# Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Board of Directors have assessed the prospects and viability of the Group over a three-year period by comprehensively assessing the principal risks and uncertainties to which it is exposed and have concluded that they have a reasonable expectation that the Group will be able to continue to operate and meet its liabilities as they fall due over that period.

The three-year time period was selected for the following reasons:

- The Group's operating and financial plan covers a three-year period
- The three-year operating and financial plan considers, among other matters: the Board's risk appetite; macro-economic outlook; market opportunity; the competitive landscape; and sensitivity of the financial plan to volumes, margin pressures and capital requirements
- The Board believes that there is sufficient visibility over the economic and regulatory landscape and the market outlook offered by the three-year time horizon to make a reasonable assessment of viability; and
- Uncertainty in the UK economic outlook over the medium to long term following the EU referendum outcome.

The Company is authorised by the PRA, and regulated by the FCA and PRA, and undertakes regular analysis of its risk profile and assumptions. It has a robust set of policies, procedures and systems to undertake a comprehensive assessment of all the principal risks and uncertainties to which it is exposed on a current and forward-looking basis (as described in Principal risks and uncertainties on pages 39 to 44).

The Group manages and monitors its risk profile through its strategic risk management framework, in particular through its risk appetite statement and risk limits (as described in the Risk review on pages 32 to 38). Potential changes in its risk profile are assessed across the business planning horizon by subjecting the operating and financial plan to severe but plausible macroeconomic and idiosyncratic scenarios.

Stress testing is a vital discipline, which underpins the Group's ICAAP and ILAAP. The Group has developed a bespoke macroeconomic model which identifies the most predictive macroeconomic variables and their relative relationship to arrears, collateral valuations and loan losses. As a secured mortgage lender, the Group is most sensitive to changes in house price movements, unemployment and Bank of England base rate changes. The Group's stress testing capability then leverages the developed macroeconomic variable relationships to conduct detailed scenario analysis over a range of stress scenarios which feed key risk processes such as the setting of risk appetite, loan loss forecasts and ICAAP and ILAAP stress testing activity.

In addition, the Company identified a suite of credible management actions that would mitigate the impact of the stress scenarios. The Board and executive management use the outcome of the stress test analysis to evaluate the Company's management options and adequacy of the Company's capital and liquidity resources to withstand an extreme but plausible stress scenario. The Company holds sufficient capital to withstand such a stress scenario.

In addition, the Group identifies a range of catastrophic stress scenarios, which could result in the failure of its current business model. Business model failure scenarios (reverse stress tests) are primarily used to inform the Board and executive management of the outer limits of the Group's risk profile. Reverse stress tests play an important role in helping the Board and its executives to identify potential recovery options under a business model failure scenario, and form an important aspect of the Company's recovery and resolution plans prescribed by the regulator. During the year a number of reverse stress test scenarios were analysed including an extreme macroeconomic downturn (1 in 200 severity), a cyber-attack leading to a loss of customer data which is used for fraudulent activities, extreme regulatory and taxation changes impacting Buy-to-Let lending volumes and a liquidity crisis caused by severe market conditions combined with idiosyncratic consequences.

The ongoing monitoring of all principal risks and uncertainties that could impact the operating and financial plan, together with the use of stress testing to ensure that the Group could survive a severe but plausible stress, enables the Board to reasonably assess the viability of the business model over a three-year period.