

Risk Committee Report



Dear Shareholder

On behalf of the board, I am pleased to introduce the Risk Committee report for the year ended 31 July 2024. I would also like to thank the Committee members for their contributions and commitment during the last year. The report sets out an overview of the Risk Committee's key responsibilities and the principal areas of risk we have focused on during the year.

Over the last 12 months, the external economic environment remained challenging for our customers and together with an expansive regulatory agenda this presented an evolving risk profile for the Committee's consideration and focus. Key topics for the Committee included reviews of the ongoing impact of cost of living pressures, inflation and interest rate trends. Time was also focused on reviewing progress on capital planning in line with the measures announced at our interim results, as we considered regular updates in relation to the FCA's review of historical motor finance commission arrangements. Noting the continued uncertainty and wide range of potential outcomes of this review, this will remain a key agenda item for the Committee to review and evaluate in the coming year. The Committee also continued its ongoing oversight of progress in the management of risks that are key to supporting our customers, maintaining our operational resilience and meeting our regulatory commitments where we continued to receive progress updates on key remediation programmes. Further details on our risk management approach and the internal controls are provided in the Risk Report on pages 74 to 116.

These dynamic regulatory and macroeconomic environments are likely to remain in focus in the year ahead as we continue to engage proactively with our regulators and review updates from management on capital planning scenarios as we receive more information on the FCA's review of historical motor finance commission arrangements in particular. We will continue to monitor for signs of stress amongst our borrower population and other key factors influencing our principal areas of risk.

Patricia Halliday
Chair of the Risk Committee

19 September 2024

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 head of internal audit
- Group chief risk officer
- General counsel
- Group head of operational risk and compliance
- External auditor

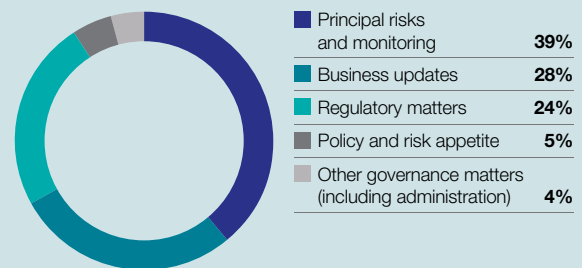
Meetings

- Number of scheduled meetings: six
- For details of attendance, see page 132

Interaction with other committees

The Risk Committee must include, as one of its members, the chair of the Audit Committee. It 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.

How time was spent



2024 highlights

- Review of the status of the first annual assessment of Consumer Duty as well as the embedding of reporting enhancements providing enhanced visibility for senior management.
- Reviewed, challenged and approved the first annual self-assessment on operational resilience detailing the current position towards the regulatory requirement of March 2025. Close monitoring and focus on the achievement of our cyber maturity objectives.
- Credit management across all portfolios through the prevailing macroeconomic environment.
- Enhanced planning on incorporating climate risk into our wider stress testing programme.
- Ongoing oversight of the implication of the FCA's review on historical motor finance commission arrangements. Focus and coverage on the implementation and monitoring of the various capital planning measures as outlined in our half-year results announcement.

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
- undertake a robust assessment of both the principal and emerging risks facing the group over the course of the year, 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 regulatory agenda has naturally determined a large portion of material considered and monitored by the Committee. 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 FCA's market-wide review of Borrowers in Financial Difficulty, which assessed forbearance and related practices, has been the focus of regular updates to the Committee as it has considered the output of the Past Business Review undertaken and this will continue to feature regularly on our agenda as we head into the next financial year.

Last year the Committee was regularly apprised of enhancements made to meet Consumer Duty requirements for open book products. This year the Committee has been kept regularly updated on further embedding of these processes, together with updates on additional enhancements made this year, including those relating to closed book products. The Committee has also received and reviewed regular monitoring reports of customer outcomes and reviewed and approved on behalf of the board an annual assessment of outcomes received by retail customers.

The embedding of operational resilience throughout the organisation into business practices, including considering the potential impact on clients and markets, has been of keen interest to the Committee; the self-assessment on operational resilience undertaken being brought to the Risk Committee for consideration and sign off.

The Committee has similarly maintained an appropriate focus on the risks associated with cybercrime and has been briefed on progress towards achieving the group's Capability Maturity Model Index target, which was achieved delivering heightened levels of resilience. The established rolling testing schedule will see us well-equipped to monitor the effectiveness of the resilience in an ever-evolving external environment.

In the context of ongoing macroeconomic uncertainty, overall, our loan book has continued to display resilience, demonstrating the positive beneficial impact of our prudent lending criteria, secured nature of lending and application of a consistent risk appetite.

Some lagging impact of the cost of living pressures and run-off of various government schemes has been seen with early signs of credit stress in some pockets of our lending book. Our vigilance and early engagement approach facilitates an ability to react as required and as such the impact thus far is immaterial with overall provision coverage ratios remaining stable.

In addition to our usual schedule of client monitoring, we maintain a rolling programme of credit portfolio reviews which are presented to the Committee. Oversight of key lending portfolios including motor, property, energy, and invoice finance have been regular features on the Risk Committee agenda this year.

During this financial year we have continued to revisit our stress event planning activities; our annual stress testing exercises continue to demonstrate our resilience and sufficient resources of both capital and liquidity. This year has also seen advancements in consideration of how to further incorporate climate risk enhancements into our stress testing programme. 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.

Since the FCA's announcement of its review of historical motor finance commission arrangements the Committee has closely monitored the capital and liquidity position with focus and challenge on the progress and the impact of management's implementation of the various capital optimisation actions outlined in our half-year results. This has accompanied regular review throughout the year of enhancements in the group's capital management framework, including processes, reporting, governance and capital risk appetite statements. The firm continues to prudently plan for a range of possible outcomes, but noting the uncertainty that remains until further information is available to refine the assumptions made.

As previously, the linkage between culture, risk and compensation remains an important one and the Risk Committee and the group chief risk officer have provided input to the Remuneration Committee again this year 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 2025

We expect the regulatory agenda and current areas of activity to feature heavily on the Committee's agenda into 2025. We expect to receive and review updates on the completion of the Past Business Review of customer forbearance processes related to motor finance lending during the year.

In line with recent communication provided by the FCA, we expect an update on the FCA's review of historical motor finance commission arrangements in the final quarter of the next financial year. It remains difficult to anticipate what future updates will include, however it is expected that the content and any associated workstreams will form a focal point for the Risk Committee and executive more widely. We will continue to focus on our forecasting of capital and liquidity throughout the period to ensure we are monitoring appropriately in line with our capital planning measures.

Our focus on Consumer Duty will continue, with regular customer outcomes reporting and updates on areas where we are continuing to make further enhancements. Progress in 2024 on operational resilience and cyber maturity will continue to be built upon and will be monitored keenly by the Committee. Market trends observed on cybercrime indicate a wider adverse trend and therefore focus into 2025 will remain critical.

Notwithstanding recent improving indicators in some of the core macroeconomic indicators that we track, instability in the overall economic environment remains from a period of substantial volatility. Vigilance, monitoring and controlled risk appetite will continue to be key as we move forward. Identification of emerging risks and possible emergence periods form part of the regular monthly reporting suite to our risk committees. This, along with our business-as-usual horizon scanning activities, should ensure that we are able to anticipate 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 I look forward to seeing the climate risk agenda featuring at the Risk Committee in line with our revised governance arrangements. Combined with our culture dashboard and monitoring of people risk, this ensures that we maintain sustainability considerations at the forefront of all we do whilst we support our businesses in serving our customers.

Committee Effectiveness

An external evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code, as described on pages 134 and 135. The evaluation found that the Committee continues to operate effectively.

The Committee considers that it has access to sufficient resources to enable it to carry out its duties and it has continued to perform effectively.