

STM GROUP PLC **RISK APPETITE STATEMENT**

DATED SEPTEMBER 2017

STM GROUP PLC

RISK APPETITE STATEMENT

PURPOSE AND RESPONSIBILITIES

STM Group's Risk Appetite Statement articulates the Group's philosophy and approach to the management of its key risks, defines specific qualitative statements and quantitative parameters, guides decision-making and ensures appropriate governance around risk-taking for STM Group and all of its related entities.

The STM Group Board is responsible for setting the Risk Appetite of the Group which it reviews and approves at least annually. The Group Audit & Risk Committee is responsible for overseeing the development, implementation and maintenance of the Group's overall risk management framework and its Risk Appetite. It must ensure they are aligned with the Group's strategic objectives and emerging regulatory, corporate governance and industry best practice.

The Group Risk Appetite is communicated annually by the STM Group Board to all Group entities. Each entity's Board must establish its own Risk Appetite Statement which must be consistent with that of the Group. The Directors of each entity's Board are responsible for ensuring that their businesses are operating within their stated Risk Appetite parameters. The Group's Risk Appetite is forward-looking and it evolves to reflect external market developments and the Group's strategic focus.

The Group Risk Appetite is aligned to the Risk Management Policy of the Group and is embedded within the principles, policies and procedures across all of STM Group's entities.

DEFINING THE RISK APPETITE

STM Group's Risk Appetite is the type and the amount of risk that the Group is willing to accept or to avoid in order to achieve its business objectives, as approved by the Group Board of Directors. The Risk Appetite Statements clarify those risks and associated limits that the Group must manage and, where appropriate, is prepared to accept in the pursuit of its vision and objectives.

The STM Group Risk Appetite focuses on five overarching risk management objectives:

- upholding the highest ethical standards of conduct;
- preserving the long-term financial resilience of the Group;
- protecting the interests of the Group's customers;
- ensuring compliance with legal and regulatory obligations;
- maintaining a robust internal control environment and safeguarding operational continuity.

OVERALL RISK APPETITE STATEMENT

STM Group is a multijurisdictional financial services provider. The Group will only provide products and services that:

- do not conflict with the Group's values and are aligned with its risk capacity and business strategy;
- do not jeopardise the Group's capital position or the resilience of its services;
- are aligned with the needs of the Group's customers and ensure they are treated fairly;
- are always in accordance with local laws and regulations.

STM Group maintains an enterprise-wide risk management framework to manage all applicable risk types with robust policies and procedures designed to ensure it mitigates the risks the Group is exposed to.

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KEY RISK APPETITE STATEMENTS

STM Group's Risk Appetite Statements contain specific qualitative and quantitative measures to address risks arising from those areas identified as posing key risks by the Group Board of Directors as follows.

STRATEGIC RISK

- STM shall manage strategic initiatives with prudent, comprehensive risk assessments to protect against unintended risk consequences.
- STM shall maintain a diversified and forward-thinking portfolio of financial services products across multiple jurisdictions to minimise negative impact and optimise business opportunities due to material changes in laws, customer demands or Group resources.
- STM shall conduct robust due diligence on any business acquisitions which require independent advice, must have Group Board approval and must align with the Group's strategic vision. STM has a low appetite for earnings volatility and shall protect the Group's shareholder value by delivering consistent earnings in line with market expectations.

CORPORATE GOVERNANCE

- STM has corporate governance arrangements that support the effective long-term operation of the Group's businesses, maximise shareholder value and meet regulatory and ethical expectations.
- STM Group's Board of Directors is responsible for Group policies, including the Group's Risk Management Policy which the Board reviews and approves annually.
- STM entities have independent Boards of Directors with experience and knowledge of the industries in which they operate and clearly defined roles and responsibilities.
- STM Senior Managers across the Group are fit and proper and fully accountable for decisions which are taken within the remit of their responsibility.

REPUTATIONAL RISK

- STM considers its reputation to be an asset of great value that must be protected to ensure the Group's shareholder value and its sustainable development. The prevention and detection of the reputational risks are integrated within all the Group's operating practices.
- All STM staff are made aware of their responsibilities in respect of treating customers fairly, dealing professionally with external counterparties and abiding by all relevant laws and regulations which collectively assist to safeguard the Group's reputation.

COMPLIANCE, LEGAL AND REGULATORY RISK

- STM has no tolerance for non-compliance with applicable laws and regulations which apply in all jurisdictions in which the Group operates.
- STM proactively engages with its regulatory stakeholders and the broader business community with respect to industry-wide issues and regulatory developments.
- STM meets all regulatory reporting and tax requirements in all jurisdictions where it operates and ensures the timely and transparent disclosure and dissemination of information.
- STM has robust AML processes in place across all Group entities to protect against facilitating financial crime and terrorist financing.

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KEY RISK APPETITE STATEMENTS (CONTINTUED)

FINANCIAL RISK: CREDIT RISK, MARKET RISK AND LIQUIDITY RISK

- STM has a low risk tolerance to credit risk exposure. Processes are in place to ensure counterparty diversification and funds will only be placed by the Group and its entities with financial counterparties with a minimum credit rating of BBB. Any exceptions that may be necessary must have approval of the STM entity's Board of Directors.
- STM has a low risk tolerance to losses resulting from market risk exposure. The Group has minimal exposure to foreign exchange rates, interest rates and equity prices.
- STM shall at all times maintain internal capital and liquidity levels that meet or exceed regulatory requirements and allow the Group to meet its financial obligations.

OPERATIONAL RISK

- STM has a low risk tolerance for operational issues which could lead to financial loss or business disruption. Processes and controls are established across the Group to mitigate operational risks. Each individual entity within the Group establishes quantitative limits on the maximum loss and service impact arising from operational errors and incidents. Additionally, the Group has location specific business continuity plans that are designed with the objective that critical information technology systems and services can resume operations within a reasonable period of time following disruptive events.
- STM has a low risk tolerance for information security incidents and ensures appropriate information security standards are applied in a consistent and comprehensive manner by all Group entities in order to protect information assets and safeguard against breaches of confidential data or internal and external fraud (i.e. data and the systems that store and process those data).

CONDUCT RISK

- STM promotes and maintains an ethical business culture and does not tolerate fraudulent behaviours, dishonesty, bribery or discrimination in any aspect of the Group's business. The Group Whistleblowing Policy ensures that any incidents of unethical behaviour can be safely escalated and disciplinary action taken as required.
- STM safeguards the interests of the Group's customers which it considers to be paramount. The Group Complaints Handling Policy ensures that customer complaints are dealt with fairly and promptly with root cause analysis undertaken to identify any serious or systematic failings in the Group's duty of care to its customers.
- STM's product governance, design, and distribution ensure that products are transparent and meet customer needs. Intermediaries are subjected to robust due diligence and where commissions are paid these are appropriate and formally agreed to by the STM entity's Board.
- STM ensures independence of the control functions (Risk, Compliance and Internal Audit), with sufficient authority and direct access to the governance bodies. These control functions are not conditioned by the business lines and actively participate in taking important risk decisions.

HR RISK

- STM understands the importance of its human capital and the need to ensure employees have the appropriate levels of competency to perform their roles efficiently, be engaged with the business and add value to the Group. To this end all staff are provided with a Group-wide training framework which ensures a minimum level of knowledge across all Group entities. STM has no tolerance for any member of staff wilfully disregarding their training obligations.
- STM understands that certain roles within the Group are vital and has established viable succession plans to address Key Person risk.