Viability Statement

Consideration

In accordance with provision 31 of the UK Corporate Governance Code, the board has assessed the prospects of the group and confirms that it has a reasonable expectation that the company and group will continue to operate and meet their liabilities, as they fall due, for the three-year period up to 31 July 2026.

Strategic and Financial Outlook

The board has considered the longer-term viability of the group and considers three years to be an appropriate period for the assessment to be made. A period of three years has been chosen given the group's proven and resilient business model over the medium term and prudent maturity profile and this matches the group strategic planning cycle. A three-year period aligns with the group regulatory and internal stress testing processes, including: (i) group-wide internal forecasting and stress testing, which have undergone significant review and challenge, to confirm the viability of the group; (ii) the ICAAP, which assesses capital requirements; and (iii) ILAAP, which identifies liquidity requirements.

Risk Management and Risk Profile

In making its assessment, the board has identified and assessed the principal and emerging risks facing the group and these are highlighted on pages 90 to 130. The group's approach to monitoring and managing the principal risks faced by the group's business, including financial, business, market and operational risks, has remained consistent given the group's activities, business model and strategy are unchanged.

The group utilises an established risk management framework to monitor its portfolio of emerging risks incorporating the group's "bottom up" and "top down" approach. These approaches are monitored by the local and group risk and compliance committees with agreed actions regularly tracked. Key emerging risks can be found in the Risk Report on pages 94 to 95.

Assessment

The group will continue to monitor and assess these risks, by: adhering to its 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 and monitored risk appetites.

The group's business model, supported by a solid track record and sustained profitability, has worked well through a range of economic, social and environmental conditions over multiple economic cycles and this is projected to continue over the medium term. Taking into account the diversified portfolio of the businesses across the group, the board considers medium-term economic, social, environmental and technological trends at the individual business unit level as part of the strategic planning cycle. This includes focusing on the long-term strategic approach to protect, grow and sustain the group business model, with key priorities outlined on pages 20 to 25.

The board has also assessed the group's viability by considering regular forecasting and stress testing undertaken to reflect uncertainties in the economic environment. A range of forward-looking scenarios has been considered, with distinct social and economic assumptions. Various macroeconomic assumptions have been assessed across the scenarios including GDP growth, inflation, interest rates, unemployment, residential house prices and equity prices (refer to the Risk Report on pages 109 to 114). The modelling considers the group's future projections of profitability, cash flows, capital requirements and resources, and other key financial and regulatory ratios over the period. In the modelled scenarios, it has been assumed that no significant structural changes to the company or group will be required.

These scenarios have been built using the same principles as those in the going concern assessment, extended out over the three-year period:

- the central scenario presents our base case assuming inflation levels remain elevated, reflecting the latest economic outlook, with minimal GDP growth whilst unemployment remains low; and
- the downside scenario modelled assumes severe recession as UK GDP contracts by 5%, driving significant uptick in impairment losses combined with materially impacted market-facing businesses.

Across the divisions, the limited financial impact of each scenario demonstrates the resilience of the group business model. In addition, the directors have reviewed the key management actions which would be taken in the event of a downside scenario, in order to mitigate the stress, and the viability of these actions.

The group maintains capital ratios significantly above regulatory minima, which are currently set at a minimum common equity tier 1 ratio of 9.5% and a minimum total capital ratio of 13.4%, excluding any applicable Prudential Regulation Authority buffer. In all scenarios, the company and group continue to operate with sufficient levels of capital, with the group's capital ratios and funding and liquidity positions well within internal risk appetite and comfortably in excess of regulatory requirements.

The group continues to participate in government lending schemes such as the Term Funding Scheme ("TFSME"), albeit this only represents around 5% of total funding. The TFSME will be replaced as it comes to maturity via unsecured and secured issuance. Please refer to note 26 for further details.

In making this assessment, the directors have considered a wide range of information, including:

- the board's risk appetite and robust assessment of the principal and emerging risks which could impact the performance of the group, and how these are managed – please refer to the Risk Report on pages 83 to 130;
- the group's current financial position and prospects – please refer to the Financial Overview section on pages 66 to 82; and
- the group's business model and strategy – please refer to the Business Model section on pages 12 to 13, and the Strategy and Key Performance Indicators sections on pages 26 to 27.

The directors have also considered the results of the most recent iterations of the following reviews:

- the annual review of the Recovery Plan, which included employing a number of scenarios to test the group Recovery Plan, the wide range of risk indicators and the recovery options available to the group;
- the 2022 group ICAAP, which included both stress testing and scenario analysis. At a group level, two severe stress test scenarios were assessed representing protracted downside scenarios. These took account of the scope and likely effectiveness of mitigating actions that could be taken by management to avoid or reduce the impact or occurrence of underlying risks. As part of the ICAAP, reverse stress testing was also undertaken to support the identification of potential adverse circumstances and events; and
- the 2022 ILAAP, which was reviewed to assess the group's liquidity across a range of market-wide and idiosyncratic scenarios, confirming the ongoing strength of the group's funding and liquidity model. Please refer to note 26 on financial risk management for further details.

This forward-looking Viability Statement made by the board is based on information and knowledge of the group at 26 September 2023. Unexpected risks and uncertainties may arise from future events or conditions, such as economic changes and business conditions, which are beyond the group's control and could cause the group's actual performance and results to differ from those anticipated.

In conclusion, the directors have determined that they have a reasonable expectation that the group and company will be able to continue its operations and meet its liabilities as they fall due over the three-year period of the assessment.

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

Adrian Sainsbury
Chief Executive

26 September 2023