Group Board viability statement

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The Group's strategy is developed, and economic decisions are made, around meeting the long-term protection and savings needs of its customers, and around creating long-term value for customers and shareholders over a period of many years. This reflects the Group's business and investment models which combine managing credit, longevity and market risks over long-term relationships.

The Group's long-term prospects

The Group's prospects are primarily assessed through our strategic and planning processes. Performance against our annual strategic planning process is continuously monitored, and it underpins our business planning model. We consider the sustainability and resilience of our business model over the long-term, including the strategic growth drivers detailed on pages 10 and 11, and longer-term trends in areas such as technology and climate change, as our investment and insurance products and customer relationships are long-standing ones.

The Group is also subject to regulation and supervision, which requires us to manage and monitor solvency, liquidity and longer-term risks, to ensure that we can continue to meet our policyholder obligations.

This long-term prospect assessment is over a longer period than that over which the Board has assessed the Group's viability.

Period of viability assessment

While the Board has considered adopting a longer period, it believes that five years is the most appropriate time frame over which they should assess the long-term viability of the Group, as required within provision 31 of the UK Corporate Governance Code. The following factors have been taken into account in making this decision:

- we have reasonable clarity over a five-year period, allowing an appropriate assessment of our principal risks to be made
- the assessment is underpinned by our business planning process, and so aligns to the period over which major strategic actions are typically delivered, and takes account of the economic environment and evolving political and regulatory landscape during the relevant period.

Our business planning process is an annual process and culminates in the production and review of the Group's business plan. Our plan is built up from divisional submissions, and considers the profitability, liquidity, cash generation and capital position of the Group. This projection process involves setting a number of key assumptions, which are inherently volatile over a much longer reporting period, such as foreign exchange rates, interest rates, economic growth rates, the continued optimisation of capital strategies for Solvency II, and the impact on the business environment of changes in regulation or similar events.

The Board carries out a detailed review of the draft plan during the Group Board's annual strategy assessment, and amendments are made accordingly. Part of the Board's role is to consider the appropriateness of any key assumptions made. The latest annual plan was approved in December 2023, resulting in our current five-year business plan.

How we assessed our viability

In making its assessment of viability, the Board has considered a number of factors, including but not limited to:

- a robust and detailed assessment of the Group's risk profile and both material and emerging risks (see below for further detail), in particular those risks which could have a material impact on the Group's future operations, financial conditions or regulatory expectations
- the impact of various stress scenarios on both the Group's viability (see further detail below), as well as the operational resilience of the Group
- the stability of major markets in which the Group operates and material known regulatory changes
- the sustainability of any future capital distributions
- the impact of the Group's net zero ambitions, and the Group's ability to adapt its operations and business strategy to address the financial risks arising from both the physical risk of climate change and the transition to a low-carbon economy.

The Board regularly considers the potential financial and reputational impact of the Group's principal risks (as set out on pages 56 to 59) on our ability to deliver the business plan, and we regularly review and refresh our principal risks to reflect current market conditions and changes in our risk profile. In its assessment of viability, not just long-term prospects, the Board has taken into consideration all of the Group's principal risks, as any significant change in the risk profile or outlook of those principal risks, or inadequate mitigation, could have a significant impact on the Group's viability over the assessment time frame.

Quantitative stress and scenario testing is undertaken to enable the Board to consider the Group's ability to respond to a number of plausible individual and combined shocks, both financial and non-financial, which could adversely impact the profits, capital and liquidity projections in the Group plan. For example, during 2023, the Board considered the impacts of a severe market event. The severe market event was set with reference to the Bank of England's latest 'Annually Cyclical Scenario', but modified to reflect the Group's underlying risk profile.

The scenario is broadly based on the Global Financial Crisis of 2008 for market risks exposures and 2002 experience for rating transitions (downgrades and spreads).

The scenarios tested showed that the Group would continue to have sufficient headroom to maintain viability over the five-year planning period, after taking into account mitigating actions to manage the impacts on capital and liquidity. The Group maintains buffers and a suite of management actions to maintain resilience to adverse scenarios and preserve the Group's viability. It is clearly possible that shocks could be more severe, occur sooner and/or last longer than we have currently considered plausible.

Additionally, reverse stress testing and contingency planning gives the Board a solid understanding of the Group's resilience to extremely severe scenarios which could threaten the Group's business model and viability. This analysis assists in identifying any mitigating actions that could be taken now, or triggers to put in place for future actions. Potential scenarios that were explored included severe capital market stresses, adverse regulatory changes, reputational and internal or external events causing falls in business volumes, and severely adverse claims experience. The results confirmed that the Group remains resilient to extreme stresses as a result of the risk management system in place and the diverse range of mitigating actions available, including raising of capital or reduction in the level of dividends.

Our conclusion on viability

Following this assessment, taking into account the Group's current position and principal risks, the Board can confirm that it has a reasonable expectation that the Group will continue in operation and meet its liabilities, as they fall due, over a viability horizon of five years. The Board's five-year viability and longer-term prospects assessment is based upon information known today.