

Chief Executive's statement



“This year has been about proving that change is possible and that we can move at speed. We have tackled legacy issues head-on, reshaped the portfolio, and shown that we can take decisive actions quickly, even while navigating the uncertainty around motor commissions.”

Mike Morgan
Chief Executive

When I took on the role of Chief Executive at the start of 2025, I set out my commitment to address the issues holding back performance and to drive the group to deliver the returns we know it can generate. Our purpose and business model remain strong: we operate in markets with long-term demand, where our specialist focus, deep customer relationships and trusted brand allow us to differentiate and win. However, in recent times, our returns have fallen short of where they should be. The combination of historical complexity, elevated costs, and recent events has highlighted the need for change. I am approaching this with urgency and a focus on execution, with a leadership team that brings the right experience to deliver.

This year, we have taken a series of decisive steps to address legacy issues and reset the business. We have strengthened our capital position in response to the motor commissions uncertainty, delivered cost actions resulting in annualised savings of around £25 million since March 2024, and simplified the group through the sale of Close Brothers Asset Management and Winterflood, the repositioning of our Premium Finance business and the disposal of our Brewery Rentals business. We have now also successfully settled the long-standing litigation issued by Novitas, allowing us to move forward and exit from this business. In addition, as part of our simplification agenda, we are announcing today our

decision to exit our Vehicle Hire business, which has been loss-making in a challenging market environment and is not strategically aligned with our core specialist lending expertise. Together with the impact of declining asset values, this has resulted in an impairment charge of £30.0 million in relation to the assets of this business.

On 1 August 2025, the Supreme Court published its judgment with respect to the “Hopcraft”, “Johnson” and “Wrench” cases in relation to motor commissions. We welcome the positive outcome of this judgment, which provided much-needed clarity to the industry, and now await the outcome of the FCA consultation on the design and scope of an industry-wide redress scheme. The provision charge in respect of motor finance commissions recognised in the income statement at the half year of £165.0 million has been reassessed in light of all available information and recent developments and remains unchanged.

Our wide-ranging review of the business has also required us to take other challenging, but necessary, actions. We are implementing a proactive customer remediation programme in Motor Finance, where we have identified historical deficiencies in certain operational processes in relation to the early settlement of loans. This has resulted in a separate provision of £33.0 million in the 2025 financial year.

Notwithstanding the significant impact of these actions on our near-term financial performance, I am confident that they leave the group better positioned for growth going forward, with a sharper, more focused portfolio of specialist banking businesses.

Financial performance

We reported a statutory operating loss before tax of £122.4 million (2024: statutory operating profit before tax of £132.7 million) from continuing operations, primarily driven by adjusting items relating to motor finance commissions, including the £165.0 million provision charge and £18.7 million associated with complaints handling and other operational and legal costs. We also recognised a £33.0 million provision for the proactive customer remediation programme in Motor Finance in relation to early settlement of loans and an operating loss before tax of £47.5 million for our rentals businesses, including the £30.0 million write-down of assets in the Vehicle Hire business.

On an adjusted basis, excluding the impact of these items which do not reflect the underlying performance of our business and discontinued operations, the group's operating profit decreased 14% to £144.3 million (2024: £167.6 million), driven by a 2% decline in income and 3% increase in costs, partly offset by a 6% reduction in impairment charges.

In Banking, adjusted operating profit reduced 7% to £198.3 million (2024: £212.9 million), as a 2% reduction in income and 1% increase in costs were partly offset by lower impairment charges. The loan book declined by 4% to £9.5 billion (31 July 2024: £9.8 billion) as a result of loan book moderation measures and the temporary pause in UK motor lending following the Court of Appeal's judgment in October 2024. The net interest margin remained strong at 7.2% (2024: 7.4%) and credit performance remained resilient, with a bad debt ratio of 1.0% (2024: 1.0%), below the long-term average of 1.2%.

We maintained a strong capital, funding and liquidity position. The group's CET1 capital ratio was 13.8% at 31 July 2025, reflecting significant progress on our capital actions, and significantly above our applicable requirement of 9.7%. This includes the impact of a £165.0 million charge for the provision in relation to motor finance commissions and other adjusting items. The recently announced sale of Winterflood is expected to increase the group's CET1 capital ratio by c.55 basis points on a pro-forma basis, of which c.30 basis points will be recognised upon completion, and a further c.25 basis points is expected in due course from the reduction in operational risk weighted assets. We have raised over £1 billion of retail deposits as well as £300 million through a Motor Finance funding securitisation, supporting a continued strong funding base at £12.7 billion (31 July 2024: £13.0 billion) at 31 July 2025. We have also consciously maintained a higher level of liquidity, with a 12-month average liquidity coverage ratio ("LCR") to 31 July 2025 of 1,012% (31 July 2024: 1,034%), substantially above regulatory requirements.

Executing the next stage of our journey

With our simplification agenda now largely complete, these actions provide the foundation for the next stage of our journey: driving efficiency and capturing growth.

We have already delivered £25 million of annualised cost savings by the end of the 2025 financial year through the streamlining of our technology, suppliers, property, and workforce, and are committed to maintaining this momentum to deliver a step change in operating profitability. We will deliver at least c.£20 million of additional annualised savings per annum in each of the next three years, through further consolidation of centrally provided functions, outsourcing and offshoring, and the simplification and rationalisation of technology, including automation and the use of artificial intelligence. I will personally oversee the planning and execution of these cost initiatives, and we have mobilised

senior leaders across the group to ensure execution at pace and alignment at every level.

In parallel, we are evaluating opportunities to optimise capital, funding and liquidity once the uncertainty around motor commissions is resolved.

We are confident in the enduring growth opportunity across our core markets, focusing on areas that offer attractive risk-adjusted returns. In the earlier part of the year, to preserve capital, we had to turn away attractive new business that met our credit and pricing requirements, as reflected in our loan book growth performance. This, however, demonstrates the continuing demand we believe exists in our markets.

Accordingly, we are taking steps to capture this growth opportunity. We are broadening our product offering in Property Finance, moving into larger build-to-sell loans and additional asset classes such as build-to-rent and purpose-built student accommodation; expanding distribution in Motor Finance through growth in the Irish market, and with larger partners and brokers; and have a renewed focus on growing our commercial lines business in Premium Finance. Our Commercial business is expanding into adjacent products, such as commercial mortgages, and is focused on scaling new, specialist teams such as agriculture. We intend to use our strong market positions, reputation and specialist expertise to win in the segments where we can truly differentiate and become the specialist lender of choice for SMEs in the UK and Ireland.

Together these actions set a clear path back to double-digit RoTE by the 2028 financial year, rising thereafter. We plan to provide a full update on our pathway to rising RoTE once there is clarity on the outcome of the FCA's consultation and its impact on the group, potentially early next year, or sooner depending on when clarity is achieved.

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Confident in our future

This year has been about proving that change is possible and that we can move at speed. We have tackled legacy issues head-on, reshaped the portfolio, and shown that we can take decisive actions quickly, even while navigating the uncertainty around motor commissions. While a number of these actions carry an upfront financial impact, we are confident that they will leave us well positioned for the long term. The task now is to accelerate from here. With a simpler, more focused portfolio and a leadership team focused on delivery, we are positioned to reduce costs, drive growth in our core markets and improve returns. I am confident we are on the right path and that we will return this business to double-digit returns.

I want to thank all of our colleagues for their professionalism, energy and commitment throughout this period of change. Their dedication and focus have been critical in delivering these early actions and in positioning the group for the future.

Mike Morgan
Chief Executive