refreshed following the results of the EU referendum and the Group's premium listing on the London Stock Exchange, and have been continually reassessed through our interim and final audits. That consideration includes conversations not only with management and the Board, ongoing knowledge gained through reading pertinent management information, but also takes into account the views of the PRA, market analysts, peer comparisons and our specialists.

We also assessed the divestment of Everyday Loans Group and whether this presented a significant risk of material misstatement. We concluded that whilst material, this did not require significant judgement to be applied by the Group and therefore was not included as a risk with the greatest effect on our audit work. Other factors we considered in assessing the audit risks include the regulatory landscape of ongoing industry-wide conduct issues and the valuation of share option schemes.

In assessing the Group's control environment we considered whether its systems were processing transactions completely and faithfully, and included appropriate controls designed to prevent fraud. Our work included testing the key controls over the processing of transactions and the key inter-system and bank reconciliations.

These assessments enabled us to form a judgement on going concern and also highlighted the key areas of financial statement risk on which our audit has focused. Thereafter, by looking at both broad risk themes across the Group and particular concerns within the business, we were able to calibrate our work to financial statements risk more precisely.

In arriving at our audit opinion on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, related to decisions over impairment losses on loans and advances to customers and the recognition of interest income on an Effective Interest Rate ('EIR') basis.

In order to estimate impairment losses on loans where an impairment event had not been observed, the Group applied a collective impairment provision methodology to the Consumer Finance (which includes Motor, Personal and Retail loans), Asset Finance and Commercial Finance loan books. Due to the relatively low volume of high value loans, an individual impairment provision methodology was applied to the Real Estate Finance loan book. In addition, the unseasoned nature of the loan book, underwritten during a relatively benign economic period, provided limited historical experience to support a collective impairment methodology. Individual provisions were also made against all loans where an impairment event had been observed.

We considered the increased audit risk due to continued growth in loans and advances, the challenge of meeting market expectations as a premium listed company, expectations of the regulator and the impact of the result of the EU referendum. We note, however, that the risk continues to be mitigated through a low interest rate environment, high employment rates and a relatively benign albeit uncertain credit outlook. The key judgements applied by the Group to estimate impairment losses on loans and advances to customers, related to both individual and collective impairment provision against Consumer Finance and individual impairment on Real Estate Finance loan books.

In the area of income recognition, the EIR method spreads the directly attributable cash flows (e.g. expected interest, fee income, subsidy income and origination costs) over the expected behavioural life of the loans. The Group segments its portfolio of originated loans by product type and applies product level behavioural life assumptions to estimate the period of time over which the cash flows will be spread.

We considered the increased audit risk due to portfolio seasoning, the greater competition within some of the Group's markets and the use of subjective estimates in assumptions used for EIR accounting.

The most critical judgements applied by the Group to estimate EIR income related to the identification of cash flows that should be spread on an EIR basis and the estimation of behavioural life, in particular for the Consumer Finance portfolios.

Independent Auditor's Report
continued

2. Our assessment of risks of material misstatement (continued)

Impairment losses on loans and advances to Customers

Collective and individual Impairment on Consumer Finance
(Impairment provision – consolidated statement of financial position: £22.7 million; 2015: £16.5 million, consolidated statement of comprehensive income charge: £28.5 million; 2015: £17.3 million).

Refer to page 64 (Audit Committee Report), page 110 (accounting policy) and page 123 (financial disclosures).

The risk

Data capture & Calculation error
The Group uses a number of Excel based models for both its individual and collective impairment calculations. This involves extraction of large data sets from a number of systems into the Excel model. As a result there is an inherent risk that the data included in the impairment models is not complete or accurate and that the formulae applied in order to calculate the impairment amount are not accurate.

Accounting application
The Group applies judgement in developing the methodology applied to calculate impairment provisions. As this is inherently subjective, there is a risk that the methodology applied is not in line with the relevant accounting standards and industry practice.

Subjective Estimates
The collective impairment provision is most sensitive to assumptions made in respect of the emergence period, probability of default and recoveries on defaulted loans. The individual impairment provision is most sensitive to assumptions made in respect of the probability of default and recoveries on defaulted loans.

Emergence period
Due to limited empirical evidence, the Group applies judgement to estimate the emergence period (the period of time from an impairment trigger event such as loss of employment to the loans being identified as impaired). There is a risk that the Group's estimate of the emergence period may not accurately reflect the period of time between an impairment trigger and the observable incurred loss event.

Probability of default
The group calculates the probability of default based on historical loss experience. The use of historical data has inherent limitations as it does not fully capture all factors that impact incurred losses as at the date of the statement of financial position. Such factors can include changes in credit quality, the lengthening of the period taken to reach default or macroeconomic conditions which may have an adverse impact on loan losses. During 2016 the Group applied a judgement based manual overlay to compensate for these inherent limitations. There is a risk that the Group's manual overlay does not adequately provide for incurred losses that are not captured by the impairment models.

Recoveries on defaulted loans
The Group applies judgement to estimate the amount of recoveries made on loans that are in default. Recoveries are typically made via the in-house debt collection agency Debt Managers (Services) Limited. In addition, judgement is applied to estimate the recovery of Motor debts through sale of repossessed vehicles. There is a risk that the Group's estimate does not accurately predict actual future recoveries.

Our response

Our procedures included:

- **Control design:** Testing application controls over the completeness and accuracy of data extraction into the Excel based models;
- **Re-performance:** Re-performing the provision calculations to test the mathematical accuracy of impairment models;
- **Methodology choice:** Testing the key assumptions and logic applied within the impairment models with reference to our interpretation of the relevant accounting standards and our wider industry experience;
- **Benchmarking assumptions:** Critically considering the assumptions made in respect of the emergence period with reference to available benchmark data for similar asset classes at peer group organisations;
- **Historical Comparisons:** Challenging the appropriateness of the Group's key assumptions for probabilities of default and recoveries with reference to actual historical experience;
- **Expectation vs outcome:** Applying alternative statistics based provisioning methodologies to create an expectation of the impairment provisions. Comparing this to the Group's impairment provisions to assess whether the current modelled assumptions for emergence period and the length of the period taken to reach default are appropriate; and
- **Our Sector Experience:** Assessing the adequacy of the manual overlay using our understanding of the Group and the wider market. This includes assessing the impact of changes in loan credit quality and macro economic factors on the emergence period, probability of default and recoveries.

Impairment losses on loans and advances to Customers

Individual impairment on Real Estate Finance

No individual impairment provision has been recognised for Real Estate Finance and therefore the impairment provision in the consolidated statement of comprehensive income and consolidated statement of financial position is £nil.

Refer to page 64 (Audit Committee Report), page 110 (accounting policy) and page 123 (financial disclosures).

The risk

Omitted exposure

The Group uses judgement to assess the ability of counterparties to make future loan re-payments. Whilst consideration is given to historical collections performance, there is a risk that not all loans that require an impairment provision will be identified.

Subjective Valuation

The impairment on Real Estate Finance loans is dependent on the quantum of future cash flows. The estimate of this quantum is most sensitive to the valuation of the collateral that may be sold to recover the loan balance in the event of default. Given the specialised nature of collateral assets, this can be difficult to establish.

Our response

Our procedures included:

- **Control design:** Testing the key controls over the completeness of individual provisioning watchlists. This included assessing the effectiveness of the governance and monitoring process in place for appropriate identification of higher risk loans and the accuracy of risk grades allocated to counterparties;
- **Test of detail:** Challenging the Group's identification of impairment triggers by inspecting a sample of loan files. This included testing performing accounts to assess if there was any evidence of impairment; and testing accounts where an impairment trigger had been met to assess whether the recoverable cash flows were sufficient to repay the loan amount; and
- **Comparing valuations:** Utilising our independent Real Estate Property Specialists to assess the value of realisable collateral with reference to certain valuation reports.

Income Recognition on an EIR basis

Consolidated statement of comprehensive income – Interest receivable and similar income £141.1 million; 2015: £139.7 million.

Refer to page 64 (Audit Committee Report), page 109 (accounting policy) and page 118 (financial disclosures).

The risk

Data Capture & Calculation Error

The Group uses a number of Excel based models for the recognition of income on an Effective Interest Rate ('EIR') basis. This involves extraction of large data sets from a number of systems into the Excel model. As a result, there is an inherent risk that the data included in the income recognition models is not complete or accurate and that the formulae applied in order to calculate the impairment amount are not accurate.

Accounting application

The Directors apply judgement in deciding which cash flows are spread on an EIR basis and which are recognised upfront. There is a risk that cash flows that should be spread on an EIR basis are recognised upfront or vice versa; and that the methodology for spreading cash flows on an EIR basis is not in-line with the relevant accounting standards and industry practice.

Subjective Estimate

The income on loans and advances is most sensitive to assumptions made in respect of the behavioural life.

The behavioural life of loans is the expected length of time and profile customers follow to repay their loan balances. This determines the quantum and timing of income recognition in respect of loans. The Group has a number of products across the Consumer Finance book, which results in a number of expected life assumptions.

The Group applies judgement to estimate expected life with reference to both historical experience and the Group's expertise and experience in the sector. As the Group applies judgement to forecast behavioural lives there is a risk that the profile used to recognise income is not reflective of historical experience. In addition, as the forecast profiles extend into the future there is a high level of estimation uncertainty.

Our response

Our procedures included:

- **Control design:** Testing application controls over the completeness and accuracy of data extraction to the Excel based income recognition models;
- **Re-performance:** Re-performing EIR calculations to test the mathematical accuracy of income recognition models;
- **Methodology implementation:** Testing the model methodology with reference to relevant accounting standards and our wider industry experience;
- **Testing application:** Inspecting product literature to assess whether the interest rate features, fees, subsidies and origination costs were appropriately incorporated into the Group's income recognition models. This assessment is made with reference to our interpretation of the requirements of the relevant accounting standards and our wider industry experience;
- **Historical experience:** Challenging the appropriateness of behavioural life assumptions with reference to the Group's historical trends and actual customer repayment behaviour; and
- **Our Sector Experience:** Comparing the profile of future cash flows to our own expectations based on our knowledge of the Group and experience of the industry in which it operates.

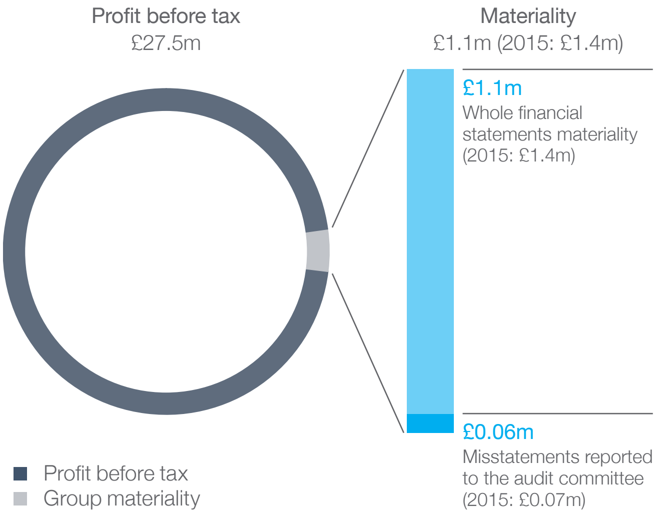
Independent Auditor's Report
continued

3. Our application of materiality and an overview of the scope of our audit

The materiality for the group financial statements as a whole was set at £1.1 million (2015: £1.4 million), determined with reference to a benchmark of group profit before tax of £27.5 million, of which it represents 4% (2015: 4% of profit before tax).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.06 million (2015: £0.07 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, Group profit before tax, and total Group assets.



4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of business viability on page 46 concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to 31 December 2019; or
- the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the role of the audit committee does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 46, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 93, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Andrew Walker
(Senior Statutory Auditor)

for and on behalf of KPMG LLP
Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

22 March 2017

Consolidated statement of comprehensive income

	Note	2016 Continuing £million	2016 Discontinued £million	2016 Total £million	2015 Continuing £million	2015 Discontinued £million	2015 Total £million
Income statement							
Interest receivable and similar income		130.0	11.1	141.1	100.5	39.2	139.7
Interest expense and similar charges		(26.3)	–	(26.3)	(21.6)	–	(21.6)
Net interest income	4	**103.7**	**11.1**	**114.8**	**78.9**	**39.2**	**118.1**
Fee and commission income		16.3	0.1	16.4	16.9	1.5	18.4
Fee and commission expense		(1.8)	(0.1)	(1.9)	(3.7)	(0.3)	(4.0)
Net fee and commission income		**14.5**	**–**	**14.5**	**13.2**	**1.2**	**14.4**
Operating income		**118.2**	**11.1**	**129.3**	**92.1**	**40.4**	**132.5**
Net impairment losses on loans and advances to customers	12	(27.7)	(2.6)	(30.3)	(16.8)	(7.5)	(24.3)
Operating expenses	5	(65.5)	(6.0)	(71.5)	(50.5)	(21.2)	(71.7)
Profit before income tax		**25.0**	**2.5**	**27.5**	**24.8**	**11.7**	**36.5**
Income tax expense	7	(6.3)	(0.5)	(6.8)	(5.5)	(2.3)	(7.8)
Profit after income tax		**18.7**	**2.0**	**20.7**	**19.3**	**9.4**	**28.7**
Gain recognised on disposal	37	–	116.8	116.8	–	–	–
Profit for the period		**18.7**	**118.8**	**137.5**	**19.3**	**9.4**	**28.7**
Other comprehensive income							
Items that will not be reclassified to the income statement							
Revaluation reserve		1.2	–	1.2	–	–	–
Taxation		(0.2)	–	(0.2)	–	–	–
		1.0	–	1.0	–	–	–
Items that may subsequently be reclassified to the income statement							
Available-for-sale reserve		(2.8)	–	(2.8)	–	–	–
Taxation		–	–	–	–	–	–
		(2.8)	**–**	**(2.8)**	**–**	**–**	**–**
Other comprehensive income for the period, net of income tax		**(1.8)**	**–**	**(1.8)**	**–**	**–**	**–**
Total comprehensive income for the period		**16.9**	**118.8**	**135.7**	**19.3**	**9.4**	**28.7**
Profit attributable to:							
Equity holders of the Company		**18.7**	**118.8**	**137.5**	**19.3**	**9.4**	**28.7**
Total comprehensive income attributable to:							
Equity holders of the Company		**16.9**	**118.8**	**135.7**	**19.3**	**9.4**	**28.7**
Earnings per share for profit attributable to the equity holders of the Company during the period (pence per share)							
Basic earnings per share	8	**102.6**	**651.5**	**754.1**	**106.1**	**51.7**	**157.8**
Diluted earnings per share	8	**101.8**	**646.9**	**748.7**	**104.1**	**50.7**	**154.8**

The notes on pages 107 to 160 are an integral part of these consolidated financial statements

Consolidated statement of financial position

	Note	At 31 December 2016 £million	At 31 December 2015 £million
ASSETS			
Cash and balances at central banks		112.0	131.8
Loans and advances to banks	9	18.2	9.8
Loans and advances to customers	10	1,321.0	960.6
Debt securities held-to-maturity	13	20.0	3.8
Equity instruments available-for-sale	14	13.5	–
Property, plant and equipment	15	11.4	8.5
Intangible assets	16	9.0	7.0
Deferred tax assets	18	–	0.3
Other assets	19	4.9	7.1
Assets held-for-sale	37	–	118.5
Total assets		**1,510.0**	**1,247.4**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	20	70.0	35.0
Deposits from customers	21	1,151.8	1,033.1
Current tax liabilities		1.7	3.2
Deferred tax liabilities	18	0.2	–
Other liabilities	22	49.0	24.2
Provisions for liabilities and charges	23	1.3	2.0
Liabilities held-for-sale	37	–	8.7
Total liabilities		**1,274.0**	**1,106.2**
Equity attributable to owners of the parent			
Share capital	25	7.4	7.3
Share premium		81.2	79.3
Revaluation reserve		1.2	0.2
Available-for-sale reserve	14	(2.8)	–
Retained earnings		149.0	54.4
Total equity		**236.0**	**141.2**
Total liabilities and equity		**1,510.0**	**1,247.4**

The financial statements on pages 100 to 160 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf by:

P Lynam
Chief Executive Officer

N Kapur
Chief Financial Officer

The notes on pages 107 to 160 are an integral part of these consolidated financial statements

Company statement of financial position

	Note	At 31 December 2016 £million	At 31 December 2015 £million
ASSETS			
Cash and balances at central banks		112.0	131.8
Loans and advances to banks	9	16.5	9.2
Loans and advances to customers	10	1,289.2	932.7
Debt securities held-to-maturity	13	20.0	3.8
Equity instruments available-for-sale	14	13.5	–
Property, plant and equipment	15	6.2	4.2
Intangible assets	16	6.2	3.2
Investments	17	3.7	3.7
Deferred tax assets	18	0.1	0.6
Other assets	19	35.3	146.0
Total assets		**1,502.7**	**1,235.2**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	20	70.0	36.4
Deposits from customers	21	1,151.8	1,033.1
Current tax liabilities		0.8	0.3
Other liabilities	22	57.0	28.2
Provisions for liabilities and charges	23	1.3	2.0
Total liabilities		**1,280.9**	**1,100.0**
Equity attributable to owners of the parent			
Share capital	25	7.4	7.3
Share premium		81.2	79.3
Revaluation reserve		0.5	–
Available-for-sale reserve	14	(2.8)	–
Retained earnings		135.5	48.6
Total equity		**221.8**	**135.2**
Total liabilities and equity		**1,502.7**	**1,235.2**

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement. The profit for the parent company for the year is presented in the Company Statement of Changes in Equity.

The financial statements on pages 100 to 160 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf by:

P Lynam
Chief Executive Officer

N Kapur
Chief Financial Officer

Registered number: 00541132

The notes on pages 107 to 160 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Available-for-sale reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2015	7.3	79.3	0.2	–	38.1	124.9
Total comprehensive income for the period						
Profit for 2015	–	–	–	–	28.7	28.7
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**28.7**	**28.7**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(12.6)	(12.6)
Charge for share based payments	–	–	–	–	0.2	0.2
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(12.4)**	**(12.4)**
Balance at 31 December 2015	**7.3**	**79.3**	**0.2**	**–**	**54.4**	**141.2**
Total comprehensive income for the period						
Profit for 2016	–	–	–	–	137.5	137.5
Other comprehensive income, net of income tax						
Revaluation reserve	–	–	1.0	–	–	1.0
Available-for-sale reserve	–	–	–	(2.8)	–	(2.8)
Total other comprehensive income	**–**	**–**	**1.0**	**(2.8)**	**–**	**(1.8)**
Total comprehensive income for the period	**–**	**–**	**1.0**	**(2.8)**	**137.5**	**135.7**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares under a share option scheme	0.1	1.9	–	–	–	2.0
Dividends	–	–	–	–	(43.1)	(43.1)
Charge for share based payments	–	–	–	–	0.2	0.2
Total contributions by and distributions to owners	**0.1**	**1.9**	**–**	**–**	**(42.9)**	**(40.9)**
Balance at 31 December 2016	**7.4**	**81.2**	**1.2**	**(2.8)**	**149.0**	**236.0**

The notes on pages 107 to 160 are an integral part of these consolidated financial statements

Company statement of changes in equity

	Share capital £million	Share premium £million	Revaluation reserve £million	Available-for-sale reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2015	**7.3**	**79.3**	**–**	**–**	**26.1**	**112.7**
Total comprehensive income for the period						
Profit for 2015	–	–	–	–	34.9	34.9
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**34.9**	**34.9**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	–	–	–	–	(12.6)	(12.6)
Charge for share based payments	–	–	–	–	0.2	0.2
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**(12.4)**	**(12.4)**
Balance at 31 December 2015	**7.3**	**79.3**	**–**	**–**	**48.6**	**135.2**
Total comprehensive income for the period						
Profit for 2016	–	–	–	–	129.8	129.8
Other comprehensive income, net of income tax						
Revaluation reserve	–	–	0.5	–	–	0.5
Available-for-sale reserve	–	–	–	(2.8)	–	(2.8)
Total other comprehensive income	**–**	**–**	**0.5**	**(2.8)**	**–**	**(2.3)**
Total comprehensive income for the period	**–**	**–**	**0.5**	**(2.8)**	**129.8**	**127.5**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares under a share option scheme	0.1	1.9	–	–	–	2.0
Dividends	–	–	–	–	(43.1)	(43.1)
Charge for share based payments	–	–	–	–	0.2	0.2
Total contributions by and distributions to owners	**0.1**	**1.9**	**–**	**–**	**(42.9)**	**(40.9)**
Balance at 31 December 2016	**7.4**	**81.2**	**0.5**	**(2.8)**	**135.5**	**221.8**

The notes on pages 107 to 160 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

	Note	Year ended 31 December 2016 £million	Year ended 31 December 2015 £million
Cash flows from operating activities – Continuing operations			
Profit for the year		18.7	19.3
Adjustments for:			
Income tax expense	7	6.3	5.5
Depreciation of property, plant and equipment	15	0.6	0.5
Loss on sale of property, plant and equipment		0.2	–
Amortisation of intangible assets	16	1.6	1.3
Impairment losses on loans and advances to customers		27.7	16.8
Share based compensation		0.2	0.2
Cash flows from operating profits before changes in operating assets and liabilities		55.3	43.6
Changes in operating assets and liabilities:			
– net (increase)/decrease in debt securities held-to-maturity		(16.2)	12.5
– net decrease in loans and advances to banks		–	15.0
– net increase in loans and advances to customers		(388.1)	(448.8)
– net decrease/(increase) in other assets		2.2	(2.6)
– net increase in amounts due to banks		35.0	19.1
– net increase in deposits from customers		118.7	424.7
– net increase /(decrease) in other liabilities		22.9	(6.0)
Income tax paid		(6.3)	(4.2)
Net cash (outflow)/inflow from operating activities – Continuing operations		**(176.5)**	**53.3**
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(2.5)	(1.1)
Purchase of computer software	16	(3.6)	(2.3)
Net cash outflow from investing activities – Continuing operations		**(6.1)**	**(3.4)**
Cash flows from financing activities			
Shares issued		2.0	–
Dividends paid		(43.1)	(12.6)
Net cash flows from financing activities – Continuing operations		**(41.1)**	**(12.6)**
Net (decrease)/increase in cash and cash equivalents – Continuing operations		(223.7)	37.3
Sale of subsidiary undertakings	37	209.9	–
Net increase in cash and cash equivalents – Discontinued operations		0.7	–
Cash and cash equivalents at 1 January		143.3	106.0
Cash and cash equivalents at 31 December	27	**130.2**	**143.3**

The notes on pages 107 to 160 are an integral part of these consolidated financial statements

Company statement of cash flows

	Note	Year ended 31 December 2016 £million	Year ended 31 December 2015 £million
Cash flows from operating activities			
Profit for the year		129.8	34.9
Adjustments for:			
Income tax expense		4.4	2.0
Depreciation of property, plant and equipment	15	0.4	0.3
Loss on sale of property, plant and equipment		0.2	–
Profit on sale of subsidiary undertakings		(120.5)	–
Amortisation of intangible assets	16	0.5	0.3
Impairment losses on loans and advances to customers		28.6	17.1
Share based compensation		0.2	0.2
Cash flows from operating profits before changes in operating assets and liabilities		43.6	54.8
Changes in operating assets and liabilities:			
– net (increase)/decrease in debt securities held-to-maturity		(16.2)	12.5
– net decrease in loans and advances to banks		–	15.0
– net increase in loans and advances to customers		(385.1)	(449.7)
– net decrease/(increase) in other assets		2.6	(29.8)
– net increase in amounts due to banks		33.6	20.5
– net increase in deposits from customers		118.7	424.7
– net increase in other liabilities		28.1	7.7
Income tax paid		(3.5)	(3.2)
Net cash (outflow)/inflow from operating activities		**(178.2)**	**52.5**
Cash flows from investing activities			
Sale of subsidiary undertakings	37	212.3	–
Purchase of property, plant and equipment	15	(2.0)	(0.8)
Purchase of computer software	16	(3.5)	(2.2)
Net cash inflow/(outflow) from investing activities		**206.8**	**(3.0)**
Cash flows from financing activities			
Issue of shares		2.0	–
Dividends paid		(43.1)	(12.6)
Net cash flows from financing activities		**(41.1)**	**(12.6)**
Net (decrease)/increase in cash and cash equivalents		(12.5)	36.9
Cash and cash equivalents at 1 January		141.0	104.1
Cash and cash equivalents at 31 December	27	**128.5**	**141.0**

The notes on pages 107 to 160 are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Reporting entity

Secure Trust Bank PLC is a company incorporated in the United Kingdom (referred to as 'the Company'). The Company is registered in England and Wales and has the registered number 00541132. The registered address of the Company is One Arleston Way, Solihull, West Midlands, B90 4LH. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise Secure Trust Bank PLC and its subsidiaries (together referred to as 'the Group' and individually as 'subsidiaries'). The Group is primarily involved in banking and financial services.

1.2 Basis of presentation

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted or early adopted by the Group and endorsed by the EU and the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared under the historical cost convention, as modified by the revaluation of equity instruments available-for-sale and land and buildings and financial instruments at fair value through profit or loss. The consolidated financial statements are presented in pounds sterling, which is the functional and presentational currency of the entities within the Group.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

The directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing accounts, as set out in the going concern and viability section of the Strategic Report starting on page 16.

The consolidated financial statements were authorised for issue by the Board of Directors on 22 March 2017.

The following International Financial Reporting Standards have been issued which are not yet effective and which have not been adopted early:

- IFRS 9 'Financial instruments' (effective for annual periods beginning after 1 January 2018). This is the International Accounting Standards Board's replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: 'amortised cost', 'fair value through other comprehensive income' and 'fair value through profit or loss' and eliminates the existing categories of 'held-to-maturity', 'available-for-sale' and 'loans and receivables'. Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model aligns the accounting treatment with risk management activities. Details of the Group's implementation of this standard is set out in Note 29.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning after 1 January 2018). This standard replaces a number of existing standards and interpretations and applies to contracts with customers, but does not apply to insurance contracts, financial instruments or lease contracts, which are in the scope of other IFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative relevant disclosures. It introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a principles-based five-step model to be applied to all contracts with customers. Following consideration of the Group's operating model, this standard is considered unlikely to have a material impact on the Group.

Notes to the consolidated financial statements
continued

1. Accounting policies *continued*

- IFRS 16 'Leases' (effective for annual periods beginning after 1 January 2019). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 'Leases', and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases, except short term and low value leases, are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. The effect of this standard is currently being assessed, but it is unlikely to be substantial. Lessor accounting remains unchanged from IAS 17.

IFRS9 and IFRS 15 have been endorsed by the EU in November 2016 and September 2016 respectively, however IFRS16 has not yet been endorsed by the EU.

1.3 Consolidation

Subsidiaries

Subsidiaries are all investees controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income.

The parent company's investments in subsidiaries are recorded at cost less, where appropriate, provision for impairment in value.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-current assets held-for-sale and discontinued operations

Subsidiaries are de-consolidated from the date that control ceases. Under IFRS 5, the Group classifies a non-current asset as held-for-sale if its carrying amount will be recovered mainly through selling the asset rather than through usage. The classification also applies to disposal groups, which are a group of assets and liabilities which an entity intends to dispose of in a single transaction.

The conditions for a non-current asset or disposal group to be classified as held-for-sale are as follows:

- the asset must be available for immediate sale in its present condition and its sale must be highly probable;
- the asset must be currently marketed actively at a price that is reasonable in relation to its current fair value;
- the sale should be completed, or expected to be so, within a year from the date of the classification; and
- the actions required to complete the planned sale will have been made, and it is unlikely that the plan will be significantly changed or withdrawn.

Discontinued operations are a component of an entity that either has been disposed of, or is classified as held-for-sale, and represents a major line of business and is part of a single co-ordinated disposal plan.

In 2015, discontinued operations were included in the income statement as a single amount, with further analysis in the notes to the accounts. In 2016, the income statement was restated to include discontinued operations on a line-by-line basis, rather than in the notes, as the directors consider that this presentation improves clarity.

1. Accounting policies *continued*

1.4 Interest income and expense

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.5 Net fee and commission income

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accruals basis when the service has been provided. Fees and commissions income consists principally of weekly and monthly fees from the OneBill and Current Account products along with associated insurance commissions and commissions earned on debt collection activities in DMS. Fee and commission expenses consist primarily of fees and commission relating to the Current Account product.

1.6 Financial assets and financial liabilities

The Group classifies its financial assets at fair value through profit or loss, loans and receivables, held-to-maturity or available-for-sale and classifies its financial liabilities as other financial liabilities. Management determines the classification of its investments at initial recognition. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(a) Financial assets at fair value through profit or loss

This category comprises derivative financial instruments which are utilised by the Group for hedging purposes. Financial assets at fair value through profit or loss are initially recognised on the date from which the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets held in this category are carried at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest method (see below).

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method.

(d) Available-for-sale

Available-for-sale investments are those not classified as another category of financial assets. These include investments in special purpose vehicles and equity investments in unquoted vehicles. They may be sold in response to liquidity requirements, interest rate, exchange rate or equity price movements. AFS investments are initially recognised at cost, which is considered as the fair value of the investment including any acquisition costs. AFS securities are subsequently measured at fair value in the Statement of Financial Position. Fair value changes on the AFS securities are recognised directly in equity (AFS reserve) until the investment is sold or impaired. Once sold or impaired, the cumulative gains or losses previously recognised in the AFS reserve are recycled to the profit or loss.

Notes to the consolidated financial statements continued

1. Accounting policies *continued*

(e) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments. Other financial liabilities are recognised when cash is received from the depositors. Other financial liabilities are carried at amortised cost using the effective interest method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the Statement of Financial Position date.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all of the risks and rewards of ownership. In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have only been partially derecognised. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market for a financial instrument is not active the Group establishes a fair value by using an appropriate valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

1.7 Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the Company's functional currency at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

1.8 Impairment of financial assets

Assets carried at amortised cost

On an ongoing basis the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence is the occurrence of a loss event, after the initial recognition of the asset, that impacts on the estimated future cash flows of the financial asset or group of financial assets, and can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Breach of financial covenants or contractual obligations;
- Cash flow difficulties experienced by the borrower; and
- Initiation of bankruptcy proceedings.

1. Accounting policies *continued*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The Group considers evidence of impairment for loans and advances at both an individual asset and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment the Group uses historical trends of the probability of default, emergence period, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be significantly different to historic trends.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Statement of Comprehensive Income.

Business finance

In assessing objective evidence of a loss event for business loans, the following factors are considered:

- If any contractual repayment date has been missed;
- Covenant breaches; and
- In Commercial Finance, a loan may be considered for potential impairment if the financial prospects of the borrower's customers deteriorates.

Consumer finance

For retail loans, cash flows are estimated based on past experience combined with the Group's view of the future considering the following factors:

- Our exposure to the customer;
- Based on the number of days in arrears at the Statement of Financial Position date, the likelihood that a loan will progress through the various stages of delinquency and ultimately be written off; and
- The amount and timing of expected receipts and recoveries.

Modification of loans

A customer's account may be modified to assist customers who are in or have recently overcome financial difficulties and have demonstrated both the ability and willingness to meet the current or modified loan contractual payments. Loans that have renegotiated or deferred terms, resulting in a substantial modification to the cash flows, are no longer considered to be past due but are treated as new loans recognised at fair value, provided the customers comply with the renegotiated or deferred terms.

Equity investments available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement.

A significant or prolonged decline in the fair value of an equity security is objective evidence of impairment. The Group regards a decline of more than 20 percent in fair value as 'significant' and a decline in the quoted market price that persists for nine months or longer as 'prolonged'.

Notes to the consolidated financial statements
continued

1. Accounting policies *continued*

1.9 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired at the date of acquisition. Goodwill is held at cost less accumulated impairment losses and is deemed to have an infinite life.

The Group reviews the goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. Impairment losses are recognised in the Statement of Comprehensive Income if the carrying amount exceeds the recoverable amounts.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which are between three to ten years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance.

(c) Other intangibles

The acquisition of subsidiaries is accounted for in accordance with IFRS 3 'Business Combinations', which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values. As part of this process, it is necessary to recognise certain intangible assets which are separately identifiable and which are not included on the acquiree's balance sheet.

Other intangible assets include trademarks, customer relationships, broker relationships and technology. The intangible assets recognised as part of the V12 Finance Group acquisition have been recorded at fair value and are being amortised over their expected useful lives, which are between five and ten years. The intangible assets recognised as part of ELG acquisition were also recognised at fair value, and were being amortised over a similar period, apart from broker relationships, which were being amortised over three years. The intangible asset relating to ELG was reclassified as an asset held-for-sale as at 31 December 2015, and was not amortised between the date that the conditional sale was agreed in December 2015 and its disposal in 2016.

1.10 Property, plant and equipment

Property is held at historic cost as modified by subsequent revaluations less depreciation. The Group has elected under IAS 16.31 to measure its property at fair value. Revaluations are kept up to date such that the carrying amount does not differ materially from its fair value as required by IAS 16.34. Revaluation of assets and any subsequent disposal are addressed through the revaluation reserve and any changes are transferred to retained earnings.

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which are subject to regular review:

Land	not depreciated
Freehold buildings	50 years
Leasehold improvements	shorter of life of lease or 7 years
Computer equipment	3 to 5 years
Other equipment	5 to 10 years

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Statement of Comprehensive Income.

1. Accounting policies *continued*

1.11 Leases

(a) As a lessor

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(b) As a lessee

Rentals made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

1.12 Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and demand deposits, and cash equivalents comprise highly liquid investments which are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including certain loans and advances to banks and short-term highly liquid debt securities.

1.13 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs. Any amounts received over nominal value are recorded in the share premium account, net of direct issuance costs.

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments. Costs associated with the listing of shares are expensed immediately.

1.14 Employee benefits

(a) Post-retirement obligations

The Group contributes to defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. There are no post-retirement benefits other than pensions.

(b) Share-based compensation

The fair value of equity settled share-based payment awards are calculated at grant date and recognised over the period in which the employees become unconditionally entitled to the awards (the vesting period). The amount is recognised as personnel expenses in the income statement, with a corresponding increase in equity. The Group adopts a Black-Scholes valuation model in calculating the fair value of the share options as adjusted for an attrition rate of members of the scheme and a probability of pay-out reflecting the risk of not meeting the terms of the scheme over the vesting period. The number of share options that are expected to vest are reviewed at least annually.

The fair value of cash settled share-based payments is recognised as personnel expenses in the profit or loss with a corresponding increase in liabilities over the vesting period. The liability is remeasured at each reporting date and at settlement date based on the fair value of the options granted, with a corresponding adjustment to personnel expenses.

When share-based payments are changed from cash settled to equity settled and there is no change in the fair value of the replacement award, it is seen as a modification to the terms and conditions on which the equity instruments were granted and is not seen as the settlement and replacement of the instruments. Accordingly, the liability in the Statement of Financial Position is reclassified to equity and the prospective charge to the profit or loss from the modification reflects the spreading of the initial grant date fair value of the award over the remaining vesting period in line with the policy on equity settled awards.

Notes to the consolidated financial statements continued

1. Accounting policies *continued*

1.15 Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1.16 Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved.

1.17 Significant items

Items which are material by both size and nature (i.e. outside of the normal operating activities of the Group) are treated as significant items and disclosed separately on the face of the Statement of Comprehensive Income. The separate reporting of these items helps to provide an indication of the Group's underlying business performance.

1.18 Funding for Lending Scheme

Under the applicable International Accounting Standard, IAS 39, if a security is lent under an agreement to return it to the transferor, as is the case for eligible securities lent by institutions to the Bank of England under the Funding for Lending Scheme, then the security is not derecognised because the transferor retains all the risks and rewards of ownership. The UK Treasury Bills borrowed from the Bank of England under the Funding for Lending Scheme are not recognised on the Statement of Financial Position of the institution until such time as they are subject to a repurchase agreement with a third party, as they will not meet the criteria for derecognition by the Bank of England. When the UK Treasury Bills are pledged as part of a sale and repurchase agreement with a third party, amounts borrowed from the third party are recognised in the Statement of Financial Position.

2. Critical judgements and estimates

The Group makes certain judgements and estimates which affect the reported amounts of assets and liabilities. Critical judgements and the assumptions used in calculating estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.1. Impairment losses on loans and advances to customers

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.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be significantly different to historic trends.

Consumer finance

The Group reviews its Consumer loan portfolios to assess impairment at least on a half-yearly basis. The basis for evaluating impairment losses is described in accounting policy 1.8. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from financial assets, or a group of financial assets.

2. Critical judgements and estimates *continued*

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Loans and advances are identified as impaired by taking account of the age of the debt's delinquency and the product type. The impairment provision is calculated by applying a percentage rate to the balance of different ages and categories of impaired debt. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and recent actual loss experience.

The key judgements made in calculating the Consumer individual provisions are the probability of default rates and the loss given default. Uplifting the probability of default rates and loss given default used by 10% would result in an estimated increase in the Consumer individual provisions as follows:

	10% increase in probability of default rates £million	10% increase in loss given default £million
Personal Lending	0.2	0.3
Motor Finance	0.3	1.6
Retail Finance	0.1	0.4
	0.6	**2.3**

Of the £1.6 million sensitivity to loss given default in Motor Finance above, an estimated £0.8 million relates to the expected loss on the sale of repossessed vehicles.

The sensitivities to loss given default rates above are also impacted by the estimates of cash collection made by DMS. A 10% increase in the estimated cash collected would reduce Consumer individual provisions by £0.3 million.

The collective provision for the consumer portfolio assumes an emergence period of 2 months for the Motor and Personal Loan portfolios and 1 month for the Retail portfolio. Increasing this assumption by 1 month would result in an estimated increase in the collective impairment allowance as follows:

	1 month increase in emergence period £million
Personal Lending	0.5
Motor Finance	0.8
Retail Finance	0.9
	2.2

Business Finance

Within the Real Estate Finance and Asset Finance businesses, accounts which are impaired are assessed against the discounted cash flows expected to arise in order to identify any impairment provisions. Collective provisions are assessed only to the extent that there is sufficient data to justify an inherent level of losses within the current portfolios.

For specific Invoice Finance clients assessment is made as to the collectability of outstanding invoices in relation to the amounts lent against them. If there is a deficit against outstanding invoices then other security is considered in terms of value and collectability. If there is an overall shortfall then the unsecured amount is assessed as to whether a provision is required. For collective provisions a view of the overall level of non-collectability in the portfolio is taken. The level of provision required is under review as the product is yet to mature, and therefore data is developing, so we have estimated a level appropriate based on other data available in the industry.

Notes to the consolidated financial statements
continued

2. Critical judgements and estimates *continued*

The Business Finance portfolio is largely assessed on an individual basis with minimal losses experienced to date. The decision on whether or not an impairment trigger has occurred for Real Estate Finance loans is made based on the Group's knowledge of the counterparty and assessment of their ability to repay their loan balance. The Real Estate Finance portfolio is exposed to deteriorations in property prices, in the event of borrower default. However, given the low loan to value ratios of loans held within the portfolio, this exposure is not considered significant.

The collective provision for the Asset Finance portfolio assumes an emergence period of 3 months. The collective provision for the Commercial Finance and Real Estate Finance portfolios are based on peer group experience of comparable groups of financial assets and determined as 0.15% and 0.1% of gross balances net of specific provisions respectively.

2.2 Acquisition accounting

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.

2.3 Share Option Scheme valuations

The valuation of the equity settled Share Option Scheme was determined at the original grant date of 2 November 2011 using Black-Scholes valuation models. The final options under this scheme vested on 2 November 2016 and consequently there will be no further change to the valuation of the remaining outstanding options.

The valuation of the cash settled Share Option Scheme was determined at 31 December 2016 using Black-Scholes valuation models.

The most significant judgement relates to share price volatility. See Note 26 for further details.

2.4 Average life of lending

IAS 39 requires interest earned from lending to be measured under the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of these estimates would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions. The Group also needs to identify which cash flows relating to each instrument should be subject to the effective interest rate method.

A one month increase in the assumed behavioural life would change the income received in the year as follows:

	£million
Personal Lending	–
Motor Finance	0.1
Retail Finance	(0.6)
	(0.5)

3. Operating segments

The Group is organised into six main operating segments, which consist of the different products available, disclosed below:

Business finance

1) Real Estate Finance: residential and commercial investment and development loans secured by UK real estate.
2) Asset Finance: loans to small and medium sized enterprises to acquire commercial assets.
3) Commercial Finance: invoice discounting and invoice factoring.

Consumer finance

4) Personal Lending: Unsecured consumer loans sold to customers via broker aggregators and business partners.
5) Motor Finance: Hire purchase agreements secured against the vehicle being financed.
6) Retail Finance: Point of sale unsecured finance for in-store and online retailers.

Other

Other includes Current Account, OneBill, STB Leasing Limited, debt collection and a £30 million loan to NSF as part of their purchase of ELG.

Management review these segments by looking at the income, size and growth rate of the loan books, impairments and customer numbers. Except for these items no costs or balance sheet items are allocated to the segments.

	Interest receivable and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment losses on loans and advances to customers £million	Loans and advances to customers £million
Year ended 31 December 2016					
Business finance					
Real Estate Finance	28.3	0.1	**28.4**	0.1	**451.0**
Asset Finance	7.8	–	**7.8**	0.6	**117.2**
Commercial Finance	1.5	3.1	**4.6**	0.2	**62.8**
Consumer finance					
Personal Lending	11.2	–	**11.2**	4.4	**65.5**
Motor Finance	39.6	0.9	**40.5**	14.6	**236.2**
Retail Finance	34.3	2.4	**36.7**	9.5	**325.9**
Other	7.3	9.8	**17.1**	(1.7)	**62.4**
Continuing operations	130.0	16.3	**146.3**	27.7	**1,321.0**
Discontinued operations and assets held-for-sale					
Personal Lending	11.1	0.1	**11.2**	2.6	**–**
	141.1	**16.4**	**157.5**	**30.3**	**1,321.0**

Notes to the consolidated financial statements continued

3. Operating segments

	Interest receivable and similar income £million	Fee and commission income £million	Revenue from external customers £million	Net impairment losses on loans and advances to customers £million	Loans and advances to customers £million
Year ended 31 December 2015					
Business finance					
Real Estate Finance	20.2	0.1	**20.3**	–	**368.0**
Asset Finance	2.4	–	**2.4**	–	**70.7**
Commercial Finance	0.4	1.2	**1.6**	0.3	**29.3**
Consumer finance					
Personal Lending	17.2	–	**17.2**	4.8	**74.3**
Motor Finance	33.2	0.1	**33.3**	7.3	**165.7**
Retail Finance	22.5	1.7	**24.2**	5.2	**220.4**
Other	4.6	13.8	**18.4**	(0.8)	**32.2**
Continuing operations	100.5	16.9	**117.4**	16.8	**960.6**
Discontinued operations and assets held-for-sale					
Personal Lending	39.2	1.5	**40.7**	7.5	**114.3**
	139.7	**18.4**	**158.1**	**24.3**	**1,074.9**

The 'other' segment above includes other products which are individually below the quantitative threshold for separate disclosure and fulfils the requirement of IFRS 8.28 by reconciling operating segments to the amounts reported in the financial statements.

As interest, fees, commission and operating expenses are not aligned to operating segments for day to day management of the business and cannot be allocated on a reliable basis, profit by operating segment has not been disclosed.

All of the Group's operations are conducted wholly within the United Kingdom and geographical information is therefore not presented.

4. Net interest income

	2016 £million	2015 £million
Cash and balances at central banks	0.6	0.7
Loans and advances to banks	–	0.2
Loans and advances to customers	129.4	99.6
Interest receivable and similar income	**130.0**	**100.5**
Deposits from customers	(26.3)	(21.6)
Interest expense and similar charges	**(26.3)**	**(21.6)**
Net interest income	**103.7**	**78.9**

Net interest income shown above excludes £11.1 million (2015: £39.2 million) of interest on loans and advances to customers in respect of discontinued operations, as shown in the Consolidated Statement of Comprehensive Income set out on page 100.

5. Operating expenses

	Continuing 2016 £million	Discontinued 2016 £million	Total 2016 £million	Continuing 2015 £million	Discontinued 2015 £million	Total 2015 £million
Staff costs, including those of directors:						
Wages and salaries	32.0	3.0	35.0	24.7	10.0	34.7
Social security costs	3.1	0.3	3.4	2.6	1.1	3.7
Pension costs	0.9	0.2	1.1	0.7	0.6	1.3
Share based payment transactions	(0.5)	–	(0.5)	1.4	–	1.4
Depreciation of property, plant and equipment (Note 15)	0.6	–	0.6	0.5	0.1	0.6
Amortisation of intangible assets (Note 16)	1.6	–	1.6	1.4	0.9	2.3
Operating lease rentals	1.6	0.3	1.9	1.2	0.8	2.0
Other administrative expenses	26.2	2.2	28.4	18.0	7.7	25.7
Total operating expenses	**65.5**	**6.0**	**71.5**	**50.5**	**21.2**	**71.7**

Remuneration of the auditor and its associates, excluding VAT, was as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	149	190
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	63	122
Audit related assurance services	13	21
Other assurance services	521	–
Tax advisory services	–	49
All other non-audit services	15	146
	761	**528**

All other non-audit services incurred during 2016 related to reporting accountant work on the Main Market listing.

6. Average number of employees

	2016 Number	2015 Number
Directors	6	7
Management	101	78
Administration	590	621
	697	**706**

The above figures include employees of ELG for the period of ownership by the Group.

Notes to the consolidated financial statements
continued

7. Income tax expense

	Continuing operations 2016 £million	Discontinued operations 2016 £million	Total 2016 £million	Continuing operations 2015 £million	Discontinued operations 2015 £million	Total 2015 £million
Current taxation						
Corporation tax charge – current year	4.2	0.6	4.8	5.4	2.5	7.9
Corporation tax charge – adjustments in respect of prior years	1.8	–	1.8	0.6	(1.0)	(0.4)
	6.0	**0.6**	**6.6**	**6.0**	**1.5**	**7.5**
Deferred taxation						
Deferred tax charge – current year	–	(0.1)	(0.1)	(0.5)	(0.1)	(0.6)
Deferred tax charge – adjustments in respect of prior years	0.3	–	0.3	–	0.9	0.9
	0.3	**(0.1)**	**0.2**	**(0.5)**	**0.8**	**0.3**
Income tax expense	**6.3**	**0.5**	**6.8**	**5.5**	**2.3**	**7.8**
Tax reconciliation						
Profit before tax	25.0	2.5	27.5	24.8	11.7	36.5
Tax at 20.0% (2015: 20.25%)	5.0	0.5	5.5	5.0	2.4	7.4
Permanent differences	(0.8)	–	(0.8)	(0.3)	–	(0.3)
Prior period adjustments	2.1	–	2.1	0.8	(0.1)	0.7
Income tax expense for the year	**6.3**	**0.5**	**6.8**	**5.5**	**2.3**	**7.8**

The current taxation adjustment in respect of prior years primarily relates to non-deductible expenditure.

On 2 July 2013 the Government substantively enacted a reduction in the main rate of UK corporation tax from 23% to 21% with effect from 1 April 2014 and then from 21% to 20% with effect from 1 April 2015. Further reductions to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) have also been substantively enacted. This will reduce the Company's future current tax charge accordingly.

8. Earnings per ordinary share

Basic

Basic earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares as follows:

	2016	2015
Profit attributable to equity holders of the parent (£ millions)		
Continuing operations	18.7	19.3
Discontinued operations	118.8	9.4
	137.5	**28.7**
Weighted average number of ordinary shares (number)	**18,234,588**	**18,191,894**

Diluted

Diluted earnings per ordinary share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year, as noted above, as well as the number of dilutive share options in issue during the year, as follows:

	2016	2015
Weighted average number of ordinary shares	18,234,588	18,191,894
Number of dilutive shares in issue at the year end	130,200	352,147
Fully diluted weighted average number of ordinary shares	**18,364,788**	**18,544,041**
Dilutive shares being based on:		
Number of options outstanding at the year end	177,084	460,419
Exercise price (pence)	720	720
Average share price during the period (pence)	2,720	3,062

9. Loans and advances to banks

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Placements with banks included in cash and cash equivalents (Note 27)	**18.2**	**9.8**	**16.5**	**9.2**

Included within loans and advances to banks are amounts placed with Arbuthnot Latham & Co., Limited, a related company prior to the sale of its controlling stake in the Group, of £5.0 million (31 December 2015: £5.3 million).

Moody's long-term ratings are as follows:

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
A1	4.6	0.1	4.6	0.1
A2	–	(1.4)	–	–
A3	8.6	5.8	6.9	3.8
Arbuthnot Latham & Co., Limited – No rating	5.0	5.3	5.0	5.3
	18.2	**9.8**	**16.5**	**9.2**

The £1.4 million negative balance in the Group 2015 figures above represented an overdraft attributable to continuing operations. When amounts included in loans and advances to banks attributable to discontinued operations are taken into account, the overall balance is in credit.

None of the loans and advances to banks are either past due or impaired.

Notes to the consolidated financial statements
continued

10. Loans and advances to customers

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Gross loans and advances	1,381.5	994.9	1,316.9	953.3
Less: allowances for impairment on loans and advances (Note 12)	(60.5)	(34.3)	(27.7)	(20.6)
	1,321.0	**960.6**	**1,289.2**	**932.7**

The fair value of loans and advances to customers is shown in Note 34. For a maturity profile of loans and advances to customers, refer to Note 30.

Group and Company

At 31 December 2016 loans and advances to customers of £180.6 million were pre-positioned under the Bank of England's Funding for Lending Scheme and were available for use as collateral within the scheme (2015: £56.4 million).

At 31 December 2016, £86.0 million of UK Treasury Bills were drawn under the Funding for Lending Scheme (2015: £36.0 million). During the period, these Treasury Bills were pledged as part of a sale and repurchase agreement with an original maturity period of six months (2015: six months). Monies arising as a result are disclosed in Note 20.

£0.2 million (2015: £0.2 million) is a standard mortgage loan, with a loan to value ratio of 64% (2015: 72%), secured upon residential property, and is neither past due nor impaired.

£451.0 million (2015: £368.0 million) of the loans are secured upon residential or commercial property and these are neither past due nor impaired. All portfolios of loans secured are at an initial loan to value ratio of less than 80%. All property valuations at loan inception, and the majority of development stage valuations, are performed by independent Chartered Surveyors, who perform their work in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards.

£236.2 million (2015: £165.7 million) of the loans are secured against motor vehicles where the security is discharged when the buyer exercises an option to buy the goods at a predetermined price at the end of the loan term. Management's estimate of the fair value of the motor vehicles was £173.4 million (2015: £127.1 million), giving a loan to value ratio of 136.2% (2015: 130.4%).

Group

£2.9 million (2015: £3.7 million) of collateral is held from RentSmart, against loans of £18.7 million (2015: £23.5 million). This collateral is included in trade payables at 31 December 2016. This is based upon the balance of customer receivables and expected new agreements during the following month.

11. Finance lease receivables

Loans and advances to customers include finance lease receivables as follows:

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Gross investment in finance lease receivables:				
– No later than 1 year	163.5	121.4	151.7	103.9
– Later than 1 year and no later than 5 years	347.0	244.0	338.9	232.3
– Later than 5 years	1.5	0.9	1.5	0.9
	512.0	366.3	492.1	337.1
Unearned future finance income on finance leases	(151.2)	(109.0)	(146.2)	(103.3)
Net investment in finance leases	**360.8**	**257.3**	**345.9**	**233.8**
The net investment in finance leases may be analysed as follows:				
– No later than 1 year	98.0	73.3	89.9	60.3
– Later than 1 year and no later than 5 years	261.5	183.2	254.7	172.7
– Later than 5 years	1.3	0.8	1.3	0.8
	360.8	**257.3**	**345.9**	**233.8**

12. Allowances for impairment of loans and advances

Group

	Individual provision £million	Collective provision £million	Total £million	Provision cover %
Year ended 31 December 2016				
Business finance				
Real Estate Finance	–	0.5	0.5	0.1%
Asset Finance	0.4	0.1	0.5	0.4%
Commercial Finance	0.4	0.1	0.5	0.8%
Consumer finance				
Personal Lending	3.5	0.7	4.2	6.0%
Motor Finance	10.6	3.0	13.6	5.4%
Retail Finance	4.0	0.9	4.9	1.5%
Other	36.3	–	36.3	36.8%
	55.2	**5.3**	**60.5**	**4.4%**

Notes to the consolidated financial statements continued

12. Allowances for impairment of loans and advances *continued*

	Individual provision £million	Collective provision £million	Total £million	Provision cover %
Year ended 31 December 2015				
Business finance				
Real Estate Finance	–	–	–	–
Asset Finance	–	–	–	–
Commercial Finance	0.3	–	0.3	1.0%
Consumer finance				
Personal Lending	5.2	0.7	5.9	7.4%
Motor Finance	7.2	0.7	7.9	4.6%
Retail Finance	2.2	0.5	2.7	1.2%
Other	17.4	0.1	17.5	35.2%
	32.3	**2.0**	**34.3**	**3.4%**

Provisions included in 'Other' are in respect of DMS and various legacy products. This segment also includes loans of £18.7 million (2015: £23.5 million) held in STB Leasing Limited. The credit risk associated with those loans is retained by its partner, RentSmart. Accordingly, no provision is held against the RentSmart loans.

The Group net impairment losses disclosed in the Consolidated Statement of Comprehensive Income can be analysed as follows:

	Continuing 2016 £million	Continuing 2015 £million	Discontinued 2015 £million	Total 2015 £million
Individual provision: charge for impairment losses	25.1	16.6	7.7	24.3
Collective provision: charge for impairment losses	3.3	0.9	0.2	1.1
Loans written off, net of amounts utilised	1.2	0.3	0.7	1.0
Recoveries of loans written off	(1.9)	(1.0)	(1.1)	(2.1)
	27.7	**16.8**	**7.5**	**24.3**

A reconciliation of the allowance accounts for losses on loans and advances is as follows:

	2016 £million	2015 £million
Individual specific allowances for impairment		
At 1 January	32.3	32.1
Charge for impairment losses	25.1	24.3
Amounts utilised	(10.7)	(9.5)
Changes to presentation in respect of debt sales	8.5	(9.9)
Transfer to assets held-for-sale	–	(4.7)
At 31 December	**55.2**	**32.3**
Collective allowances for impairment		
At 1 January	2.0	2.0
Charge for impairment losses	3.3	1.1
Transfer to assets held-for-sale	–	(1.1)
At 31 December	**5.3**	**2.0**
Total allowances for impairment	**60.5**	**34.3**

12. Allowances for impairment of loans and advances *continued*

Loans and advances to customers can be further summarised as follows:

	2016 £million	2016 %	2015 £million	2015 %
Neither past due nor impaired	1,246.2	90.3%	939.1	94.4%
Not past due but impaired	0.6	0.0%	–	0.0%
Past due but not impaired	12.4	0.9%	–	0.0%
Past due up to 90 days and impaired	59.7	4.3%	24.8	2.5%
Past due after 90 days and impaired	62.6	4.5%	31.0	3.1%
Gross	1,381.5	100.0%	994.9	100.0%
Less: allowance for impairment	(60.5)		(34.3)	
Net	**1,321.0**		**960.6**	

Gross amounts of loans and advances to customers that were past due up to 90 days and impaired were as follows:

	2016 £million	2015 £million
Past due up to 30 days	44.3	16.5
Past due 30 – 60 days	9.8	5.5
Past due 60 – 90 days	5.6	2.8
Total	**59.7**	**24.8**

Gross amounts of loans and advances to customers that were past due but not impaired were as follows:

	2016 £million	2015 £million
Past due up to 30 days	4.6	–
Past due 30 – 60 days	7.8	–
Total	**12.4**	**–**

Company

	Individual provision £million	Collective provision £million	Total £million	Provision cover %
Year ended 31 December 2016				
Business finance				
Real Estate Finance	–	0.5	0.5	0.1%
Asset Finance	0.4	0.1	0.5	0.4%
Commercial Finance	0.4	0.1	0.5	0.8%
Consumer finance				
Personal Lending	3.5	0.7	4.2	6.0%
Motor Finance	10.6	1.6	12.2	4.9%
Retail Finance	4.0	0.9	4.9	1.5%
Other	3.5	1.4	4.9	13.4%
	22.4	**5.3**	**27.7**	**2.1%**

Notes to the consolidated financial statements continued

12. Allowances for impairment of loans and advances *continued*

	Individual provision £million	Collective provision £million	Total £million	Provision cover %
Year ended 31 December 2015				
Business finance				
Real Estate Finance	–	–	–	–
Asset Finance	–	–	–	–
Commercial Finance	0.3	–	0.3	1.0%
Consumer finance				
Personal Lending	5.2	0.7	5.9	7.4%
Motor Finance	7.2	0.7	7.9	4.6%
Retail Finance	2.2	0.5	2.7	1.2%
Other	3.6	0.2	3.8	10.6%
	18.5	**2.1**	**20.6**	**2.2%**

The Company net impairment losses included in the Company Statement of Comprehensive Income can be analysed as follows:

	2016 £million	2015 £million
Individual provision: Charge for impairment losses	25.8	16.5
Collective provision: Charge for impairment losses	3.2	1.0
Loans written off, net of amounts utilised	0.9	0.2
Recoveries of loans written off	(0.3)	–
Profit on sale of debt	(1.0)	–
	28.6	**17.7**

A reconciliation of the allowance accounts for losses on loans and advances is as follows:

	2016 £million	2015 £million
Individual allowances for impairment		
At 1 January	18.5	16.9
Charge for impairment losses	25.8	16.5
Utilised	(8.5)	(2.8)
Release of allowance for impairment on the sale of debt	(13.4)	(12.1)
At 31 December	**22.4**	**18.5**
Collective allowances for impairment		
At 1 January	2.1	1.1
Charge for impairment losses	3.2	1.0
At 31 December	**5.3**	**2.1**
Total allowances for impairment	**27.7**	**20.6**

12. Allowances for impairment of loans and advances *continued*

Loans and advances to customers can be further summarised as follows:

	2016 £million	2016 %	2015 £million	2015 %
Neither past due nor impaired	1,227.9	93.3%	916.0	96.1%
Not past due but impaired	0.6	0.0%	–	0.0%
Past due but not impaired	12.4	0.9%	–	0.0%
Past due up to 90 days and impaired	59.4	4.5%	24.5	2.6%
Past due after 90 days and impaired	16.6	1.3%	12.8	1.3%
Gross	1,316.9	100.0%	953.3	100.0%
Less: allowance for impairment	(27.7)		(20.6)	
Net	**1,289.2**		**932.7**	

Gross amounts of loans and advances to customers that were past due up to 90 days and impaired were as follows:

	2016 £million	2015 £million
Past due up to 30 days	44.1	16.3
Past due 30 – 60 days	9.7	5.5
Past due 60 – 90 days	5.6	2.7
Total	**59.4**	**24.5**

Gross amounts of loans and advances to customers that were past due but not impaired were as follows:

	2016 £million	2015 £million
Past due up to 30 days	4.6	–
Past due 30 – 60 days	7.8	–
Total	**12.4**	**–**

The impairment provision calculation is based on the individual past-due status of each loan.

Group and Company

Interest income on loans classified as impaired totalled £6.4 million (2015: £6.0 million).

13. Debt securities held-to-maturity

Debt securities of £20.0 million (31 December 2015: £3.8 million) represent UK Treasury Bills. The Company's intention is to hold them to maturity and, therefore, they are stated in the Statement of Financial Position at amortised cost.

All of the debt securities held-to-maturity had a rating agency designation at 31 December 2016, based on Moody's long-term ratings of Aa1. None of the debt securities held-to-maturity are either past due or impaired.

Notes to the consolidated financial statements
continued

14. Equity instruments available-for-sale

On 13 April 2016, as part of the sale of ELG to NSF, the Group acquired 23,529,412 shares in NSF Plc at a cost of 69.25 pence per share. At 31 December 2016, these shares had a value of 57.5 pence per share. This equity instrument is considered to be available-for-sale, and therefore fair value changes on the Available-For-Sale securities are recognised directly in other comprehensive income and equity (AFS reserve) until the investment is sold or impaired. The fall in value is not considered to be significant or prolonged, and also given current market volatility, the directors do not consider this investment to be impaired. Accordingly, this reduction in value at 31 December 2016 of £2.8 million is recognised in the AFS reserve. A deferred tax asset has not been recognised on this amount.

15. Property, plant and equipment

Group	Freehold land and buildings £million	Leasehold improvements £million	Computer and other equipment £million	Total £million
Cost or valuation				
At 1 January 2015	7.1	0.4	9.3	16.8
Additions	–	0.2	1.2	1.4
Transfer to assets held-for-sale	–	(0.6)	(0.4)	(1.0)
At 31 December 2015	**7.1**	**–**	**10.1**	**17.2**
Additions	1.4	–	1.1	2.5
Disposals	–	–	(0.3)	(0.3)
Revaluation	0.5	–	–	0.5
At 31 December 2016	**9.0**	**–**	**10.9**	**19.9**
Accumulated depreciation				
At 1 January 2015	(0.5)	(0.3)	(7.9)	(8.7)
Depreciation charge	(0.1)	(0.1)	(0.4)	(0.6)
Transfer to assets held-for-sale	–	0.4	0.2	0.6
At 31 December 2015	**(0.6)**	**–**	**(8.1)**	**(8.7)**
Depreciation charge	(0.1)	–	(0.5)	(0.6)
Disposals	–	–	0.1	0.1
Revaluation	0.7	–	–	0.7
At 31 December 2016	**–**	**–**	**(8.5)**	**(8.5)**
Net book amount				
At 31 December 2015	**6.5**	**–**	**2.0**	**8.5**
At 31 December 2016	**9.0**	**–**	**2.4**	**11.4**

15. Property, plant and equipment *continued*

Company	Freehold property £million	Computer and other equipment £million	Total £million
Cost			
At 1 January 2015	2.7	8.7	11.4
Additions	–	0.8	0.8
At 31 December 2015	**2.7**	**9.5**	**12.2**
Additions	1.4	0.6	2.0
Disposals	–	(0.3)	(0.3)
Revaluation	0.5	–	0.5
At 31 December 2016	**4.6**	**9.8**	**14.4**
Accumulated depreciation			
At 1 January 2015	–	(7.7)	(7.7)
Depreciation charge	–	(0.3)	(0.3)
At 31 December 2015	**–**	**(8.0)**	**(8.0)**
Depreciation charge	(0.1)	(0.3)	(0.4)
Disposals	–	0.1	0.1
Revaluation	0.1	–	0.1
At 31 December 2016	**–**	**(8.2)**	**(8.2)**
Net book amount			
At 31 December 2015	**2.7**	**1.5**	**4.2**
At 31 December 2016	**4.6**	**1.6**	**6.2**

The Group's freehold properties are the Registered Office of the Company, which is fully utilised for the Group's own purposes, and Secure Trust House, Boston Drive, Bourne End, SL8 5YS, the majority of which up to the sale of ELG, was also used for the Group's own purposes. Since the sale, it is only partially used for the Group's own purposes. In addition, during the year the Group purchased 25 and 26 Neptune Court, Vanguard Way, Cardiff, CF24 5PJ for £1.4 million, the majority of which is used for the Group's own purposes.

The directors have assessed the value of the Group's freehold property at the year end through comparison to current rental yields on similar properties in the same area and an increase in the fair value of freehold property has been recognised and its carrying value has been adjusted accordingly. Changes in the fair value of freehold property are recognized in other comprehensive income, to the extent that any reductions do not exceed the initial increase.

The carrying value of freehold land which is included in the total carrying value of freehold land and buildings and which is not depreciated is £1.9 million (2015: £1.7 million).

The historical cost of freehold property included at valuation is as follows:

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Cost	7.9	6.5	4.1	2.7
Accumulated depreciation	(1.4)	(1.3)	(0.1)	(0.1)
	6.5	**5.2**	**4.0**	**2.6**

Notes to the consolidated financial statements
continued

16. Intangible assets

Group	Goodwill £million	Computer software £million	Other intangible assets £million	Total £million
Cost or valuation				
At 1 January 2015	1.0	7.3	7.3	15.6
Additions	–	2.3	–	2.3
Transfer to assets held-for-sale	–	(0.3)	(5.1)	(5.4)
At 31 December 2015	**1.0**	**9.3**	**2.2**	**12.5**
Additions	–	3.6	–	3.6
At 31 December 2016	**1.0**	**12.9**	**2.2**	**16.1**
Accumulated amortisation				
At 1 January 2015	–	(3.8)	(3.6)	(7.4)
Amortisation charge	–	(1.2)	(1.1)	(2.3)
Transfer to assets held-for-sale	–	0.2	4.0	4.2
At 31 December 2015	**–**	**(4.8)**	**(0.7)**	**(5.5)**
Amortisation charge	–	(1.3)	(0.3)	(1.6)
At 31 December 2016	**–**	**(6.1)**	**(1.0)**	**(7.1)**
Net book amount				
At 31 December 2015	**1.0**	**4.5**	**1.5**	**7.0**
At 31 December 2016	**1.0**	**6.8**	**1.2**	**9.0**

Goodwill above relates to the following cash generating units, which are part of the Retail Finance operating segment:

	2016 £million	2015 £million
Music business	0.3	0.3
V12	0.7	0.7
Total	**1.0**	**1.0**

16. Intangible assets *continued*

Company	Goodwill £million	Computer software £million	Total £million
Cost or valuation			
At 1 January 2015	0.3	3.3	3.6
Additions	–	2.2	2.2
At 31 December 2015	**0.3**	**5.5**	**5.8**
Additions	–	3.5	3.5
At 31 December 2016	**0.3**	**9.0**	**9.3**
Accumulated amortisation			
At 1 January 2015	–	(2.3)	(2.3)
Amortisation charge	–	(0.3)	(0.3)
At 31 December 2015	**–**	**(2.6)**	**(2.6)**
Amortisation charge	–	(0.5)	(0.5)
At 31 December 2016	**–**	**(3.1)**	**(3.1)**
Net book amount			
At 31 December 2015	**0.3**	**2.9**	**3.2**
At 31 December 2016	**0.3**	**5.9**	**6.2**

Goodwill above relates to the music business cash generating unit, which is part of the Retail Finance operating segment.

The recoverable amount of these cash generating units are determined on a value in use calculation which uses cash flow projections based on financial forecasts covering a three year period, and a discount rate of 8%. Cash flow projections during the forecast period are based on the expected rate of new business. A zero growth based scenario is also considered. The directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Notes to the consolidated financial statements
continued

17. Investments

Company	Shares at cost £million	Impairment provisions £million	Net investments £million
At 31 December 2015, 1 January 2016 and 31 December 2016	3.7	–	3.7

Shares in subsidiary undertakings of Secure Trust Bank PLC at 31 December 2016 are stated at cost less any provision for impairment. All subsidiary undertakings are unlisted and none are banking institutions. The subsidiary undertakings were all incorporated in the UK and wholly owned via ordinary shares. All subsidiary undertakings are included in the consolidated financial statements and have an accounting reference date of 31 December.

Details are as follows:

	Principal activity
Owned directly	
Debt Managers (Services) Limited	Debt collection company
Secure Homes Services Limited	Property rental
STB Leasing Limited	Leasing
V12 Finance Group Limited	Holding company
Owned indirectly via intermediate holding companies	
V12 Personal Finance Limited	Dormant
V12 Retail Finance Limited	Sourcing and servicing of unsecured loans

The registered office of the Company, and all subsidiary undertakings, is One Arleston Way, Shirley, Solihull, West Midlands, B90 4LH.

The following subsidiaries were sold to NSF on 13 April 2016, and were included in assets held-for-sale at 31 December 2015:

	Principal activity
Owned directly	
Everyday Loans Holdings Limited	Holding company
Owned indirectly via intermediate holding companies	
Everyday Loans Limited	Sourcing and servicing of unsecured and secured loans
Everyday Lending Limited	Provider of unsecured and secured loans

18. Deferred taxation

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Deferred tax liabilities:				
Unrealised surplus on revaluation of freehold property	(0.2)	(0.2)	–	–
Other short term timing differences	–	0.2	–	–
Deferred tax liabilities	**(0.2)**	**–**	**–**	**–**
Deferred tax assets:				
Other short term timing differences	–	0.3	0.1	0.6
Deferred tax assets	**–**	**0.3**	**0.1**	**0.6**
Deferred tax liabilities:				
At 1 January	–	–	–	–
Income statement	–	–	–	–
Other comprehensive income	(0.2)	–	–	–
At 31 December	**(0.2)**	**–**	**–**	**–**
Deferred tax assets:				
At 1 January	0.3	1.0	0.6	0.3
Income statement	(0.3)	(0.3)	(0.4)	0.3
Other comprehensive income	–	–	(0.1)	–
Transferred to assets held-for-sale	–	(0.4)	–	–
At 31 December	**–**	**0.3**	**0.1**	**0.6**

On 2 July 2013 the Government substantively enacted a reduction in the main rate of UK corporation tax from 21% to 20% with effect from 1 April 2015, and on 26 October 2015 substantively enacted further reductions in the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020. This will reduce the Group's future current tax charge accordingly. Deferred tax has been calculated based on the enacted rates to the extent that the related temporary or timing differences are expected to reverse in the future periods.

19. Other assets

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Trade receivables	0.7	1.5	0.6	1.4
Amounts due from related companies	–	1.3	31.2	142.0
Prepayments and accrued income	4.2	4.3	3.5	2.6
	4.9	**7.1**	**35.3**	**146.0**

Notes to the consolidated financial statements
continued

20. Due to banks

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Amounts due to other credit institutions	70.0	35.0	70.0	36.4

Amounts due to banks for the current year represent monies arising from the sale and repurchase of drawings under the Funding for Lending Scheme. These are due for repayment between January 2017 and May 2017 (2015: March 2016).

21. Deposits from customers

Group and Company	2016 £million	2015 £million
Current/demand accounts	15.2	39.5
Term deposits	1,136.6	993.6
	1,151.8	**1,033.1**

For a maturity profile of deposits from customers, refer to Notes 30 and 32.

22. Other liabilities

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Trade payables	21.2	13.8	17.5	8.3
Amounts due to related companies	–	0.1	13.2	10.4
Accruals and deferred income	27.8	10.3	26.3	9.5
	49.0	**24.2**	**57.0**	**28.2**

Within Group and Company accruals and deferred income there is £15.8 million relating to accrued interest payable (2015: £nil).

Financial Services Compensation Scheme Levy

The liability for the Financial Services Compensation Scheme levy is included in accruals and deferred income of both Group and Company.

In common with all regulated UK deposit takers, the Company pays a levy to the Financial Services Compensation Scheme to enable it to meet claims against it. The levy consists of a compensation levy which covers the amount of compensation and a management expenses levy, which covers the costs of running the scheme and interest associated with compensation which the scheme pays.

The Company's Financial Services Compensation Scheme provision, reflects market participation up to the reporting date and the accrual of £0.3 million (2015: £0.2 million) relates to the levy for the scheme year 2016/17 which is payable in September 2017. This amount was calculated on the basis of the Company's share of protected deposits and the Financial Services Compensation Scheme's estimate of total interest levies payable for each scheme year.

23. Provisions for liabilities and charges

Customer redress provision

Details of the provision for outstanding potential customer redress claims are as follows:

	2016 £million	2015 £million
Balance at 1 January	2.0	2.0
Charged to Statement of Comprehensive Income	0.4	2.6
Utilised	(1.1)	(2.0)
Transferred to assets held-for-sale	–	(0.6)
Balance at 31 December	**1.3**	**2.0**

The Group provides for its best estimate of redress payable in respect of historical sales of PPI, by considering the likely future uphold rate for claims, in the context of confirmed issues and historical experience. The likelihood of potential new claims is projected forward to 2019, as management believe this to be an appropriate time horizon, recognising the significant decline in recent claims experience and the increasing subjectivity beyond that. The accuracy of these estimates would be affected, were there to be a significant change in either the number of future claims or, the incidence of claims upheld by the Financial Ombudsman Service.

The Financial Conduct Authority is currently consulting on a proposed deadline for making customer redress claims. The ruling is expected to come into force in the middle of 2017 with a deadline of 2 years from the ruling, which would give consumers until approximately August 2019 to make a claim.

24. Contingent liabilities and commitments

Capital commitments

At 31 December 2016, the Group had no capital commitments (2015: £nil).

The Company had no capital commitments (2015: £nil).

Credit commitments

See Note 29 for details of the Group and Company commitments to extend credit to customers.

Operating lease commitments

Group

The future aggregate lease payments for non-cancellable operating leases are as follows:

	Land and buildings 2016 £million	Other 2016 £million	Land and buildings 2015 £million	Other 2015 £million
Within 1 year	0.3	0.4	1.0	0.5
Between 1 year and 5 years	0.9	0.1	1.6	0.3
Over 5 years	0.1	–	0.3	–
	1.3	**0.5**	**2.9**	**0.8**

Notes to the consolidated financial statements
continued

24. Contingent liabilities and commitments *continued*

Company

The future aggregate lease payments for non-cancellable operating leases are as follows:

	Land and buildings 2016 £million	Other 2016 £million	Land and buildings 2015 £million	Other 2015 £million
Within 1 year	0.1	0.3	0.1	0.3
Between 1 year and 5 years	0.4	0.1	0.6	0.2
Over 5 years	0.1	–	0.1	–
	0.6	**0.4**	**0.8**	**0.5**

There are 4 leases classified as land and buildings in the Group (2015: 35). Other leases include motor vehicles and computer hardware.

25. Share capital

	Number of shares	Ordinary shares £million
At 1 January 2015 and 31 December 2015	18,191,894	7.3
Shares issued during year	283,335	0.1
At 31 December 2016	**18,475,229**	**7.4**

Share capital comprises ordinary shares with a par value of 40 pence each.

26. Share based payments

Equity settled share based payments

On 17 October 2011, the Group established the Share Option Scheme entitling three directors and certain senior employees to purchase shares in the Company.

The performance conditions of the Scheme are that for the duration of the vesting period, the dividends paid by the Company must have increased in percentage terms when compared to an assumed dividend of £8 million in respect of the financial year ending 31 December 2012, by a minimum of the higher of the increase in the Retail Prices Index during that period or 5% per annum.

All dividends paid by the Company each year during the vesting period must be paid from the Company's earnings referable to that year. Also from the grant date to the date the option is exercised, there must be no public criticism by any regulatory authority on the operation of the Company or any of its subsidiaries which has a material impact on the business of the Company.

Options are forfeited if they remain unexercised after a period of more than 10 years from the date of grant. If the participant ceases to be employed by the Group by reason of injury, disability, ill-health or redundancy; or because his employing company ceases to be a shareholder of the Group; or because his employing business is being transferred out of the Group, his option may be exercised within six months after such cessation. In the event of the death of a participant, the personal representatives of a participant may exercise an option, to the extent exercisable at the date of death, within six months after the death of the participant.

26. Share based payments *continued*

On cessation of employment for any other reason (or when a participant serves, or has been served with, notice of termination of such employment), the option will lapse although the Remuneration Committee has discretion to allow the exercise of the option for a period not exceeding six months from the date of such cessation.

In such circumstances, the performance conditions may be modified or waived as the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, thinks fit. The number of Ordinary Shares which can be acquired on exercise will be pro-rated on a time elapsed basis, unless the Remuneration Committee, acting fairly and reasonably and taking due consideration of the circumstances, decides otherwise. In determining whether to exercise its discretion in these respects, the Remuneration Committee must satisfy itself that the early exercise of an option does not constitute a reward for failure.

On 2 November 2011, 934,998 share options were granted at an exercise price of £7.20 per share. Approximately half of the share options vested and became exercisable on 2 November 2014, with the remainder vesting and becoming exercisable on 2 November 2016, being classed as share option tranches SOS1 and SOS2 respectively. On 7 November 2016, 283,335 SOS2 options were exercised, leaving 177,084 SOS2 share options unexercised at 31 December 2016. A total of 14,167 share options have been forfeited since their grant date.

The Share Option Scheme is an equity settled scheme. The original grant date valuation was determined to be £1.69 per option and this valuation has been used in the calculation. An attrition rate of option holders has been assumed of nil for the second tranche of share options. Due to the options being fully conditional knockout options, a probability of pay-out has been assigned based on the likelihood of meeting the performance criteria, which is 100% for SOS2. The Company incurred an expense in relation to share based payments of £0.1 million during 2016, as disclosed in Note 5 (2015: £0.2 million).

	2016 No. of option holders	2016 SOS2	2015 No. of option holders	2015 SOS2
Directors	2	177,084	3	318,751
Senior management	–	–	5	141,668
Share options in issue	2	177,084	8	460,419
Exercise price (£)		7.20		7.20
Grant date value per option (£)		1.69		1.69
Fair value of share options, if all share options were exercised (£million)		**0.3**		**0.8**
Behavioural assumption (attrition)		–		–
Probability of pay-out		100%		100%
Assumed value of share options on exercise date (£million)		**0.3**		**0.8**
Value of share options at 31 December 2016 (£million)		**0.3**		**0.6**

Cash settled share based payments

On 16 March 2015, a four year 'phantom' share option scheme was established in order to provide effective long-term incentive to senior management of the Group. Under the scheme, no actual shares would be issued by the Company, but those granted awards under the scheme would be entitled to a cash payment. The amount of the award is calculated by reference to the increase in the value of an Ordinary share in the Company over an initial value set at £25 per Ordinary share, being the price at which the shares resulting from the exercise of the first tranche of share options under the Share Option Scheme were sold in November 2014.

As at 31 December 2016, 312,917 (2015: 326,917) share options remained outstanding.

Notes to the consolidated financial statements
continued

26. Share based payments *continued*

As at 31 December 2016, the estimated fair value has been prepared using the Black-Scholes model. Measurement inputs and assumptions used were as follows:

	2016	2015
Expected stock price volatility	40.00%	27.00%
Expected dividend yield	3.40%	2.09%
Risk free interest rate	0.06%	0.72%
Average expected life (years)	1.84	2.85

This resulted in the following being recognised in the financial statements:

	2016 £million	2015 £million
Liability at 1 January	1.2	–
Charge for the year (included in staff costs – see Note 5)	(0.6)	1.2
Liability at 31 December	**0.6**	**1.2**
Intrinsic value	–	0.8

27. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Cash and balances at central banks	112.0	131.8	112.0	131.8
Loans and advances to banks (Note 9)	18.2	9.8	16.5	9.2
	130.2	**141.6**	**128.5**	**141.0**
Included in assets held-for-sale				
Loans and advances to banks (Note 37)	–	1.7	–	–
	130.2	**143.3**	**128.5**	**141.0**

28. Financial risk management strategy

By their nature, the Group's activities are principally related to the use of financial instruments. The directors and senior management of the Group have formally adopted a Group Risk Appetite Statement which sets out the Board's attitude to risk and internal controls. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

A more detailed description of the risk governance structure is contained in the Strategic Report beginning on page 16.

The principal financial risks inherent in the Group's business are credit risk (Note 29), market risk (Note 30), liquidity risk (Note 31), and capital risk (Note 32).

29. Credit risk

The Company and Group take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. A formal Credit Risk Policy has been agreed by the Board whilst credit risk is monitored on a monthly basis by the Credit Risk Committee which reviews performance of key portfolios including new business volumes, collections performance, provisioning levels and provisioning methodology. A credit risk department within the Bank ensures that the Credit Risk Policy is being adhered to, implements risk tools to manage credit risk and evaluates business opportunities and the risks and opportunities they present to the Bank whilst ensuring the performance of the Bank's existing portfolios is in line with expectations.

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. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits on the level of credit risk are approved periodically by the Board of Directors and actual exposures against limits monitored daily.

Impairment provisions are provided for losses that have been incurred at the Statement of Financial Position date. Significant changes in the economy could result in losses that are different from those provided for at the Statement of Financial Position date. Management therefore carefully manages its exposures to credit risk as they consider this to be the most significant risk to the business.

Exposure to Consumer credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, principally motor vehicles on Motor loans and a credit support balance provided by RentSmart. The assets undergo a scoring process to mitigate risk and are monitored by the Board.

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 loans are secured against the assets lent against (real estate, trade receivables and commercial plant and equipment, respectively). Disclosures relating to collateral and arrears on loans and advances to customers are disclosed in Notes 10 and 12 respectively.

The Board monitors the ratings of the counterparties in relation to the Group's loans and advances to banks. Disclosures of these at the year end are contained in Note 9. There is no direct exposure to the Eurozone and peripheral Eurozone countries.

The maximum exposure to credit risk for the Company and the Group was as follows:

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Cash and balances at central banks	112.0	131.8	112.0	131.8
Loans and advances to banks	18.2	9.8	16.5	9.2
Loan and advances to customers	1,321.0	960.6	1,289.2	932.7
Debt securities held-to-maturity	20.0	3.8	20.0	3.8
Trade receivables	0.7	1.5	0.6	1.4
Amounts due from related parties	–	1.3	31.2	142.0
Assets held-for-sale	–	118.5	–	–
Credit risk exposures relating to off-balance sheet assets are as follows:				
Loan commitments	178.0	138.6	177.8	138.6
At 31 December	**1,649.9**	**1,365.9**	**1,647.3**	**1,359.5**

The above table represents the maximum credit risk exposure (net of impairment) to the Company and Group at 31 December 2016 and 2015 without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures are based on the net carrying amounts as reported in the Statement of Financial Position.

Notes to the consolidated financial statements
continued

29. Credit risk *continued*

Concentration risk

Management assesses the potential concentration risk from geographic, product and individual loan concentration. Due to the well diversified nature of the Group's lending operations the directors do not consider there to be a material exposure arising from concentration risk. The increase in lending balances and loan commitments in the London region is principally due to the increase in Real Estate Finance activities during the year. The concentration by product and location of the Group and Company's lending to customers and loan commitments are detailed below:

	Loans and advances to customers				Loan commitments	
Group	Total 2016 £million	Continuing operations 2015 £million	Discontinued operations 2015 £million	Total 2015 £million	Total 2016 £million	Continuing operations and Total 2015 £million
Concentration by product						
Business Finance:						
Real Estate Finance	451.0	368.0	–	368.0	99.4	109.0
Asset Finance	117.2	70.7	–	70.7	19.5	20.1
Commercial Finance	62.8	29.3	–	29.3	28.9	9.3
Consumer Finance:						
Personal Lending	65.5	74.3	114.3	188.6	–	–
Motor	236.2	165.7	–	165.7	0.6	0.2
Retail	325.9	220.4	–	220.4	28.6	–
Other	62.4	32.2	–	32.2	1.0	–
At 31 December	**1,321.0**	**960.6**	**114.3**	**1,074.9**	**178.0**	**138.6**
Concentration by region:						
East Anglia	113.1	89.4	10.4	99.8	19.7	28.1
East Midlands	52.3	41.4	11.3	52.7	3.0	1.1
London	415.3	300.6	17.0	317.6	61.3	55.0
North East	37.4	24.5	–	24.5	2.2	0.6
North West	120.8	73.4	7.6	81.0	17.0	4.9
Northern Ireland	12.5	8.3	15.6	23.9	0.4	–
Scotland	90.3	62.7	3.0	65.7	10.6	2.0
South East	205.0	125.5	5.8	131.3	35.0	28.4
South West	62.6	44.2	8.4	52.6	12.1	4.4
Wales	46.8	35.1	5.3	40.4	4.2	1.4
West Midlands	80.5	59.0	4.9	63.9	5.5	4.0
Yorkshire and the Humber	69.1	52.4	13.5	65.9	3.9	3.0
Overseas	15.3	44.1	11.5	55.6	3.1	5.7
At 31 December	**1,321.0**	**960.6**	**114.3**	**1,074.9**	**178.0**	**138.6**

The above table relates to the location of the borrower. The majority of the overseas borrowers are Real Estate Finance clients. All of the property secured against Real Estate Finance loans is based in the United Kingdom.

29. Credit risk *continued*

Company	Loans and advances to customers 2016 £million	Loans and advances to customers 2015 £million	Loan commitments 2016 £million	Loan commitments 2015 £million
Concentration by product:				
Business Finance:				
Real Estate Finance	451.0	368.0	99.4	109.0
Asset Finance	117.2	70.7	19.5	20.1
Commercial Finance	62.8	29.3	28.9	9.3
Consumer Finance:				
Personal Finance	65.5	74.3	–	–
Motor	236.2	165.7	0.6	0.2
Retail	325.9	220.4	28.6	–
Other	30.6	4.3	0.8	–
At 31 December	**1,289.2**	**932.7**	**177.8**	**138.6**
Concentration by region:				
East Anglia	110.4	87.0	19.7	28.1
East Midlands	50.1	39.4	3.0	1.1
London	411.2	297.5	61.1	55.0
North East	35.9	23.2	2.2	0.6
North West	117.1	69.9	17.0	4.9
Northern Ireland	11.9	7.8	0.4	–
Scotland	87.1	59.5	10.6	2.0
South East	200.6	122.2	35.0	28.4
South West	60.3	42.6	12.1	4.4
Wales	45.1	33.5	4.2	1.4
West Midlands	77.8	56.4	5.5	4.0
Yorkshire and the Humber	66.4	50.0	3.9	3.0
Overseas	15.3	43.7	3.1	5.7
At 31 December	**1,289.2**	**932.7**	**177.8**	**138.6**

The above table relates to the location of the borrower. The majority of the overseas borrowers are Real Estate Finance clients. All of the property secured against Real Estate Finance loans is based in the United Kingdom.

Forbearance (relating to continuing operations)

The Group does not routinely reschedule contractual arrangements where customers default on their repayments. It may offer the customer the option to reduce or defer payments for a short period, in which cases the loan will retain the normal contractual payment due dates and will be treated the same as any other defaulting cases for impairment purposes. Arrears tracking will continue on the account with any impairment charge being based on the original contractual due dates for all products.

Implementation of IFRS 9

The Group has continued its project to enable compliance with IFRS 9. The main impact of the standard, which is described more fully in Note 1.2, is in accounting for impairment. The classification and measurement and hedge accounting phases of the standard have no material impact on the Group. The standard fundamentally changes the calculation and recognition of credit losses, by introducing the requirement to base impairment provisions on expected credit losses over the life of the financial asset. It also requires credit losses to be recognised for all loans, in contrast to the current standard (IAS 39) which requires recognition of losses only when there is evidence of impairment. The models used to calculate expected credit losses need to include forward looking factors including macro-economic variables.

Notes to the consolidated financial statements
continued

29. Credit risk *continued*

The project is sponsored by the Chief Financial Officer and is resourced by the Group's Finance, Credit Risk, IT and Change teams. It has focused on the following areas:

- Interpreting the requirements of the standard and developing detailed business requirements for a compliant solution. This work has been done in conjunction with external consultants and engagement is underway with the Group's auditors.
- Designing, building and testing credit risk models, that use the historic performance of loans and forward looking factors, including macro-economic effects, to estimate expected credit losses. Model build is well progressed and the Group expects to be able to use the second half of 2017 to run and calibrate the models. As a precursor to building IFRS 9 models for the Business Finance portfolios, credit grading models which assign probabilities of default to these loans have been developed and are now being tested and calibrated.
- Assess data requirements and build the IT support required to run the models and associated processes. To date no significant issues with the availability of data have been identified. Prototype models have been successfully run on the Group's IT systems.
- Develop the disclosures required by IFRS 7 that pertain to IFRS 9, and related internal management information.

30. Market risk

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group and Company have no significant exposures to foreign currencies and therefore there is no significant currency risk.

Interest rate risk

Interest rate risk is the potential adverse impact on the Company and Group's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Company and Group's assets and liabilities. In particular, fixed rate savings and borrowing 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 Group seeks to 'match' interest rate risk on either side of the Statement of Financial Position. However, this is not a perfect match and interest rate risk is present on money market deposits of a fixed rate nature, fixed rate loans and fixed rate savings products. The Group monitors the interest rate mismatch on a daily basis in conjunction with liquidity and capital.

The interest rate mismatch is monitored, throughout the maturity bandings of the book on a parallel scenario for 100 and 200 basis points movements. The Group considers the 100 and 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. This typically results in a pre-tax mismatch of £0.7 million or less (2015: £1.0 million or less) for the Company and Group, with the same impact to equity pre-tax.

Interest rate sensitivity gap

The following tables summarise the re-pricing periods for the assets and liabilities in the Company and Group, including derivative financial instruments which are principally used to hedge exposure to interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-price and the maturity date.

30. Market risk *continued*

Group As at 31 December 2016	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
ASSETS							
Cash and balances at central banks	112.0	–	–	–	–	–	112.0
Loans and advances to banks	18.2	–	–	–	–	–	18.2
Debt securities held-to-maturity	20.0	–	–	–	–	–	20.0
Loans and advances to customers	378.7	119.7	164.8	644.6	–	13.2	1,321.0
Other assets	–	–	–	–	–	38.8	38.8
Total assets	**528.9**	**119.7**	**164.8**	**644.6**	**–**	**52.0**	**1,510.0**
LIABILITIES AND EQUITY							
Due to banks	30.0	40.0	–	–	–	–	70.0
Deposits from customers	462.4	66.7	63.8	535.9	23.0	–	1,151.8
Other liabilities	–	–	–	–	–	52.2	52.2
Equity	–	–	–	–	–	236.0	236.0
Total liabilities and equity	**492.4**	**106.7**	**63.8**	**535.9**	**23.0**	**288.2**	**1,510.0**
Interest rate sensitivity gap	**36.5**	**13.0**	**101.0**	**108.7**	**(23.0)**	**(236.2)**	
Cumulative gap	**36.5**	**49.5**	**150.5**	**259.2**	**236.2**	**–**	

Group As at 31 December 2015	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
ASSETS							
Cash and balances at central banks	131.8	–	–	–	–	–	131.8
Loans and advances to banks	9.8	–	–	–	–	–	9.8
Debt securities held-to-maturity	3.8	–	–	–	–	–	3.8
Loans and advances to customers	163.4	138.4	172.2	520.9	–	(34.3)	960.6
Other assets	–	–	–	–	–	22.9	22.9
Assets held-for-sale	118.5	–	–	–	–	–	118.5
Total assets	**427.3**	**138.4**	**172.2**	**520.9**	**–**	**(11.4)**	**1,247.4**
LIABILITIES AND EQUITY							
Due to banks	–	35.0	–	–	–	–	35.0
Deposits from customers	97.9	371.0	94.4	432.0	37.8	–	1,033.1
Other liabilities	–	–	–	–	–	29.4	29.4
Liabilities held-for-sale	8.7	–	–	–	–	–	8.7
Equity	–	–	–	–	–	141.2	141.2
Total liabilities and equity	**106.6**	**406.0**	**94.4**	**432.0**	**37.8**	**170.6**	**1,247.4**
Interest rate sensitivity gap	**320.7**	**(267.6)**	**77.8**	**88.9**	**(37.8)**	**(182.0)**	
Cumulative gap	**320.7**	**53.1**	**130.9**	**219.8**	**182.0**	**–**	

Notes to the consolidated financial statements
continued

30. Market risk *continued*

Company As at 31 December 2016	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
ASSETS							
Cash and balances at central banks	112.0	–	–	–	–	–	112.0
Loans and advances to banks	16.5	–	–	–	–	–	16.5
Debt securities held-to-maturity	20.0	–	–	–	–	–	20.0
Loans and advances to customers	378.6	119.1	162.3	629.2	–	–	1,289.2
Other assets	–	–	–	–	–	65.0	65.0
Total assets	**527.1**	**119.1**	**162.3**	**629.2**	**–**	**65.0**	**1,502.7**
LIABILITIES AND EQUITY							
Due to banks	30.0	40.0	–	–	–	–	70.0
Deposits from customers	462.4	66.7	63.8	535.9	23.0	–	1,151.8
Other liabilities	–	–	–	–	–	59.1	59.1
Equity	–	–	–	–	–	221.8	221.8
Total liabilities and equity	**492.4**	**106.7**	**63.8**	**535.9**	**23.0**	**280.9**	**1,502.7**
Interest rate sensitivity gap	**34.7**	**12.4**	**98.5**	**93.3**	**(23.0)**	**(215.9)**	
Cumulative gap	**34.7**	**47.1**	**145.6**	**238.9**	**215.9**	**–**	

Company As at 31 December 2015	Within 3 months £million	More than 3 months but less than 6 months £million	More than 6 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million	Non interest bearing £million	Total £million
ASSETS							
Cash and balances at central banks	131.8	–	–	–	–	–	131.8
Loans and advances to banks	9.2	–	–	–	–	–	9.2
Debt securities held-to-maturity	3.8	–	–	–	–	–	3.8
Loans and advances to customers	145.7	133.2	164.9	509.5	–	(20.6)	932.7
Other assets	–	–	–	–	–	157.7	157.7
Total assets	**290.5**	**133.2**	**164.9**	**509.5**	**–**	**137.1**	**1,235.2**
LIABILITIES AND EQUITY							
Due to banks	–	35.0	–	–	–	1.4	36.4
Deposits from customers	97.9	371.0	94.4	432.0	37.8	–	1,033.1
Other liabilities	–	–	–	–	–	30.5	30.5
Equity	–	–	–	–	–	135.2	135.2
Total liabilities and equity	**97.9**	**406.0**	**94.4**	**432.0**	**37.8**	**167.1**	**1,235.2**
Interest rate sensitivity gap	**192.6**	**(272.8)**	**70.5**	**77.5**	**(37.8)**	**(30.0)**	
Cumulative gap	**192.6**	**(80.2)**	**(9.7)**	**67.8**	**30.0**	**–**	

The method of allocating deposits from customers to the appropriate time bands has been revised during the year, resulting in a more accurate representation of the contractual interest rate re-price and the maturity dates.

31. Liquidity risk

Liquidity risk is 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.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. 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 Company 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 Company's liquidity risk management strategy. The ALCO, comprising senior executives of the Company, monitors liquidity risk. Key liquidity risk management information is reported by the Treasury function and monitored by the Chief Executive Officer and Chief Financial Officer on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and ILAAP metrics.

The Company issued fixed rate deposit bonds to customers during the year as set out below:

	2016	2015
Amount	£299 million	£172 million
Term	1 to 7 years	1 to 7 years

These were issued to broadly match the term lending by the Company.

The PRA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i.e. Government Securities in the liquidity asset buffer); and it maintains a prudent funding profile. The liquidity assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress. The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress.

The Group has a Board approved ILAAP. The ILAAP rules require STB to identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios, consistent with STB's risk appetite as established by the STB Board. The ILAAP seeks to document STB's approach to liquidity and funding, and demonstrate that it complies with the Overall Liquidity Adequacy Rule. The PRA's approach to liquidity supervision is based on the principle that a firm must have adequate levels of liquidity resources and a prudent funding profile, and that it comprehensively manages and controls liquidity and funding risks. The liquidity buffer required by the ILAAP has been put in place and maintained since that time. Liquidity resources outside of the buffer are made up of deposits placed at the Bank of England. The ILAAP is updated annually.

The primary measures used by management to assess the adequacy of liquidity is the Overall Liquidity Adequacy Requirement, which is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP. The Group maintained liquidity in excess of the Overall Liquidity Adequacy Requirement throughout the year ended 31 December 2016.

The LCR regime has applied to the Group from 1 October 2016, requiring management of net 30 day cash outflows as a proportion of High Quality Liquid Assets. STB has set a more prudent internal limit. The actual LCR has significantly exceeded both limits throughout the year.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due.

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 important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

Notes to the consolidated financial statements continued

31. Liquidity risk *continued*

The tables below analyse the contractual undiscounted cash flows for the financial liabilities and assets into relevant maturity groupings:

Group At 31 December 2016	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
Non-derivative financial liabilities						
Due to banks	(70.0)	(70.0)	(30.0)	(40.0)	–	–
Deposits from customers	(1,151.8)	(1,202.9)	(461.6)	(147.9)	(569.5)	(23.9)
Other financial liabilities	(18.3)	(18.3)	(18.3)	–	–	–
	(1,240.1)	**(1,291.2)**	**(509.9)**	**(187.9)**	**(569.5)**	**(23.9)**
Non-derivative financial assets						
Cash and balances at central banks	112.0	112.0	112.0	–	–	–
Loans and advances to banks	18.2	18.2	18.2	–	–	–
Debt securities held-to-maturity	20.0	20.0	20.0	–	–	–
Loans and advances to customers	1,321.0	1,955.5	349.1	413.9	1,192.2	0.3
Other financial assets	0.9	0.9	0.9	–	–	–
	1,472.1	**2,106.6**	**500.2**	**413.9**	**1,192.2**	**0.3**
Liquidity mismatch	**232.0**	**815.4**	**(9.7)**	**226.0**	**622.7**	**(23.6)**

Group At 31 December 2015	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
Non-derivative financial liabilities						
Due to banks	(35.0)	(35.0)	(35.0)	–	–	–
Deposits from customers	(1,033.1)	(1,078.0)	(442.9)	(142.7)	(449.5)	(42.9)
Other financial liabilities	(13.8)	(13.8)	(13.8)	–	–	–
Liabilities held-for-sale	(8.7)	(8.7)	(8.7)	–	–	–
	(1,090.6)	**(1,135.5)**	**(500.4)**	**(142.7)**	**(449.5)**	**(42.9)**
Non-derivative financial assets						
Cash and balances at central banks	131.8	131.8	131.8	–	–	–
Loans and advances to banks	9.8	9.8	9.8	–	–	–
Debt securities held-to-maturity	3.8	3.8	3.8	–	–	–
Loans and advances to customers	960.6	1,194.5	130.8	335.6	728.1	–
Other financial assets	2.9	2.9	2.9	–	–	–
Assets held-for-sale	118.5	118.5	118.5	–	–	–
	1,227.4	**1,461.3**	**397.6**	**335.6**	**728.1**	**–**
Liquidity mismatch	**136.8**	**325.8**	**(102.8)**	**192.9**	**278.6**	**(42.9)**

31. Liquidity risk *continued*

Company At 31 December 2016	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
Non-derivative financial liabilities						
Due to banks	(70.0)	(70.0)	(30.0)	(40.0)	–	–
Deposits from customers	(1,151.8)	(1,202.9)	(461.6)	(147.9)	(569.5)	(23.9)
Other financial liabilities	(30.7)	(30.7)	(30.7)	–	–	–
	(1,252.5)	**(1,303.6)**	**(522.3)**	**(187.9)**	**(569.5)**	**(23.9)**
Non-derivative financial assets						
Cash and balances at central banks	112.0	112.0	112.0	–	–	–
Loans and advances to banks	16.5	16.5	16.5	–	–	–
Debt securities held-to-maturity	20.0	20.0	20.0	–	–	–
Loans and advances to customers	1,289.2	1,921.5	345.7	397.6	1,177.9	0.3
Other financial assets	33.0	33.0	33.0	–	–	–
	1,470.7	**2,103.0**	**527.2**	**397.6**	**1,177.9**	**0.3**
Liquidity mismatch	**218.2**	**799.4**	**4.9**	**209.7**	**608.4**	**(23.6)**

Company At 31 December 2015	Carrying amount £million	Gross nominal inflow/ (outflow) £million	Not more than 3 months £million	More than 3 months but less than 1 year £million	More than 1 year but less than 5 years £million	More than 5 years £million
Non-derivative financial liabilities						
Due to banks	(36.4)	(36.4)	(36.4)	–	–	–
Deposits from customers	(1,033.1)	(1,078.0)	(442.9)	(142.7)	(449.5)	(42.9)
Other financial liabilities	(8.3)	(8.3)	(8.3)	–	–	–
	(1,077.8)	**(1,122.7)**	**(487.6)**	**(142.7)**	**(449.5)**	**(42.9)**
Non-derivative financial assets						
Cash and balances at central banks	131.8	131.8	131.8	–	–	–
Loans and advances to banks	9.2	9.2	9.2	–	–	–
Debt securities held-to-maturity	3.8	3.8	3.8	–	–	–
Loans and advances to customers	932.7	1,160.9	127.1	321.7	712.1	–
Other financial assets	1.4	1.4	1.4	–	–	–
	1,078.9	**1,307.1**	**273.3**	**321.7**	**712.1**	**–**
Liquidity mismatch	**1.1**	**184.4**	**(214.3)**	**179.0**	**262.6**	**(42.9)**

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing financial liabilities as they mature are important factors in assessing the liquidity of the Company and Group and its exposure to changes in interest rates and exchange rates.

Other financial liabilities, as shown above, do not include non-interest accruals as these are not classed as financial liabilities.

Notes to the consolidated financial statements continued

32. Capital risk

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

In accordance with CRD IV and the required parameters set out in the Capital Requirements Regulation, the Group's ICAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. 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. Prior to the sale of Arbuthnot's controlling stake in the Group, the Group's ICAAP was aggregated into the Arbuthnot Banking Group's ICAAP.

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 adequate 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 should be applied, as per the Individual Capital Guidance issued by the PRA.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which would allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Pillar 3 disclosures for the Group for the year ended 31 December 2016 are published as a separate document on the Group's website.

32. Capital risk *continued*

The following table shows the regulatory capital resources as managed by the solo-consolidated Group:

	2016 £million	2015 £million
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
Available-for-sale reserve	(2.8)	–
Goodwill	(0.3)	(0.3)
Intangible assets net of attributable deferred tax	(5.9)	(3.8)
CET1 capital	**221.0**	**135.8**
Tier 2		
Collective allowance for impairment of loans and advances	5.3	3.1
Total Tier 2 capital	**5.3**	**3.1**
Own Funds	**226.3**	**138.9**
Reconciliation to total equity:		
Goodwill and other intangible assets net of attributable deferred tax	6.2	4.1
Collective allowance for impairment of loans and advances	(5.3)	(3.1)
Net cumulative profits of non-solo-consolidated entities	8.8	1.3
Total equity	**236.0**	**141.2**

The Group ICAAP, which includes a summary of the capital required to mitigate the identified risks in its regulated entities and the amount of capital that the Group has available. The PRA sets Individual Capital Guidance for each UK bank calibrated by reference to its Capital Resources Requirement, broadly equivalent to 8% of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel III framework. The ICAAP is a key input into the PRA's Individual Capital Guidance setting process, which addresses the requirements of Pillar 2 of the Basel II framework. The PRA's approach is to monitor the available capital resources in relation to the Individual Capital Guidance requirement. The Group maintains an extra internal buffer and capital ratios are reviewed on a monthly basis to ensure that external and internal requirements are adhered to.

The Group is also subject to further capital requirements imposed by the PRA. During the periods, the Group complied with these requirements.

Notes to the consolidated financial statements continued

33. Maturity analysis of consolidated assets and liabilities

Group Contractual maturity analysis at 31 December 2016	Due within one year £million	Due after more than one year £million	No contractual maturity £million	Total £million
ASSETS				
Cash and balances at central banks	112.0	–	–	112.0
Loans and advances to banks	18.2	–	–	18.2
Loans and advances to customers	663.2	657.8	–	1,321.0
Debt securities held-to-maturity	20.0	–	–	20.0
Equity instruments available-for-sale	–	–	13.5	13.5
Property, plant and equipment	–	–	11.4	11.4
Intangible assets	–	–	9.0	9.0
Other assets	4.9	–	–	4.9
Total assets	**818.3**	**657.8**	**33.9**	**1,510.0**
LIABILITIES				
Due to banks	70.0	–	–	70.0
Deposits from customers	592.9	558.9	–	1,151.8
Current tax liabilities	1.7	–	–	1.7
Deferred tax liabilities	–	0.2	–	0.2
Other liabilities	47.4	2.9	–	50.3
Total liabilities	**712.0**	**562.0**	**–**	**1,274.0**

Group Contractual maturity analysis at 31 December 2015	Due within one year £million	Due after more than one year £million	No contractual maturity £million	Total £million
ASSETS				
Cash and balances at central banks	131.8	–	–	131.8
Loans and advances to banks	9.8	–	–	9.8
Loans and advances to customers	439.7	520.9	–	960.6
Debt securities held-to-maturity	3.8	–	–	3.8
Property, plant and equipment	–	–	8.5	8.5
Intangible assets	–	–	7.0	7.0
Deferred tax assets	–	–	0.3	0.3
Other assets	7.1	–	–	7.1
Assets held-for-sale	118.5	–	–	118.5
Total assets	**710.7**	**520.9**	**15.8**	**1,247.4**
LIABILITIES				
Due to banks	35.0	–	–	35.0
Deposits from customers	563.3	469.8	–	1,033.1
Current tax liabilities	3.2	–	–	3.2
Other liabilities	22.5	3.7	–	26.2
Liabilities held-for-sale	8.7	–	–	8.7
Total liabilities	**632.7**	**473.5**	**–**	**1,106.2**

The directors have reviewed behavioural maturity of the loan book and have concluded that it would not significantly affect the analysis above.

33. Maturity analysis of consolidated assets and liabilities *continued*

Company Contractual maturity analysis at 31 December 2016	Due within one year £million	Due after more than one year £million	No contractual maturity £million	Total £million
ASSETS				
Cash and balances at central banks	112.0	–	–	112.0
Loans and advances to banks	16.5	–	–	16.5
Loans and advances to customers	660.0	629.2	–	1,289.2
Debt securities held-to-maturity	20.0	–	–	20.0
Equity instruments available-for-sale	13.5	–	–	13.5
Property, plant and equipment	–	–	6.2	6.2
Intangible assets	–	–	6.2	6.2
Investments	–	–	3.7	3.7
Deferred tax assets	–	0.1	–	0.1
Other assets	35.3	–	–	35.3
Total assets	**857.3**	**629.3**	**16.1**	**1,502.7**
LIABILITIES				
Due to banks	70.0	–	–	70.0
Deposits from customers	592.9	558.9	–	1,151.8
Current tax liabilities	0.8	–	–	0.8
Other liabilities	58.3	–	–	58.3
Total liabilities	**722.0**	**558.9**	**–**	**1,280.9**

Company At 31 December 2015	Due within one year £million	Due after more than one year £million	No contractual maturity £million	Total £million
ASSETS				
Cash and balances at central banks	131.8	–	–	131.8
Loans and advances to banks	9.2	–	–	9.2
Loans and advances to customers	423.2	509.5	–	932.7
Debt securities held-to-maturity	3.8	–	–	3.8
Property, plant and equipment	–	–	4.2	4.2
Intangible assets	–	–	3.2	3.2
Investments	–	–	3.7	3.7
Deferred tax asset	–	0.6	–	0.6
Other assets	146.0	–	–	146.0
Total assets	**714.0**	**510.1**	**11.1**	**1,235.2**
LIABILITIES				
Due to banks	36.4	–	–	36.4
Deposits from customers	563.3	469.8	–	1,033.1
Current tax liabilities	0.3	–	–	0.3
Other liabilities	30.2	–	–	30.2
Total liabilities	**630.2**	**469.8**	**–**	**1,100.0**

The directors have reviewed behavioural maturity of the loan book and have concluded that it would not significantly affect the analysis above.

Notes to the consolidated financial statements continued

34. Classification of financial assets and liabilities

Group At 31 December 2016	Available-for-sale £million	Held to maturity £million	Loans and receivables £million	Other financial assets and liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash and balances at central banks	–	–	112.0	–	112.0	112.0	Level 1
Loans and advances to banks	–	–	18.2	–	18.2	18.2	Level 2
Loans and advances to customers	–	–	1,321.0	–	1,321.0	1,636.8	Level 3
Debt securities held-to-maturity	–	20.0	–	–	20.0	20.0	Level 1
Equity instruments available-for-sale	13.5	–	–	–	13.5	13.5	Level 1
Other financial assets	–	–	–	0.9	0.9	0.9	Level 3
	13.5	**20.0**	**1,451.2**	**0.9**	**1,485.6**	**1,801.4**	
Due to banks	–	–	–	70.0	70.0	70.0	Level 2
Deposits from customers	–	–	–	1,151.8	1,151.8	1,173.2	Level 3
Other financial liabilities	–	–	–	18.3	18.3	18.3	Level 3
	–	**–**	**–**	**1,240.1**	**1,240.1**	**1,261.5**	

Group At 31 December 2015	Held to maturity £million	Loans and receivables £million	Other financial assets and liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash and balances at central banks	–	131.8	–	131.8	131.8	Level 1
Loans and advances to banks	–	9.8	–	9.8	9.8	Level 2
Loans and advances to customers	–	960.6	–	960.6	1,217.3	Level 3
Debt securities held-to-maturity	3.8	–	–	3.8	3.8	Level 1
Other financial assets	–	–	2.9	2.9	2.9	Level 3
Assets held-for-sale	–	–	118.5	118.5	118.5	Level 3
	3.8	**1,102.2**	**121.4**	**1,227.4**	**1,484.1**	
Due to banks	–	–	35.0	35.0	35.0	Level 2
Deposits from customers	–	–	1,033.1	1,033.1	1,036.2	Level 3
Other financial liabilities	–	–	13.8	13.8	13.8	Level 3
Liabilities held-for-sale	–	–	8.7	8.7	8.7	Level 3
	–	**–**	**1,090.6**	**1,090.6**	**1,093.7**	

Equity investments held-for-sale are carried at fair value. All other assets and liabilities are carried at amortised cost. Therefore for these assets and liabilities, the fair value hierarchy noted above relates to the disclosure in this note only.

34. Classification of financial assets and liabilities *continued*

Company At 31 December 2016	Available-for-sale £million	Held to maturity £million	Loans and receivables £million	Other financial assets and liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash and balances at central banks	–	–	112.0	–	112.0	112.0	Level 1
Loans and advances to banks	–	–	16.5	–	16.5	16.5	Level 2
Loans and advances to customers	–	–	1,289.2	–	1,289.2	1,591.1	Level 3
Debt securities held-to-maturity	–	20.0	–	–	20.0	20.0	Level 1
Equity instruments available-for-sale	13.5	–	–	–	13.5	13.5	Level 1
Other financial assets	–	–	–	33.0	33.0	33.0	Level 3
	13.5	**20.0**	**1,417.7**	**33.0**	**1,484.2**	**1,786.1**	
Due to banks	–	–	–	70.0	70.0	70.0	Level 2
Deposits from customers	–	–	–	1,151.8	1,151.8	1,173.2	Level 3
Other financial liabilities	–	–	–	30.7	30.7	30.7	Level 3
	–	**–**	**–**	**1,252.5**	**1,252.5**	**1,273.9**	

Company At 31 December 2015	Held to maturity £million	Loans and receivables £million	Other financial assets and liabilities £million	Total carrying amount £million	Fair value £million	Fair value hierarchy level
Cash and balances at central banks	–	131.8	–	131.8	131.8	Level 1
Loans and advances to banks	–	9.2	–	9.2	9.2	Level 2
Loans and advances to customers	–	932.7	–	932.7	1,173.1	Level 3
Debt securities held-to-maturity	3.8	–	–	3.8	3.8	Level 1
Other financial assets	–	–	142.7	142.7	142.7	Level 3
	3.8	**1,073.7**	**142.7**	**1,220.2**	**1,460.6**	
Due to banks	–	–	36.4	36.4	36.4	Level 2
Deposits from customers	–	–	1,033.1	1,033.1	1,036.2	Level 3
Other financial liabilities	–	–	8.3	8.3	8.3	Level 3
	–	**–**	**1,077.8**	**1,077.8**	**1,080.9**	

Equity investments available-for-sale are carried at fair value. All other assets and liabilities are carried at amortised cost. Therefore for these assets, the fair value hierarchy noted above relates to the disclosure in this note only.

Notes to the consolidated financial statements
continued

34. Classification of financial assets and liabilities *continued*

Fair value classification

The tables above include the fair values and fair value hierarchies of the Group and Company's financial assets and liabilities. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash and balances at central banks

The fair value of cash and balances at central banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each year, the fair value of cash and balances at central banks was calculated to be equivalent to their carrying value.

Loans and advances to banks

The fair value of loans and advances to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

Loans and advances to customers

The fair value of loans and advances to customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date, and the same assumptions regarding the risk of default were applied as those used to derive the carrying value.

Debt securities held-to-maturity and equity instruments available-for-sale

The fair value of debt securities held-to-maturity and equity instruments available-for-sale is based on the quoted mid-market share price.

At the end of December 2016 the fair value of debt securities held-to-maturity was calculated to be equivalent to their carrying value.

Due to banks

The fair value of amounts due to banks was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date.

At the end of each year, the fair value of amounts due to banks was calculated to be equivalent to their carrying value due to the short maturity term of the amounts due.

Deposits from customers

The fair value of deposits from customers was calculated based upon the present value of the expected future principal and interest cash flows. The rate used to discount the cash flows was the market rate of interest at the balance sheet date for the notice deposits and deposit bonds. The fair value of instant access deposits is equal to book value as they are repayable on demand.

Dividends and other financial liabilities

The fair value of dividends and other financial liabilities was calculated based upon the present value of the expected future principal cash flows.

At the end of each year, the fair value of dividends and other financial liabilities was calculated to be equivalent to their carrying value due to their short maturity. The other financial liabilities include all other liabilities other than non-interest accruals.

35. Related party transactions

Related parties of the Company and Group include subsidiaries, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits as set out below. Except for the directors' disclosures, there were no other Key Management Personnel disclosures, therefore the tables below relate to directors only.

	Directors	
	2016 £million	2015 £million
Loans		
Loans outstanding at 1 January	0.2	–
Loans advanced	3.4	0.2
Repayments	(0.5)	–
Interest applied	0.1	–
Loans outstanding at 31 December	**3.2**	**0.2**
Deposits		
Deposits outstanding at 1 January	0.5	0.4
Additional deposits made during the year	–	0.1
Withdrawals during the year	(0.1)	–
Director retired	(0.1)	–
Deposits outstanding at 31 December	**0.3**	**0.5**

The loans outstanding above comprise the following:

- A £0.4 million advance (2015: £0.2 million) as part of a £2.5 million facility agreed with a company in which a director holds 50% of the voting shares, which is secured by property and personal guarantees.
- A £2.8 million advance during the year as part of a £4.4 million facility agreed with a director, which is secured by property and certain other undertakings.

Both of these transactions were agreed by the Group's Real Estate Finance business and arose during the normal course of business. Both loans were subject to the usual Board governance and Credit Committee approval procedures and are on substantially the same terms as for comparable transactions with third parties.

Notes to the consolidated financial statements
continued

35. Related party transactions *continued*

The Company undertook the following transactions with other companies in the Secure Trust Bank Group:

	2016 £million	2015 £million
Debt Managers (Services) Limited – income from sale of debt portfolio	(2.9)	(2.4)
Secure Homes Services Limited – dividend received	–	(2.0)
Secure Homes Services Limited – building rental paid	0.4	0.4
STB Leasing Limited – dividend received	–	(4.0)
V12 Finance Group Limited – dividend received	–	(2.0)
V12 Retail Finance Limited – financial intermediary charges – applications proposed	4.5	1.7
V12 Retail Finance Limited – financial intermediary charges – applications accepted	2.2	3.4
V12 Retail Finance Limited – financial intermediary charges – loan set-up and processing	4.4	3.3
V12 Retail Finance Limited – loan book management and servicing fees	7.1	4.0
	15.7	2.4
No longer related parties		
Arbuthnot Latham & Co., Ltd – recharge income of shared services	–	(0.8)
Arbuthnot Banking Group PLC – group recharges	0.2	0.4
Everyday Loans Holdings Limited – dividend received	–	(11.5)
Everyday Lending Limited – interest income on loan receivable	1.9	(2.9)
Everyday Lending Limited – property and leasing recharges	–	(0.2)
	2.1	**(15.0)**
	17.8	**(12.6)**

The loans and advances with, and amounts receivable and payable to, related companies are noted below:

	Group 2016 £million	Group 2015 £million	Company 2016 £million	Company 2015 £million
Amounts receivable from ultimate parent undertaking	–	1.3	–	1.3
Amounts receivable from subsidiary undertakings	–	–	31.2	140.1
Amounts due to subsidiary undertakings	–	–	(13.2)	(10.4)
Amounts due to related companies	–	(0.1)	–	–
	–	**1.2**	**18.0**	**131.0**

Directors' remuneration

The directors' emoluments (including pension contributions and benefits in kind) for the year are disclosed in the Remuneration Report beginning on page 82.

At the year end the ordinary shares held by the directors are disclosed in the Directors' Report beginning on page 88. Details of the directors' holdings of share options, as well as details of those share options exercised during the year, are also disclosed in the Directors' Report.

The interests of any directors who hold shares in the ultimate parent company, Arbuthnot Banking Group PLC, which was the ultimate parent company until the sale of their controlling stake, are shown in the Directors' Report of that company.

36. Immediate and ultimate parent company

Prior to the sale of its controlling interest on 15 June 2016, the Company regarded Arbuthnot Banking Group PLC, a company registered in England and Wales, as the immediate and ultimate parent company. Sir Henry Angest, the Group Chairman and Chief Executive of Arbuthnot Banking Group has a beneficial interest in 53.7% of the issued share capital of Arbuthnot Banking Group and was regarded by the Company as the ultimate controlling party. A copy of the consolidated financial statements of Arbuthnot Banking Group may be obtained from the Company Secretary, Arbuthnot Banking Group, Arbuthnot House, 7 Wilson Street, London, EC2M 2SN.

Since 15 June 2016, the Company has had no ultimate controlling party.

37. Discontinued operations and assets and liabilities held-for-sale

On 4 December 2015, the Bank agreed to the conditional sale of its non-standard consumer lending business, ELG, which comprises Everyday Loans Holdings Limited and subsidiary companies Everyday Lending Limited and Everyday Loans Limited, to Non-Standard Finance PLC ('NSF'). Consideration received on completion comprised £106.9 million in cash and £16.3 million in NSF ordinary shares. The Disposal completed on 13 April 2016, and on completion NSF paid £215.0 million to the Group, being the £106.9 million cash consideration plus repayment of intercompany debt of £108.1 million. Subsequently, NSF took a £30.0 million three year loan from STB. After selling costs of £2.7 million, this resulted in a gain recognised on disposal of £116.8 million. In addition, staff costs of £3.5 million were incurred in respect of the sale, which are included in operating expenses.

Under the Bank's ownership, ELG had achieved impressive growth, within the constraints imposed upon it as part of a highly regulated banking group. An unsolicited approach revealed that NSF was prepared to pay an attractive valuation for ELG.

The net effect of the Disposal was therefore to significantly increase the equity base of the Group to £228 million, after declaring the special dividend of £30 million. This substantially improved STB's capital resources and broadened the range of strategic options available to it.

The Disposal improved the Group's CET1 ratio and Leverage ratios to 20.1% and 15.8% respectively, at 30 June 2016, which was the first reporting date following the sale (from 15.0% and 11.9% on an unadjusted basis as at 30 June 2015). This has generated a substantial capital surplus and significant headroom over PRA minimum leverage requirements, which supports the strong growth in lending of the Group.

While in the short term the Disposal is expected to reduce earnings, given the disposal of ELG's profit streams, the Board is confident that the proceeds can be reinvested to accelerate the Group's growth prospects and secure new income streams.

Notes to the consolidated financial statements
continued

37. Discontinued operations and assets and liabilities held-for-sale *continued*

Details of the net assets disposed of and consequential gain recognised on disposal, assets and liabilities held-for-sale at 31 December 2015 and cash flow of discontinued operations is set out below.

	Assets and liabilities sold on 13 April 2016 £million	Assets and liabilities held-for-sale at 31 December 2015 £million
ASSETS		
Loans and advances to banks	2.4	1.7
Loans and advances to customers	117.9	114.3
Property, plant and equipment	0.5	0.4
Intangible assets	1.2	1.2
Deferred tax assets	0.4	0.4
Other assets	0.8	0.5
Total assets	**123.2**	**118.5**
LIABILITIES		
Current tax liabilities	4.0	3.4
Other liabilities	7.4	5.3
Total liabilities	**11.4**	**8.7**
Net assets disposed of/held-for-sale	**111.8**	**109.8**
Consideration		
Cash (including the settlement of inter-company debt)	215.0	
NSF Plc shares	16.3	
	231.3	
Selling costs	(2.7)	
Net assets disposed of	(111.8)	
Gain recognised on disposal	**116.8**	

The cash flow from the sale of subsidiary undertakings can be analysed as follows:

	Group £million	Company £million
Cash consideration (including the settlement of inter-company debt)	215.0	215.0
Selling costs	(2.7)	(2.7)
Cash disposed of as part of sale	(2.4)	–
	209.9	**212.3**

37. Discontinued operations and assets and liabilities held-for-sale *continued*

Company

Assets held-for-sale comprised investment in subsidiary undertaking totaling £1.

Cash flows from discontinued operations	Year ended 31 December 2016 £million	Year ended 31 December 2015 £million
Cash flows from operating activities		
Profit for the year	2.0	9.4
Adjustments for:		
Income tax expense	0.5	2.3
Depreciation of property, plant and equipment	–	0.1
Amortisation of intangible assets	–	1.0
Impairment losses on loans and advances to customers	2.6	7.5
Cash flows from operating profits before changes in operating assets and liabilities	5.1	20.3
Changes in operating assets and liabilities:		
– net increase in loans and advances to customers	(6.2)	(27.9)
– net increase in other assets	(0.3)	(0.1)
– net increase in other liabilities	2.1	8.1
Income tax paid	–	(0.1)
Net cash inflow from operating activities	**0.7**	**0.3**
Cash flows from investing activities		
Purchase of property, plant and equipment	–	(0.3)
Net cash flows from investing activities	**–**	**(0.3)**
Net increase in cash and cash equivalents	**0.7**	**–**
Cash and cash equivalents at 1 January	1.7	1.7
Cash and cash equivalents disposed of / at 31 December	**2.4**	**1.7**

Notes to the consolidated financial statements
continued

38. Country by Country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of CRD IV. The requirements aim to give increased transparency regarding the activities of institutions.

The Country-by-Country Information is set out below:

31 December 2016 Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
Secure Trust Bank plc	Banking services	UK	157.5	697	27.5	6.3

31 December 2015 Name	Nature of activity	Location	Turnover £million	Number of FTE employees	Profit before tax £million	Tax paid on profit £million
Secure Trust Bank plc	Banking services	UK	158.1	706	36.5	4.2

Five year summary (unaudited)

	2016 £million	2015 £million	2014 £million	2013 £million	2012 £million
Profit for the year					
Interest and similar income	141.1	139.7	93.6	73.8	44.9
Interest expense and similar charges	(26.3)	(21.6)	(14.2)	(12.9)	(10.5)
Net interest income	**114.8**	**118.1**	**79.4**	**60.9**	**34.4**
Net fee and commission income	14.5	14.4	18.5	18.1	12.6
Operating income	**129.3**	**132.5**	**97.9**	**79.0**	**47.0**
Impairment losses on loans and advances	(30.3)	(24.3)	(15.3)	(15.6)	(8.9)
Gain from a bargain purchase	–	–	–	0.4	9.8
Other income	–	–	–	–	0.1
Exceptional costs	–	–	–	(0.9)	(1.4)
Arbuthnot Banking Group recharges	–	(0.8)	(0.2)	(0.1)	(0.1)
Operating expenses	(71.5)	(70.9)	(56.3)	(45.7)	(29.3)
Profit before income tax	**27.5**	**36.5**	**26.1**	**17.1**	**17.2**
Earnings per share for profit attributable to the equity holders of the Group during the year					
(expressed in pence per share) – basic	754.1	157.8	122.3	78.3	108.9
Financial position					
Cash and balances at central banks	112.0	131.8	81.2	–	–
Loans and advances to banks	18.2	11.5	39.8	110.0	155.3
Loans and advances to customers	1,321.0	1,074.9	622.5	391.0	297.6
Debt securities held-to-maturity	20.0	3.8	16.3	–	–
Other assets	38.8	25.4	22.5	24.9	21.7
Total assets	**1,510.0**	**1,247.4**	**782.3**	**525.9**	**474.6**
Due to banks	70.0	35.0	15.9	0.1	–
Deposits from customers	1,151.8	1,033.1	608.4	436.6	398.9
Other liabilities	52.2	38.1	33.1	27.6	19.8
Total shareholders' equity	236.0	141.2	124.9	61.6	55.9
Total liabilities and shareholders' equity	**1,510.0**	**1,247.4**	**782.3**	**525.9**	**474.6**

Glossary

Term	Explanation
AIM	The Alternative Investment Market is the London Stock Exchange's international market for smaller growing companies. A wide range of businesses including early stage, venture capital backed as well as more established companies join AIM seeking access to growth capital.
ALCO	The Assets and Liabilities Committee. The remit of the Committee is set out on page 49.
Bank of England	The Bank of England promotes the good of the people of the United Kingdom by maintaining monetary and financial stability. It also performs a supervisory role of the banking system via the Prudential Regulation Authority.
CET 1 capital	Common Equity Tier 1 capital comprises a bank's core capital and includes common shares, stock surpluses resulting from the issue of common shares, retained earnings, common shares issued by subsidiaries and held by third parties, and accumulated other comprehensive income.
CET 1 capital ratio	The Common Equity Tier 1 capital ratio is the ratio of the bank's CET 1 capital to its Total Risk Exposure. This signifies a bank's financial strength. The CET 1 capital ratio is utilised by regulators and investors because it shows how well a bank can withstand financial stress and remain solvent.
CRD IV	Capital Requirements Directive IV is intended to implement the Basel III agreement in the EU. This includes enhanced requirements for the quality and quantity of capital; a basis for new liquidity and leverage requirements; new rules for counterparty risk; and new macroprudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions.
Capital Requirement Regulation	The EU regulation implementing CRD IV directly across the EU.
DBP	Deferred Bonus Plan.
DMS	Debt Managers (Services) Limited, the wholly owned subsidiary of Secure Trust Bank PLC, responsible for carrying out market leading debt recovery services to the credit industry.
ELG	Everyday Loans Group, which comprised Everyday Loans Holdings Limited and subsidiary companies Everyday Lending Limited and Everyday Loans Limited.
EU	European Union.
Financial Conduct Authority	The Financial Conduct Authority is the conduct regulator for 56,000 financial services firms and financial markets in the UK. Its aims are to protect consumers, enhance market integrity and promote competition.
FEEFO	The Feedback Forum collects independent reviews from the customers of over 2,500 businesses.
Funding for Lending Scheme	The Funding for Lending Scheme was designed to incentivise banks and building societies to boost their lending to the UK real economy. It did that by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to their lending performance. This scheme is now in run-off and is being replaced by the Term Funding Scheme.
The Financial Ombudsman Service	Set up by Parliament, the Financial Ombudsman Service is the UK's official expert in sorting out problems with financial services.
Financial Services Compensation Scheme	The Financial Services Compensation Scheme protects consumers when authorised financial services firms fail.
General Data Protection Regulation	The General Data Protection Regulation (Regulation (EU) 2016/679) is a regulation by which the European Parliament, the European Council and the European Commission intend to strengthen and unify data protection for individuals within the European Union. It also addresses export of personal data outside the European Union.
High quality liquid assets	High quality liquid assets are assets with a high potential to be converted easily and quickly into cash. It comprises cash and balances at central banks and treasury bills that are the subject of a repurchase agreement (see below).
IAS	International Accounting Standard.
ICAAP	Internal Capital Adequacy Assessment Process. A firm must carry out an ICAAP in accordance with the PRA's ICAAP rules. These include requirements on the firm to undertake a regular assessment of the amounts, types and distribution of capital that it considers adequate to cover the level and nature of the risks to which it is or might be exposed.

Term	Explanation
IFRS	International Financial Reporting Standard.
ILAAP	The Internal Liquidity Adequacy Assessment Process allows firms to assess the level of liquidity and funding that adequately supports all relevant current and future liquidity risks in their business. In undertaking this process, a firm should be able to ensure that it has appropriate processes in place to ensure compliance with the CRD IV. This requires firms to develop and use appropriate risk and liquidity management techniques.
Individual Capital Guidance	Guidance given to a firm about the amount and quality of capital resources that the PRA thinks the Bank should hold at all times under the overall financial adequacy rule as it applies on a solo level or a consolidated level.
IPO	Initial Public Offering of the Company's shares on AIM in November 2011.
LCR	The Liquidity Coverage Ratio regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of High Quality Liquid Assets. The Group has set a more prudent internal limit than that proposed in guidance from the regulator.
LTIP	Long term incentive plan.
MREL	Minimum Requirement for Own Funds and Eligible Liabilities regime.
NSF	Non-Standard Finance PLC, the AIM listed business that bought ELG on 16 April 2016.
Overall Liquidity Adequacy Requirement	The Overall Liquidity Adequacy Requirement is the Board's own view of the Group's liquidity needs as set out in the Board approved ILAAP.
Pillar 1, Pillar 2 and Pillar 3	Basel III uses a 'three pillars' concept – (1) Pillar 1 – minimum capital requirements (addressing risk) using a standardised approach for credit, market and operational risk, (2) Pillar 2 – supervisory review process and (3) Pillar 3 – market discipline and enhanced disclosures. Basel II is the second of the Basel Accords, (now extended and partially superseded by Basel III), which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision.
PRA	The Prudential Regulation Authority was created as a part of the Bank of England by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of around 1,700 banks. The PRA's objectives are set out in the Financial Services and Markets Act 2000, but the main objective is to promote the safety and soundness of the firms it regulates.
PSOS	Phantom Share Option Scheme.
Repurchase agreement	A repurchase agreement is a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, and buys them back at an agreed point in the future.
SOS1	Share options vesting on 2 November 2014.
SOS2	Share options vesting on 2 November 2016.
SME	Small to medium sized enterprises.
Term Funding Scheme	The Term Funding Scheme is designed to reinforce the transmission of Bank Rate cuts to those interest rates actually faced by households and businesses by providing term funding to banks at rates close to Bank Rate. The Term Funding Scheme allows participants to borrow central bank reserves in exchange for eligible collateral.
Tier 2 capital	Tier 2 capital is the secondary component of bank capital, in addition to Tier 1 capital, that makes up a bank's required reserves. Tier 2 capital is designated as supplementary capital, and is composed of Collective allowance for impairment of loans and advances.
Total Risk Exposure	Total Risk Exposure is the total of the bank's risk-weighted assets.
UPL	Unsecured personal lending.
V12	V12 Retail Finance Limited, the wholly owned subsidiary of Secure Trust Bank PLC, responsible for retail lending.

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