

Risk Management

Principal risks are a risk or a combination of risks that, given the Group's current position, could seriously affect the performance, prospects or reputation of the Group in the future.

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 overall responsibility for ensuring that risk is managed appropriately across the Group.

The Board, primarily through its Risk & Compliance Committee, has established the Group's risk appetite and strategy, and approved its frameworks, methodologies, policies, and roles and responsibilities.

The Group has a Head of Internal Audit who reports to the Interim Chair of the Audit Committee. The priorities of the Head of Internal Audit have been agreed by the Board's Audit Committee and Risk & Compliance Committee, and focus on (i) high residual risks and (ii) those risks that 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 areas.

The Second Line of Defence comprises the Group's central and independent risk management and compliance functions with responsibility for oversight, compliance monitoring and financial crime, 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 Interim Chair of the Risk & Compliance Committee and to the CEO.

The Third Line of Defence includes the Head of Internal Audit, who reports to the Interim Chair of the Audit Committee and is independent of the First and Second Lines of Defence. In addition, external accountants undertake a quarterly review on behalf of the Group's external lenders.

During the year, the Group has reviewed its risk management framework in order to ensure that priorities are given to the most important risks.

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. Risks and their status are reviewed regularly, and the Risk & Compliance Committee has performed a robust risk assessment during the year.

We have adapted our lending and collection processes to allow completely remote transactions – ensuring all Government guidance relating to Covid-19 is followed. When lending remotely, we have minimised the risk of application fraud by making sure all customers are properly identified according to Anti-Money Laundering Regulations and Joint Money Laundering Steering Group Guidance. For additional security, the remote lending procedure requires customers to log into their own secure portal account, using unique customer credentials, in order to execute the loan and receive their funds.

The report of the Risk & Compliance Committee on pages 64 to 66 sets out the procedures used by the Board to manage the Group's risks.

1st

LINE OF DEFENCE

Responsible for:

- Performance and monitoring of front-line control activities across the business
- Identifying and managing the risks arising in functional or business area

Ownership

- Field operations – divisional managers, regional managers, area managers and customer relationship managers
- Central operations
- Banking and finance

2nd

LINE OF DEFENCE

Responsible for:

- The Group's central and independent risk management and compliance functions with responsibility for oversight, compliance monitoring and financial crime
- Support and challenge the business via control activities
- Independently review the effectiveness of frontline control activity

Ownership

- Risk and Compliance Director, reporting to: Chair of the Risk & Compliance Committee and the CEO
- Horizon scanning by senior personnel

3rd

LINE OF DEFENCE

Responsible for:

- Independently assess and assure
- Internal control framework
- Risk management effectiveness

Ownership

- Head of Internal Audit, who reports to the Chair of the Audit Committee and is independent of the First and Second Lines of Defence
- External accountants undertake a quarterly audit on behalf of the Group's external lenders