

Risk Committee Report



Lesley Jones Chair of the Risk Committee

The Risk Committee's principal roles and responsibilities are to support the board in its oversight of risk management across the group. The identification, management and mitigation of risk is fundamental to the success of the group. The following sections set out the Committee's membership, its key responsibilities and the principal areas of risk upon which we have focused during the year. The Committee plays an important role in setting the tone and culture that promotes effective risk management across the group.

Chair's Overview

Looking back over the last 12 months, I am pleased with the way in which the group has been able to manage risk effectively as we continue to operate in this Covid environment. Notwithstanding all of the challenges associated with the pandemic, including home working and a heightened regulatory focus on customer outcomes which we have delivered upon, we have continued to progress against the broader regulatory agenda, in particular with regard to climate risk, conduct risk, operational resilience, cyber risk and outsourcing/third party risk.

During the year, we have leveraged our pre-prepared and business-tailored playbooks to good effect to support both risk management and business delivery in line with strategy. These playbooks continue to be refined and remain a key component of our risk management framework.

In common with other firms, we have matured in our approach to remote working as a steady state and have updated our control frameworks in response to the associated change in risk profile that this presents. The investment made over recent years to enhance our risk management systems and risk reporting infrastructure has continued to serve us well in this environment.

The Committee and the group board have continued to receive regular and timely updates on our operations, liquidity and balance sheet, supporting the ability of the directors to address the challenges presented by the pandemic. These include issues associated with elevated levels of forbearance, most notably ensuring positive customer outcomes and adhering to our conduct risk responsibilities.

I remain confident that we are well placed to meet the challenges and uncertainties ahead.

Committee Roles and Responsibilities

The Committee's key roles and responsibilities are to:

- oversee the maintenance and development of a supportive culture in relation to the management of risk;
- review and set risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed appetite;
- review the effectiveness of the risk management framework to ensure that key risks are identified and appropriately managed; and
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee).

The Committee undertakes a robust assessment of both the principal and emerging risks facing the group over the course of the year, and reviews reports from the risk and compliance function on the processes that support the management and mitigation of those risks. As part of the ongoing review process, a specific assessment of the principal risks and emerging risks and uncertainties facing the group is also carried out by the board, including those that would threaten its business model, future performance, solvency or liquidity. A summary of the group's principal risks and emerging risks and uncertainties is provided on pages 60 to 67.

Risk Committee Report continued

Membership and Meetings

The Committee comprises all Close Brothers Group independent non-executive directors and myself as chair.

In addition to the regular updates received by the Committee during the Covid-19 lockdown, eight meetings were held during the year (six scheduled and two ad hoc). Full details of attendance by the non-executive directors at scheduled meetings are set out on page 80. In addition to the members of the Committee, standing invitations are extended to the chairman of the board, the executive directors, the group chief risk officer, the group head of compliance and the group head of internal audit. All attend our Committee meetings as a matter of course and have supported and informed the Committee's discussions.

Other executives, subject matter experts, risk team members and external advisers are invited to attend the Committee from time to time as required, to present and advise on reports commissioned. I continue to meet frequently with the group chief risk officer and his risk team in a combination of formal and informal sessions, and with senior management across all divisions of the group, to discuss the business environment and to gather their views of emerging risks, business performance and the competitive environment.

Committee Effectiveness

As described in more detail on page 86, an evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. The results confirm that the Committee is operating effectively. The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

Activity in the 2021 Financial Year

The risk function continues to evolve with the three lines of defence model now well established and a mature and effective risk management framework in place. The risk design has been strengthened further with both the recruitment and development of additional skills and resource, particularly in the areas of conduct and compliance, operational resilience, data governance and cyber risk.

The Committee has delivered on all of its planned objectives for the year. In particular, the risk appetite framework continues to evolve, as does the quantitative analysis that supports the group's risk management capabilities. This has allowed us to adopt and refine risk appetite measures at a more granular level within portfolio management, individual credit-decisioning and risk reporting.

Given the ongoing pandemic, the Committee has focused strongly on those areas most current to circumstance, in particular operational risk status, cyber protection, credit impairment/model performance and governance of third party risk.

The group's use of finance and risk models continues to evolve at pace with the ongoing development of credit and impairment models. This is in line with our IRB application which was submitted as planned during the financial year. We have also seen the continued embedding and use of the model risk framework and governance structure with particular focus at the Committee on the performance of our model suite at this point in the cycle. The board and the Committee continue to assess various options for advancing our future modelling approach with the aim of enhancing our risk management capabilities. Risk infrastructure is either in place or being developed to support this, including a data warehouse and model hosting platform.

Focus on cyber crime has increased as we remain alert to the risk, with the Committee receiving regular updates over the course of the year with the support of external parties where appropriate. We continue to upgrade our detection and monitoring capabilities and our overall posture.

We have also continued to review the risks presented by climate change and have received various updates throughout the year on the group's progress in developing a regulatorily-compliant climate risk framework. This remains an area of heightened focus, both within the group and across the industry more broadly, and we continue to track emerging best practice ahead of our planned alignment with TCFD recommendations in 2022.

Ensuring that we are fully compliant with the numerous and ever-changing regulatory requirements for financial services firms remains challenging. We engage actively with regulators and industry bodies to ensure that our compliance framework remains appropriate and relevant for all of our businesses.

The compliance team works closely with first and second line colleagues, providing regulatory advice in support of divisional business strategies, as well as shaping policies, delivering training and conducting assurance reviews. This is of particular importance in our retail businesses where customer conduct and affordability rules have increased their reach. Over the course of the last year we have continued to evolve our conduct risk reporting framework with regular updates provided to the Committee.

The Committee has also received an update on the status of the Senior Managers and Certification Regime ("SMCR") framework in place across the group, with work currently ongoing to further embed and enhance our practices in this area.

Over the course of 2021, the Committee has also exercised oversight of Novitas. This has included review of the effectiveness of local and group-level risk and control governance, together with challenge and discussion on both the financial and non-financial risks in the business.

Remuneration

The linkage between culture, risk and compensation is an important one and the Risk Committee and the group chief risk officer have provided input to the Remuneration Committee again this year to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward.

Looking Ahead to 2022

The year ahead promises to be another challenging one for the Committee. The longer-term outcomes of the pandemic, including associated economic impacts, remain uncertain and will require close attention. Notwithstanding, we will not lose sight of the longer-term plans that we have for continuous improvement, namely:

- Continuing the development of an effective and regulatorily-compliant climate risk framework, including alignment with TCFD recommendations.
- As part of the IRB programme, continued review and assessment of the group's modelling capabilities, including the further development of the models strategy.
- Close monitoring of operational risk impacts alongside refinement and advancement of the group's operational resilience framework.
- A focus on third party risk, including alignment with new and evolving regulation.
- Further evolution of the conduct risk framework and broader emphasis on ensuring positive customer outcomes.

Lesley Jones

Chair of the Risk Committee

28 September 2021