

Risk Committee report



Patricia Halliday
Chair of the Risk Committee

Dear shareholder

I am pleased to present the report of the Risk Committee (the “Committee”) for 2025, outlining the Committee’s key responsibilities and principal areas of risk we have focused on during the year. I would also like to thank the Committee members for their contributions and commitment.

The past year has brought unique challenges for the group, driven by the uncertainty relating to the FCA’s review of historical motor finance commission arrangements, which remained high on the Committee’s agenda, given the wide range of potential outcomes of this review and the associated outcome of the Supreme Court ruling.

In the context of the wide range of scenarios evaluated for motor commissions potential redress and contingency planning, close monitoring of the group’s capital and liquidity position continued, with steps taken to build and further strengthen the group’s capital and liquidity levels.

The Committee maintained a full agenda on principal risks, with regular reviews of credit risk, and consideration of the external environment, key risk indicators and the potential impact on our customers. Operational risk and resilience controls were important areas of focus, including updates on transition plans as we exited/sold businesses, operational impacts from potential outcomes in the Hopcraft case, and changes to our processes and systems. Conduct risk and Consumer Duty assessments also received attention, including oversight of related improvement programmes.

The year ahead is likely to remain challenging as we receive further clarity on the FCA’s review of motor finance commission arrangements. Furthermore, we expect a volatile external economic environment and ongoing geopolitical tensions to add to the complexity of the prevailing risk environment. The steps taken to strengthen our financial position help enable the group to face into these challenges. Noting the further streamlining of the group, we will continue monitoring programmes of work to simplify our processes and systems to deliver enhanced control effectiveness.

Patricia Halliday
Chair of the Risk Committee

30 September 2025

Role of the Committee

To assist the Board in its oversight of risk and ensure a supportive risk culture is fully embedded.

Membership

Patricia Halliday (Chair), Kari Hale, Tracey Graham, Tesula Mohindra, Mark Pain 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, General Counsel and Company Secretary, Group Head of Operational Risk and Compliance, external auditor.

Meetings

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

2025 highlights

- Ongoing oversight of the implication of the FCA’s review of historical motor finance commission arrangements, including plans to ensure preparedness to quickly respond once further clarity on the regulatory position is received.
- Delivery of actions to address findings in response to the FCA’s market-wide review of Borrowers in Financial Difficulty.
- Further strengthening the group’s operational resilience, with enhancements made to continue to embed resilience into our business-as-usual operations.
- Oversight and monitoring of risks relating to the disposal of Close Brothers Asset Management mid-year and the risks associated with strategic changes to the Premium Finance business.
- Oversight of the planning of the group’s migration to cloud as part of a wider technological transformation programme.

How time was spent



Interaction with other committees

The Risk Committee jointly oversees, along with the Audit Committee, the recommendations of the group’s internal and external auditors and the effectiveness of the group’s internal control and risk management systems. It also provides advice and input to the Remuneration Committee on remuneration policies and performance objectives.

Key responsibilities

The Risk Committee's principal roles and responsibilities are to support the Board in its oversight of risk management across the group. The identification, management and mitigation of risk is fundamental to the success of the group. The Risk Committee also plays an important role in setting the tone and culture that promotes effective risk management across the group. The Risk Committee's key responsibilities are to:

- oversee the maintenance and development of a supportive culture and "tone from the top" in relation to the management of risk;
- review and recommend to the Board for approval the group's risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed risk appetite;
- review the effectiveness of the risk management framework in ensuring that key risks are identified and appropriately managed;
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee); and
- ensure a robust assessment of both the principal and emerging risks facing the group over the course of the year is undertaken, and review reports from the risk and compliance functions on the effectiveness of the processes that support the management and mitigation of those risks.

Overview of main activities during the year

The Committee receives a report from the Chief Risk Officer at each meeting to focus discussion on the key strategic risks, principal and emerging risks. A clear forward-looking agenda is in place and agendas are structured to facilitate effective discussion and debate on key topics.

At each regular meeting, the Committee has:

- reviewed and assessed the group's emerging and principal risks;
- reviewed and discussed any material risk events;
- reviewed and monitored the group's risk profile in respect of performance against risk appetite, risk trends, consumer outcomes, emerging risks and risk concentrations; and
- received updates in relation to compliance and regulatory matters.

During the year, the Committee considered the wide range of evolving risks facing the group. Areas of focus during the year were closely aligned to the regulatory agenda and the Committee maintained a balance between consideration of strategic risks as well as oversight of key remediation programmes and regulatory submissions. In addition to ensuring that we keep aligned to the supervisory priorities of our regulatory bodies, risk responses to singular regulatory initiatives and any resulting actions feature accordingly. The Committee oversaw the delivery of actions in response to the FCA's market-wide review of Borrowers in Financial Difficulty, which assessed forbearance and related practices, and has been materially completed, with embedding of changes ongoing.

The Committee and the Board have continued to assess the potential outcomes and impacts of the FCA's review of historical motor finance commission arrangements, and the outcome of the appeal to the Supreme Court in relation to the Hopcraft motor commissions case. Throughout this, we have continued to engage proactively with our regulators and time has been spent reviewing updates from management on the capital planning scenarios and funding and liquidity measures as we prepare for further clarity from the review and associated outcomes. The Committee has maintained close monitoring of the capital and liquidity position with focus on our forecasting of capital and liquidity throughout the period to ensure we are monitoring appropriately in line with our established capital planning measures. Overall, throughout the year we have continued to maintain robust and healthy liquidity levels consistent with our conservative approach to funding based on the principle of "borrow long, lend short". The Committee maintains regular oversight and visibility of funding and liquidity risk.

Credit risk has remained a core topic during the year, with the Committee receiving various deep dives as part of a rolling programme of credit portfolio reviews. Oversight of key lending portfolios including motor, property, premium, energy, and invoice finance have been regular features on the Risk Committee agenda this year. The Chief Risk Officer also provides insights on the overall credit environment when presenting their regular report. In the context of ongoing macroeconomic uncertainty, overall, our loan book has continued to display resilience, demonstrating the beneficial impact of our prudent lending criteria, the predominantly secured nature of lending and application of a consistent risk appetite. Notwithstanding some signs of credit stress being seen in pockets of our lending book due to the external environment, our vigilance and early engagement approach facilitates an ability to react as required.

Operational resilience has remained a key area of oversight, and this year's self-assessment demonstrated the good progress made in embedding operational resilience within our business-as-usual operations. Numerous enhancements have been made across the group, with a focus on increasing the resilience of our operations and services to customers. These enhancements include the deployment of new operational processes and technology services to further mitigate risk to service continuity, and together with associated documentation enhancements has built a greater understanding of resilience across the organisation.

The Committee has also spent time this year considering enhancements to our overall control environment in the context of preparation for the new UK Corporate Governance Code and in response to enhancements required in response to both the FCA review into historical motor finance commission arrangements together with any process issues identified. These enhancements mark a positive build on our existing control environment.

Similarly, cyber risk was a key feature on the Committee's agenda as we continue our cyber security journey and building on our cyber controls and capabilities. This included monitoring progress towards an enhanced risk-based approach to ensure we are appropriately positioned to address the ever-changing nature of the threat environment and the need to build appropriate security mechanisms to mitigate against cyber attacks.

Risk Committee report continued

Following approval of the first Consumer Duty self-assessment in June 2024, the Committee was satisfied to reconfirm approval for this financial year. The importance of good consumer outcomes has remained a priority as the Committee maintains oversight on the identification and remediation of any issues that need to be addressed and drive forward a culture of delivering good consumer outcomes at every stage of the customer journey. This year the Committee has been kept regularly updated on further embedding of the Conduct Risk Framework and additional enhancements made during the year. The Committee has also received and reviewed regular monitoring reports of consumer outcomes and reviewed and approved, on behalf of the Board, management's annual report on consumer outcomes and ongoing action improvement plans.

As the group has announced various strategic initiatives during the year, the Committee has maintained oversight and consideration of the risk profile attached to these. These include the risks associated with divestment or similar actions to ensure that the risk and business environments remain within appetite. Similarly, priorities of our regulatory bodies and their own strategic aims have featured heavily on our own agenda.

As part of the group's contingency planning activities, in addition to our routine suite of regulatory stress-testing activities, management participated in our crisis management and disaster recovery exercises and other fire-drill activities, which continue to demonstrate our resilience and ability to respond in a crisis event.

Sustainability items retain prominent positions as areas of focus. Climate risk and its impact on both us as a group, as well as our borrowers, remains a priority area of focus and this year, we have been pleased to see further embedding of our risk management practices within our wider risk frameworks. Combined with our culture dashboard and monitoring of people risk, this helps us keep sustainability considerations at the forefront of all we do whilst we support our businesses in serving our customers. Additionally, the linkage between culture, risk and compensation remains an important one and the Risk Committee and the Chief Risk Officer have provided input to the Remuneration Committee again this year to seek to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward.

Looking ahead to 2026

It is anticipated that the regulatory agenda and current areas of activity will continue to feature heavily on the Committee's agenda into 2026. We expect to receive an update on the FCA's review of historical motor finance commission arrangements and the content and any associated workstreams will form a focal point for the Risk Committee and executive team more widely. As further clarity is received on this, the Committee will play a key role in ensuring the impacts are fully assessed and understood.

Our readiness for Basel 3.1 implementation continues and will further mature throughout the next financial year and I look forward to updates to the Committee on this in the coming months ahead of the deferred regulatory deadline.

Our focus on Consumer Duty will continue and the importance of good consumer outcomes will continue to be prioritised as the legal and regulatory position around the resolution of complaints relating to motor finance commissions becomes clearer.

Progress and builds upon the operational resilience and cyber maturity landscape will be monitored keenly by the Committee. Ongoing cyber threats that continue to impact global institutions indicate a wider adverse trend and therefore continued focus into 2026 will remain critical.

In the context of expected ongoing uncertainty in the macroeconomic environment, vigilance, monitoring and controlled risk appetite will continue to be key as we move forward. A strong forward-looking focus on emerging risks and the outcome of the FCA's review of historical motor finance commission arrangements will be important. Emerging risks and possible emergence periods are monitored on an ongoing basis, with agreed mitigating actions in place. This, along with our business-as-usual horizon scanning activities, is designed to enable us to anticipate risks and take appropriate management actions. Central to our ability to do this is our established risk measurement, monitoring and reporting framework. Our focus on products and markets we know and understand aligns with a consistent risk appetite against which we measure ourselves.

As we look ahead to the next financial year the Committee will continue to oversee the management and mitigation of those risks most likely to pose harm to the group and maintain focus on several key topics including regulatory developments, macroeconomic uncertainty and the cyber landscape.

Committee effectiveness

In accordance with the UK Corporate Governance Code, a review of the effectiveness of the Board and its committees was undertaken during the year, as described on pages 130 to 131. The results of the Committee effectiveness review confirm 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.