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 2027.

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 because it is the period covered by the group's well-embedded 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 82 to 84. 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 identify and 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. Key emerging risks can be found in the Risk Report on page 84.

Assessment

The group will continue to monitor and assess these risks, by: adhering to its established business model as outlined on pages 14 and 15; 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.

As outlined in the going concern statement, a key area of focus for the financial year has been the FCA review of historical motor finance commission arrangements and its impact on the group's activities and principal and emerging risks. There is significant uncertainty around the outcome of the FCA's review, and the group recognises the need to plan for a range of possible outcomes. The board has placed considerable focus on its review and challenge of the group's 3YSP and the results of key scenario modelling.

The group's business model 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 group's lending in a variety of sectors across a diverse range of assets, 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 several forward-looking scenarios, namely the ICAAP and ILAAP, as well as the stressed going concern scenario that was used for the going concern assessment. These have been extended out over the three-year period, with no additional headwinds or management actions included.

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 96 to 99). 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.

The group's stressed going concern scenario has been extended out to the 2027 financial year in order to support the viability assessment, with overlays to 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, noting the implementation timings are not finalised. 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. Headroom to minimum regulatory requirement was maintained on all capital ratios in this scenario, demonstrating the group's capacity to absorb losses.

Across the divisions, the limited financial impact of each downside 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 the applicable requirements, which are currently set at a minimum Common Equity Tier 1 ratio of 9.6% and a minimum total capital ratio of 13.7%, including CRD buffers but 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 in excess of minimum regulatory requirements.

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 74 to 116;
- the group's current financial position and prospects – please refer to the Financial Overview section on pages 57 to 73; and
- the group's business model and strategy – please refer to the Business Model section on pages 14 to 15, and the Strategy and Key Performance Indicators sections on pages 20 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 2023 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 2023 ILAAP, which was reviewed to assess the group's liquidity across a range of market-wide and idiosyncratic scenarios. This confirmed the ongoing strength of the group's funding and liquidity model. Please refer to note 26 "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 19 September 2024. 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 their operations and meet their liabilities as they fall due over the three-year period of the assessment.

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

Mike Morgan
Finance Director

19 September 2024