Risk Report

The protection of our established business model is a key strategic objective. Effective management of the risks we face is central to everything we do.

Our Approach to Risk

The group faces a number of risks in the normal course of business providing lending, deposit taking, wealth management services and securities trading. To manage these effectively, a consistent approach is adopted based on a set of overarching principles, namely:

- adhering to our established and proven business model, as outlined on pages 12 and 13;
- implementing an integrated risk management approach based on the concept of "three lines of defence"; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics and limits.

This Risk Report provides a summary of our approach to risk management, covering each of the key aspects of the firm's Enterprise Risk Management Framework. A summary of the group's principal risks is also included, together with an overview of emerging risks and uncertainties.

Role of the Board

The board retains overall responsibility for overseeing the maintenance of a system of internal control which ensures that an effective risk management framework and oversight process operates across the group. The risk management framework and associated governance arrangements are designed to ensure a clear organisational structure with distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the group is, or may become, exposed.

Risk management across the group is overseen by the Board Risk Committee. The Committee is responsible for reviewing risk appetite, monitoring the group's risk profile against this and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Committee is responsible for overseeing the maintenance and development of an appropriate and supportive risk culture and for providing risk input into the alignment of remuneration with performance against risk appetite. The Committee's key areas of focus over the last financial year are set out on pages 79 and 80.

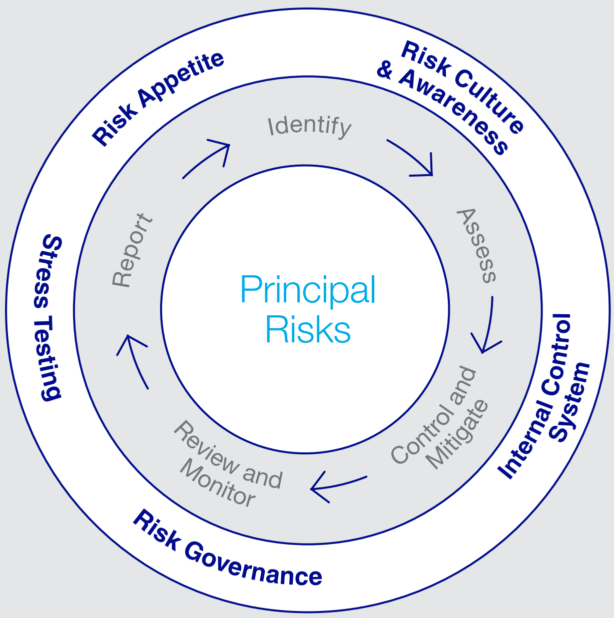
Enterprise Risk Management

The group employs an Enterprise Risk Management Framework to provide the board and senior management with oversight of the organisation's financial position as well as the risks that might adversely affect it.

The framework details the core risk management components and structures used across the firm, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process lifecycle. This sets out the activities, tools, techniques and organisational arrangements that ensure all principal risks facing the group are identified and understood; and that appropriate responses are in place to protect the group and prevent detriment to its customers and colleagues. This enables the group to meet its goals and enhances its ability to respond to new opportunities.

The framework is purposely designed to allow the capture of business opportunities whilst maintaining an appropriate balance of risk and reward within the group's agreed risk appetite.

Enterprise Risk Management Framework



The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on page 14. The board considers that the group's current risk profile remains consistent with its strategic objectives.

Risk Appetite

Risk appetite forms a key component of the group's risk management framework and refers to the sources and levels of risk that the group is willing to assume in order to achieve its strategic objectives and business plan. It is managed through an established framework that facilitates ongoing communication between the board and management with respect to the group's evolving risk profile. This enables key decisions concerning the allocation of group resources to be made on an informed basis.

A well-defined risk appetite is set on a top-down basis by the board with consideration to business requests and executive recommendation. Appetite measures, both qualitative and quantitative, are applied to inform decision making, and monitoring and reporting processes. Early warning trigger levels are also employed to drive required corrective action before overall tolerance levels are reached.

The group conducts a formal review of its risk appetites annually, as part of the strategy-setting process. This aligns risk-taking with the achievement of strategic objectives. Adherence is monitored through the group's risk committees on an ongoing basis with interim updates to individual risk appetites considered as appropriate through the year.

Stress Testing

Stress testing represents another core component of the risk management framework and is employed, alongside scenario analysis, to support assessment and understanding of the risks to which the group might be exposed in the future. As such, it provides valuable insight to the board and senior management, playing an important role in the formulation and pursuit of the firm's strategic objectives.

Stress testing activity within the group is designed to meet two principal objectives:

1. Inform capital and liquidity planning – including liquidity and funding risk assessment contingency planning and recovery and resolution planning; and
2. Supporting ongoing risk and portfolio management – including risk appetite calibration, strategic decisioning, risk/reward optimisation and business resilience planning.

To support these objectives, stress testing is designed to cover the group's most material risks, with activity conducted at various levels, ranging from extensive firm-wide scenario analysis to simple portfolio sensitivity analysis.

Stress testing also represents a critical component of both the firm's ICAA and ILAA processes with scenario analysis additionally employed as part of the group's Recovery Plan.

Risk Governance

The group's risk management approach is underpinned by a strong governance framework that it considers appropriate to both the size and strategic intentions of its businesses.

The framework is founded on a "three lines of defence" model, as set out below:

The key principles underlying this approach 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.

Effective management of the risks we face

Risk Report continued

Three Lines of Defence

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)

First line of defence

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.

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.

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 optimisation.
- Self-assessment.

Second line of defence

Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk-related issues.

Risk functions (including compliance) provide support, assurance 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.

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.

Third line of defence

Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance.

Internal audit provides independent assurance on:
- first and second lines of defence;
- appropriateness/effectiveness of internal controls; and
- effectiveness of policy implementation.

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.

Aligned to these core principles, the governance framework operates through various delegations of authority from the board downwards. These cover both individual authorities as well as authorities exercised via the group’s risk committee structure.

Risk Committee Structure

Group Board

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Board Risk Committee

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Executive Committees
- Group Risk and Compliance Committee
- Model Governance Committee
- Capital Adequacy Committee
- Asset and Liability Committee

Risk-Specific Committees
- Credit Risk Management Committee
- Group Credit Committee
- Impairment Adequacy Committee
- Operations and Technology Risk Committee

Divisional Committees
- Divisional Risk and Compliance Committees

Risk Committee Overview

Group Risk and Compliance Committee	Provides oversight of the group's risk profile, alignment to risk appetite and effectiveness of the risk management and compliance framework.
Model Governance Committee	Provides oversight of the group's exposure to model risk through the review, approval and monitoring of all high materiality models.
Capital Adequacy Committee	Monitors group and bank capital adequacy, incorporating capital planning, stress testing, governance, processes and controls.
Asset and Liability Committee	Provides oversight of risk management and internal control for the bank and its subsidiaries across liquidity, funding and market risk.
Credit Risk Management Committee	Monitors the group's credit risk profile, examining current performance and key portfolio trends, ensuring compliance with risk appetite.
Group Credit Committee	Reviews material credit transactions and exposures from a credit, reputational, funding structure and business risk perspective.
Impairment Adequacy Committee	Governs the bank's impairment process, reviewing the financial position relating to impairment and ensuring adequate coverage is held across the portfolio.
Operations and Technology Risk Committee	Monitors and oversees group-wide operational resilience, including technology, security, supplier and operational risk appetite, examining industry, regulatory and technical risks.
Divisional Risk and Compliance Committees	Provide oversight of risk profile, alignment to risk appetite and effectiveness of the risk management and compliance framework at a divisional or business level.

Together, these committees facilitate an effective flow of key risk information, as well as functioning to support effective risk management at each stage of the risk process lifecycle. They also provide an effective escalation channel for any risks or concerns, supporting the maintenance of an effective risk culture.

Over the past 12 months the group has continued to strengthen its risk governance framework and specifically the organisation's risk and compliance committees, both at a group and divisional level. These continue to work efficiently and effectively.

Internal Control System

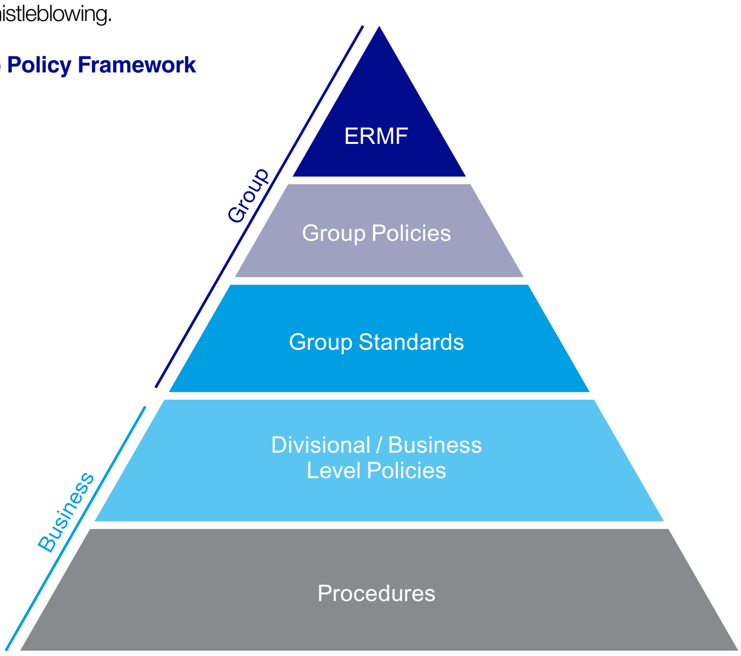
Aligned to the risk governance framework, risk control and oversight across the group is supported by the maintenance of a range of internal controls. These cover risk and financial management and reporting and control processes and are designed to ensure the accuracy and reliability of the firm's financial information and reporting.

The main features of these controls include consistently applied accounting policies, clearly defined lines of responsibility and processes for the review and oversight of disclosures within the Annual Report. These controls are overseen by the Audit Committee.

The accounting policies form part of a broader policy framework, overseen by the board, that supports the foundation of a strong risk management structure.

Group Policies are supported by Group Standards, Divisional/Business-level Policies and Procedures which, together, outline the way in which policy is implemented and detail the process controls in place to ensure compliance. Policies and Standards relating to the group's principal risks are fully covered within the framework, and include specific documents relating to financial crime compliance (e.g. anti-money laundering/anti-bribery and corruption) and whistleblowing.

Group Policy Framework



This structure establishes a link between group strategy and day-to-day operations in a manner consistent with agreed risk appetite, while simultaneously facilitating board and executive-level oversight and assurance as to the application of said strategy via conformance with underlying policy and standard requirements.

Risk Report continued

Throughout the year, 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 regard to its profile and strategy.

Risk Culture and Awareness

Maintenance of an effective risk management culture is integral to the group meeting its regulatory conduct requirements and assisting the accomplishment of key strategic goals.

The risk culture:

- supports the group and its directors to meet their legal and regulatory obligations, particularly with respect to the identification and management of risks and the need for a robust control environment;
- underpins the group's purpose, strategy, cultural attributes and divisional values;
- provides enhanced awareness of risk in business operations by highlighting strengths and weaknesses and their materiality to the business and, in turn, facilitating informed decision making;
- optimises business performance by facilitating challenge of ineffective controls and improving the allocation of resources;
- ensures allocation of capital for operational risk is proportionate for the risks identified;
- improves the group's control environment; and
- assists in the planning and prioritisation of key projects and initiatives.

Managers actively promote a culture in which risks are identified, assessed, managed and reported in an open, transparent and objective manner, and where appropriate staff conduct is viewed as critical.

All members of staff are responsible for risk identification and reporting within their area of responsibility and are encouraged to escalate risks and concerns where necessary, either through line or business management or by following the provisions of the Group Whistleblowing Policy.

Group Risk Management operates independently of the business, providing oversight and advice on the operation of the risk framework, and assurance that agreed processes operate effectively and that a risk and conduct culture is embedded within the business.

Risk Culture

The relationship between risk and reward is also a key priority with all staff evaluated on an ongoing basis against qualitative and quantitative criteria. This encourages long-term, stewardship behaviours together with a strong and appropriate risk and conduct culture.

For further information on our approach to remuneration for the group's directors see pages 87 to 114.

Principal Risks

The following pages set out the principal risks that may impact the group's ability to deliver its strategy, how we seek to mitigate these risks, and relevant key developments, both over the last year and anticipated for the next financial year.

While we constantly monitor our portfolio for emerging risks, the group's activities, business model and strategy remain unchanged. As a result, the principal risks that the group faces and our approach to mitigating them remain broadly consistent with prior years. This consistency has underpinned the group's track record of trading successfully and supporting our clients over many years.

The summary should not be regarded as a complete and comprehensive statement of all potential risks faced by the group, but reflects those which the group currently believes may have a significant impact on its future performance.

Key: No change   Risk decreased   Risk increased

Risk	Risk Management and Mitigation

Business Risk

The group operates in an environment where it is exposed to an array of independent factors. Its profitability is impacted by the broader UK economic climate, changes in technology, regulation and customer behaviour, cost movements and competition from traditional and new players, varying in both nature and extent across its divisions.

Changes in these factors may affect the bank's ability to write loans at its desired risk and return criteria, result in lower new business volumes in Asset Management or impact levels of trading activity at Winterflood.

Risk Management and Mitigation

The group's long track record of successful trading is supported by a consistent and disciplined approach to pricing and credit quality, both in competitive markets and through periods of heightened risk. This allows us to continue to support our customers at all stages in the financial cycle.

We build long-term relationships with our clients and intermediaries based on:
- the speed and flexibility of services;
- our local presence and personal approach;
- the experience of our people and subject matter experts; and
- our offering of tailored and client-driven product solutions.

This differentiated approach and the consistency of our lending results in strong customer relationships and high levels of repeat business.

We are further protected by the diversity of our businesses and product portfolio, which provides resilience against competitive pressure or market weakness in any one of the sectors we operate in.

The group is planning for a range of different economic and business scenarios to ensure it has the resources and operational capability to continue operating effectively.

Change/Outlook

Covid-19 has significantly impacted UK economic activity and has increased uncertainty regarding future economic conditions and the resulting impact on our customers and clients. While a range of measures to support individuals and businesses have been introduced, their long-term effectiveness and impact on the broader competitive environment remain uncertain.

We continue to focus on supporting our customers, maintaining underwriting standards and investing in our business.

Further commentary on the market environment and its impact on each of our divisions is outlined on pages 34 to 47. Our business model is set out on pages 12 and 13.

Risk Report continued

Risk | **Risk Management and Mitigation**

Capital Risk

The group is required to hold sufficient regulatory capital (including equity and other loss-absorbing debt instruments) to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals.

Capital risk is measured using CET1 and total capital ratios, determined in line with regulatory capital adequacy requirements. These ratios, and associated metrics, are actively monitored, and reported quarterly to the regulator. They are also disclosed annually in the group's Pillar 3 disclosures as well as in the Annual Report – see pages 36 and 37.

Both actual and forecast capital adequacy is reported through the group's governance framework with oversight from the Capital Adequacy Committee. Annually, as part of the ICAAP, the group also undertakes its own assessment of its capital requirements against its principal risks (Pillar 2a) together with an assessment of how capital adequacy could be impacted in a range of stress scenarios (Pillar 2b). Under both assessments, the group ensures that it retains sufficient levels of capital adequacy.

The group retains a range of capital risk mitigants, the most notable being its strong capital generating capacity, arising from its track record of sustained profitability. The group also maintains access to capital markets and has in recent years successfully issued Tier 2 capital instruments.

Change/Outlook

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While Covid-19 has affected capital generation due to lower than expected profits, the impact has been offset by a moderation in the loan book, reducing RWAs. Regulatory actions to bolster capital, most notably guidance on distributions and the removal of countercyclical capital buffers, have also increased the group's capital surplus, allowing lending to continue where demand exists.

Further commentary on the group's capital is outlined in note 22 on pages 156 to 158.

Conduct Risk

The group's relationship-focused model amplifies the importance of exhibiting strong behaviours in order to ensure positive outcomes for our customers.

Failing to treat customers fairly, to safeguard client assets or to provide advice and products which are in clients' best interests, also has the potential to damage our reputation and may lead to legal or regulatory sanctions, litigation or customer redress. This applies to current, past and future business.

The group is committed to treating all customers fairly and delivering an appropriate product suite.

We seek to mitigate conduct risk by:

- providing straightforward and transparent products and services to our clients and customers;
- maintaining a clear governance and approval process for both existing and new products to ensure they meet the needs for which they are designed;
- employing appropriate arrangements to confirm regulatory requirements and guidance aimed at ensuring positive client and customer outcomes are sufficiently embedded within business practices. A programme of risk-based monitoring is also employed to verify adherence; and
- utilising a range of regularly reviewed conduct risk measures to identify and respond to adverse thematic trends.

Change/Outlook

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Regulatory focus and prioritisation of conduct risk continues to increase. Over the course of the year, the FCA has issued specific guidance around vulnerable customers and motor commissions as well as general guidance aimed at supporting customers during the Covid-19 pandemic, all of which directly impact the group. Separate workstreams have been established to ensure the group can meet all minimum requirements and regulatory expectations.

Risk	Risk Management and Mitigation	
Credit Risk As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2020 the group had loans and advances to customers amounting to £7.6 billion. The group also has exposure to counterparties with which it places deposits or trades, and also has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.	We seek to minimise our exposure to credit losses from our lending by: • applying strict lending criteria when testing the credit quality and covenant of the borrower; • maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors; • lending on a predominantly secured basis against identifiable and accessible assets; • maintaining rigorous and timely collections and arrears management processes; and • operating strong control and governance both within our lending businesses and with oversight by a central credit risk team.	Our exposures to counterparties are mitigated by: • excess liquidity of £1.4 billion placed with the Bank of England; • continuous monitoring of the credit quality of our counterparties within approved set limits; and • Winterflood's trading relating to exchange traded cash securities being settled on a delivery versus payment basis. Counterparty exposure and settlement failure monitoring controls are also in place.
Change/Outlook	Credit losses have increased in the year to 31 July 2020, primarily as a result of Covid-19. The macroeconomic shock resulting from the pandemic has caused increased forbearance levels and migration of accounts from Stage 1 to Stages 2 and 3. Expected Credit Loss ("ECL") has also increased as a result of the IFRS 9 macroeconomic adjustments and management has made further adjustments to modelled outputs where considered appropriate. Other counterparty exposures are broadly unchanged, with the majority of our liquidity requirements and surplus funding placed with the Bank of England.	We continue to closely monitor Covid-19 impacts as well as uncertainty over Brexit and the UK economic outlook. These factors could increase the risk of higher credit losses in the future. Further commentary on the credit quality of our loan book is outlined on pages 38 to 43. Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 144 to 148 of the financial statements. Our approach to credit risk management and monitoring is outlined in more detail in note 28 on pages 165 to 178.
Funding and Liquidity Risk The Banking division's access to funding remains key to support our lending activities and the liquidity requirements of the group.	Our funding approach is based on the principles of "borrow long, lend short" and diversity by source and channel. This approach provides resilience and flexibility. Total available funding is kept well in excess of the loan book to ensure funding is available when needed. A strong liquidity position is maintained to ensure that we remain comfortably ahead of both internal risk appetites and regulatory requirements. Liquidity risk is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions.	Funding and liquidity risks are reviewed at each meeting of the bank's Asset and Liability Committee.
Change/Outlook =	While economic uncertainty has the potential to impact funding markets, the group remains conservatively funded and continues to have access to a wide range of funding sources and products. During the last year, a third public motor finance securitisation was executed, evidencing our ability to access debt markets, while online savings were introduced. In response to Covid-19, Treasury successfully migrated its funding and liquidity operations to remote working while funding was increased through an uplift in customer deposits. This action facilitated an increase in treasury assets, predominantly deposits placed with the Bank of England, ensuring the maintenance of sufficient headroom to both internal and external liquidity requirements.	Further commentary on funding and liquidity is provided on pages 36 and 37. Further financial analysis of our funding is shown in note 19 on page 155 of the financial statements.

Risk Report continued

Risk	**Risk Management and Mitigation**	

Market Risk

Market volatility impacting equity and fixed income exposures, and/or changes in interest and exchange rates, have the potential to impact the group's performance.

Our policy is to minimise interest rate risk by matching fixed and variable interest rate assets and liabilities, and using swaps where appropriate. The capital and reserves of the group do not have interest rate liabilities and as such are not hedged.

When measuring interest rate risk in the Banking book the following components are considered:

- repricing risk: the risk presented by assets and liabilities that reprice at different times and rates;
- embedded optionality risk: the risk presented by contract terms embedded in certain assets and liabilities; and
- basis risk: the risk presented when yields on assets, and costs on liabilities, are based on two different bases.

Two core measures are subsequently monitored on a monthly basis: Earnings at Risk ("EaR") and Economic Value ("EV").

Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits.

Winterflood is a market maker providing liquidity to its clients in equity and fixed income instruments. Our trading is predominantly short term, with most transactions settling within two days. Trading positions are monitored on a real time basis.

Change/Outlook

Interest rate risk has increased during the year with base rates currently at historic lows, increasing the potential for a negative rate environment. Where relevant, systems have been tested and confirmed as able to support negative rates.

The traded market risk environment has also been affected by Covid-19 and its impact on the economy, driving elevated volatility and an increase in corporate insolvencies.

Further detail on the group's exposure to market risk is outlined in note 28 on pages 175 and 176 of the financial statements.

The sensitivity analysis on interest rate exposures shown in note 28 on page 175 demonstrates the limited level of exposure to interest rate and foreign exchange movements.

Operational Risk

The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact.

Losses typically crystallise as a result of inadequate or failed internal processes, people, models and systems, or as a result of external factors.

Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient end-to-end delivery of critical business services.

Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to react to changes to these requirements, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate.

The group seeks to maintain its operational resilience through effective management of operational risks, including by:

- sustaining robust operational risk management processes, governance and management information;
- identifying key systems, third party relationships, processes and staff, informing investment decisions;
- investing in technology to provide reliable and contemporary customer service offerings and effective model outputs;
- attracting, retaining and developing high-quality staff through the operation of competitive remuneration and benefit structures and an inclusive environment that embraces diversity and recognises behaviours aligned to our cultural attributes;
- investing in cyber security including expertise, tools and staff engagement;
- maintaining focus on personal data protection;
- adopting fraud prevention and detection capabilities aligned with our risk profile; and
- planning and rehearsing strategic and operational responses to severe but plausible stress scenarios.

Legal and regulatory risks are mitigated by:

- responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment as well as those driven by strategic initiatives;
- implementing appropriate and proportionate policies, standards and procedures designed to capture relevant regulatory and legal requirements;
- providing clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions and perimeter guidance;
- delivering relevant training to all staff, including anti-money laundering, anti-bribery and corruption, conduct risk, data protection and information security. This is augmented by tailored training to relevant employees in key areas;
- deploying a risk-based monitoring programme designed to assess the extent to which compliant practices are embedded within the business;
- maintaining, where possible, constructive and positive relationships and dialogue with regulatory bodies and authorities; and
- maintaining a prudent capital position with headroom above minimum capital requirements.

Risk | **Risk Management and Mitigation**

Operational Risk continued

Change/Outlook

Existing incident and crisis management capabilities were mobilised upon the emergence of Covid-19, enabling the business to sustain operations whilst adjusting to new ways of working. Notwithstanding, the current pandemic may lead to increased risks associated with people, operational process execution, third party management, information security and fraud. The group continues to utilise its operational risk management framework to manage these risks with oversight by relevant risk committees.

Despite the challenges arising from Covid-19, improvements are continuing across the operational risk framework including further enhancement of information security management and strengthening of the firm's operational resilience.

The volume and complexity of regulatory and legal requirements applicable to the group also continues to increase.

We continue to invest in experienced people and relevant systems and processes to help us navigate the increasingly complex regulatory and legal landscape. Arrangements in place to mitigate these risks continue to evolve in their sophistication, application and effectiveness.

Reputational Risk

Protection and effective stewardship of the group's reputation are fundamental to its long-term success.

Detrimental stakeholder perception could lead to impairment of the group's current business and future goals. This could arise from any action or inaction of the company, its employees or associated third parties.

Reputational risk monitoring and management are embedded throughout the organisation, including via:

- focus on employee conduct, with cultural attributes embedded throughout the group;
- supplier and intermediary conduct management through the relationship lifecycle;
- new product approval and existing product review processes for business products and services;
- a proactive approach to environmental, social and governance matters;
- embedding of reputational risk management within the management frameworks of other risk types; and
- proactive communication and engagement with investors, analysts and other market participants.

A key responsibility of the group's board is to define, promote and monitor the company's culture, and adherence to our cultural framework is reported regularly to the board via the group's culture dashboard; see page 75 of the Corporate Governance Report.

Change/Outlook

The group's strong culture, responsible approach to stakeholders and commitment to open and transparent communication continue to mitigate potential reputational risk, despite heightened business, conduct and operational risks arising from Covid-19.

The group's prudent business model also continues to act as a natural mitigant of reputational risk.

The group's proactive approach to engaging with emerging topics such as environmental, social and governance matters continues to mitigate the risk of rapidly changing external factors.

Note: Both Defined Benefit Pension Obligation Risk and Tax Risk are also classified internally as principal risks, however neither is deemed sufficiently material to impact the group's ability to deliver its strategy. The group's defined benefit pension scheme was closed to new entrants in 1996 and to future accrual in 2012. For further information see note 25 on pages 160 and 161.

Risk Report continued

Emerging Risks and Uncertainties
In addition to day-to-day management of its principal risks, the group utilises an established framework to monitor its portfolio for emerging risks and consider broader market uncertainties, supporting organisational readiness for external volatility.

This incorporates input and insight from both a top-down and bottom-up perspective:

- Top-down: identified by directors and executives at a group level via the Group Risk and Compliance Committee and the board.
- Bottom-up: identified at a business-level and escalated, where appropriate, via risk updates into the Group Risk and Compliance Committee.

Group-level emerging risks are monitored by the Group Risk and Compliance Committee on an ongoing basis, with agreed actions tracked to ensure the group's preparedness should an emerging risk crystallise.

Emerging risks and uncertainties currently tracked by the group are detailed below.

Risk	Mitigating Actions and Key Developments	Outlook
Economic Uncertainty	The group's business model aims to ensure that we are able to trade successfully and support our clients in all economic conditions. By maintaining a strong financial position we aim to be able to absorb short-term economic downturns, continuing to lend when competitors pull back and in so doing building long-term relationships by supporting our clients when it really matters. We test the robustness of our financial position by carrying out regular stress testing on our performance and financial position in the event of adverse economic conditions.	Covid-19 has notably increased economic uncertainty in the UK and across global markets more generally. Notwithstanding the resilience of our model, we are continuing to plan for a range of different economic and business scenarios. Further commentary on the attributes and resilience of the group's diversified business model is shown on pages 12 and 13 with commentary on the market environment and its impact on each of our divisions outlined on pages 34 to 46.
Economic and Political Uncertainty as a Result of the UK's Exit from the EU	A transition programme was implemented in 2016 with group-wide participation and regular senior management oversight. This included the launch of a Brexit Forum, responsible for tracking ongoing developments and progressing appropriate contingency plans. Preparations have been made for a potential "no deal" exit, including the establishment of a new Irish subsidiary and subsequent approval of a MoneyLender licence in the Republic of Ireland to support continuation of our continental Retail and SME Premium Finance business.	While direct impact remains low given the group's limited presence within the European Union, developments continue to be closely monitored ahead of the end of the current transition period. Plans are now in place for all plausible outcomes and will be initiated as required.
Financial Loss Resulting from the Physical or Transitional Impacts of Climate Change	Development of an appropriate and regulatory-compliant climate risk framework is ongoing and is managed by a Climate Risk Working Group. Regular updates are provided to the Risk Committee which retains oversight responsibility, while senior management responsibility is assigned to the group chief risk officer. Climate risk is now embedded within the risk governance framework at all levels of the organisation with a review of processes, procedures and policies underway to ensure appropriate consideration of climate-related risks. A group-wide impact analysis exercise has identified a set of core risk themes with work underway to enhance corresponding risk management frameworks.	Climate risk represents an area of increasing focus, both within the group and across the industry more broadly. We are closely monitoring regulatory developments as well as emerging best practice and are exploring various avenues to leverage this as appropriate to support framework development. The short-dated tenor of our lending book and strong resilience capabilities mitigate current risk exposure, however a strategic review is underway to further assess both the opportunities and risks posed by climate change. Outputs from this will further shape the group's response and support our planned alignment with the recommendations of the Taskforce for Climate Related Financial Disclosures ("TCFD").

Risk	Mitigating Actions and Key Developments	Outlook
Transition from LIBOR	A programme is underway to transition the firm away from the use of LIBOR in loan documentation, Treasury transactions and other forms of contract in favour of alternative Risk-Free Rates ("RFRs"). The scope of this work encompasses both new contracts and existing contracts that mature after 31 December 2021, the deadline set by the Prudential Regulatory Authority and the Financial Conduct Authority.	We have made good progress in making the relevant changes to loan documentation to move away from the use of LIBOR and upgrading, where necessary, our processing systems. We will continue to support industry initiatives relating to the transition from LIBOR and remain on track to effect the necessary changes by 31 December 2021.
Disruption from Scottish Independence	Monitoring is in place to track changes in the political landscape with regard to Scottish independence. In the event that Scotland does vote for independence in a future referendum, we are confident that any resulting disruption can be managed effectively with minimal impact on business operations.	An increase in support for Scottish independence has been observed in recent opinion polls. We continue to monitor developments closely.
Legal and Regulatory Change	The group maintains an established horizon scanning framework to identify future regulatory and legal changes that could materially impact its operations. High-level gap and impact analyses are undertaken to assess new compliance requirements with programmes of work initiated to address any identified issues. The extent and nature of this work ranges from simple isolated remedial activity to large multi-year projects, depending on the complexity and scale of the change.	A sustained increase in legal and regulatory change has been experienced in recent years and this is expected to continue in the short to medium term with the continued implementation of existing EU legislation into UK law, and possible future regulatory and legal divergence. The evolving government and regulatory response to Covid-19 is also expected to drive further change.

This Strategic Report was approved by the board and signed on its behalf by:

Adrian Sainsbury
Chief Executive

22 September 2020