

Audit Committee report



Kari Hale
Chair of the Audit Committee

Dear shareholder

On behalf of the Board, I am pleased to present the report of the Audit Committee for 2025, outlining how the Committee discharged its responsibilities and met its objectives. I would like to thank the Committee members for their contributions and support throughout this challenging year in which the profile and sensitivity of certain key issues has been particularly high.

The Committee oversees and challenges the group's financial reporting and maintenance of an effective internal control environment. This year the Committee has considered a full schedule, and focus has remained on challenging the key accounting judgements and estimates set out on the following pages, assessing the integrity and fair presentation of the group's financial reporting and reviewing the group's internal controls.

The new UK Corporate Governance Code was a focus for the Committee this year and there have been enhancements made to international standards for internal audit which are being reflected in the group's internal procedures.

Looking ahead to 2026, we expect to receive an update on the FCA's review of historical motor finance commission arrangements and the Committee will remain focused on the implications of the outcomes of this review and the resultant accounting and reporting impacts for the group.

Kari Hale
Chair of the Audit Committee

30 September 2025

Role of the Committee

To oversee and independently challenge the management of financial reporting and maintenance of an effective internal control environment.

Membership

Kari Hale (Chair), Patricia Halliday, Tesula Mohindra and Sally Williams.

Other regular attendees by invitation

Chairman of the Board, Executive Directors, Group Chief Finance Officer, Group Head of Internal Audit, Group Chief Risk Officer, Group Financial Controller, Group Financial Planning and Analysis Director, General Counsel and Company Secretary, Group Head of Operational Risk and Compliance, external auditor.

Meetings

- Number of scheduled meetings: Five
- For details of attendance, see page 128

2025 highlights

- Challenging key accounting judgements with focus on expected credit loss provisions, impairment assessments of goodwill, revenue recognition, and the implications of the FCA's review of motor finance commission arrangements and the Supreme Court appeals.
- Reviewing the integrity of the group's financial reporting and considering key disclosure matters, including the going concern and viability statements at year end.
- Reviewing material corporate transactions from a financial accounting and reporting perspective.
- Overseeing the development of enhancements to the internal control framework to align with the new UK Corporate Governance Code provisions.

How time was spent



Financial and regulatory reporting	19%
Business and accounting updates	36%
External audit	15%
Internal audit	25%
Other governance matters (including administration)	5%

Interaction with other committees

The Audit Committee oversees, along with the Risk Committee, the recommendations of the group's internal and external auditors and the effectiveness of the group's internal control and risk management systems.

Key responsibilities

The Committee's key responsibilities, on behalf of the Board, are to:

- monitor significant accounting judgements and estimates;
- monitor the integrity of financial reporting including recommending to the Board whether it is fair, balanced and understandable;
- oversee the effectiveness of the group's internal controls;
- review the activities and effectiveness of the group internal audit function;
- review the effectiveness and quality of the external audit process and the independence of the external auditor;
- recommend the external auditor of the group and their fees; and
- review the plan and findings of the audit with the external auditor.

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year.

Committee composition, operation and effectiveness

The Committee operates independently of management to ensure the interests of shareholders are properly protected in relation to financial reporting and internal controls.

All members of the Committee are independent Non-executive Directors and continue to bring a diverse range of experience in finance, risk, control and business, with particular experience in the financial services sector. The Board has confirmed that the members of the Committee have the necessary expertise to provide effective challenge to management; this includes the chair. The qualifications of each of the members is outlined on pages 120 to 122. While the Committee's membership comprises the Non-executive Directors noted on page 138, all Non-executive Directors may attend meetings as agreed with the chair of the Committee. The Chief Executive, Group Chief Finance Officer, Group Head of Internal Audit, Group Chief Risk Officer, Group Financial Controller, Group Financial Planning and Analysis Director, Group Head of Operational Risk and Compliance, General Counsel and Company Secretary, and external auditor also attend meetings as appropriate. During the course of the year, the Committee held separate sessions with the internal and external audit teams, without management present.

The Committee undertook an annual review of its effectiveness, in line with the requirements of the UK Corporate Governance Code, as described on page 130. The review found that the Committee continues to operate effectively and has executed its responsibilities in line with its terms of reference. It is considered appropriately constituted and has access to sufficient resources to enable it to carry out its duties.

External audit

The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), its external auditor, covering engagement terms, fees and independence. The Committee and the external auditor have policies and procedures designed to protect independence and objectivity. PwC has been auditor to the group since August 2017, following the group's last competitive tender during the financial year ended 31 July 2017. Heather Varley has been the group's lead audit partner since March 2022 and due to independence requirements, FY 2026 will represent Heather's last year as the group's lead audit partner. Heather attended all meetings of the Committee. Matters discussed with PwC are set out in its report on pages 168 to 176.

The Financial Reporting Council ("FRC") routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits. During the year, the FRC conducted an Audit Quality Review of the audit performed by PwC of the group's 2024 financial statements. There were no significant recommendations made by the FRC for further improvement. One recommendation was made where further clarity could have been provided and two areas of good practice were highlighted. The findings of the review were discussed with the lead audit partner and the Committee is satisfied with the quality of the audit.

The Committee also reviewed PwC's audit plan, including the underlying methodology and PwC's risk identification processes. The Committee continues to hold private sessions with the external auditor without the presence of Executive Directors or management. These sessions facilitate open discussions and provide a forum for PwC to raise any concerns. In addition to this, the chair periodically meets with the audit partner.

External auditor effectiveness and appointment

The Committee assesses the independence and objectivity, qualifications and effectiveness of the external auditor on an annual basis as well as making a recommendation on the reappointment of the auditor to the Board. The evaluation includes consideration of quality, independence and objectivity, technical competence and auditor challenge.

The process was facilitated by a group-wide survey, a survey of the PwC senior audit team and a review of audit and non-audit fees. The feedback and scores from the review are shared with the external auditor and an action plan is developed to address remediation of any issues identified. Overall, the Committee has concluded that PwC remains independent, and it was satisfied with the auditor's performance and recommended to the Board a proposal for reappointment at the AGM. Looking ahead, subject to shareholder approval, PwC will undertake the audit of the company and the group for the year ending 31 July 2026.

As FY 2026 will represent PwC's ninth year as external auditor, in conformance with the required provisions and UK Corporate Governance Code in respect of audit tendering and rotation, the group has commenced planning for the next tender, taking into account shareholder interests as well as the FRC's "Audit Committees and the External Audit: Minimum Standard".

Financial reporting and critical accounting judgements and estimates

The Committee spent considerable time reviewing the half-year report and Annual Report. The Committee discussed and challenged the key accounting judgements made by management in preparing the financial statements. This included consideration of the internal controls over financial reporting and focus on revenue recognition in light of the remediation of early settlements of loans in the Motor Finance business. Particular focus was given to the accounting and disclosure considerations with respect to the businesses which have been classified as discontinued operations in the year. Additionally, the Committee reviewed and challenged the assessment performed against IAS 37 which determined that a provision should be recognised with regard to motor finance commissions arrangements. The Committee noted that there were no new material standards, or amendments to standards, relevant to the group that became effective for the reporting period. The key judgement areas were largely unchanged from the prior year, reflecting

the group's adherence to its business model and the consistency of approach to financial reporting. The main areas of focus are outlined below. Each of these matters were discussed with the external auditor and, where appropriate, have been addressed in the external auditor's report.

In June 2025, the FRC's Corporate Reporting Review ("CRR") team carried out an ordinary course review of the Annual Report for the year ended 31 July 2024. As is its custom and practice, the FRC's review was based solely on the Annual Report 2024 with no detailed knowledge of the group or underlying transactions entered into. At the end of its review, the FRC raised no questions or queries and required no formal response. The FRC made a small number of suggestions to enhance certain disclosures. We welcome the FRC's feedback, and these points have been considered by the Committee and as part of the preparation of this year's Annual Report.

Summary of financial reporting and critical accounting judgements and estimates

Key issue	Committee review and conclusion
Expected credit loss ("ECL") provision 31 July 2025: £249.7 million 31 July 2024: £445.8 million The group's ECL provision is dependent on management's judgements and estimates.	<p>The Committee monitors management's judgements in relation to ECL, ensuring that the group's ECL models and related IFRS 9 judgements and disclosures are appropriate.</p> <p>Regular IFRS 9 updates were provided to the Committee throughout the year. The Committee challenged the level of provisions held by the group, and the judgements and estimates used to calculate these provisions. Particular focus was given to:</p> <ul style="list-style-type: none"> • changes/updates to ECL models or methodology; • the impact of the macroeconomic environment and the extent to which models are able to capture these risks; • the use of post-model adjustments ("PMAs"), including the retention or release of PMAs; • whether coverage levels continue to reflect the economic risks for customers and the credit risk in the loan book; and • single name loss risks and appropriateness of specifically assessed provisions. <p>Credit risk and provision disclosures were discussed to ensure they give a balanced articulation of the group's credit risk profile, and key drivers of the ECL charge.</p> <p>Conclusion: the Committee was satisfied that the impairment provision and the disclosures provided in the financial statements are appropriate.</p>
Goodwill 31 July 2025: £34.1 million 31 July 2024: £102.9 million Goodwill is allocated to eight (31 July 2024: nine) cash generating units ("CGUs"), all of which must be tested annually for impairment. This assessment is based on management judgement.	<p>The Committee was presented with goodwill impairment assessments at both the half year and the year end. The Committee challenged the appropriateness of the assessment, conclusions and resulting disclosures.</p> <p>At the year end, Winterflood has been classified as held for sale under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations given the agreed sale to Marex Group plc. As a result, a partial goodwill impairment of £14.5 million has been recognised to reduce the carrying value of Winterflood down to fair value, less costs to sell. In addition, as disclosed in the half-year results, £2.1 million of goodwill was fully impaired in relation to the group's operating lease assets rental businesses. Separately, there was heightened focus on Motor Finance with the cash flows included in the impairment assessment based on the Board's updated growth and cost strategy for the business, as summarised in the "Our strategy" section of the Strategic Report.</p> <p>Committee updates included comprehensive information on the impairment assessment methodology, results and sensitivity analysis. The methodology and assumptions were discussed and challenged, including the approach to cash flows which takes into account a longer forecast period for certain CGUs, discount rate used, and calculation of carrying values.</p> <p>Conclusion: The Committee was satisfied that, aside from the Winterflood and operating lease assets rental CGUs, there was no impairment and the disclosures provided in the financial statements are appropriate.</p>

Key issue	Committee review and conclusion
Revenue recognition The group offers a range of products and services for which revenue is recognised under IFRS 9, IFRS 15 and IFRS 16. Appropriate recognition is a key focus of the Committee.	<p>The Committee reviewed management's approach to revenue recognition, highlighting the key areas where judgement is required across interest, fee and commission income. The Committee noted the materially consistent approach in comparison to prior years and the detailed assessment that is performed by management and challenged by PwC.</p> <p>The recognition of revenue in relation to early settlements has also been challenged in light of the customer remediation programme for early settlements of loans in the Motor Finance business, and the Committee is satisfied that it is materially appropriate in the current and each of the previous financial years.</p> <p>Conclusion: The Committee was satisfied that revenue recognition for each of the group's key businesses is appropriate.</p>
Motor finance commission arrangements During the 2024 and 2025 financial years, the accounting judgements surrounding the FCA's review of historical motor finance commission arrangements were identified as a critical accounting judgement and estimate.	<p>The FCA's review of historical motor finance commission arrangements is progressing and the FCA will be consulting on a compensation scheme for customers later this year.</p> <p>In 2024, it was concluded that this matter was a contingent liability under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. At the half year, a further detailed assessment against IAS 37 was performed, which determined that the criteria for a provision had been met and a £165 million charge for the provision was recognised. During the second half of the financial year, the provision on the balance sheet at 31 July 2025 reduced slightly to £163.9 million, reflecting some utilisation in relation to costs, partly offset by a discount unwind for the time value of money.</p> <p>Taking into account all available information, including the outcome of the appeal to the Supreme Court with respect to the Hopcraft case, and the FCA's updates thereafter, the provision on the balance sheet at 31 July 2025 has been reassessed and challenged by the Committee, and remains unchanged at £163.9 million.</p> <p>The range of risks has narrowed following the Supreme Court judgment and the underlying components of the provision have been updated. Notwithstanding this, determining the provision requires significant judgement and estimation; the critical accounting judgements and key sources of estimation uncertainty in relation to this provision have been disclosed in the financial statements with sensitivity provided where appropriate.</p> <p>Conclusion: The Committee was satisfied with the judgement and estimation made with regard to the provision and the disclosures provided in the financial statements were concluded to be appropriate.</p>
Corporate transactions The group engaged in a number of corporate transactions during the year. The accounting and reporting impact of these transactions has been another area of key focus for the Committee.	<p>The Committee reviewed management's accounting approach in relation to the sale of Close Brothers Asset Management, Winterflood and Close Brewery Rentals Limited, and the strategic exit of our Vehicle Hire business.</p> <p>Judgement is required in some areas, including in determining whether the "held for sale" and "discontinued operations" criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations have been met, and in the value in use impairment assessment for the operating lease assets of the Vehicle Hire business. In addition, the Committee reviewed the presentation of these transactions and the associated disclosures.</p> <p>Conclusion: The Committee was satisfied with the judgements and disclosures made in relation to the corporate transactions in the year.</p>
Going concern and Viability Statement The Directors are required to confirm whether they have a reasonable expectation that the company and the group will be able to continue to operate and meet their liabilities as they fall due for a specified period. The Viability Statement must also disclose the basis for the Directors' conclusions and explain why the period chosen is appropriate.	<p>The Committee assisted the Board in determining the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group.</p> <p>The Committee reviewed and challenged papers which were in support of the going concern basis and the longer-term viability of the group. The analysis took into account a stressed going concern scenario. This scenario builds on the group's three-year strategic plan, and overlays the impact of a hypothetical severe but plausible motor finance commissions redress provision, subdued loan book growth and higher-than-expected operational costs.</p> <p>The Committee considered management's assessment that in all scenarios the group will continue to operate with sufficient levels of capital during the assessed period, as well as its sound funding and liquidity positions. In addition, the Committee reviewed the disclosures, including the information provided on a severe but plausible scenario.</p> <p>Conclusion: The Committee concluded that it remained appropriate to prepare the accounts on a going concern basis, advised the Board that three years was a suitable period of review for the Viability Statement, and recommended the Viability Statement to the Board for approval, as set out on pages 114 to 115.</p>

Audit Committee report continued

Key issue	Committee review and conclusion
Fair, balanced and understandable Under the UK Corporate Governance Code, the Board is required to perform an assessment of fair, balanced and understandable reporting.	<p>On behalf of the Board, the Committee considered whether the draft Annual Report 2025, when taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the group's position, performance, business model and strategy.</p> <p>The production of the Annual Report 2025 was managed by the Group Chief Finance Officer, with overall governance and coordination provided by a cross-functional team led by the Group Financial Controller. Ahead of presentation to the Committee, a robust review process was conducted, and content was assessed to ensure disclosures, taken as a whole, were accurate, balanced and verifiable.</p> <p>During its appraisal of the Annual Report 2025, the Committee reviewed the group's performance in light of the principal and emerging risks, along with the uncertainties surrounding the FCA's review of motor finance commission arrangements and the execution of the capital plan. Challenge was given regarding the use of adjusted measures, areas of significant judgement and estimation uncertainty, and emerging issues.</p> <p>The Committee discussed and challenged the balance and fairness of the overall report with management. The views of the external auditor were considered, including any feedback with regard to areas where disclosures could be enhanced.</p> <p>Conclusion: The Committee was satisfied that the Annual Report 2025, taken as a whole, is fair, balanced and understandable and recommended this assessment to the Board.</p>

Financial reporting controls

Risk management and internal controls

The Board is required to make a statement in the Annual Report 2025 relating to the effectiveness of risk management systems and internal controls.

In considering the effectiveness of internal controls, the Committee received and discussed reports from internal audit and the external auditor. At each meeting the Committee is presented with a report from the Group Head of Internal Audit, and reviews major findings relating to control weaknesses and management's response. The Committee challenged management where appropriate on the timeframe for delivery of actions. In addition, metrics and updates are provided to the Committee throughout the year covering the group financial control framework.

The Committee has spent time considering enhancements to internal controls over financial reporting, both in the context of preparation for the new UK Corporate Governance Code and in response to enhancements required in light of any process issues identified.

In conjunction with the Risk Committee, we have satisfied ourselves that the group's internal financial control framework is effective and adequately aligned with the group's risk profile. Whilst controls aim to manage risk, ensure reporting integrity, and maintain regulatory compliance, they cannot eliminate risk entirely. Notwithstanding, through regular reviews of key controls for design and operational effectiveness, we are also satisfied that internal financial controls are appropriately designed and effective in identifying risks faced by the group, with any identified weakness addressed through management oversight and action plans. Full details of the internal control framework are given within the Risk Report on pages 68 to 73.

Revised UK Corporate Governance Code 2024

The Committee received updates through the course of the year covering the group's preparations for the revised UK Corporate Governance Code 2024. The Code shall apply to the financial year beginning 1 August 2025, with the exception of Provision 29, which shall apply to the financial year beginning 1 August 2026. Committee discussions particularly focused on controls transformation requirements.

Group internal audit

The Committee continued to have oversight of group internal audit through reports provided to the Committee and one-to-one meetings with the Group Head of Internal Audit.

The Committee reviewed, challenged and approved the internal audit plan and amendments made during the year and monitored progress against delivery of the plan. It also approved an updated internal audit charter, which sets out the mandate, authority and roles and responsibilities of the function.

The Committee received regular reports on internal audit activities across the group, including thematic root cause analysis, detailing areas identified during audits to support strengthening of the group's risk management and internal control framework and management's progress on remediation of issues. The Committee challenged management where appropriate on the timeframe for delivery of actions and, on occasion, invited relevant members of management to attend the Committee and provide progress updates on the remediation of issues.

The annual internal audit assessment was reviewed by the Committee, which found the governance and risk and control framework of the group to be generally effective, with strong Board oversight and challenge over strategy, culture, operations and risk management.

The Committee completed its annual review of the effectiveness of the internal audit function and its level of independence. This year an external quality assessment of the function was undertaken to assess conformance with the required standards, and benchmark internal audit against market practice. The review concluded that the internal audit function was found to be an established, highly regarded function and that it generally conforms with the International Professional Practices Framework, which includes the Institute of Internal Auditors Global Internal Audit Standards and Code of Ethics. “Generally conforms” is the highest rating attainable and means the function is compliant with the requirements of the Standards in all material aspects. The assessment found that there was a good culture of engagement between management and internal audit, and that the function provides a professional audit service which is independent and objective.

In addition to reviewing the internal audit function’s effectiveness and independence, the Committee assessed the level of internal audit resource and the appropriateness of the skills and experience of the internal audit function to fulfil its mandate. It concluded the function was adequately resourced, experienced and skilled, with additional co-sourced expertise engaged, where required, for specialist skills.

Non-audit services

The Committee oversees the group’s policy on the provision of non-audit services by the external auditor, which incorporates the Financial Reporting Council’s Revised Ethical Standard published in January 2024.

The group’s policy is that permission to engage the external auditor will always be refused where there is an actual or potential threat to independence. However, the Committee will give permission where the service complies with the group policy and where work is closely related to the audit, a detailed understanding of the group is required and the external auditor can provide a higher quality and/or better value service. The group follows the mandatory regulatory cap requirement of 70% which compares the annual value of non-audit services to the average of three years’ audit fees.

The total audit fees for the financial year amounted to £6.1 million (2024: £5.0 million) while total non-audit fees including those relating to services required by legislation amounted to £0.9 million (2024: £1.4 million), representing 15% (2024: 28%) of the current year audit fee. This includes non-audit services not required by legislation of £0.6 million (2024: £0.7 million), 1% (2024: 14%) of the audit fee, predominantly relating to the review of the group’s interim financial statements and funding assurance work.

During the year, an additional audit fee of £0.8 million was paid to the auditors in relation to scope changes in the prior year’s audit, which is not included above. If this additional audit fee were to be included in the prior year comparatives, the total audit fees for the prior year would amount to £5.8 million. Total prior year non-audit fees would represent 24% of total audit fees and prior year non-audit fees relating to services not required by legislation would represent 12% of total audit fees.

The Committee was satisfied that these fees, individually and in aggregate, were consistent with the non-audit services policy and did not believe that they posed a threat to the external auditor’s independence.

Statutory audit services order compliance

The company confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year to 31 July 2025.