Viability Statement

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 2025.

The board 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, prudent maturity profile and because it is the period covered by the group's well embedded strategic planning cycle. We continue to adopt a three-year period for our regulatory and internal stress testing processes, including: (i) group-wide internal forecasting and stress testing, which has undergone significant review and challenge, to confirm the viability of the group; (ii) the Internal Capital Adequacy Assessment Process ("ICAAP"), which assesses capital requirements; and (iii) the Internal Liquidity Adequacy Assessment Process ("ILAAP"), which identifies liquidity requirements.

In making its assessment, the board has identified and assessed the principal and emerging risks facing the group and these are highlighted on pages 78 to 92. The group's approach to monitoring and managing principal risks faced by the group's business, including financial, business, market and operational risks, have 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 are monitored by the local and group risk and compliance committees with agreed actions regularly tracked. Key emerging risks include:
- economic uncertainty regarding the future economic trajectory in both the UK and across global markets more generally;
- geopolitical uncertainty with conflict in Ukraine, possible Brexit-related changes to the Northern Ireland protocol and the potential for a Scottish independence referendum amongst others;
- financial loss or disruption resulting from the impacts of climate change;
- legal and regulatory changes including the possibility of regulatory and legal divergence between the UK and EU; and
- supply chain risk, with Covid-19 continuing to impact supply chains globally, further aggravated by the conflict in Ukraine and the general inflationary economic environment in key markets.

The group will continue to monitor and assess these risks, adhering to our established and proven business model, as outlined on pages 10 to 12; 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. Given 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 our business model, with key priorities outlined on page 32.

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. Differing macroeconomic assumptions have been assessed across the scenarios including GDP growth, inflation, interest rates, unemployment, residential house prices and equity prices. 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 assumes a pronounced and sudden rise in inflation and interest rate levels, with impairment losses front-loaded as customer affordability is impacted, coupled with lower income in market-facing businesses as equity prices and market levels decline.

The group maintains capital ratios significantly above regulatory minima, which are currently set at a minimum common equity tier 1 ratio of 7.6% and a minimum total capital ratio of 11.5%, excluding any applicable Prudential Regulation Authority ("PRA") 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 appetite and comfortably in excess of regulatory requirements.

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

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 92;
- the group's current financial position and prospects – please refer to the Financial Overview on pages 61 to 64; and
- the group's business model and strategy – please refer to the Business Model on pages 10 to 12, and Strategy and Key Performance Indicators on pages 32 to 33.

The directors have also considered the results from the most recent version of the following reviews:
- the annual review of the Recovery Plan which included employing a number of scenarios to test our recovery plan, our wide range of risk indicators and recovery options available to the group;
- the 2021 ICAAP, which included both stress testing and scenario analysis. At a group level, two severe stress test scenarios were assessed representing protracted downside scenarios. This took account of the availability 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 employed to support the identification of potential adverse circumstances and events; and
- the 2021 ILAAP, which was undertaken to assess the group's liquidity across a range of market-wide and idiosyncratic scenarios demonstrating the ongoing strength of the group's funding and liquidity model.

This forward-looking viability statement made by the board is based on information and knowledge of the group at 27 September 2022. 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.

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

Adrian Sainsbury
Chief Executive

27 September 2022