

## Risk and capital management Governance



The Group Board of directors sets the overall risk appetite and philosophy; the risk and capital framework underpins delivery of the Board's strategy. The Board is supported by three committees:

- **Group Audit Committee ("GAC")**, comprising independent non-executive directors, focuses on financial reporting and application of accounting policies as part of the internal control and risk assessment framework. GAC monitors the identification, evaluation and management of all significant risks throughout the Group. This work is supported by Group Internal Audit, which provides an independent assessment of the design, adequacy and effectiveness of internal controls.
- **Advances Committee ("AC")**, reporting to the Board, deals with transactions that exceed the Group Credit Committee's delegated authority.
- **Group Executive Management Committee ("GEMC")**, an executive committee, ensures that implementation of strategy and operations are in line with the agreed risk appetite. GEMC is supported by the following:
  - **Group Risk Committee ("GRC")** recommends and approves limits, processes and policies that ensure the effective management of all material non-balance sheet risks across the Group.
  - **Group Credit Committee ("GCC")** approves credit proposals under authority delegated to it by the Board and/or Advances Committee.
  - **Group Asset and Liability Management Committee ("GALCO")** is responsible for identifying, managing and controlling the Group balance sheet risks. These risks are managed by setting limits and controls for capital adequacy, funding and liquidity, intra-group exposures, and non-trading interest rate, equity and foreign currency risk.

### Risk and capital

It is the Group's policy to optimise return to shareholders while maintaining a strong capital base and credit rating to support business growth and meet regulatory capital requirements at all times.

The Group currently uses a target range for the tier 1 capital ratio of 7.0% to 8.0% for its long-term capital planning with the aim of operating around the mid-point of this range. This is in excess of minimum regulatory requirements.

Capital adequacy and risk management are closely aligned. The Group undertakes a regular assessment of its internal capital requirement based on a quantification of the material risks to which it is exposed. This assessment includes the use of stress tests to assess whether the Group's capital resources are adequate to remain above minimum requirements during a macroeconomic recession. The results of this internal capital assessment are reviewed by the Group Board and are used to ensure the adequacy of the Group's available capital resources, to measure risk-adjusted returns, to inform the annual business and financial planning process and to inform the Board's approval of risk appetite limits.

The allocation of capital resources to divisions is determined as part of the annual business and financial planning process.

Risk appetite is measured as the maximum level of retained risk the Group will accept to deliver its business objectives. Risk appetite is generally defined through both quantitative and qualitative techniques including stress testing, risk concentration, value-at-risk and risk underwriting criteria, ensuring that appropriate principles, policies and procedures are in place and applied.