

Risk Management

Principal risks are a risk or a combination of risks that, given the Group's current position, could seriously affect the performance, future prospects or reputation of the Group. They include those risks that could materially threaten our business model, performance, solvency or liquidity, or prevent us from delivering our strategic objectives.

The Board has the overall responsibility for ensuring that risk is appropriately managed across the Group. The Board has established the Group's risk appetite and strategy and approved its frameworks, methodologies, policies, and roles and responsibilities.

The Group has an internal audit manager who reports to the Audit Committee Chairman. The internal

audit manager's priorities have been agreed by the Board's Audit Committee and Risk & Compliance Committee and focus on (i) high residual risks and (ii) those risks which have been significantly reduced by Group actions and procedures.

The Group's approach to risk management is underpinned by the 'Three Lines of Defence' model which is summarised in the diagram below.

Responsibility for the First Line of Defence resides with the front-line business divisions and functions (eg operations and finance). Line managers are directly accountable for identifying and managing the risks arising in their functional or business area.

The Second Line of Defence comprises the Group's central and independent risk management and compliance functions with responsibility for oversight, compliance monitoring and reporting to the Board's Risk & Compliance Committee and the Executive Risk Committee. This is led by the Risk and Compliance Director who reports to the Chairman of the Risk & Compliance Committee and to the CEO.

The Third Line of Defence includes the internal audit manager who reports to the Chairman of the Audit Committee and is independent of the First and Second Lines of Defence. In addition, external accountants undertake a quarterly audit on behalf of the Group's external lenders.

Line of Defence	Role	Functions
First Line of Defence	Direct responsibility for the performance and monitoring of front-line control activities across the business	<ul style="list-style-type: none"> - Field operations – regional managers, area managers and business managers - Central operations - Banking and finance
Second Line of Defence	<ul style="list-style-type: none"> - Support and challenge the business via control activities - Independently review the effectiveness of front-line control activity - Manage fraud 	<ul style="list-style-type: none"> - Compliance, risk and financial crime
Third Line of Defence	Independently assess and assure: <ul style="list-style-type: none"> - Internal control framework - Risk management effectiveness 	<ul style="list-style-type: none"> - Internal audit - Use of third-party specialists to assist the internal auditor - Use of third-party internal auditors and legal specialists

The Group maintains a risk register covering the entire business. Risks are rated according to the probability of occurrence and potential impact. Each risk is assigned to an appropriate individual and all mitigation and action plans are recorded.

The Group operates only in the UK financial services sector and the Directors believe that whatever form Brexit may take, it is not a material risk to the business. The principal risks faced by the business by risk category are as displayed on pages 26 and 27.

The Directors, through the Risk & Compliance Committee, 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.