Going concern

The Directors have assessed whether they consider 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, the Directors have reviewed the group's strategic plan to December 2026, being 15 months from the date of approval of the financial statements. This is in line with the assessment period (15 months) reviewed as part of the FY 2024 going concern assessment and is in excess of IAS 1 and UK Corporate Governance Code requirements of at least 12 months.

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") presented to the Board in July, the "severe but plausible" scenario, and the 2024 Internal Liquidity Adequacy Assessment Process ("ILAAP") and 2024 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: Funding and liquidity risk on pages 101 to 102 and Capital risk on pages 81 to 83.

A key area of focus in the 2025 financial year has been the Financial Conduct Authority ("FCA") review of historical motor finance commission arrangements and the Supreme Court appeals, and their impact on the group's activities. The group recognised a provision of £165 million relating to motor finance commissions in January 2025. This provision is based on probability weighted scenarios using various assumptions and which included estimates for certain potential operational and legal costs, as well as estimates for potential customer redress. This provision has since been reviewed, considering developments since January 2025, namely the Supreme Court's judgment in relation to the Supreme Court appeals and the FCA announcement regarding its intention to consult on an industry wide redress scheme in respect of motor finance commissions. Based on further analysis and updated probability weighted scenarios, the Directors have concluded that the existing provision continues to be appropriate. Further details on motor finance commissions is outlined on pages 8 to 9.

Whilst the Supreme Court appeals have concluded and some clarity has been gained, the FCA's review of motor finance commission arrangements is ongoing and uncertainty as to the range of outcomes prevails. The group recognises the need to plan for a range of possible outcomes, and continues to prioritise maintaining a strong capital position, balance sheet, and prudent approach to managing its financial resources.

The group's "severe but plausible" going concern scenario builds on the 3YSP, and overlays with additional provision relating to motor finance commissions in January 2026, subdued loan book growth and higher-than-expected operational costs. Such an additional provision was derived by stressing the assumptions used to calculate the existing provision relating to motor finance commissions.

The modelling output of the "severe but plausible" scenario highlights the resilient capital position, with the group's capital ratios in excess of minimum regulatory requirements and capacity to absorb losses and increases in RWAs beyond the impacts modelled, strengthened by available management actions.

The two stress testing scenarios modelled for the group's most recent ICAAP, approved by the Board in January 2025, 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 81.

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 "severe but plausible" going concern 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 assessed 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 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 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 2025, 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.