# Risk Report

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 14 to 15;
- 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

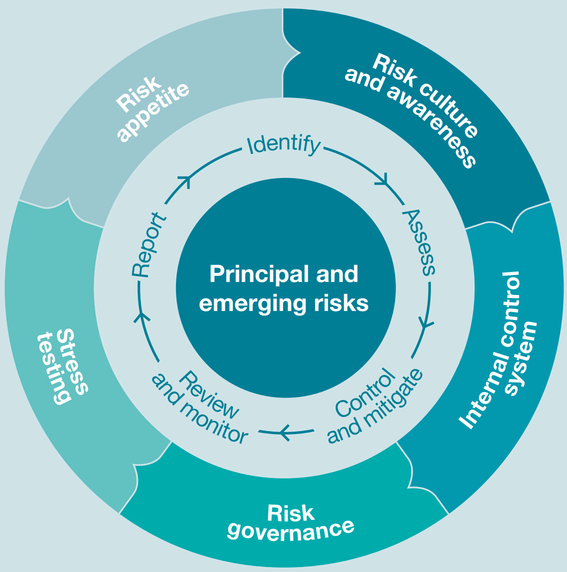
**An enterprise-wide framework designed to provide the board and senior management with oversight of the group's financial position as well as the risks that might adversely affect it**

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 designed to identify the principal and emerging risks facing the group; and that appropriate responses are in place to mitigate these risks and prevent detriment to its customers and colleagues. This is an enabler for the group to meet its goals and enhance 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



## 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, either through line or business management or by following the provisions of the group Whistleblowing Policy.

The group risk management function operates independently of the business, providing oversight and advice on the operation of the risk framework, assurance that agreed processes operate effectively and that a risk and conduct culture is embedded within the business.

The relationship between risk and reward is also a key priority with all staff evaluated against both agreed objectives (the "what") and desired behaviours (the "how"). 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 150 to 175.

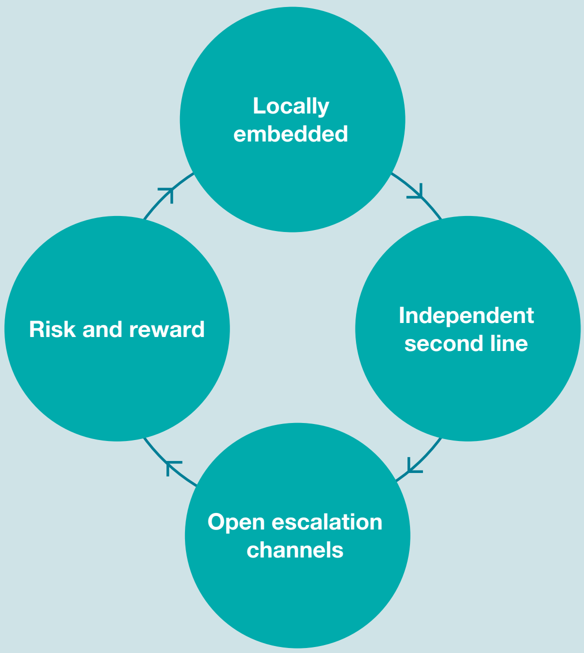
### Risk Culture

**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, to ensure 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. Further details on the board review of risk management and internal controls is provided on pages 128 and 129.

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 147 to 149.

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.


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. The group's risk governance framework is designed to enable the group to respond to changes in the risk and the broader regulatory environment in a considered and effective manner, with oversight from the board. During the year the effectiveness of these committees was reviewed to ensure they remain fit for purpose and all committees continue to work efficiently and effectively. During 2024, further enhancements have been made to the risk reporting packs and management information to support strengthened risk evaluation and management.

## Risk Committee Overview

Aligned to these core principles, the governance framework operates through various delegations of authority from the board downwards, with a number of committees focused on risk management. The delegations of authority 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 non-traded 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

| First line of defence | Key features |
| --- | --- |
| **The businesses**<br><br>**Group Risk and Compliance Committee (reports to the Risk Committee)**<br>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.<br><br>Business management has day-to-day ownership, responsibility and accountability for:<br>• identifying and assessing risks;<br>• managing and controlling risks;<br>• measuring risk (key risk indicators/early warning indicators);<br>• mitigating risks, including controls framework and effectiveness;<br>• reporting risks;<br>• committee structure and reporting; and<br>• management and self-assessment of operational resilience capabilities. | • Promotes a strong risk culture and focus on sustainable risk-adjusted returns.<br>• Implements the risk framework.<br>• Promotes a culture of adhering to limits and managing risk exposures and ongoing self-assessment.<br>• Promotes a culture of focus on good customer outcomes.<br>• Promotes responsibility for ongoing monitoring of positions and management and control of risks and controls effectiveness, including testing of controls, alongside portfolio optimisation. |

| Second line of defence | Key features |
| --- | --- |
| **Risk and compliance**<br><br>**Risk Committee (reports to the board)**<br>The Risk Committee delegates day-to-day responsibility for oversight and challenge on risk-related issues to the group chief risk officer.<br><br>Risk functions (including compliance) provide support, assurance and independent challenge on:<br>• the design and operation of the risk framework and methodologies;<br>• risk assessment;<br>• risk appetite and strategy;<br>• risk reporting;<br>• adequacy of mitigation plans and effectiveness of risk decisions taken by business management;<br>• group risk profile; and<br>• committee governance and challenge. | • Oversees embedding of the risk framework and supporting methodologies, taking an integrated approach to risk and compliance (qualitative and quantitative).<br>• Promotes a strong and effective risk and control culture across the group.<br>• Undertakes compliance monitoring and risk assurance activities.<br>• Supports through developing and advising on risk and compliance strategies.<br>• Facilitates constructive check and challenge.<br>• Oversight of business conduct and customer outcomes. |

| Third line of defence | Key features |
| --- | --- |
| **Internal audit**<br><br>**Audit Committee (reports to the board)**<br>The Audit Committee mandates the group head of internal audit with day-to-day responsibility for independent assurance.<br><br>Internal audit provides independent assurance on:<br>• first and second lines of defence;<br>• appropriateness/effectiveness of internal controls; and<br>• effectiveness of policy implementation. | • Draws on deep knowledge of the group and its businesses.<br>• Provides independent assurance on the activities of the group, including the risk management framework.<br>• Assesses the appropriateness and effectiveness of internal controls.<br>• Incorporates review of culture, conduct and customer outcomes. |

## Risk Management and Internal Controls

### 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, compliance, 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 financial and regulatory reporting.

The main features of these controls with respect to financial reporting 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.

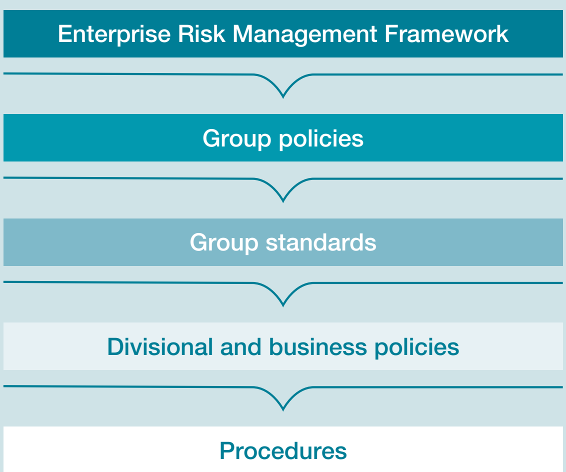
The group policy framework, overseen by the board, is a key component of the group's Enterprise Risk Management Framework, supporting the foundation of a strong risk management structure. Group policies are supported by group standards, and by divisional/business-level policies and procedures which, 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, alongside policies and standards relating to the group's principal risks.

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, actively monitors the group's risk management and internal control systems and reviews their effectiveness to ensure the maintenance of an effective risk management and internal control framework. A review of the effectiveness has been performed, covering all material controls, including financial, operational and compliance controls. Further detail on the board review of the risk management and internal controls is provided on page 129.

### 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. All stress testing activities are overseen by the Scenario Planning Forum, who consider the various risks impacting the business and recommend actions required to enhance the group's stress testing ability.

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.

# 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, following review and challenge, it has been determined that at present the principal risks themselves remain broadly consistent with those detailed in our prior year's report, although the underlying risk drivers may have changed and our approach to mitigating these has evolved in step with them.

The table on pages 82 and 83 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 85 to 116 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 33 to 54.

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.

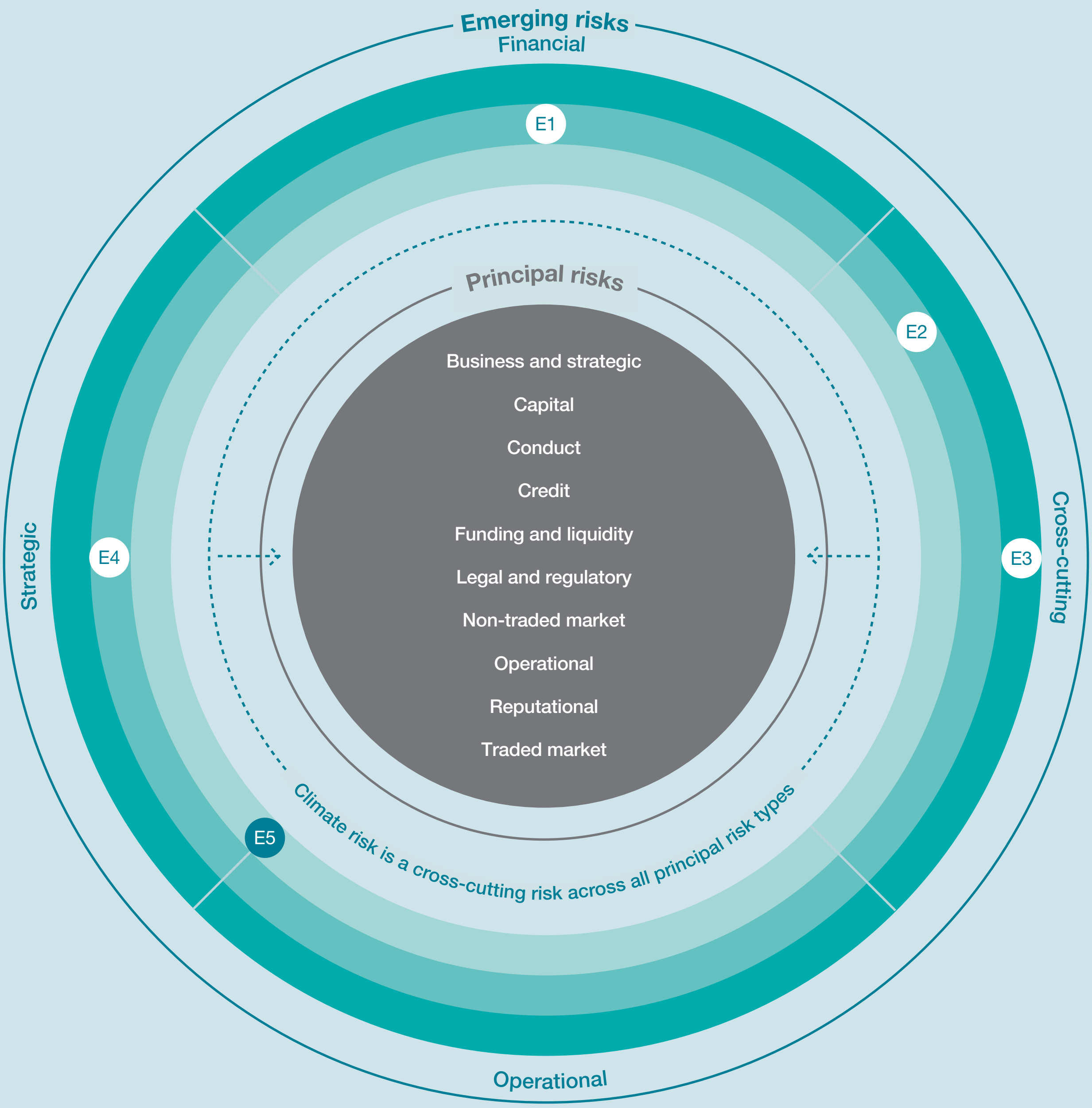
Bottom-up: identified at a business level and escalated, where appropriate, via risk updates to the GRCC.

The established framework for monitoring these risks supports the group's organisational readiness to respond. 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.

Emerging risks are considered on both an internal and external basis with careful consideration given to likely emergence periods. Additionally, active monitoring of the correlation impacts across emerging risks, uncertainties and principal risks is undertaken.

During the year, to reflect the evolving nature of risks that accompany the implementation of group strategy, supply chain risk and legal and regulatory change risk have been removed as emerging risks and will continue to be monitored under business as usual cadence. In line with changes to the Corporate Governance Code, published by the Financial Reporting Council ("FRC") in 2024, the group continues to progress a programme of work to enhance the risk and controls management framework and monitoring of existing and horizon emerging risks.

# Principal and Emerging Risks




**Emerging risks**

E1: Economic uncertainty
E2: Geopolitical uncertainty
E3: Medium to long-term transitional climate risks
E4: Strategic disruption
E5: Change execution risk

**Risk emergence time frame**

- Short term
- Medium term
- Long term

**Emerging risks key**

- Internal
- External

| Principal risk | Outlook |
| --- | --- |
| **Business and Strategic Risk**<br><br>The risk of realising lower than anticipated profits or experiencing a loss rather than a profit due to failure to adapt to changing market conditions, pursuing an ineffective strategy or ineffective implementation of strategy.<br><br>*See page 85.* | • Whilst in the continued uncertain macroeconomic environment the group's business model remains proven and resilient, there is uncertainty in relation to the FCA's review of historical motor finance commission arrangements.<br>• We continue to focus on supporting our customers, maintaining underwriting standards and investing to support future income generation, maintain operational resilience and generate operational efficiency and cost savings.<br>• A number of management actions are in train and actively progressing to leave the group well placed to navigate the current uncertainty, as referenced in the H1 2024 announcement.<br>• We continue to be encouraged by the strength of demand in our Banking business and see good growth prospects for the group, as we focus on resuming our track record of earnings growth and attractive returns.<br>• The group remains prepared for a range of different economic and business scenarios to help ensure it has the resources and operational capability to perform effectively. |
| **Capital Risk**<br><br>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.<br><br>*See page 86.* | • The FCA's review of historical motor finance commission arrangements may result in the need to raise a customer redress provision.<br>• The PRA Policy Statement PS9/24 ("Implementation of the Basel 3.1 standards near-final part 2") could have an impact on the group's capital ratio. |
| **Conduct Risk**<br><br>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.<br><br>*See page 89.* | • As Consumer Duty continues to be embedded within the businesses, the group will continue to keep abreast of regulatory guidance and developments to enable adherence to regulatory expectations in relation to the delivery of good customer outcomes.<br>• The external macroeconomic environment continues to increase financial pressure on consumers. |
| **Credit Risk**<br><br>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.<br><br>*See page 90.* | • Notwithstanding signs of resilience in the economy over the last 12 months, uncertainty has remained for both individuals and SMEs. This could result in higher credit losses in the future.<br>• The loan book continues to display resilience resulting from the application of consistent prudent lending criteria and risk appetite. |

Protect Grow Sustain Risk increase Stable Risk decrease

| Principal risk | Outlook |
|---|---|
| **Funding and Liquidity Risk**<br>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 or any decrease in the stability of the current funding base.<br><br>Liquidity risk is defined as the risk that the group, or any of its entities, do not have sufficient liquid assets to meet liabilities as they come due during normal and disrupted markets.<br><br>*See page 104.* | • The group has a long-standing approach based on the principle of "borrow long, lend short" and the group continues to benefit from the diverse funding mix and prudent maturity profile.<br>• Consistent with the funding plan, growth in retail deposits is expected to continue. |
| **Legal and Regulatory Risk**<br>The risk of non-compliance with laws and regulations which could give rise to fines, litigation, sanctions and/or direct claims by customers and the potential for material adverse impact upon the group.<br><br>*See page 106.* | • The inherent risk arising in financial services as an industry in the jurisdictions in which we operate continues to increase.<br>• 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.<br>• Legal risks such as the approach from the Financial Ombudsman Service ("FOS") relating to motor commissions, and uncertainty of: the outcome of the FCA's review of historical motor finance commission arrangements; position of the courts in relation to litigation and the Judicial Review of FOS (issued by Barclays); and the increase of activity from claim management companies, is likely to increase costs to the business and may give rise to potential future obligations to compensate customers. |
| **Non-traded Market Risk**<br>Is the current or prospective risk to the group's capital or earnings, arising from changes in interest rates, credit spreads and foreign exchange rates applied to the group's non-trading book.<br><br>*See page 107.* | • The group expects exposure to interest rate risk, credit spread risk and foreign exchange ("FX") risk to remain broadly stable. |
| **Operational Risk**<br>Operational risk is the risk of loss or customer harm resulting from inadequate or failed internal processes, people and systems or external events. This includes the risk of being unable to recover systems quickly and maintain critical services.<br><br>*See page 109.* | • In addition to the continuing investment required to sustain the group's systems and processes, an accelerating pace of external technology and market changes is increasing the imperative for the group to evolve and adapt its processes, risks and controls and the associated necessary staff capabilities.<br>• Possible outcomes of the FCA's review of historical motor finance commission arrangements could strain operations and technology capacity, notwithstanding advance preparatory work.<br>• Allocation of capital investment funding and change delivery capacity continue to be areas of management focus, to enable safe delivery of change programmes that enable the group's strategy and associated technology transformation. |
| **Reputational Risk**<br>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.<br><br>*See page 113.* | • 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.<br>• Increased media attention, including in relation to the FCA's review of historical motor finance commission arrangements, may lead to an adverse perception of the group. |
| **Traded Market Risk**<br>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 trading assets and liabilities.<br><br>*See page 115.* | • The external macroeconomic environment may continue to impact market volumes and suppress some market valuations. |

| Emerging risk/uncertainty | Mitigating actions and key developments |
|---|---|
| **Cross-cutting Risks** | |
| M **Geopolitical uncertainty**<br>The risk that UK or global political events result in disruption to the business or negatively impact business performance or prospects. | • The group operates predominantly in the UK and Republic of Ireland, covering approximately 98% of the loan book exposure. Nevertheless, monitoring is in place to track changes in the geopolitical landscape that could impact the group's operations, customers and supply chain.<br>• The group has a strong financial position, maintaining capital and liquidity levels in excess of regulatory minima.<br>• 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.<br>• Risk appetite is regularly reviewed to ensure it remains appropriate in the prevailing geopolitical and macroeconomic environment. |
| L **Medium to long-term transitional climate risks**<br>The risk that the move to a low carbon economy impacts demand for the group's products and services. | • Transitional climate risks across the medium to long term may potentially impact the group's product offering, operations and strategic direction. Monitoring is in place to continually identify and assess climate risks and opportunities, supported by annual consideration of climate-related scenario analysis.<br>• Regular updates are provided to the Group Climate Committee and Risk Committee, which retains oversight responsibility, while senior management responsibility is assigned to the group chief risk officer.<br>• The group continues to evolve its intermediate green lending ambitions, aligning to its wider net zero commitments under NZBA. |
| **Financial Risks** | |
| M **Economic uncertainty**<br>The risk that changes in the external macroeconomic environment or consumer sentiment negatively impact on the group's performance or prospects. | • Persisting national or international macroeconomic uncertainty (for example, from financial volatility or changes to macroeconomic policies) can impact business, customer and broader market confidence.<br>• The group's business model aims to enable it 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.<br>• 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.<br>• Risk appetite is regularly reviewed to ensure it remains appropriate in the prevailing macroeconomic environment. 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. |
| **Strategic Risks** | |
| S **Change execution risk**<br>Strategic, reputation, regulatory or financial risk as a result of failure to execute, embed and deliver the outcomes of change successfully. | • The group faces the risk that poorly executed change, or failure to deliver the outcomes and benefits of change, results in the failure to deliver good customer outcomes or meet strategic objectives and regulatory obligations.<br>• Various large, complex projects and initiatives executed concurrently can place high demand on the group's operational capacity, increasing potential failure in achieving the required outcomes. The execution of a large portfolio of change could place demand on key subject matter experts and cause disruption and uncertainty to colleagues across the business.<br>• Regular portfolio and project updates are provided to senior management, supporting oversight and governance of execution risks and ensuring appropriate resources are deployed to promote successful delivery. |
| M **Strategic disruption**<br>The risk that changes in competition, technology, competitor business models or client expectations negatively impact on demand for the group's products and services. | • Strategic disruption may arise from technological change or new business models that may impact the group's market position and future profitability.<br>• While regulation remains a barrier to entry for many potential competitors, consumer expectations continue to evolve, challenging existing capabilities and traditional approaches.<br>• Competitors are adapting in response, while new financial technology companies develop alternative business models. For example, cloud-delivered solutions reduce barriers to entry and new product time to market, allowing new competitors and start-ups to compete in the marketplace more rapidly.<br>• The growing prevalence of AI increases the effectiveness and efficiency in delivering customer-centric products and services for those competitors unable to deploy solutions at scale. The group acknowledges the benefits of investment in technology platforms and will consider the exploitation of new capabilities such as cloud and AI solutions where possible within capacity and financial constraints.<br>• Market developments are closely monitored through horizon scanning to identify emerging dynamics as well as evolving preferences of the group's customers. The group prides itself on its knowledge of its customers, clients and the industries and sectors in which they operate. |

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