Risk Report

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

The group faces a number of risks in the normal course of its 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 to 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 group's Enterprise Risk Management Framework. Information on each of the group's principal risks, including an overview of the frameworks in place to manage them, is also included, together with an overview of current emerging risks and uncertainties.

All disclosures in the Risk Report are unaudited unless otherwise stated.

Enterprise Risk Management Framework

Risk Report continued

Enterprise Risk Management

An enterprise-wide framework designed to provide the board and senior management with oversight of the group'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 group, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process life cycle.

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.

Risk Culture and Awareness

An effective risk culture is embedded throughout the group

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

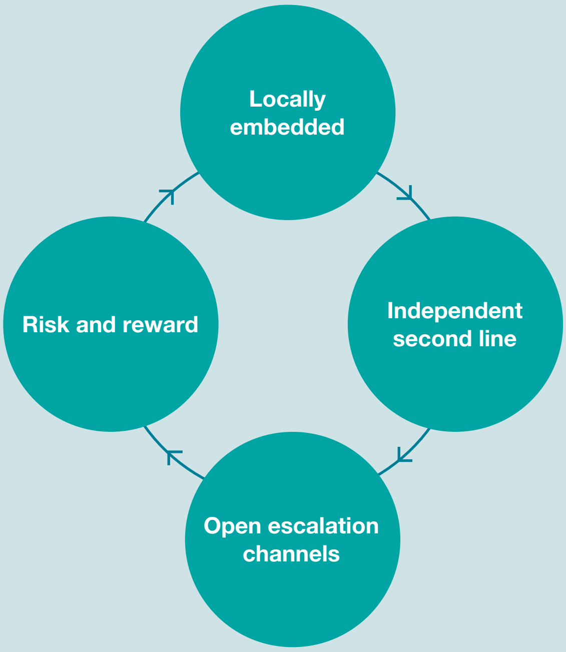
The risk culture:

- supports the group and its directors in meeting 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;
- improves the group's control environment; and
- assists in the planning and prioritisation of key projects and initiatives.

While risk management is led centrally, it is embedded locally within our businesses. Managers actively promote a culture in which risks are identified, assessed, managed and reported in an open, transparent and objective manner, and 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,

Risk Culture



Locally embedded
Risks managed in an open, transparent and objective manner.

Independent second line
Providing oversight, advice and assurance.

Open escalation channels
Escalation of risks and concerns encouraged; driving individual accountability.

Risk and reward
Regular evaluations encourage long-term stewardship behaviours.

Risk Governance

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 operate 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. On an annual basis, the board reviews the effectiveness of the group's risk management and internal control systems.

Risk management across the group is overseen by the 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 164 to 166.

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on pages 20 to 25. The board considers that the group's current risk profile remains consistent with its strategic objectives.

Risk Committee Structure

Together, these committees facilitate an effective flow of key risk information, as well as functioning to support appropriate risk management at each stage of the risk process life cycle. They also provide an escalation channel for any risks or concerns, supporting the maintenance of an effective risk culture. During the year the effectiveness of these committees was reviewed and all committees continue to work efficiently and effectively.

Over the past 12 months the group has further enhanced its risk governance framework and specifically the organisation's risk and compliance committees, at both group and divisional level. This has included the continued refinement of committee terms of reference and the evolution of reporting packs and management information suites.

Risk Report continued

Risk Committee overview

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.

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.
Bank Asset and Liability Committee	Provides oversight of the Banking division's risk management and internal controls and its subsidiaries across liquidity, funding and market risk.
Group Asset and Liability Committee	Provides oversight of the company and wider group's risk management and internal controls 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 Banking division'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.

Three lines of defence

The group's risk management approach is underpinned by a strong governance framework founded on a three lines of defence model.

The governance framework is considered appropriate to both the size and strategic intentions of the group. The key principles underlying this approach are that:

- business management owns all the risks assumed throughout the group and is responsible for their day-to-day management to ensure that risk and reward 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.

Three Lines of Defence

		Key features
First line of defence		
The businesses **Group Risk and Compliance Committee (reports to the Risk Committee)** The chief executive delegates to divisional and operating business chief executives the 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, including controls framework and effectiveness; • reporting risks; • committee structure and reporting; and • management and self-assessment of operational resilience capabilities.	• 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 and ongoing self-assessment. • Promotes a culture of customer focus and appropriate behaviours. • Promotes responsibility for ongoing monitoring of positions and management and control of risks and controls effectiveness, including testing, alongside portfolio optimisation.
Second line of defence		
Risk and compliance **Risk Committee (reports to the board)** The Risk Committee delegates day-to-day responsibility for oversight and challenge on risk-related issues to the group chief risk officer.	Risk functions (including compliance) provide support, assurance and independent challenge on: • the design and operation of the risk framework and methodologies; • risk assessment; • risk appetite and strategy; • performance management; • risk reporting; • adequacy of mitigation plans and effectiveness of risk decisions taken by business management; • group risk profile; and • committee governance and challenge.	• Oversees embedding of the risk framework and supporting methodologies, taking an integrated approach to risk and compliance (qualitative and quantitative). • Promotes a strong and effective risk and control culture across the group. • Undertakes compliance monitoring and risk assurance activities. • Supports through developing and advising on risk and compliance strategies. • Facilitates constructive check and challenge. • Oversight of business conduct.
Third line of defence		
Internal audit **Audit Committee (reports to the board)** The 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.	• Draws on deep knowledge of the group and its businesses. • Provides independent assurance on the activities of the group, including the risk management framework. • Assesses the appropriateness and effectiveness of internal controls. • Incorporates review of culture and conduct.

Risk Report continued

Internal Control System

Supporting the foundation of a strong risk management structure

Aligned to the risk governance framework, 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. The controls are designed to ensure the accuracy and reliability of the group'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.

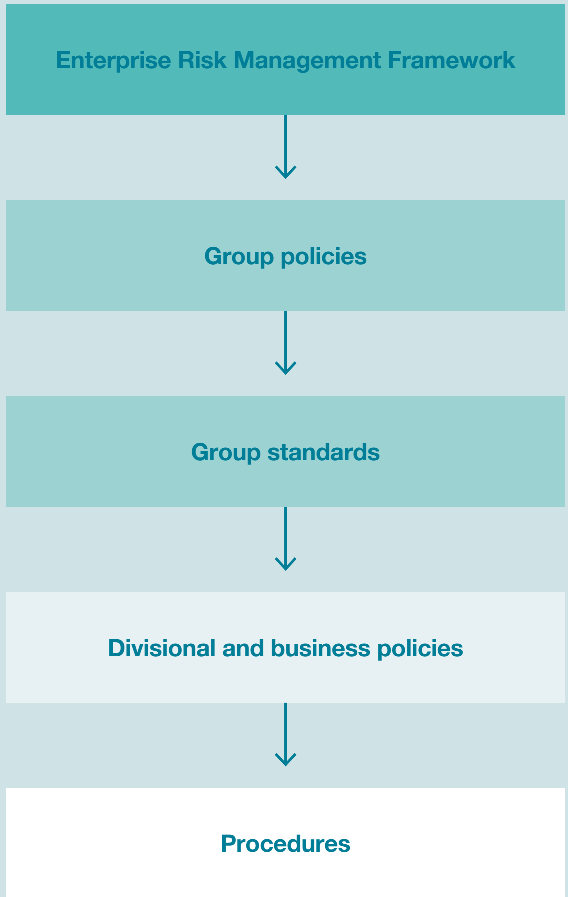
The group policy framework, overseen by the board, is a key component of the group's Enterprise Risk Management Framework, supporting the foundation of a strong risk management structure. Group policies are supported by group standards, and by divisional/business-level policies and procedures which, together, outline the way in which policy is implemented and detail the process controls in place to ensure compliance. The accounting policies form part of this broader policy framework. 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.

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

Review of effectiveness of risk management and internal control systems

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. Monitoring and effectiveness occurs via regular risk management information and commentary; reviews of group-wide risk and control self-assessments and associated mitigation activities; and review of audit reports which focus upon risk management capabilities and the control framework. The board also reviews the effectiveness of both committees on an annual basis. The board has reviewed the group's risk management and internal control framework and the committees' effectiveness, and considers that, overall, the group has in place adequate systems and controls with regard to its profile and strategy.

Group Policy Framework



Risk Appetite

Enabling key risk decisions in delivering the group's strategic objectives

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 via 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.

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 both decision-making and monitoring and reporting processes. Early-warning triggers 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 to align 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

Assessing and understanding future levels of risk

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 group's strategic objectives.

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

1. inform capital and liquidity planning – including liquidity and funding risk assessment, contingency planning and recovery and resolution planning;
2. support ongoing risk and portfolio management – including risk appetite calibration, strategic decisioning and planning, risk and reward optimisation and business resilience planning; and
3. provide a check on the outputs and accuracy of risk models – including the identification of non-linear effects when aggregating risks.

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 group-wide scenario analysis to simple portfolio sensitivity analysis.

Stress testing also represents a critical component of both the group's Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP"), with scenario analysis additionally employed as part of the group's Recovery Plan.

Risk Report continued

Principal and Emerging Risks

Principal Risks

At the core of the Enterprise Risk Management Framework and risk process life cycle sits the group's suite of principal risks.

These are the risks which have been identified as those most material in the delivery of the group's strategic objectives. This suite is subject to ongoing review to ensure that the framework remains aligned to the prevailing risk environment.

The group's activities, business model and strategy remain unchanged; as a result, several of the principal risks faced and the approach to mitigating them remains broadly consistent with prior years. However, reflective of the current environment, legal and regulatory risk has been added as a principal risk and business and strategic risk has been updated (previously business risk). Three risks previously included have been reclassified to non-principal risks to reflect their relative immateriality to the group risk profile. Climate risk remains a cross-cutting risk that could impact across all principal risks.

The table on pages 92 and 93 gives an overview of these principal risks and possible impacts, as well as the outlook pertaining to these. More detailed information on each of these follows on pages 96 to 130 which set out the frameworks in place to manage these risks.

This 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 could have a significant impact on its future performance.

Climate Risk

Running alongside the suite of principal risks is climate risk, which the group categorises as a cross-cutting risk, as the impacts arising from climate change have the ability to impact across the spectrum of principal risks. In addition, transitional risks from climate change which may have a medium- to longer-term impact on the group's product offering, operations and strategic direction are captured in the group's emerging risks. For further information on the group's climate risk response, see the group Sustainability Report on pages 38 to 65.

Climate risk represents a continued area of focus and the group continues to closely monitor government and regulatory developments in parallel to managing its own carbon footprint and supporting its customers to manage their climate risk impacts. The short-dated tenor of the lending book and strong business model resilience capabilities mitigate current risk exposure while the continued embedding of the climate framework will enable the group to review the evolution of the risk landscape on an ongoing basis.

Emerging Risks

The group's suite of principal risks is accompanied by a portfolio of emerging risks reflecting broader market uncertainties. The group defines an emerging risk as a risk that may potentially become material in the delivery of the group's strategic objectives but the risk and its applicability to the group may not yet be fully understood or assessed. 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 ("GRCC") and the board.
- Bottom-up: identified at a business level and escalated, where appropriate, via risk updates to the GRCC.

This year, to reflect the evolving nature of risks that accompany the implementation of group strategy, change execution risk has been included as a new emerging risk. Pages 14 to 17 of the Strategic Report provide further information on how the group is adapting to changes in the operating environment. Strategic disruption has also been included as a new emerging risk, a reposition of the previous technological change and new business models risk.

The established framework for monitoring these risks supports the group's organisational readiness to respond. Additionally, active monitoring of the correlation impacts across emerging risks, uncertainties and principal risks is undertaken.

Group-level emerging risks are monitored by the GRCC and Risk Committee on an ongoing basis, with agreed mitigating actions in place to ensure the group's preparedness should a risk crystallise. Ongoing monitoring also tracks several sub-risks to support identification of key themes and any patterns of deterioration or potential risk crystallisations.

Principal and Emerging Risks

Emerging risks

E1: Economic uncertainty
E2: Geopolitical uncertainty
E3: Legal and regulatory change
E4: Supply chain risk
E5: Medium to long-term transitional climate risks
E6: Strategic disruption
E7: Change execution risk

Risk emergence time frame

- Short term
- Medium term
- Long term

Emerging risks key

- Internal
- External

Risk Report continued

Principal risks

Principal risk	Outlook
Business and Strategic Risk The risk of realising lower than anticipated profits or experiencing a loss rather than a profit due to changing market conditions, pursuing an ineffective strategy or ineffective implementation of strategy. *See page 96*	• Notwithstanding the continued uncertain macroeconomic environment, the group's business model remains proven and resilient. • The group continues to focus on supporting customers, maintaining underwriting standards and investing in its business. • The group remains prepared for a range of different economic and business scenarios to ensure it has the resources and operational capability to perform effectively.
Capital Risk The risk that the group has insufficient regulatory capital (including equity and other loss-absorbing debt instruments) to operate effectively, including meeting minimum regulatory requirements, and to operate within board-approved risk appetite and support its strategic goals. *See page 97*	• Although the continuing macroeconomic uncertainty may impact capital in the short to medium term, the group's capital position is expected to remain well above risk appetite. • Capital requirements for Coronavirus Business Interruption Loans ("CBILS") will increase as these loans refinance without a government guarantee. • The PRA Consultation Paper 16/22 on Basel 3.1 standards was published in November 2022, with changes expected to be implemented or phased in from 2025-2030. As highlighted in the first half results, following initial analysis, it is estimated that if implemented in its current form, it would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor and the proposed approach to the classification of Retail SMEs and associated risk weights. The group looks forward to the publication of the final regulatory rules and has sufficient management actions available to address the impact should the proposals remain unchanged.
Conduct Risk The risk that the group's behaviours, or those of its colleagues, whether intentional or unintentional, result in poor outcomes for customers or the markets in which it operates. It is rooted in the importance of delivering good customer outcomes at every stage of the customer journey. *See page 100*	• Pressure due to the external macroeconomic environment continues to increase financial pressure on consumers as a result of the higher cost of living. • Consumer Duty sets a higher standard of care for retail customers including the need to act to deliver good customer outcomes and avoid foreseeable harm. Activities introduced as part of the implementation programme will continue to embed and may necessitate further evolution of the conduct risk framework.
Credit Risk The risk of a reduction in earnings and/or value due to the failure of a counterparty or associated party, with whom the group has contracted or is exposed as part of its operations, to meet its obligations in a timely manner. *See page 102*	• Uncertainty in the macroeconomic and geopolitical environment leading to high inflation and rising interest rates which could result in higher credit losses in the future. The loan book continues to display resilience due to consistent prudent lending criteria and risk appetite; however the need for proactive monitoring remains. • Target financial institutions remain of appropriate credit quality.
Funding and Liquidity Risk Funding risk is the risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner. Liquidity risk is defined as the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price. *See page 119*	• Despite ongoing macroeconomic uncertainty which has increased market competitiveness, the Banking division's ability to fund the loan book is expected to be unaffected with continued access to a wide range of funding sources.

Principal risk	Outlook
Legal and Regulatory Risk The risk of non-compliance with laws and regulations which could give rise to fines, litigation, sanctions and the potential for material adverse impact upon the group. *See page 121*	• The inherent risk arising in financial services as an industry in the jurisdictions in which we operate continues to increase. • Notwithstanding the strong controls in effect limiting residual risk exposure arising from regulatory expectations, external changes may have a follow-on impact to the group's residual exposure. • Legal risks such as complaints in relation to historic commission arrangements may give rise to a potential future obligation to compensate customers.
Non-traded Market Risk The risk to the value of assets or liabilities outside the trading book that arises from changes in market prices such as interest rates, credit spreads and foreign exchange rates. *See page 122*	• The group expects exposure to interest rate risk and foreign exchange ("FX") risk to remain at similar levels to those seen this year but credit spread risk in the banking book ("CSRBB") is expected to increase as the group restructures its high quality liquid assets ("HQLA") portfolio.
Operational Risk The risk of loss or adverse impact resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of loss resulting from fraud/ financial crime, cyber attacks and information security breaches. *See page 125*	• Established group-wide operational risk framework and methodology continues to mature, with expectation on best practice increasing. • A changing internal and external environment raises challenges and may impact managing our people. • The group continues to plan and predict resource needs to support its strategy, business change execution and wider technology and information security transformation. • Additionally, financial crime and fraud risks are inherent in doing business, necessitating the requirement to maintain effective systems and controls.
Reputational Risk The risk of detriment to stakeholder perception of the group, leading to impairment of its reputation and future goals, due to any action or inaction of the company, its employees or associated third parties. *See page 127*	• Established group-wide and employee-level focus on responsibility and sustainability enables an approach in all businesses that aligns to a range of stakeholder expectations, which is supported by group-level oversight.
Traded Market Risk The risk that a change in the value of an underlying market variable will give rise to an adverse movement in the value of the group's assets. *See page 129*	• The impacts of inflation, rising interest rates, supply chain issues and industrial action, coupled with geopolitical uncertainty, are expected to continue to be themes over the next 12 months, and have the potential to keep market liquidity low and suppress market valuations.

Key

Protect Grow Sustain Risk increase Stable Risk decrease

Risk Report continued

Emerging risks

Emerging risk/ uncertainty	Mitigating actions and key developments
Cross-cutting Risks	
Geopolitical uncertainty M	• The group operates predominantly in the UK and Republic of Ireland, covering approximately 98% of the loan book exposure. • Monitoring is in place to track changes in the geopolitical landscape that could have an impact on the group and its operations, its customers and its supply chain, either directly or indirectly. • The group has a strong financial position and maintains capital and liquidity levels well in excess of regulatory minima. • Regular stress testing is undertaken on performance and financial position in the event of various adverse conditions to test the robustness and resilience of the group. • The group adopts a prudent and conservative approach and regularly reviews its risk appetite to ensure it remains appropriate in the prevailing geopolitical and economic environment.
Medium to long-term transitional climate risks M	• Transitional climate risks across the medium to long term may potentially impact the group's product offering, operations and strategic direction. • The group continues to mature its climate risk framework, overseen by the Group Climate Committee. • Regular updates are provided to the Risk Committee, which retains oversight responsibility, while senior management responsibility is assigned to the group chief risk officer. • Monitoring is in place to continually identify and assess climate risks and opportunities, supported by annual consideration of climate-related scenario analysis. • The group conducts ongoing reviews and consideration of new green-growth lending opportunities through the Commercial Green Initiatives Working Group to align with its transition roadmap.
Financial Risks	
Economic uncertainty S	• The persistence of macroeconomic uncertainty within the UK and/or globally (for example, from financial volatility or changes to macroeconomic policies) can impact business, customer and broader market confidence. • The group's business model aims to ensure that it is able to trade successfully and support clients in a wide range of economic conditions. By maintaining a strong financial and capital position, the group aims to be able to absorb short-term economic downturns, respond to any change in activity or market demand, and in so doing build long-term relationships by supporting clients when it really matters. • The group focuses on credit quality and returns rather than overall growth or market share and continues to invest in the business for the long term, to support customers and clients through the cycle. • Regular stress testing is undertaken on performance and financial position in the event of various adverse conditions to test the robustness and resilience of the group. • The group adopts a prudent and conservative approach and regularly reviews its risk appetite to ensure it remains appropriate in the prevailing macroeconomic environment.

Key

S Short-term emergence   M Medium-term emergence   L Long-term emergence

Emerging risk/ uncertainty	Mitigating actions and key developments
Operational Risks	
Legal and regulatory change S	• The group operates in a developing, complex and demanding regulatory environment. An established horizon scanning and monitoring framework is maintained to identify regulatory and legal changes that could materially impact its operations, including legislative and regulatory reform, changes in regulatory practice and case law developments. • The group engages regularly with regulators in the jurisdictions in which it operates, including the PRA and Financial Conduct Authority ("FCA") in the UK, as well as industry bodies and external advisers, to understand relevant changes. • High-level gap and impact analyses are undertaken to assess new compliance requirements and identify any changes required to the group's systems and controls, processes and procedures, with programmes of work initiated as necessary. The extent and nature of this work ranges from simple isolated process changes to large multi-year projects, depending on the complexity and scale of the change.
Supply chain risk M	• The group faces emerging supply chain risk through growing exposure to more complex supply chains and reliance on third-party suppliers for the provision of key services. • The group's third-party management framework ensures a risk-based approach is adopted with regard to the identification, classification and management of the many potential business impacts that can result from failures in the supply chain. • Through the identification of inherent risks at the outset of all third-party engagements, appropriate due diligence is completed prior to onboarding, suitably robust contracts are put in place and effective life cycle management is implemented. • Ongoing reporting of key risk and performance indicators coupled with periodic supplier reviews from the third-party monitoring team help to manage supply chain risk. Oversight of all material suppliers is retained via the GRCC while continuity of service is a key focus for all critical relationships, with risks mitigated through resilience planning and identification of potential alternative solutions where possible. • The group is also continuing to improve its understanding and management of concentration risk across critical third parties and their extended supply chains.
Strategic Risks	
Change execution risk S	• The group faces change execution risk through its projects and investment in delivering change across the group, in line with its strategic objectives and regulatory obligations. • Delivering and successfully embedding change in line with these priorities can lead to delivery pressures for complex projects and initiatives with concurrent demands impacting the operational capability of the group's people and systems. • Regular project updates are provided to senior management to support effective management of any execution risks and ensure transformation is implemented efficiently with strong governance in place.
Strategic disruption M	• Strategic disruption may arise from technological change or new business models that have the potential to impact the group's market position and future profitability. • While regulation remains a barrier to entry for many potential new competitors, consumer expectations continue to evolve, challenging existing capabilities and traditional approaches. Competitors are adapting in response, while new financial technology companies continue to develop alternative business models. • For example, cloud-delivered solutions reduce barriers to entry and new product time to market, which allows new competitors and start-ups to compete in the marketplace more rapidly. • In addition, the growing prevalence of artificial intelligence in the market represents a potential threat given the current rate of adoption, and is difficult to predict. Notwithstanding, artificial intelligence also introduces an opportunity to rapidly expand the group's product and customer base to enter new markets. • Market developments are closely monitored through horizon scanning to identify and understand emerging dynamics as well as the evolving preferences of the group's customers. The group prides itself on its deep knowledge of its customers and clients and the industries and sectors in which they operate.