Risk Management

Identification, measurement and management of risk are fundamental to the success of the group. Over the past 12 months the group has continued to strengthen its risk management framework and further develop the organisation's risk committees, at both a group and business level. These continue to work efficiently and effectively.

The group's risk and control framework is designed to support the capture of business opportunities while maintaining an appropriate balance of risk and reward within the group's agreed risk appetite. It further ensures that the risks to which the group is, or may become, exposed are appropriately identified, and that those which the group chooses to take are managed, controlled and, where necessary, mitigated, so that the group is not subject to material unexpected loss.

The group reviews and adjusts its risk appetite annually as part of the strategy setting process. This aligns risk-taking with the achievement of strategic objectives. Adherence to appetite is monitored by the group's risk committees.

Throughout the year the Risk Committee undertakes a robust assessment of the principal and emerging risks facing the group, and reviews reports from the risk function on the processes that support the management and mitigation of those risks.

In addition, the Board, assisted by the Risk Committee and the Audit Committee, monitors the group's risk management and internal control systems and reviews their effectiveness. This covers all material controls, including financial, operational and compliance controls. The board also reviews the effectiveness of both committees on an annual basis. Based on its assessment throughout the year, and its review of the committees' effectiveness, the Board considers that, overall, the group has in place adequate systems and controls with regards to its profile and strategy.

The risk management framework is based on the concept of "three lines of defence", as set out in the table below.

The key principles underlying risk management in the group are that:
- Business management owns all the risks assumed throughout the group and is responsible for their management on a day-to-day basis to ensure that risk and return are balanced;
- The board and business management together promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- The overriding priority is to protect the group's long-term viability and produce sustainable medium to long-term revenue streams;
- Risk functions are independent of the businesses and provide oversight of and advice on the management of risk across the group;
- Risk management activities across the group are proportionate to the scale and complexity of the group's individual businesses;
- Risk mitigation and control activities are commensurate with the degree of risk; and
- Risk management and control supports decision-making.

Risk Management Framework

First line of defence	Second line of defence	Third line of defence
The Businesses	**Risk and Compliance**	**Internal Audit**
Group Risk and Compliance Committee (Reports to the Risk Committee)	Risk Committee (Reports to the board)	Audit Committee (Reports to the board)
Chief executive delegates to divisional and operating business heads day-to- day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses.	Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk-related issues.	Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance.
Business management has day-to-day ownership, responsibility and accountability for: • identifying and assessing risks; • managing and controlling risks; • measuring risk (key risk indicators/early warning indicators); • mitigating risks; • reporting risks; and • committee structure and reporting.	Risk functions (including compliance) provide support and independent challenge on: • the design and operation of the risk framework; • risk assessment; • risk appetite and strategy; • performance management; • risk reporting; • adequacy of mitigation plans; • group risk profile; and • committee governance and challenge.	Internal audit provides independent assurance on: • first and second lines of defence; • appropriateness/effectiveness of internal controls; and • effectiveness of policy implementation.
Key Features • Promotes a strong risk culture and focus on sustainable risk-adjusted Returns. • Implements the risk framework. • Promotes a culture of adhering to limits and managing risk exposures. • Promotes a culture of customer focus and appropriate behaviours. • Ongoing monitoring of positions and management and control of risks. • Portfolio optimization. • Self-assessment.	**Key Features** • Overarching "risk oversight unit" takes an integrated view of risk (qualitative and quantitative). • Supports through developing and advising on risk strategies. • Facilitates constructive check and challenge – "critical friend"/"trusted adviser". • Oversight of business conduct.	**Key Features** • Draws on deep knowledge of the group and its businesses. • Provides independent assurance on the activities of the firm, including the risk management framework. • Assesses the appropriateness and effectiveness of internal controls. • Incorporates review of culture and conduct.

The Risk 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 full terms of reference of the Risk Committee can be found here.