Going Concern

The directors have assessed whether it considers it appropriate that the company and the group adopt the going concern basis of accounting in preparing the financial statements. For the purposes of going concern, in line with IAS 1 requirements, the board has focused on a period of at least 12 months from the date of approval of the financial statements, being 15 months to December 2025.

As part of the directors' consideration of the appropriateness of adopting the going concern basis, a range of forward-looking scenario analyses have been considered. These include the 3 Year Strategic Plan ("3YSP"), a stressed going concern scenario, downside sensitivity to the stressed going concern scenario and the 2023 Internal Liquidity Adequacy Assessment Process ("ILAAP") and 2023 Internal Capital Adequacy Assessment Process ("ICAAP"). These were reviewed together with a number of key risks which are set out in the Risk Report under the heading Principal risks and uncertainties: funding and liquidity on pages 104 to 105 and capital position on pages 86 to 88.

The group's stressed going concern scenario builds on the 3YSP, which includes the impact to market and operational RWAs of part one of the near-final rules on the UK implementation of Basel 3.1 standards in July 2025. The stressed going concern scenario overlays the impact of a hypothetical severe but plausible motor finance commissions redress provision in May 2025 and credit risk RWA impact of Basel 3.1 (part two) standard in July 2025, partly offset by management actions. The PRA published final rules on 12th September which has delayed overall Basel 3.1 implementation to January 2026; the delay in implementation does not change any of the presented conclusions.

In determining a severe but plausible motor finance commissions redress provision, if it were to become required, consideration has been given to the key variables that would inform the magnitude along with the likelihood and scale. The assumptions considered include:

- the time period for which commissions structures are considered to need redress;
- the commission models and commission rates applied during this period;
- the extent and structure of any redress required;
- customer response rates to any redress program;
- associated execution costs; and
- the timing of recognition of any provision, assumed to be the earliest possible date of May 2025, when the FCA anticipate being able to announce next steps.

The modelling output of the stressed going concern scenario highlights the resilient capital position in relation to minimum regulatory requirements excluding any applicable Prudential Regulation Authority ("PRA") buffer ("minimum regulatory requirements"), and capacity to absorb losses and increases in RWAs beyond the severe but plausible motor finance commissions redress provision and implementation of Basel 3.1, strengthened by modelled management actions, including cancellation of the 2025 financial year dividend.

A further downside scenario for the 2025 financial year was also prepared, which applied an earnings reduction to the stressed going concern scenario. In Banking, the assumed deteriorating credit environment increased the bad debt charge and the bad debt ratio. Difficult trading conditions were assumed to persist into the 2025 financial year for market-facing businesses with a negative impact on income generated, with Winterflood adjusted operating profit also reflecting a formulaic reduction in performance-related pay. The two stress testing scenarios modelled for the group's most recent ICAAP, approved by the board in 2023, were used to provide additional context for the directors alongside the going concern assessment. The ICAAP forms part of the group's overall capital risk framework, outlined on page 74.

The group continues to have a strong and conservative business model, lending in a variety of sectors across a diverse range of assets. The group remains well positioned in each of its businesses, is soundly funded, and has strong levels of liquidity. The group maintains strong headroom to minimum regulatory requirements to withstand the downside scenario elements. In making their going concern assessment, the directors have also considered the operational agility and resilience of the company and the group. The directors continually expect to maintain a high level of operational and system performance.

Under all scenarios, the group continues to operate with sufficient levels of capital for the next 15 months from the reporting date, with the group's capital ratios comfortably in excess of minimum regulatory requirements.

Separately from managing the group capital position, the group adopts a conservative approach to funding and liquidity risk and seeks to maintain a funding and liquidity position characterised by preserving a simple and transparent balance sheet, sustaining a diverse range of funding sources and holding a prudent level of high-quality liquidity. As such, the weighted average maturity of its funding is longer than the weighted average maturity of its lending portfolio. The board reviewed these factors when concluding upon going concern.

These objectives form the basis for the group Funding and Liquidity Risk Appetite Statement, approved annually by the board, which outlines the levels of funding and liquidity risk that the group is willing to assume. Given the materiality of the Banking division, this is primarily focused on the levels of risk assumed within the bank.

As part of the liquidity management process, the Banking division also uses a suite of internally developed liquidity stress scenarios to monitor its potential liquidity exposure daily and determine its HQLA requirements. This ensures that the Banking division remains within risk appetite and identifies potential areas of vulnerability. These stresses are formally approved by the ALCO, GRCC and board and cover both idiosyncratic and market-wide stresses. The bank adopts the most severe stress to determine the amount of liquidity it needs to hold. At 31 July 2024 the bank held sufficient liquidity resources to meet the applicable stress.

In conclusion, the directors have determined that they have a reasonable expectation that the company and the group, as a whole, have adequate resources to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.