

Paragon Banking Group PLC

Preliminary announcement

For the year ended 30 September 2025

Strong performance with 17.5% underlying RoTE, 8.7% dividend growth and new £50 million share buy-back announced for FY26

Paragon Banking Group PLC ('Paragon', 'the Group' or 'we'), the specialist lender and banking group, today announces its full year results for the year ended 30 September 2025

Nigel Terrington, Chief Executive of Paragon said:

"Paragon has delivered another strong performance in 2025, demonstrating the strength and resilience of our specialist model and building on our consistent track record of delivery. We've grown our loan book, maintained excellent cost discipline and delivered record underlying earnings per share of 109.7p, all while continuing to deliver enhanced returns to our shareholders through increased dividends and continued share buy-backs.

Operationally, we've made significant strides in digitalisation this year. The successful launch of Spring, our new app-based savings brand, and the roll-out of our digital buy-to-let origination platform represent major milestones in our technology transformation. These developments are already delivering tangible benefits for customers and driving efficiency across the Group.

We enter the new financial year with good momentum. While the external environment remains uncertain, we see plenty of opportunity ahead in our chosen specialist markets. With a strong capital position, a modern digital platform and a clear strategy, Paragon is well placed to continue building on this success, delivering sustainable growth and attractive returns for our shareholders."

Financial highlights

- Underlying basic EPS increased 8.5% to 109.7p (2024: 101.1p)*
- Strong underlying Return on Tangible Equity remains comfortably within target range at 17.5% (2024: 17.2%)
- Operating profit before adjusting items increased by 0.4% to £293.9 million (2024: £292.7 million)*
- Pre provision profits up 5.9% to £335.8 million (2024: £317.2 million)
- Statutory profit before tax increased by 1.1% to £256.5 million (2024: £253.8 million) and statutory basic EPS increased 3.1% to 91.2p (2024: 88.5p)
- Net loan book grew by 4.0% to £16.3 billion (2024: £15.7 billion)
- Net interest margin 3.13% (2024: 3.16%) ahead of expectations due to controlled growth and careful management of funding options
- Cost efficiency remains strong, with the cost:income ratio 34.8% (2024: 36.1%) including investments in digital capabilities

- Cost-of-risk rose to 26 basis points from 16 basis points in 2024, with the charge concentrated in a defined cohort of development finance loans
- £25.5 million provision made in respect of potential motor commission redress reflecting FCA consultation paper rather than scenario-based approach used at the half year
- Capital ratios remain strong with our CET1 ratio at 13.6% (2024: 14.2%), well above regulatory requirements
- Tangible Net Asset Value per share increased by 7.2% to £6.55 at 30 September 2025 (2024: £6.11)
- Total dividend per share increased 8.7% to 43.9p (2024: 40.4p)
- FY25 share buy-back completed. A further £50.0 million announced for FY26

Operational highlights

- Digital transformation continues apace with major milestones delivered with limited capitalisation of expenditure
- New app-based digital savings brand “Spring” successfully launched, with balances standing at over £425 million at year end and over £600 million at the end of November
- New digital buy-to-let origination system rolled out to full introducer network
- Total new lending of £2.68 billion (2024: £2.73 billion):
 - Mortgage Lending advances totalled £1.49 billion (2024: £1.49 billion) with continued strong customer retention contributing to loan book growth of 3.4%, or 7.8% excluding the legacy book
 - Commercial Lending advances totalled £1.19 billion (2024: £1.24 billion) with development finance and motor businesses showing growth. Overall commercial loan book up 7.6% to £2.46 billion (2024: £2.29 billion)
- Combined pipelines stable year-on-year with customer activity expected to recover as rates fall and budget uncertainty fades
- Strong liquidity. Retail deposits stable at £16.3 billion (2024: £16.3 billion)
- Inaugural £500.0 million, AAA-rated, Regulated Covered Bond issued, significantly oversubscribed at an attractive price
- £0.5 billion of TFSME repaid in the year, with a further £0.25 billion repaid shortly after the year end

* See Appendix A

Adjusted income statement and associated ratios

Financial results	2025	2024
	£m	£m
Interest income	1,249.0	1,314.7
Funding cost	(746.7)	(831.5)
Net interest income ('NII')	502.3	483.2
Other Income	12.8	13.2
Total income	515.1	496.4
Operating expenses	(179.3)	(179.2)
Pre-provision profit	335.8	317.2
Loan impairment	(41.9)	(24.5)
Operating Profit	293.9	292.7
Fair value movements	(11.9)	(38.9)
Exceptional charge	(25.5)	-
Profit before tax ('PBT')	256.5	253.8

Key ratios	2025	2024
Average loan book	£16.023bn	£15.290bn
CIR – cost income ratio	34.8%	36.1%
NIM – Net interest margin	3.13%	3.16%
CET 1 Ratio	13.6%	14.2%
Underlying RoTE	17.5%	17.2%
Statutory RoTE	14.6%	15.0%
Underlying earnings per share	109.7p	101.1p
Statutory earnings per share	91.2p	88.5p
Dividend per share for the year	43.9p	40.4p

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The Group will be holding a results presentation on Wednesday 3 December 2025 at 9:30am at UBS, 5 Broadgate, London EC2M 2QS.

This will be webcast live at: <https://secure.emincote.com/client/paragon/full-year-results-2025>

The presentation material will be available on our corporate website www.paragonbankinggroup.co.uk/investors from 7:00am on the same day, with a webcast replay available from 2:30pm that day.

Cautionary statement

Your attention is drawn to the cautionary statement set out at the end of this announcement.

MANAGEMENT OVERVIEW

Introduction

We continue to grow the loan book in our chosen specialist sectors through the application of a highly centralised and increasingly digitalised operating model. This approach delivers innovation in our specialist markets, enhances customer experience and improves efficiency, which combine to drive up returns.

We maintained our disciplined approach to pricing, refusing to chase volume for its own sake. Despite this focus on returns, we delivered 4.0% growth in our loan book in the year which reached £16.3 billion at the year end (2024: £15.7 billion).

Our digitalisation strategy achieved a number of major milestones. The most exciting development in the year was the roll-out of Spring, our new app-based digital savings proposition, which launched to the public in April 2025. The Spring functionality uses open banking to facilitate instant transfers to and from customers' current accounts, allowing them to earn significantly better rates on balances that typically were previously earning little or no interest. This has been extremely well received by a growing customer group – with balances standing at over £425 million at the year end, and climbing further since.

We also rolled-out a new, best-in-class, buy-to-let origination platform to the wider broker community earlier this year – reducing friction while accelerating processing times to improve customer experience. These platforms represent the start of our digital customer capability, providing a springboard for us to build and expand offerings to better serve the needs of our customers. Digital re-platforming continues to roll out across our business, with the core banking platform for our SME lending portfolio currently being replaced, following the 2023 delivery of an updated origination system.

As part of our digitalisation strategy, we have seen a careful incorporation of AI into operations and decision-making while remaining conscious of the related risks. Focused on machine learning, we have also investigated Gen AI applications, where appropriate. Across the business we have carefully managed costs and headcount growth, despite our active change programme, supporting an industry-leading cost:income ratio of 34.8% (2024: 36.1%).

Leveraging our strong ratings (Moody's Baa3 / Fitch BBB+) we became the UK's 14th FCA-registered issuer of covered bonds in the year, with our debut £500 million issue being the first regulated covered bond in the UK supported purely by buy-to-let assets. Alongside our Spring offering, Paragon-branded savings products, our presence on deposit platforms and Bank of England facilities, this further broadened our funding options – optimising access to liquidity and supporting the maintenance of margins in the year, against the backdrop of an increasingly competitive savings market.

Financial performance

Controlled growth and careful management of our funding options saw our net interest margin fall only 3 basis points, from its 2024 level of 316 basis points to 313 basis points in the 2025 financial year. This was comfortably above the guidance given a year ago of around 3%. Our average total loan balance rose from £15.3 billion in 2024 to £16.0 billion in 2025, with the resulting net interest income increasing from £483.2 million to £502.3 million.

MANAGEMENT OVERVIEW

Operating costs for the year were within our guidance levels, despite the high level of change activity, with the bulk of our tech spend continuing to be expensed rather than capitalised (the value of unamortised software rising from £8.0 million to only £8.8 million across the year).

At £335.8 million our pre-provision profit was up 5.9% year-on-year, reflecting the combination of margin management and cost discipline.

The overall cost of credit rose to 26 basis points, with 82% of the charge arising in the development finance portfolio, where a cohort of loans written just prior to the inflationary and interest rate peak in 2022 continued to generate impairment requirements. At the year end the net balance of pre-2022 Stage 3 loans totalled £104 million, representing 11% of the overall development finance portfolio. The rest of our loan book saw only modest provisioning requirements, which were stable year-on-year at a cost of risk of 5 basis points.

Underlying operating profits, before fair value adjustments and one-off costs rose 0.4% to £293.9 million, and the completion of the £100.0 million 2025 share buy-back supported an 8.5% growth in underlying EPS to 109.7 pence per share (2024: 101.1 pence) (AppendixA). Our 40% payout ratio results in a proposed final dividend of 30.3 pence per share and, if approved, a full year dividend of 43.9 pence per share (2024: 40.4 pence).

Fair value movements on derivatives resulted in a charge of £11.9 million (2024: £38.9 million). Fair value movements are non-cash items which reverse over time and are excluded from underlying performance metrics.

In our 2025 half-year accounts we made a £6.5 million provision in respect of potential liabilities arising from historical motor commission practices. Since that time, the Supreme Court has concluded on the three Court of Appeal cases it heard on the subject and the FCA has announced the details of a proposed industry-wide redress scheme. Whilst the redress scheme is still in its consultation phase, it represents the most likely basis against which to assess the level of our exposure.

We have therefore made a provision on the basis of our best estimate of the impact of the FCA's current proposed redress scheme methodology, rather than adopting the previous scenario-based approach. This resulted in a total provision charge in the year for potential redress and estimated associated costs of £25.5 million (2024: £nil). This charge has been excluded from our analysis of underlying performance, as it relates to historical, rather than current, trading.

Statutory profit before tax for the year was £256.5 million (2024: £253.8 million) and basic earnings per share on the statutory basis was 91.2 pence per share (2024: 88.5 pence per share) an increase of 3.1%.

However, while we have made the extra provision, we do not believe it reflects the actual loss to customers or customer harm, especially as we applied a low price / low commission model, relative to the broader motor finance market at the time.

Our effective tax rate increased to 29.7% in the year (2024: 26.7%), largely due to the non-deductible nature of the motor redress provision. The underlying tax rate was 26.2%, (2024: 27.4%). Statutory profit after tax fell 3.1% to £180.3 million (2024: £186.0 million).

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Trading performance

Total new advances for the financial year were in line with the previous year at £2.7 billion (2024: £2.7 billion).

Within our Mortgage Lending division, new advances totalled £1.5 billion (2024: £1.5 billion) which, when combined with continued strong customer retention, resulted in the net loan book increasing by 3.4% to £13.9 billion. Our legacy portfolios continue to amortise, but our new buy-to-let portfolio, originated after the global financial crisis of 2007-8, saw net growth of 7.8%. The increase in buy-to-let arrears seen in the first half of the year stabilised in the second half, with the 3-month plus measure remaining almost unchanged from the half year at 52 basis points (2024: 38 basis points). The buy-to-let pipeline remained healthy and finished the year at £820.9 million (2024: £881.4 million).

The Commercial Lending portfolio grew by 7.6% in the year, standing at £2.5 billion at the year end (2024: £2.3 billion). Aggregate new advances totalled £1.2 billion (2024: £1.2 billion), with both the development finance and motor businesses showing growth and asset finance broadly flat. Structured lending saw a reduction in net drawings, although the absolute scale of facilities grew by £73.0 million in the year, to £403.0 million. The year-end development finance pipeline, including undrawn balances, rose 13.0% from its 30 September 2024 level, to £701.0 million (2024: £620.6 million).

Sustainability

Sustainability remains at the heart of our strategy, and we have made steady progress during the year in delivering on the roadmap laid out in earlier periods. We keep the evolving expectations of stakeholders, regulators and governments under review, but have not, so far, identified any requirements for a significant change to our present approach.

Capital and funding

The most notable funding developments in the year have been the issue of our first covered bond and the launch of Spring, as we adapted the mix of our funding options to optimise both liquidity and margins.

During the year we completed our £100.0 million share buy-back as we seek to optimise our capital efficiency, with our CET1 and total capital ratios standing at 13.6% and 15.3% respectively (2024: 14.2% and 16.0%). We continue to operate well in excess of our regulatory capital requirements, with a CET1 headroom of 2.7% of TRE and a strong surplus above our regulatory capital requirement.

With Basel 3.1 currently expected to come into force in the UK on 1 January 2027 we continue to press ahead with our IRB application for buy-to-let. In addition, preparatory work for our development finance portfolio is also well underway as the next stage in our roll-out plan. We have submitted an updated set of models and associated modules to the PRA following their feedback on previous submissions and we continue to have close contact with them as part of advancing our application process.

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Our approach to capital management over the past ten years has included operating a share buy-back programme alongside our dividend distributions, returning £633.0 million of excess capital to shareholders over this time. Our plans for 2026 broadly maintain this approach and we have announced a further £50.0 million share buy-back for the coming period.

Strategic outlook

2025 marks a major milestone in our strategic delivery. We have transformed the way that we operate, leveraging technology to empower our people. This has enabled us to better serve the needs of our customers by solving problems while offering value for money and improved service. While much has been achieved, there is a lot more to do as we build on these existing developments and expand further across the bank.

The benefits of this transformation will allow us to control our costs, while paving the way for us to invest in new products and capabilities that expand the markets we are able to serve and the customers we can reach. Building on the strong positions in our chosen markets, together with diversification on both sides of the balance sheet combine to deliver sustainable returns for our shareholders.

We invest these returns with discipline in competitive markets, favouring risk and margin considerations over volume growth, deploying capital management and prudential control, ensuring we retain sufficient funds to develop our business, whilst at the same time distributing any excess through dividends and buy-backs.

Conclusion

Our 2025 results continue to demonstrate the strength of our franchise and evolving operating model. We have delivered record underlying earnings per share, dividends and a £100 million share buy-back while simultaneously transforming the business, investing heavily in Paragon's future. Customer demand has been stop / start during the period, reflecting the elevated political uncertainty with volatility in interest rate expectations impacting all our businesses, but most notably the buy-to-let and development finance customer base.

Despite relatively subdued external demand, we end 2025 with solid pipelines and look towards 2026 with optimism. Inflation appears to have peaked and interest rates now look set to fall, with reduced volatility. Demand from SME customers is picking up and, with a strong capital position and a strengthened proposition, we remain well placed to serve all our customers' ambitions.

Our strategic priorities remain unchanged. Our consistent focus on sustainable growth, increased diversification that is increasingly technology-enabled, and continuing internal capital generation, puts us in a strong position to continue to deliver healthy returns for our shareholders.

MANAGEMENT REPORT

This section describes our activities in the year under these headings:

Business review	Funding review	Capital and liquidity review	Financial results	Operational review
<i>Lending and the performance of each of our business lines</i>	<i>Deposit-taking and the other sources of funding used</i>	<i>Our regulatory capital, liquidity and distributions</i>	<i>Our results for the financial year</i>	<i>Systems, people, sustainability and risk highlights for the period</i>
Section 1	Section 2	Section 3	Section 4	Section 5

1 BUSINESS REVIEW

We report results analysed between two principal segments, Mortgage Lending and Commercial Lending, based on types of customers, products and the internal management structure. These segments remain the same as those reported on in earlier periods. New business advances in the year and year-end loan balances for these segments are summarised below:

	Advances in the year		Net loan balances at the year end	
	2025 £m	2024 £m	2025 £m	2024 £m
Mortgage Lending	1,491.0	1,493.2	13,876.4	13,415.7
Commercial Lending	1,186.2	1,236.8	2,464.9	2,289.8
	<u>2,677.2</u>	<u>2,730.0</u>	<u>16,341.3</u>	<u>15,705.5</u>

Total loan balances increased by 4.0% in the year, with strong customer retention across our portfolios throughout the year. Total advances decreased marginally, by 1.9% year-on-year, although the pattern of movements was not consistent between our specialist markets.

MANAGEMENT REPORT

1 BUSINESS REVIEW**1.1 MORTGAGE LENDING**

Our Mortgage Lending division principally provides buy-to-let mortgages secured on UK residential property to specialist landlords. We have been active in this market for almost thirty years, which gives us deep data and a strong understanding of the market through various economic cycles. Over this period, we have developed strong relationships with business providers, landlords and trade bodies. These provide an unparalleled understanding of both the buy-to-let market and the specialist landlord customer base we target.

During the year we also offered a limited volume of loans to non-specialist landlords, although this activity is non-core and has diminished over recent years. The segment also includes legacy assets from discontinued product lines, principally residential first and second charge mortgages, although these form a small fraction of the portfolio and are running off over time.

Our focus on the specialist buy-to-let market facilitates detailed, case-by-case underwriting, using systems and processes tailored to the specific needs of this customer group, where our focus on understanding and managing property risk, building customer relationships and the intelligent use of digital solutions to support our underwriting differentiate us from both mass market and other specialist lenders.

Housing and mortgage market

While the UK's economic performance in the period was mixed, with interest rates falling only slowly and wage increases not yet eradicating the inflationary impacts of recent years, the overall outlook at the 2024 year end was mildly pessimistic. However, a level of stability returned to the UK housing market in the year. According to HMRC, the number of transactions over year ended 30 September 2025 was 1,200,000, representing a return to monthly transaction levels which had been normal in the pre-Covid period. Some of this volume may have been a response to stamp duty changes which took effect in April 2025, with the March 2025 transactions level being particularly high. This growth represents an increase of 14.4% in the number of transactions compared to the last financial year (2024: 1,050,000).

Despite some predictions to the contrary during the year, UK house prices remained generally resilient. The Nationwide House Price Index recorded an increase of 2.2% in the year, slightly down on its 2024 performance, but continuing the same gently upward trend, with Nationwide predicting a continuing gradual recovery, supported by interest rate stability and positive employment levels. This sentiment was generally echoed by RICS in its September 2025 UK Residential Market Survey, where it suggests a marginal decline in prices in the very short term, moving to an upward trend later, but a potential period of stagnation or lower prices in the short term, although it summarises the prospects as 'underwhelming'.

MANAGEMENT REPORT

1 BUSINESS REVIEW

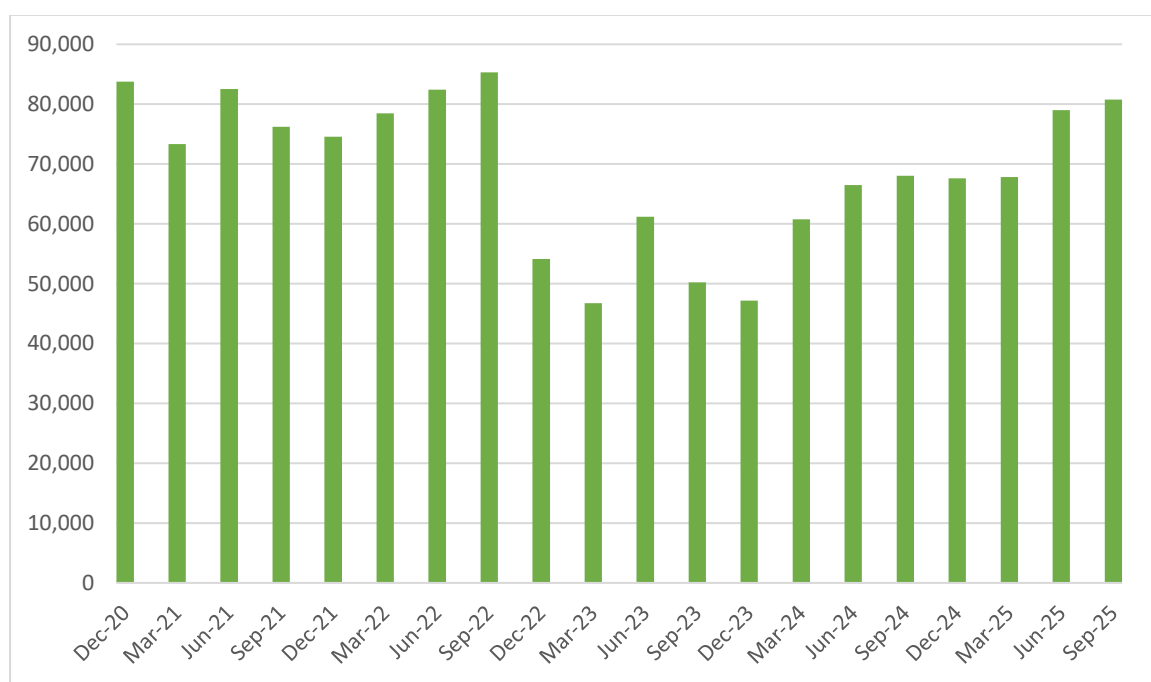
UK house prices have now been on a clear but gradual upward trajectory for the two years ended in September 2025 and closed the year only 0.6% below their August 2022 peak. A higher average house price has been recorded at only two previous month ends, meaning that the number of mortgage loans where the security value is less now than it was at the point of advance should be relatively low.

In response to the increased level of activity in the housing market, new mortgage lending also strengthened in the year. The Bank of England reported new approvals of £295.1 billion for the year ended 30 September 2025, an increase of 21.7% on the £242.4 billion reported for the previous financial year as activity levels continue to recover towards their longer term averages. The increase was driven by a recovery in remortgage activity, which increased by 30.5%, potentially led by the availability of more attractive fixed rate mortgages. At the same time the value of mortgages being refinanced with an existing lender increased by only 7.5%. In contrast, loans for new purchases increased by 17.5%, more in line with the market activity figure.

Quarterly Bank of England UK mortgage approval data for the last five financial years is set out below.

UK mortgage approvals (£m)

Five years ended 30 September 2025



At 30 September 2025 the UK Finance ('UKF') survey of mortgage market arrears and possessions reported arrears levels in general improving through the financial year, although serious arrears did not begin to fall until the end of the period. Possession numbers, however, continued to grow, reaching a level higher than any seen since 2019, with a year-on-year increase of 51%.

MANAGEMENT REPORT

1 BUSINESS REVIEW**Private Rented Sector ('PRS') and buy-to-let mortgage market**

The 2023-2024 English Housing Survey, published by the Ministry of Housing, Communities and Local Government in November 2024, shows that the PRS continues to represent around 19% of English households, as it has done since 2013-2014.

Our target customers in the buy-to-let sector are specialist landlords active in the PRS. Such landlords will typically let four or more properties, or operate with more complex properties (such as homes in multiple occupation ('HMOs')). Most own their properties through limited company structures and run their portfolio as a business. They will have both a strong understanding of their local lettings market and a high level of personal day-to-day involvement. We are amongst a group of mostly small, specialist lenders focussed on this part of the PRS, which remains underserved by many of the larger banks, despite an increased level of interest by them in the PRS in general.

While it is clear that the changing economic environment and increasingly complex regulatory landscape has caused, and is causing, some landlords to step away from the PRS, our experience is that this reaction is concentrated amongst some smaller non-specialist amateur landlords, while our specialist customers remain committed to the sector.

The experience of these professional landlords, their level of involvement with their lettings business and the diversification of their income streams across properties make them less vulnerable to cash flow shocks in the event of a downturn and better able to cope when faced with an adverse economic situation impacting them or their tenants.

The development of the regulatory landscape for the PRS has been dominated for some time by the legislative changes which became law as the Renters Rights Act 2025 in October 2025. The Act is largely based on proposals developed by the previous government following the publication of a White Paper in 2022, and resulted from a significant amount of input from organisations representing lenders, tenants and landlords.

The provisions of the Act will begin to come into force in May 2026 and we hope that care will be taken to ensure that the implementation is proportionate and fully resourced. It is important that the new regulatory environment, as it develops, balances the needs of both tenants and landlords, recognising the important role which responsible landlords play in satisfying the UK's housing needs, and in the economy more generally. We believe, while it will impose additional burdens on our landlord customers, the new legislation is unlikely to have a significant impact on our business model, if properly implemented.

Survey data suggests that around two thirds of landlords in the PRS claim to have a good awareness of the content of the Act, with a significant number considering that it will have a negative impact on their business, and a much larger number suggesting it will have a negative impact on the PRS as a whole. A large number suggested that the legislation will make them more selective about who they let to.

During the year we have continued to engage with the UK Government and with interested parliamentarians on the development and potential implementation of the Renters Rights Act, and on other matters relating to the PRS, both directly and through industry bodies.

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1 BUSINESS REVIEW

The residential rental market in the UK remains strong, with the September 2025 RICS UK Residential Market Survey reporting restricted supply, coupled with stable demand, leading to upward pressure on rents. RICS members therefore anticipate a continuing upward trend in rents, leading to a rise of around 3% over the next twelve months on a UK-wide basis, somewhat more subdued than in recent years.

In its most recent data, published in September 2025, Zoopla produce a similar growth forecast, despite reporting the softest conditions in the UK rental market for 5 years. However, rents continued to increase, with the average rent on new lets increasing by 2.4% in the year to July 2025, and demand weaker in the year. This is supported by research from Propertymark in its September 2025 Housing Insight Report, which reported tenant demand generally reducing through the 2025 financial year, but still significantly outstripping supply, and average rents up 5.5% year-on-year. Propertymark also reported that the number of available rental properties had been relatively stable over the year, with the level of rental arrears also remaining generally stable.

Activity in the buy-to-let mortgage market in the period was marginally more positive than the trend of the general mortgage market. New advances reported by UKF were £39.7 billion for the year ended 30 September 2025, 28.5% higher than for the same period the previous year (2024: £30.9 billion). Activity in both the new house purchase market and the remortgage market increased by similar amounts.

The proportion of borrowers transferring to new products offered by their existing lender, which are not recorded as new cases in the data, continued to represent the most substantial share of refinancings, with around 64% of landlords adopting this form of refinancing in the period, a decrease from around 68% a year earlier, driven by the increase in the remortgage figures.

In research carried out amongst landlords in the PRS for the final quarter of the financial year, around 68% of respondents reported strong or very strong tenant demand, although this had declined steadily through the year. The proportion of landlords reporting that their business was profitable in the long term has also gradually increased, despite economic headwinds, over the last five years, with the vast majority (around 70%) reporting rent increases in the last twelve months, and the number expecting to raise rents in the next year only slightly smaller than this. Average yields had continued to move gradually up, while rental arrears were also reported as remaining broadly stable.

Despite this largely positive picture, landlords' confidence levels for their own businesses had declined in the period, with an increased level of pessimism for future rental yields, and capital gains. Their outlook for the UK economy as a whole was particularly pessimistic, with hardly any respondents rating its prospects as 'good' or 'very good'.

The UKF analysis of arrears and possessions also provided analysis of buy-to-let cases. This differed significantly from the wider mortgage data, with light arrears reducing more significantly than those in the residential market, but the most serious cases worsening through the twelve months to September 2025, although they had begun to ease at the end of the period.

MANAGEMENT REPORT

1 BUSINESS REVIEW

While the picture from this data remains mixed, it would seem to indicate continuing strength in the PRS, despite ongoing pressures, albeit with a degree of caution on future prospects, both on an economic and a regulatory basis. This should support both cash flow and affordability for our landlord customers, particularly those on fixed rate loans, who have the ability to manage their assets over time to mitigate potential payments shocks.

Mortgage Lending activity

New mortgage lending activity during the year is set out below. Almost all the division's lending in the period was to its target specialist landlord customers.

	2025 £m	2024 £m
<i>Originated assets</i>		
Specialist buy-to-let	1,468.8	1,477.9
Non-specialist buy-to-let	22.2	15.3
Total buy-to-let	<u>1,491.0</u>	<u>1,493.2</u>

Total mortgage originations were broadly similar to those seen in 2024, with second half volumes reduced from the first half, as the impact of the stamp duty changes from April accelerated some transactions. Competition in the sector impacted on our volumes, as we focussed on preserving margins on the business we did lend.

The new business pipeline, however, grew through the second half of the year, reaching £820.9 million at the year end. While this is 6.9% lower than the level reported at the previous year end (2024: £881.4 million), our pipeline measure has been impacted by the effect of enhanced screening at application, introduced as part of our new mortgage lending system. The new process results in a lower pipeline measure, but with a higher conversion rate expected, therefore comparison on a like-for-like basis between pipeline data before and after its introduction is not possible. When compared with the pipeline at 31 March 2025, after the new system was introduced, the year-end pipeline was 24.0% higher, suggesting a positive start to next year's lending.

We have well-established, digitally-enabled retention procedures in place to support our customers as their fixed rates expire. Track-to-fixed products remain available as an alternative to fixed-rate loans, allowing customers to delay fixing their interest rates, where appropriate, and our fixed rate product range remains competitive for both existing and new customers. Over 83% of the specialist landlord customers whose products matured in the past year remained with us at the period end.

Specialist intermediaries are the principal source of our buy-to-let applications, and we continue to strategically focus on ensuring that the service they receive is excellent. Our regular intermediary insight surveys in the year showed 94% were satisfied with the ease of obtaining a response from our team (2024: 95%), delivering a Net Promoter Score ('NPS') at offer stage of +52 (2024: +55).

MANAGEMENT REPORT

1 BUSINESS REVIEW

74% of intermediaries dealing with us rated our service ‘as good’ or ‘better than’ that provided by other lenders (2024: 78%). Paragon Mortgages was also named ‘Buy-to-Let Lender of the Year’ at the 2025 Financial Reporter Awards and ‘Best Professional Buy-to-let Lender’ at the 2025 Your Mortgage Awards. Louisa Sedgwick, Managing Director – Mortgage Lending was also named ‘Business Leader of the Year’ at the 2025 Credit Strategy Leadership Awards.

The roll-out of our upgraded mortgage underwriting platform, which covers the process from application to offer, continued through the first half of the year, and by 31 March was available to our full broker community. The new system is both easier to navigate and more intuitive for users and offers enhanced functionality to introducers. The new broker interface was developed based on research amongst intermediaries, who identified certainty, transparency and speed as the key attributes of a successful system, which we have worked to deliver.

The new platform uses API technology, with 13 automated connections enabling brokers to have direct access to data related to an application, both from the Group and from third parties, including credit bureaux and Companies House. Machine-learning AI supports data entry, extracting key information from submitted documents. These features enable significantly more efficient application processing and also permit applications to be filtered in real time as they are entered by brokers. Therefore, cases wholly outside criteria never enter our process, with the broker immediately able to seek an alternative for their customer. These tools also support a more effective assessment process internally, delivering more capacity to our buy-to-let new lending function.

The new platform has been extremely well received so far, both externally and internally, with a significant reduction in the time from application to offer being particularly appealing to intermediaries. Days to offer for more complex product types have reduced by 20% on average, with some cases showing an improvement of 50%. Alongside the system roll-out, the feedback received from the initial cohorts of brokers to use the platform was used to refine the system before the full roll-out, and this process of feedback and enhancement continued through the year.

The greater efficiency of the system gives us the capacity to expand our network of relationships, expanding our presence amongst mortgage clubs and broker networks, and giving access to more opportunities in the future. The data handling enhancements have also enabled us to launch a new ‘swift and simple’ product for less complex single property applications, allowing them to be handled more efficiently and cost-effectively. We have also enhanced our processes for customers wishing to take out a further advance.

Enhancements already delivered under the mortgage digitalisation programme continue to demonstrate their value to our business. The redemption and retention process which went live in 2022 continues to underpin the division’s success in this area, while one in three of our landlord customers now use the flexibility of our self-service capability, reducing their need to contact customer services. This gives us confidence in the benefits that our new system, together with subsequent stages of this project which will ultimately address the entire mortgage life cycle, will bring to the business, our broker community and our customers as they are rolled out.

MANAGEMENT REPORT

1 BUSINESS REVIEW

Overall, our buy-to-let franchise retains its strong position in the market, with the new origination system delivering a step-change in its capabilities, providing a more effective and responsive service to landlords and brokers. We intend to continue to invest in our mortgage systems, ensuring we remain fully equipped to meet the needs of our customers and brokers as these develop over time.

While the PRS is currently subject to regulatory headwinds, this has been the case, in one way or another for several years now. However, these pressures have historically had the greatest impact on non-specialist landlords, and this seems likely to remain the case going forward. Despite these pressures the PRS remains fundamental to meeting the nation's housing needs. This means that the viability of our landlord customers' operations will continue, and their ongoing requirement for finance to support them in delivering housing solutions to households in the UK will underpin our business going forward.

Environmental impacts

The potential for our mortgage lending business to affect, and be affected by, climate change is fundamental to our overall sustainability strategy. We therefore seek to mitigate this risk, both through the application of scenario analysis to the development of our underwriting procedures, and through careful consideration of the specific risks relating to properties on which we will lend. We also continue to develop systems and refine data to allow our overall exposure to be measured and the behaviour of the security portfolio under climate-related stresses to be better understood.

As part of our response to combatting climate change, a range of green buy-to-let mortgages is offered on all types of property within our lending criteria. These products offer lower interest rates for energy-efficient properties with EPC ratings of C or higher, the currently accepted benchmark for energy-efficient properties, which the UK Government proposes to make a requirement for new tenancies by 2028, and for all buy-to-let properties by 2030 under its proposed amendments to the Minimum Energy Efficiency Standard ('MEES').

We have followed the consultation on the proposed MEES amendments carefully. While we appreciate the objectives of the proposals, we agree with the National Rental Landlords Association and many other industry groups that the 2028 and 2030 target dates are impractical. Given the level of work which would be required across the PRS, it seems unlikely that a sufficient number of appropriately qualified tradespeople will be available to meet these timescales. We would also agree that the scope of properties covered needs more detailed consideration. We await the UK Government's response to the consultation process with interest.

Together with other UK banking entities, we have been working with the UK Government to develop a more consistent approach to the definition of green activities in the housing market and housing finance sectors. It is unlikely that significant progress can be made in greening the UK housing stock until all market participants have a shared concept of what that should mean in detail.

MANAGEMENT REPORT

1 BUSINESS REVIEW

Our new buy-to-let lending volumes on energy-efficient properties, which have decreased by 1.6% in the year, only slightly more than the reduction in total mortgage lending, are set out below.

	2025	2024
	£m	£m
EPC rated A or B	175.9	189.1
EPC rated C	606.4	606.2
Total rated A to C	782.3	795.3
Percentage with available data (UK)	99.9%	99.8%

Our latest analysis identified EPC grades for properties representing 96.3% by value of the mortgage book at 30 September 2025 (2024: 95.4%). Of these properties, 99.5% were graded E or higher (2024: 99.4%) with 46.8% rated A, B or C (2024: 45.4%). The year-on-year movements are principally a result of the balance of new business, with over half of the advances in the current year, 52.5% (2024: 53.3%) having one of the top three grades.

While we monitor EPC ratings as a key metric for downstream climate impacts, we are also conscious of the need to avoid unintended consequences which might result from applying it as an absolute lending criterion. Although upgrading existing properties is beneficial to overall emissions, the demolition and replacement of properties may be less so.

Potential physical risks to security values arising from climate change are also monitored. This includes assessing a property's flood risk as part of the underwriting process. In addition, the exposure relating to the current mortgage book is monitored using specialist bureau data. This addresses the risk of flooding from rivers, seas or surface water. The latest data, at 30 September 2025, showed that approximately 3.0% of properties securing buy-to-let mortgages, where data was available, were at 'higher' risk (2024: 3.1%).

Research carried out amongst PRS landlords in the third quarter of 2025 suggested that around 60% of landlords have at least one property which does not meet the EPC C standard, with many having several. Almost all the landlords questioned said they had at least some awareness of the MEES proposals, with two thirds claiming a full understanding. Nearly half of the respondents said they planned to carry out works to upgrade their properties ahead of the potential MEES implementation.

We are currently developing additional products to support existing landlord customers in making their properties more energy efficient. Given that the majority of properties in the PRS require some form of upgrade to meet the Government targets, this kind of support will be vital to achieving the net zero target while protecting the utility of the PRS as a source of housing provision.

MANAGEMENT REPORT

1 BUSINESS REVIEW**Performance**

The outstanding first and second charge mortgage balances in the segment at the year end are set out below, analysed by business line.

	2025 £m	2024 £m
<i>Post-2010 assets</i>		
First charge buy-to-let	11,453.1	10,620.9
First charge owner-occupied	13.9	16.2
Second charge	41.2	56.7
	<u>11,508.2</u>	<u>10,693.8</u>
<i>Legacy and acquired assets</i>		
First charge buy-to-let	2,321.6	2,658.4
First charge owner-occupied	2.5	4.1
Second charge	44.1	59.4
	<u>13,876.4</u>	<u>13,415.7</u>

The outstanding amount of the segment's loans has continued to increase, despite difficult market conditions, supported by a strong retention performance. At 30 September 2025, the total net mortgage portfolio was 3.4% higher than it had been twelve months earlier. The majority of the book comprises buy-to-let mortgage loans originated after 2010, with the balance of such lending growing by 7.8% and now representing 82.5% of the division's total loan assets (2024: 79.2%). The remaining balance comprises legacy and discontinued products, which continue to run off over time.

The annual redemption rate on buy-to-let mortgage assets, at 7.0% (2024: 6.7%), has continued to be at a relatively low level. This low rate reflects our strategic priority of managing customer behaviour as fixed-rate periods end, with significant operational, product and systems focus placed on customer retention. This was achieved despite the potential impact of current rate levels on customers who have been used to paying interest at lower rates but have now reached the end of their fixed-rate periods. Of the professional landlord customers whose fixed rate products matured in the year, 83.7% remained on the book at 30 September 2025 (2024: 85.3%), despite increased market competition in the year.

Three-month arrears on the buy-to-let book increased marginally in the year to 0.52%, only slightly higher than the 0.51% reported at the half year (2024: 0.38%), with the payment performance of our customers remaining strong, despite the economic pressures in the UK. Arrears on post-2010 lending were even lower, at 0.16% (2024: 0.11%). Our arrears remain very low compared to the overall buy-to-let market, highlighting the strength of our credit standards and account management processes. UKF reported arrears of 0.75% across the sector at 30 September 2025, a reduction year-on-year (2024: 0.86%), and less than the arrears seen in the wider mortgage market.

MANAGEMENT REPORT

1 BUSINESS REVIEW

Our buy-to-let underwriting is focussed on a potential customer's credit quality and financial capability, underpinned by a robust assessment of the security offered. Relying on a detailed and thorough assessment of the value and suitability of the property as security, this approach to valuation, including the use of a specialist in-house valuation team, provides significant confidence in security values, even in times of economic stress.

The loan-to-value coverage in our buy-to-let loan book, at 63.2% (2024: 62.8%), represents significant security, supported by the gradually increasing levels of UK house prices over the year. Levels of interest cover and affordability in the portfolio remain good, even on a stressed basis, leaving customers well placed to develop their businesses going forward; indeed, on a simple weighted average basis, our landlord customers now have around £9.5 billion of equity in their mortgaged properties.

For accounting purposes, 5.4% of the segment's gross balances were considered as having a significant increase in credit risk ('SICR') at the year end (2024: 5.8%), including 1.3% which were credit impaired (2024: 1.4%). This represents a marginal improvement, year-on-year in the overall credit position. This, coupled with the closure of some older long-term default cases, led to a marginal reduction in provision coverage to 23 basis points (2024: 26 basis points). Coverage on fully performing accounts also reduced slightly, supported by strong security values, to 1 basis point (2024: 3 basis points).

Our receiver of rent process for buy-to-let assets helps to reduce the level of losses by giving us direct access to rental flows from the underlying properties, while allowing tenants to stay in their homes. At the year end, 572 properties were managed by a receiver on the customer's behalf, a decrease of 11.0% over the year (2024: 643 properties). The reduction relates, in part to the resolution of a number of long-standing accounts, with the number of ongoing cases where the receiver was appointed in 2020 or earlier falling by 38.8%.

Almost all current receiver of rent arrangements relate to pre-2010 lending, with cases being gradually resolved on a long-term basis to ensure the best outcome for the business, our landlord customers and their tenants. As part of the receivership process, an up-to-date valuation of the property is obtained, therefore provisions on these cases are based on up-to-date security values.

MANAGEMENT REPORT

1 BUSINESS REVIEW**1.2 COMMERCIAL LENDING**

The Commercial Lending division includes four specialist business streams lending to, or through, commercial organisations, mostly on a secured basis. This division has been a principal source of our growth and diversification over recent years, two of our major strategic priorities.

The four business lines comprise:

Development finance Providing funding for property development projects, mostly residential in nature	SME lending Providing leasing for business assets and unsecured cash flow lending for professional services firms, amongst other products
Structured lending Providing finance for niche non-bank lenders	Motor finance An operation focussed on specialist parts of the sector

Each of these businesses has its own specialist management team appointed for their strong understanding of their specific market. The principal competitors for each are small banks and, increasingly, non-bank lenders. We operate principally in market segments where the largest lenders have a limited presence, creating both a credit availability issue for customers and, consequently, opportunities for our businesses.

Our overarching strategy for the Commercial Lending division is to target niches (either product types or customer groups) where our skill sets and customer service culture can be best applied, and our capital effectively deployed to optimise the relationship between growth, risk and return.

Commercial Lending activity

Overall, our new lending measure in the Commercial Lending segment decreased by 4.1% in the year. However, much of this was the result of a lower increase in net balance in our revolving structured lending operation. In the operations where gross new lending can be measured (which excludes structured lending), volumes increased by 2.4% year-on-year, with development finance and motor finance both returning increases in volumes, despite the cautious attitude to the UK economy being taken by many SMEs and consumers, making them wary of long term commitments.

MANAGEMENT REPORT

1 BUSINESS REVIEW

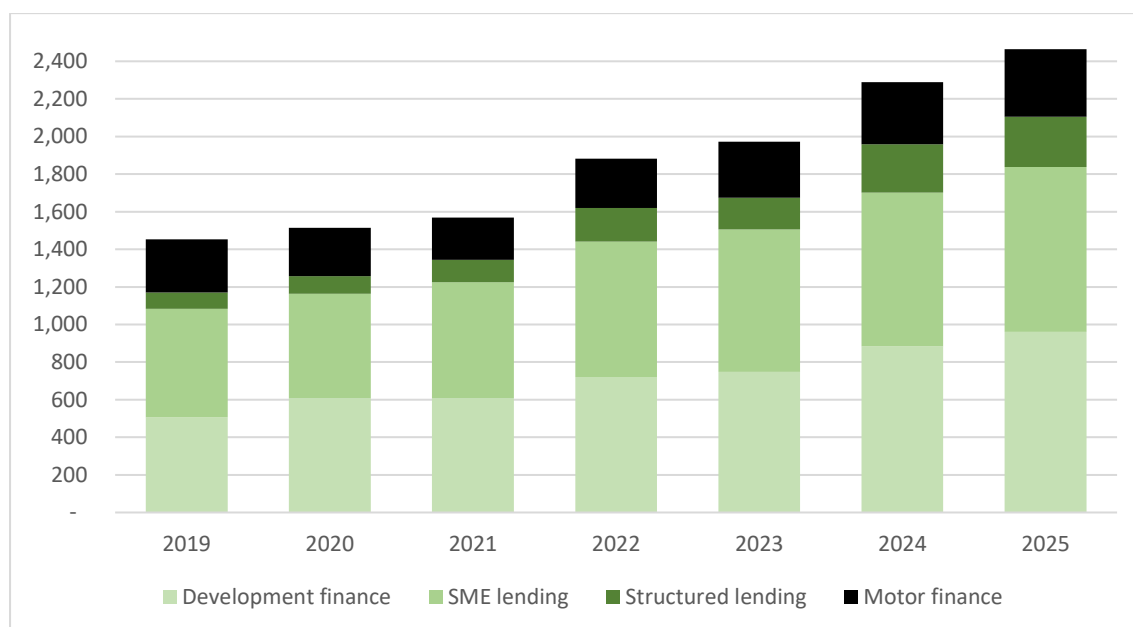
The new lending activity in the segment during the year is set out below, analysed by principal business line. As the structured lending business comprises revolving credit facilities, the net movement in the period is shown (which can be negative).

	2025 £m	2024 £m
Development finance	527.2	511.9
SME lending	479.6	480.7
Motor finance	169.6	156.4
	<u>1,176.4</u>	<u>1,149.0</u>
Structured lending	9.8	87.8
	<u><u>1,186.2</u></u>	<u><u>1,236.8</u></u>

These advances continued the growth of the overall Commercial Lending portfolio, with the total loan book increasing by 7.6% in the year to £2,464.9 million (2024: £2,289.8 million), its highest level to date. The increase in the portfolio over the last seven years, all of which represents organic growth is illustrated below.

Commercial Lending balance outstanding (£m)

30 September 2019-2025



MANAGEMENT REPORT

1 BUSINESS REVIEW*Development finance*

Activity in our development finance business continued to be impacted by economic uncertainty in the UK, with nervousness over potential inflationary pressures both from the October 2024 budget announcements, particularly their effect on labour costs, and from the issues around international trade which emerged in the year. This is despite the UK Government's positive statements on planning and housebuilding, including initiatives to streamline the planning process in England and Wales, which are yet to have a significant impact.

The market for financing quality projects remained competitive. However, the level of new drawings in the year increased by 3.0% year-on-year to £527.2 million (2024: £511.9 million), despite the potential headwinds and our strict management of yields, with our long-term relationships with developers proving an asset. The commitment value of new facilities which made their first drawing in the period was only 5.4% lower, year-on-year, at £527.8 million (2024: £558.2 million).

Our development finance customer base comprises primarily smaller scale, unlisted, property developers, whose business model relies on a continuing flow of new projects, and customers continue to bring forward viable proposals despite concerns over future economic conditions. Projects started over the last three years have generally seen less issues than those started in 2022 and earlier, enhancing developers' stability and confidence. While we finance mostly residential developments, we also fund an increasing balance of more specialist properties, including purpose-built student accommodation ('PBSA'), later living, care homes and build-to-rent propositions, with further expansions in eligible property types under consideration.

Prospects for future lending appear positive, with undrawn balances on projects in progress strengthened by 3.5% year-on-year, to £515.3 million (2024: £497.7 million), while the new business credit approved pipeline closed the year at £264.1 million, 30.7% higher than its September 2024 level (2024: £202.1 million). A significant proportion of these balances, particularly those related to projects which have already started, would be expected to be drawn in the early part of the coming financial year, providing a stronger base for our lending performance in 2026.

Looking to the longer term, there is some evidence that despite the uncertainty over the future direction of costs and government policy, developers' appetites for new projects remain positive, resulting in a level of enquiries in the period which was 8.5% higher than that seen in the comparable period a year earlier, accompanied by a positive trend for conversions.

The business supports the development of the most energy-efficient properties, those with an EPC rating of A, through its Green Homes Initiative ('GHI'). The GHI fund was extended by a further £100.0 million during the year, to £400.0 million. This scheme provides beneficial terms for projects which focus on the development of EPC A grade properties, and by 30 September 2025, £295.0 million of new lending facilities had been agreed under this initiative (2024: £184.7 million), with drawings in the year of £113.8 million (2024: £71.7 million). This initiative rewards energy-efficiency, improving the environment and reducing fuel bills for the ultimate residents, while providing financial benefits to customers.

MANAGEMENT REPORT

1 BUSINESS REVIEW

Government data continues to show that the UK is building insufficient homes to cover its longer-term housing requirements, with new initiatives by the UK Government yet to generate any meaningful impact. Meeting this demand could, subject to the effect of any policy interventions, offer significant expansion opportunities for smaller developers and for our development finance business to support them. We also have a strong presence in the PBSA market, where evidence suggests there is a significant shortfall in high quality provision going forward.

SME lending

Our SME lending business has a focus on construction equipment and similar wheeled plant and is therefore exposed to UK sentiment around capital investment. The nervousness around the ultimate impacts of UK Government policy seen over the course of the year, coupled with the continuing heightened interest rate environment, have meant that the cautious attitude towards instigating major capital projects seen at the last year end has persisted through the period.

This has created a challenging operating environment for the business and its customers, and there has been some pressure around pricing across the market, with the business remaining focussed on protecting its margins. However, despite these external pressures, new lending in the SME lending business overall was similar to that seen in 2024, at £479.6 million (2024: £480.7 million).

The major upgrade to the business's front-end IT systems implemented two years ago as part of our digitalisation strategy continues to further benefit operational effectiveness, as incremental development continues, and more external business partners are given access to a system portal which enables them to input cases directly.

More business introducers are making use of the portal, with almost 63% of applications input directly, compared to just under 50% in the previous financial year. The system, which now handles over 93% of new SME lending business, makes effective use of a variety of system-based tools to support decision making, with one in three cases on the platform eligible for auto decisioning, enabling our specialist underwriters to focus on more complex cases. This combination provides customers and brokers with a faster response to proposals.

These enhancements have delivered a 33% year-on-year reduction in processing time from application to approval, while also boosting conversion rates. These accelerated response times significantly strengthen our proposition, positioning us to become a preferred choice for brokers who might have previously prioritised other lenders based on the speed of their decision making. Far more accounts are now completed on a same day basis, and average times from application to payout have almost halved, providing a faster and more competitive experience for both brokers and customers.

These advances in technology have been transformative for the business, and we hope to see further benefits from the project launched in the period to replace the SME lending loan administration system, supported by Alfa Systems, enhancing our capability to manage customer relationships through the life of their lease or loan.

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1 BUSINESS REVIEW

Asset leasing volumes decreased by 3.5% year-on-year to £319.0 million excluding government-backed balances (2024: £330.7 million), in a mixed leasing market. The Finance and Leasing Association ('FLA'), reported an increase of only 3% in new leasing business, excluding cars and high value items, in the year, with lending to SMEs increasing by only 2% and segmental figures showing significant variations in performance. Investment in operating leases has also continued with £21.0 million of assets acquired in the period (2024: £13.1 million). New business applications were strong throughout the year, providing positive indications for new business going forward.

During the period, the first significant volumes of lending under the UK Government Growth Guarantee Scheme ('GGS') were completed, with £47.7 million of mostly unsecured lending provided to SME customers, backed by a 70% guarantee provided by the British Business Bank ('BBB'). The scheme is intended to provide access to credit to SMEs which might otherwise struggle to locate affordable funding, facilitating growth in the UK economy.

Short-term lending to professional services firms outside government-supported schemes reduced by 28.5% to £96.6 million (2024: £135.2million). These loans are often used to spread the impact of tax and other significant liabilities, and the level of take-up will be influenced by both the confidence and the profitability levels of the underlying customer base, both of which are likely to have been adversely affected by the economic climate. At the same time, this market has been highly competitive, and we have prioritised managing return, particularly in view of the very short-term nature of this lending.

We monitor the potential impact on climate of the industries we do business with, and support UK SMEs with green propositions. While our initial offerings related to funding for alternative fuelled assets in the transport, manufacturing and construction sectors, the scope of green assets and equipment we will consider was expanded in the period, and we have appointed a business development director with a specific mandate to focus on green propositions.

We now make finance available for the acquisition of solar panels, wind turbines, hydroelectric turbines and geothermal heat pumps, together with other equipment supporting SME customers who wish to transition their businesses towards net zero. These types of initiatives are expected to increase going forward as such considerations are prioritised by customers and potentially incentivised by governments and regulators.

The most recent outlook survey conducted by the FLA, for the quarter ended 30 September 2025, showed generally weakening confidence over the year amongst asset finance lenders, lenders more negative on businesses appetite for investment, and the overwhelming majority of respondents expecting a marginal worsening in conditions. This led to a more pessimistic outlook for business volumes year-on-year, together with a more widespread expectation of increasing arrears.

Overall sentiment in the SME market, however, remains cautiously positive, with published surveys showing optimism slowly increasing through the year, although significant concerns about cost pressures remain, including those related to the October 2024 budget, and capital commitments are being treated with caution.

MANAGEMENT REPORT

1 BUSINESS REVIEW

The SME loan market remains challenging, with pressure on both volumes and pricing, and the impact of the downward trend in interest rates offset by a wider caution over costs and the direction of the UK economy. However, our business remains well positioned to address the current environment, while maintaining both credit quality and margins. The digital capabilities introduced over the last few years have also enhanced our competitive position, by both improving operational cost-effectiveness and supporting an excellent standard of service to customers, which will continue as our digitalisation programme continues.

The level of industry expertise and customer understanding in our SME lending operation, supported by the continuing programme of systems and process enhancements, is ultimately what positions us well to satisfy customer requirements in this sector going forward and we continue to develop the business. While we have increased our focus on the agriculture and renewable energy sectors, we remain a small player in a substantial market, providing us with the ability to outperform, even if broader trends are more difficult.

Structured lending

Our structured lending business performed positively in the year, extending our customer base and maintaining its outstanding credit quality. The total amount of drawn facilities, at £267.3 million, was 4.0% greater than a year earlier (2024: £256.9 million), and the total available facilities in place had increased by 22.1% over the year to £403.0 million (2024: £330.0 million). This resulted from four new facilities totalling £48.0 million agreed in the period, several significant extensions on existing facilities, and a positive retention performance on maturing facilities. All facilities continued to be managed in line with their agreements.

These facilities generally fund non-bank lenders of various kinds, provide us with increased product diversification and are constructed to provide a credit buffer in the event of default in the ultimate customer population. The business has an experienced team of account managers who receive regular reporting on the performance of the security assets and maintain a high level of contact with clients to safeguard its position. To date we have not recorded any losses on structured lending facilities.

During the period, we partnered with the BBB for the first time on a structured lending deal. The BBB agreed to use its 'Enable Guarantee' programme to support our provision of a senior facility of up to £100.0 million arranged with LE Capital, an existing customer. The Enable Guarantee programme is intended to facilitate the provision of finance to SMEs, in line with the UK Government's growth agenda. Our client utilises this facility to fund stocking finance loans, guaranteed by the BBB, to small car dealerships, enabling them to buy used vehicles for resale. The arrangement with the BBB includes incentives for electric and hybrid vehicles, helping to promote their take-up. This is the first time the Enable Guarantee scheme has been used in a structured lending context, and it gives us the opportunity to agree far larger facilities than would otherwise be the case, enabling more SMEs to access finance.

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1 BUSINESS REVIEW

In a major green initiative, we partnered with HDM Energies in providing a tailored lending solution to support the provision of equipment for power purchase agreements, enabling SMEs to access rooftop solar energy systems. This facilitates the reduction of their carbon footprints, enabling their net-zero journeys.

We continue to assess further structured lending opportunities which would broaden the range of products and industries supported, diluting the concentration risk inherent in this form of lending. These evaluations have a significant focus on the viability of the underlying customer activity, and the availability of any third-party support.

Motor finance

Our motor finance operation targets propositions not addressed by mass-market lenders, including specialist makes and vehicle types. These include light commercial vehicles ('LCVs') and leisure vehicles including motorhomes, caravans, static caravans and campervans. Our new business is largely sourced through specialist brokers, however there is a small flow generated through motor dealerships and other suppliers.

Volumes in the year continue to be constrained by market conditions, especially in the first half. Customers continued to be discouraged by the elevated interest rate environment and an uncertain outlook. Car finance volumes for the industry overall, reported by the FLA, generally increased year-on-year. The FLA's data showed new consumer car lending up by 8% overall for the year ended 30 September 2025, although the amount of used car business, which represents a significant part of our portfolio, had increased by only 2%.

New lending in our motor finance business was stronger than the general market increasing by 8.4% to £169.6 million (2024: £156.4 million). Volumes were strongest in the second half of the year as interest rates continued to fall, with new business for the half year at £98.9 million, 39.3% higher than the level for the first half and 16.6% higher than the comparable period in 2024. This was despite a continued focus on margin management in the period.

Lending to finance the acquisition of battery-powered electric vehicles ('BEVs'), including LCVs, continued to be an important part of our proposition in the year. These vehicles contribute towards greenhouse gas ('GHG') reduction, and for September 2025 the Society of Motor Manufacturers and Traders ('SMMT') reported the highest ever number of BEV registrations. In September 2025 the SMMT reported that BEVs formed 23% of all new UK car registrations (September 2024: 20%) and 6% of those for new LCVs (September 2024: 6%), where diesel vehicles continue to dominate the market.

We advanced £8.4 million of new loans on BEVs in the year, similar to the level in the previous year (2024: £9.1 million). BEV lending comprised 5% of our total motor finance lending, with total lending on all electric vehicles, including hybrids, representing 12.4% of our total volume. With the business focusing on used vehicles, the proportion of BEV lending will lag the growth in new registrations, however progress continues to be made. This initiative will support the green aspirations of our customers, as electric vehicles become a more widely viable and popular option and increasing numbers enter the used car market.

MANAGEMENT REPORT

1 BUSINESS REVIEW

Our motor finance business remains a stable, specialist franchise, with strong introducer relationships, and is well placed to continue to develop into the future.

Performance

Our Commercial Lending portfolio continued its growth in the year, with outstanding balances increasing by 7.6%, year-on-year. This part of the business has been central to our strategic focus on diversification, and all of its four principal business lines expanded loan books in the period.

The loan balances in the Commercial Lending segment, analysed by product type, are set out below.

	2025 £m	2024 £m
Asset leasing	709.1	664.4
Professions finance	39.3	53.0
CBILS, BBLS, RLS and GGS	64.1	41.5
Invoice finance	35.4	32.7
Unsecured business lending	28.8	25.9
Total SME lending	876.7	817.5
Development finance	960.4	884.0
Structured lending	267.3	256.9
Motor finance	360.5	331.4
	2,464.9	2,289.8

Credit performance on our Commercial Lending books was generally satisfactory, despite the continuing pressures felt by the UK SME sector on costs, interest rates and broader economic and political uncertainty. However, the overall cost of risk continued to be impacted by the performance of a cohort of development finance lending originated in 2022 and earlier.

As we have previously reported, since the point at which these projects had been evaluated by the customer and by us, they had been subject to sharp increases in build costs and interest rates, well in excess of the stressed position considered at the point of underwriting. This type of issue is typical of the development finance product in a stressed environment, and our experience is not dissimilar to that of other lenders in the field.

We have continued to monitor these cases, with a number requiring additional provision in the period, as the process of realisation and repayment has progressed, and some additional cases, principally from the same lending cohort, being defaulted. The majority of the additional default cases were already identified as Stage 2 for IFRS 9 impairment purposes at the beginning of the period, and relatively few additional cases of this maturity remain in the portfolio.

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1 BUSINESS REVIEW

All development finance exposures are subject to regular internal monitoring and graded on a case-by-case basis and by 30 September 2025 there were 23 accounts identified as being at risk and therefore attributed to IFRS 9 Stage 3 for impairment purposes (2024: 19). The long-standing legacy case which had been outstanding at 30 September 2024 was resolved in the period (2024: one).

The position and performance of each of these defaulted accounts has been carefully examined, and up-to-date cash flow projections have been stressed for IFRS 9 provisioning purposes, generating an additional impairment charge for the period, with additional focussed testing on Stage 3 accounts to address any further potential issues in the recovery process.

The additional provision which had been made at 30 September 2024 to allow for any further such cases has now been released, as the majority of lending in this cohort has either moved to IFRS 9 Stage 2 or 3, been repaid, or progressed to a stage of completion where full repayment can be more reliably predicted. However, the additional stress testing on Stage 3 cases has generated extra provision.

Despite these issues, the majority of the portfolio has performed well, and security across the development finance portfolio more generally remains strong. The average loan to gross development value for the portfolio at the period end, was 63.8% (2024: 63.0%), which provides a significant credit buffer if projects encounter issues.

Despite some economic pessimism the arrears positions of our leasing business have improved over the year. Leasing arrears in SME lending reduced to 0.11% (2024: 0.14%) with motor finance arrears improving to 0.91% (2024: 1.06%), with the performance of both portfolios comparing favourably to averages published by the FLA. Despite these continuing positive trends, we monitor performance of these assets carefully and have processes in place to ensure any customers encountering problems achieve good outcomes.

In January 2024 the FCA announced a review of historical commission arrangements across the motor finance industry, focussed primarily on discretionary commission arrangements ('DCA's). We were active in the motor finance market, principally since 2014, with a limited amount of lending in 2007 and 2008. In common with general market practice, we offered some lending on a DCA basis through motor finance dealers, and hence an element of our historical motor finance lending was within the scope of the review.

Since the launch of the FCA review, a number of other legal and regulatory processes related to these arrangements have progressed. These included the legal cases of Johnson, Wrench and Hopcraft, heard by both the Court of Appeal and the Supreme Court in the year, and the Clydesdale judicial review case, heard in the High Court.

The resolution of these legal cases in the latter part of the financial year enabled the FCA to publish the results of its review in October 2025, together with its proposals for a programme of redress which would apply to all DCA lending carried out since 2007. This scope is wider than expected by many in the industry, while, conversely, the average redress is less than many, particularly consumer interests, had expected.

MANAGEMENT REPORT

1 BUSINESS REVIEW

The regulator's proposals remain under consultation at this time, with a final announcement from the FCA not expected until early 2026. However, FCA statements since the publication of the consultation indicate that it is unlikely to significantly change its position, with lenders being asked to demonstrate their readiness to roll out redress programmes once the conclusions of the consultation are announced.

In view of this we have made a provision of £25.5 million at 30 September 2025 (2024: £nil) based on the potential impact of the FCA proposals as presently drafted, including the costs of running a redress programme. It should be noted that the outcome of the consultation, or potential subsequent legal challenges, might result in either a greater or lesser liability, but the provision represents our current best estimate. Further information on this provision can be found in note 25 to the accounts.

Whilst the BBB has reported (in its May 2025 progress report) that 17% of loans under its Covid-related guarantee schemes have defaulted, with loans under the Bounce Back Loan Scheme ('BBLs') representing 91% of defaults by value, we have not seen significant issues in our portfolios, possibly due to our primary focus on lending to existing customers, whose credit history was already well known to us, and to our limited exposure to the BBLs product.

These portfolios contained only £1.0 million of Stage 2 accounts at gross carrying value at 30 September 2025 (2024: £1.3 million), and only £0.6 million of credit impaired cases (2024: £1.1 million), with our remaining BBLs exposure having reduced to £1.3 million (2024: £2.2 million). Our total claims made up to 30 September 2025 under the government guarantee were £4.8 million, with only £0.1 million of this balance still outstanding at the year end.

In the structured lending business, we conduct monthly monitoring of the performance of the underlying asset pool, to ensure the value of security remains adequate. We rely on our data monitoring and verification processes to ensure these reviews are able to detect any credit issues. Performance in the year has been broadly in line with expectations, with generally stable metrics across the book and all accounts classified in IFRS 9 Stage 1 at the year end. The one Stage 2 case identified at 30 September 2024 was redeemed in the period, with no loss.

For IFRS 9 impairments purposes, 12.1% of gross balances for the Commercial Lending segment as a whole were considered as having an SICR (2024: 12.7%) including 6.1% which were credit impaired (2024: 5.1%). The overwhelming majority of these cases were related to the development finance business, with most of the increase in credit impaired cases related to development finance cases which had moved from Stage 2 in the year.

Provision coverage in the division increased to 223 basis points (2024: 177 basis points), principally due to the enhanced provision on defaulted development finance cases noted above. Coverage on fully performing accounts reduced from 62 basis points at 30 September 2024 to 48 basis points at the year end. This reflects the strong performance of the books in general and the reduction in the number of live development finance cases related to pre-2023 lending.

MANAGEMENT REPORT

2 FUNDING REVIEW

Since the launch of Paragon Bank in 2014, our retail deposit-taking franchise has been central to our funding strategy, with our Paragon-branded offering having grown strongly over time. This year saw a major advance with the launch of our Spring savings operation. This interfaces with customers through an up-to-the-minute app, offering us an additional route to market, enhancing resilience and providing attractive new options to existing and new customers.

Our deposit franchise is supplemented with central bank and wholesale funding, including repurchase agreements, creating an adaptable and sustainable funding model, including contingent funding options, which can respond to developments in our business, its operating environment and the external economic and regulatory landscape. This was enhanced in the period when we became only the fourteenth institution to be authorised as a covered bond issuer by the FCA.

Paragon Banking Group PLC, our parent company, enjoys investment grade credit ratings, supporting the AAA rating of our covered bond, and enabling us to access cost effective funding, as well as enhancing options for raising finance for strategic initiatives on a timely basis. Fitch confirmed their BBB+ rating in February 2025, with Moody's also beginning coverage during the year, with an initial rating of Baa3, which was confirmed in October 2025, after the year end.

During the year, our funding requirement generally decreased, as expiring facilities, including Bank of England TFSME amounts were repaid, reducing the need to hold excess liquidity. The year end liquidity position is higher than at the previous year end to allow for the repayment of most of the remaining TFSME drawing, made shortly after the year end. The sizes of our retail deposit portfolios were, therefore, carefully managed in the year, facilitating the management of margins.

In the wholesale funding market, we made our first issue of bonds under the newly approved covered bond programme, while continuing the early repayment programme for our TFSME drawings and making more extensive use of other Bank of England facilities.

Our funding at 30 September 2025 is summarised as follows:

	2025 £m	2024 £m	2023 £m
Retail deposit balances	16,265.7	16,298.0	13,265.3
Securitised and warehouse funding	-	-	28.0
Central bank facilities	950.0	755.0	2,750.0
Covered bonds	499.2	-	-
Tier-2 and retail bonds	150.1	149.9	258.2
Sale and repurchase agreements	100.0	100.0	50.0
Total on balance sheet funding	17,965.0	17,302.9	16,351.5
Off balance sheet liquidity facilities	150.0	150.0	150.0
	<u>18,115.0</u>	<u>17,452.9</u>	<u>16,501.5</u>

MANAGEMENT REPORT

2 FUNDING REVIEW

At 30 September 2025, the proportion of easy access deposits, which are repayable on demand, was 47.2% of total on-balance sheet funding, slightly increased from the position at the start of the period (2024: 44.6%), while the average tenor of our wholesale borrowings had lengthened with the covered bond issue.

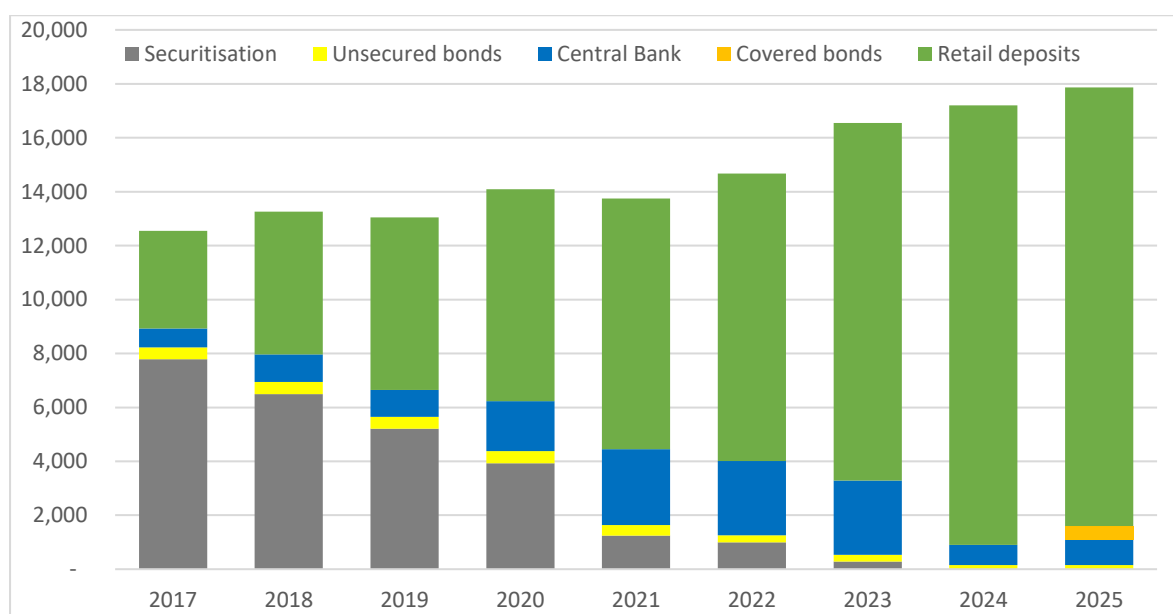
At the end of the year £2,896.1 million of cash and investments were available for liquidity and other purposes (2024: £2,844.8 million), with the diversification of the liquidity portfolio continuing with the purchase of further UK government securities and covered bonds issued by UK financial institutions in the year. The overall level of liquid resources, however, remains broadly similar to that a year earlier, although this fell after the year end following the TFSME repayment in October 2025.

The appropriate level of cash reserves is monitored on an ongoing basis as part of our capital and liquidity strategy, which continues to be based on a conservative view of the economic outlook, while allowing for the developing needs of the business.

Our long-term funding strategy has been to use retail deposits as our primary funding source, accessing the debt markets on an opportunistic basis for additional funding requirements. The delivery of this strategy is illustrated by the chart below which shows, at each of the financial year ends since 2016, the outstanding funding balance by type.

Funding by type (£m)

30 September 2017 – 2025



The division of our funding balance between wholesale and retail elements remained relatively stable in the period, with the wholesale element around the 10% level. At the end of the period, retail deposits were 90.5% of all on balance sheet funding (2024: 94.2%).

MANAGEMENT REPORT

2 FUNDING REVIEW

Over recent years we have also focussed on developing contingent funding sources as part of our overall strategy. Holdings of our own securities, investment securities issued by others and assets pre-positioned with the Bank of England provide ready access to additional funding, if required, without incurring the carry cost of additional borrowings.

Hedging strategies continue to form an important part of our balance sheet risk management. This includes the use of derivative financial instruments, such as interest rate swaps, to protect our income and operating model from adverse fluctuations in market interest rates. This was important during the year, with movements in interest rates expected, but little consensus on the scale and timings of those changes.

2.1 RETAIL FUNDING

April 2025 saw the launch of Spring Savings ('Spring'), representing the most significant development in our deposit-taking business since it was launched in 2014. This in-house app-based franchise offers enhanced functionality and is expected to appeal to a fundamentally different market to the users of our existing Paragon-branded savings proposition, diversifying our funding base still further and adding resilience and agility to our operations.

Spring represents the culmination of a major programme of customer research and systems development, including extensive testing of the app in 'real-life' conditions across our whole workforce and their families and friends. This has created an attractive offering based on advanced digital technology, providing a new approach to savings for customers. The second half of the year has seen Spring further maturing, with learnings from real-world experience and customer feedback used to drive continuing enhancements of systems, products and processes.

The UK savings market provides a reliable liquid, scalable and cost-effective source of funding, addressing many different types of customer needs. Our focus continues to be on offering sterling deposit products to UK households and our existing delivery channels will continue in parallel with Spring, which is intended to complement, rather than replace our other offerings.

Our Paragon-branded operation, with its streamlined online presence and support for telephone and postal options, is supported by an outsourced administration function, and is supplemented by additional routes to market provided by our presence on third-party wealth management platforms and savings marketplaces. These, too, largely address different types of customers to the Paragon brand.

Each of our franchises offers a different mix of competitive interest rates, attractive and innovative products and high-quality customer service, focussing on the needs of distinct groups of users to generate and retain deposit balances. Products currently offered include cash ISAs, term and notice deposits, and easy access accounts, with the substantial majority of balances insured by the Financial Services Compensation Scheme ('FSCS').

MANAGEMENT REPORT

2 FUNDING REVIEW

We enjoy a significant market position in the cash ISA market, developed over nine years, which has contributed strongly over recent years as interest rates have increased, making ISA savings more attractive. Our products performed strongly again across the 2025 ISA season, which is concentrated in March and April, with good take-up of both fixed and variable rate products. As a result, our cash ISA deposit balance increased 23% year-on-year.

While the UK Government imposed additional restrictions on cash ISAs in its November 2025 budget, these do not affect savers over 65 years of age, who represent 60% of our ISA balances, and have a limited impact on younger savers. However, we continue to monitor the possibility of further regulatory or governmental intervention in this area carefully and are engaged with the relevant authorities on the future of this type of product.

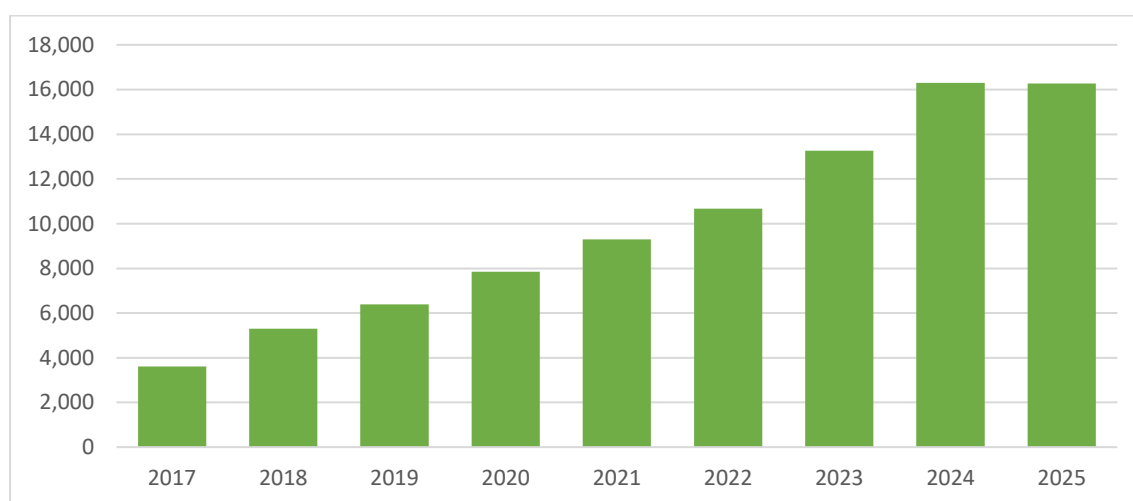
The protection provided to depositors by the FSCS both incentivises larger savers to divide their deposits between several institutions and reduces the perceived risk which might discourage potential customers from depositing with less familiar institutions. At 30 September 2025, this FSCS protection covered around 95% of our deposit balances. After the year end, the PRA announced an increase in the level of FSCS cover from £85,000 to £120,000 per person, which should further enhance our proposition.

Over recent years the development of our savings business has been focussed on the management of our digital footprint, supported by investment in our people, systems and relationships. While Spring represents a major step forward in this process, it is not the end of our strategic ambitions and we will continue to focus on enhancing our offerings and diversifying our profile over time, through the further enhancement of Spring and other digital developments.

The growth of the retail funding balance over recent years is set out below.

Retail deposits (£m)

At 30 September 2017 – 2025



MANAGEMENT REPORT

2 FUNDING REVIEW

During the year, UK deposit balances from individuals reported by the Bank of England remained relatively stable. Balances at 30 September 2025 reached £1.83 trillion (2024: £1.75 trillion), a year-on-year increase of 4.6%, exceeding the CPIH inflation rate, of 4.0% for the year, and therefore representing a real-terms increase in total savings, despite the continuing pressure on household incomes.

Within the savings market, cash ISAs, a product where we have historically been strong, saw significant increases, with the Bank of England reporting total balances increasing by 14.8% year-on-year, reaching a record level of £435 billion (2024: £379 billion). Conversely the strong move towards non-ISA fixed term and notice deposits seen during the last financial year was reversed, with a 4.2% (£10.5 billion) decrease in such deposits from individuals over the year. Some of this reduction will relate to a shift to other savings products, including cash ISAs and National Savings ('NS&I') deposits. NS&I deposits by individuals, which fulfil a similar function to term deposits, increased by 4.2% in the period and represent £244 billion of individual savings at 30 September 2025.

Over the financial year our retail deposit franchise continued to perform strongly, delivering our funding requirements at an attractive cost, compared to other alternatives. While the overall balance reduced marginally, by 0.2%, over the year to £16,265.7 million, this was in line with our strategic funding requirements (2024: £16,298.0 million). While our deposit base has grown strongly since the inception of Paragon Bank, future movements are likely to be governed by balance sheet management, rather than necessarily just seeking growth.

The movement towards variable rate products in our deposit book seen in the second half of 2024 continued, as new fixed rates on offer continued to fall, in line with future market benchmark rate expectations, making their pricing less attractive.

Portfolio stability is enhanced by customer retention, increased diversification and the effect of the FSCS guarantee, which are all likely to reduce the potential for liquidity impacts, while the profile of our target customers suggests they may be more resilient than average in the event of future economic stresses.

Savings accounts at the financial year end are analysed below.

	Average interest rate		Proportion of deposits	
	2025	2024	2025	2024
	%	%	%	%
Fixed rate deposits	4.32%	4.77%	46.9%	50.7%
Variable rate deposits	3.61%	4.19%	53.1%	49.3%
All balances	3.95%	4.49%	100.0%	100.0%

Average interest rates paid to our savers continued to move downwards during the year in line with the gradual fall in base rates, although expectations of future falls moderated. The Bank of England has reported a fall in average interest rates for easy access accounts of 47 basis points over the year (2024: 2.60%), to 2.13%, with a 25 basis point fall in the average market rate for new 2-year fixed rate deposits to 3.76% (2024: 4.01%) and similar falls across other product types.

MANAGEMENT REPORT

2 FUNDING REVIEW

Market savings rates remain just below SONIA levels. However, the gap has continued to close in the year, with the overnight benchmark decreasing 98 basis points from 4.95% at 30 September 2024 to 3.97% at 30 September 2025, twice the fall in the easy access savings rate noted above.

The level of tightening on variable rates in our book over the period has been similar to that seen in the market generally, with the average variable rate being paid at the year end representing a 36 basis point discount to SONIA, a reduction of 40 basis points over the year (2024: 76 basis points). This was an expected effect of the more stable interest rate environment and of careful margin management, combined with a reduced requirement to expand the portfolio.

The average initial term of our Paragon-branded fixed rate deposits at 30 September 2025 remained stable at 19 months (2024: 20 months). At the same time the proportion of the deposit portfolio represented by these products reduced, both in line with market movements, and as we targeted an increase in variable rate balances.

Our Spring savings offering was launched to the public in April 2025. Following this launch it has grown on a carefully managed trajectory, amassing over £425.0 million of balances by 30 September 2025. Growth is expected to continue into the new financial year as the customer base increases and our offering is further enhanced.

Significant optionality is provided by our presence on third party investment platforms and digital banks' savings marketplaces. These channels account for just over a quarter of our savings base, providing access to a wider range of customer demographics. The markets targeted by these third parties largely differ from those targeted by either Spring or our Paragon-branded operation, offering enhanced opportunities to manage inflows and costs. These customer groups also demonstrate differing levels of price sensitivity, reflecting their different needs and objectives.

As at 30 September 2025, nine such relationships were in place (2024: nine), representing 25% of the total deposit base (2024: 23%), although the distribution of the balance between the relationships varied over the period. We have the necessary systems capacity and control framework to scale these operations, further increasing our reach through these channels, if appropriate and cost-effective. However, with the launch of Spring, we are aiming to prioritise the development of our own brands and customer propositions, making it likely that the proportion of deposits sourced from third-party platforms will decline over time.

Our strategy in the savings market relies on providing a high-quality customer offering and we conduct insight surveys throughout the customer journey. Results in the year are summarised below:

Survey timing		2025	2024
At account opening	Would 'probably' or 'definitely' take a second product	90%	89%
	NPS	+68	+66
At maturity	Would 'probably' or 'definitely' take a second product	88%	89%
	NPS	+60	+63

MANAGEMENT REPORT

2 FUNDING REVIEW

These results maintain our strongly positive position, despite generally falling interest rates and a competitive environment, demonstrating that our customer-facing infrastructure serves us well in retaining and developing customers.

This is further borne out by our customer retention levels. Despite the short-term nature of the product and the ease with which deposits can be moved between institutions, over 50% of our deposit balances at 30 September 2025 relate to customers who have been with us for four years or more.

Our service standards were also recognised in the 2025 MoneyComms Top Performers list, where Paragon Bank was named as 'Best Easy Access Cash ISA Provider'.

Spring is an increasingly important part of our funding mix, but we also believe it will stimulate real change in the UK savings market. We know there is more than £500 billion of money belonging to UK savers sitting in zero or low interest accounts, costing them more than £20 billion in lost interest each year. We want to change this, and believe that Spring, offering competitive rates and deploying open banking technology, will help build a better saving culture while enhancing savers' returns.

The launch of Spring is a significant development in the evolution of our savings operation, providing the scope for increased growth, where our funding needs require it. At the same time, the continuing strong performance of our Paragon-branded and third-party offerings allows for a careful and measured introduction of Spring.

Our retail savings franchise continues to develop, providing a stable foundation for our funding strategy, with increasing diversity and enhanced optionality for the effective and flexible management of volumes and interest rates. The increase in the FSCS limit from 1 December 2025 will also offer increased opportunities. The trend towards increasing diversification, our consistently strong service delivery and the effect of the FSCS guarantee are also likely to reduce the potential for liquidity impacts.

The strategic development of the business will continue, going forward, with Spring a particular area of focus. Across our franchises, we will look to broaden product ranges and address wider demographics. We will also focus on enhancing our service propositions by continuing to develop systems, processes and people to ensure we are able to address savers' increasingly sophisticated needs.

2.3 WHOLESALE FUNDING

Our potential options for wholesale institutional borrowings include securitisation funding, warehouse bank debt covered bond and unsecured bond issuance.

The Company's Long-Term Issuer Default Rating, a measure of its strength as an issuer, was confirmed at BBB+ by Fitch in February 2025 with a stable outlook, with Paragon Bank PLC, its principal operating subsidiary retaining its own BBB+ rating.

MANAGEMENT REPORT

2 FUNDING REVIEW

In November 2024, Moody's published its first ratings on our business, with the Company assigned a Long-Term Issuer rating of Baa3 and the Bank rated Baa2. These ratings were confirmed by Moody's in October 2025, after the year end. The additional ratings will allow more flexibility in funding options in future, while potentially helping to manage funding costs.

During the year we became the fourteenth UK institution to be authorised as a covered bond issuer by the FCA. The typical credit ratings and tenors of covered bonds mean that they are attractive to a different, and wider range, of investors than some of the other instrument types we have historically issued. Our inaugural programme, under which we can issue covered bonds up to a value of £5.0 billion was established on 24 February 2025, with Paragon Bank as the issuer, and our first issue of covered bonds was made on 11 March 2025.

The principal amount of the covered bonds issued was £500.0 million. They have a three-year term and an interest cost of 0.6% above SONIA. Security is provided by a pool of buy-to-let mortgage assets, the first time this asset class had been used in such an issue, and the bonds are rated AAA by Fitch and Aaa by Moody's. The issue met with significant demand with over £1.4 billion of orders from a diverse range of investors, meaning the offer was nearly three times oversubscribed. It also received the 'Best Debut' Award in the 2025 Covered Bond Report Awards for Excellence.

While the covered bond cost is currently dilutive to NIM, we see this as a strategic development that extends the maturity profile of our liabilities and increases optionality. The programme diversifies our potential funding sources, accessing a more stable investor base, and enabling us to issue bonds with a relatively short preparation and lead time, when market conditions are attractive. We would expect to issue further covered bonds under the programme in the medium term, in response to our developing funding strategy.

Paragon Mortgages has been one of the principal issuers of UK residential mortgage-backed securities ('RMBS'), although our reliance on RMBS as a regular source of funding has been significantly reduced over recent years. All our most recent issuance has been held internally, providing access to contingent funding, rather than placed in the market, and no external indebtedness is currently in place. The amount of internal notes in issue will reduce further after the year end, with the repayment of the Paragon Mortgages (No. 27) PLC notes in October 2025, and the expected repayment of the Paragon Mortgages (No. 28) PLC notes in December 2025.

Our funding strategy includes further RMBS transactions to support contingent liquidity, and the potential for external issuance is reviewed with each new transaction.

For shorter-term requirements we access the short-term repo market, with £100.0 million of sale and repurchase transactions with financial institutions outstanding at the year end (2024: £100.0 million). During the year we have continued our policy of broadening the range of counterparties we work with in such transactions, increasing optionality in our liquidity management.

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2 FUNDING REVIEW

Wholesale funding currently satisfies only a small part of our overall funding requirements, although this was temporarily elevated following the covered bond issue in the year. It reduced again shortly after the year end, with the October 2025 TFSME repayment. Our strategy remains to access wholesale funding on a tactical basis, when interest rates and conditions are attractive, and to provide contingent funding and support liquidity. We retain the operational capability and third-party relationships to undertake such transactions when required.

Capital markets in the UK were generally relatively stable in the year, although there were periods of volatility, several driven by global reaction to changes in US economic and trade policy. However, demand for wholesale debt remained strong and pricing attractive for issuers. We continue to see the wholesale markets as a useful, and potentially cost-effective funding source and keep a range of potential funding solutions under review.

2.3 CENTRAL BANK FACILITIES

During the year we have continued to make appropriate use of funding facilities provided to the UK banking sector by the Bank of England, utilising internally held RMBS and mortgage loan assets as collateral.

For some time, the principal element of this funding has been the Term Funding Scheme for SMEs ('TFSME'), introduced by the Bank of England in response to the Covid-19 pandemic. However, we have continued to make prepayments of our facility, ahead of the October 2025 due date for most of these borrowings, with the amount outstanding at 30 September 2025 having reduced to £250.0 million (2024: £750.0 million). Almost all of this balance was repaid in October 2025, shortly after the year end.

We have access to other Bank of England funding channels, including the Indexed Long-Term Repo ('ILTR') and Short-Term Repo ('STR') schemes, providing shorter term funding for liquidity purposes. In common with other institutions, we have increased our use of these facilities in the year, with outstanding ILTR drawings at the 30 September 2025 of £700.0 million (2024: £5.0 million).

Our extended use of ILTR is in line with the PRA's expectations for the sector, expressed in a statement made in December 2024. In this statement the regulator stated that it considers the use of ILTR to be part of routine sterling liquidity management and anticipates usage by all banks to rise in the future.

Central bank facilities will continue to be utilised from time-to-time, where their use is appropriate and cost-effective, or to test operational access.

To provide contingent funding, if and when required, mortgage loans have been pre-positioned with the Bank of England to act as collateral for any future drawings. This provides access to potential liquidity at 30 September 2025 of up to £4,168.3 million (2024: £4,445.9 million). Further capacity is provided by our retained AAA-rated asset backed notes and investment securities which can also be used to access Bank of England funding arrangements.

MANAGEMENT REPORT

2 FUNDING REVIEW**2.4 DERIVATIVES AND HEDGING**

Derivative assets and liabilities continue to be used to hedge interest rate risk arising from fixed rate loans and deposits. We pre-hedge a proportion of our lending pipeline, which can result in derivative positions being established before loans are completed. This strategy has not materially changed in the period.

Upward movements in interest rate expectations over recent financial periods have resulted in large derivative asset balances being carried on the balance sheet at fair value. However, the 30 September 2025 position has reduced somewhat, due to both reductions in swap rates in the year and the amortisation of older swaps.

The size of these balances and the volatility in rates have also led to significant profit and loss account impacts, although in the year ended 30 September 2025 these have been smaller than those seen in previous periods. Such gains or losses, which tend to zero over time, are ancillary to our lending and deposit-taking activities and we undertake no trading in derivatives.

We also hedge our tier-2 fixed interest rate borrowings and have hedged the interest rate risk on the investments in gilts held as part of the liquidity buffer.

During the year we have continued to manage our balance sheet hedging position. This is intended to protect net interest margins from the impact of future falls in interest rates on equity, which otherwise would cause a fixed / floating mismatch between the asset and liability sides of the balance sheet.

An amount of fixed rate mortgage lending has been attributed to provide natural equity hedging, forming a net free reserve hedge. The size of the hedge was reviewed during the year and increased, with £1,400.0 million being attributed at 30 September 2025 (2024: £1,200.0 million). The year-end amount represents our current target hedging level, covering the majority of the equity balance. However, this form of hedging has no direct accounting impact.

MANAGEMENT REPORT

3 CAPITAL AND LIQUIDITY REVIEW

Our development since the licencing of Paragon Bank in 2014 has been based on a philosophy of maintaining a strong level of equity and regulatory capital through the economic cycle. Strong financial foundations form one of the three pillars of our strategy, and we manage our balance sheet to maintain our capital strength. This enables us to ensure that our regulatory capital and liquidity positions are sufficient to safeguard depositors and provide us with the capacity both to meet our underlying strategic objectives and to enable us to take advantage of other opportunities which may arise going forward.

The year has seen continuing developments in the UK's economic environment, with little movement in principal metrics, and no significant trends establishing themselves over the period. There remains a sense of a pause in economic momentum as the impacts of the financial and other policy initiatives of the UK Government elected in 2024 remain unclear. Some major initiatives only began to take effect during the year, while others remained proposals at the year end. The Basel 3.1 process to reform the regulatory capital regime has continued to progress, and the near-final proposals published in September 2024 were delayed to allow a further review of their impact on growth to be carried out.

In the face of the potential uncertainties inherent in this environment, we have remained focussed on ensuring that our capital strength remains sufficient to withstand potential pressures and address future changes in requirements. At the same time, we have been able to continue our stated distribution policy, approving buy-backs of up to £100.0 million in the period and announcing dividends for the period in line with policy.

For regulatory purposes our capital comprises shareholders' equity and a tier-2 bond. This structure is kept under regular review as the business develops. We have no outstanding Additional Tier 1 ('AT1') issuance, but have the capacity to issue such securities, if considered appropriate, under an authority granted by shareholders at the 2025 Annual General Meeting ('AGM'), which will be proposed for renewal at the 2026 meeting.

3.1 REGULATORY CAPITAL

Our regulatory capital position has remained robust during the year, and we have continued to carefully manage capital in line with risk appetite. Our business is subject to supervision by the PRA and, as part of this supervision, the regulator sets a Total Capital Requirement ('TCR'), the minimum amount of regulatory capital which we must hold. This is defined under the international Basel 3 rules, implemented through the PRA Rulebook.

The TCR is held in order to safeguard depositors in the event of the business incurring severe losses and includes elements determined based on our Total Risk Exposure ('TRE') measure, together with fixed elements. The TCR is specific to our business and is set on the basis of periodic supervisory reviews carried out by the regulator, with the most recent results received during the year.

MANAGEMENT REPORT

3 CAPITAL AND LIQUIDITY REVIEW

The positive outcome of this review means that our TCR at 30 September 2025 represented 8.1% of TRE, a reduction from the previous year end (2024: 8.7%), and only slightly greater than the minimum TCR allowed under the Basel 3 framework of 8.0%. This low TCR level gives us advantages in capital management and reflects the regulator's assessment of our risk strategy and their view of the appropriateness of our systems for the management of capital and risk.

We were granted transitional relief for the capital impacts of the adoption of the IFRS 9 impairment regime, along with most other UK banks. Additional relief was granted in 2020 for the impact on capital of provisions created in response to the Covid pandemic. These reliefs were fully phased out from 1 October 2024, and therefore the regulatory basis of capital and the fully loaded basis (excluding the impact of reliefs) have now converged.

Our principal capital measures, CET1 and Total Regulatory Capital ('TRC') are set out below on both bases.

	Regulatory basis		Fully loaded basis	
	2025	2024	2025	2024
	£m	£m	£m	£m
Capital				
CET1 capital	1,172.4	1,177.9	1,172.4	1,175.2
Total Regulatory Capital ('TRC')	1,322.4	1,327.9	1,322.4	1,325.2
Exposure				
TRE	8,630.7	8,278.7	8,630.7	8,276.0
Requirements				
TCR	701.2	724.1	701.2	723.8
Capital buffers	388.4	372.5	388.4	372.4

Our CET1 capital comprises equity shareholders' funds, adjusted as required by the Regulatory Capital Rules of the PRA and can be used for all capital purposes. TRC, in addition, includes tier-2 capital in the form of our Tier-2 Bond. This tier-2 capital can be used to meet up to 25% of the TCR. Capital levels on both measures in the year have remained broadly stable, with positive operational performance continuing to support the capital position, even after allowing for paid and proposed distributions.

The year-on-year reduction in TCR requirements shown above relates principally to the result of the supervisory review described above, offset by the impact of asset growth in the period.

CET1 capital must also cover the buffers required by the 'Capital Buffers' part of the PRA Rulebook, the Counter-Cyclical Buffer ('CCyB') and Capital Conservation Buffer ('CCoB'). These apply to all firms and are based on a percentage of their TRE. Further buffers may be set by the PRA on a firm-by-firm basis but cannot be disclosed.

The CCoB remained at 2.5%, its long-term rate, throughout the year (2024: 2.5%), while the UK CCyB remained at 2.0% (2024: 2.0%). The Financial Policy Committee ('FPC') of the Bank of England has stated that it expects the UK CCyB rate in a standard environment to be 2.0%.

MANAGEMENT REPORT

3 CAPITAL AND LIQUIDITY REVIEW

Our capital ratios, after allowing for the proposed dividend for the year, but excluding the effect of future share buy-backs, are set out below.

	Basic		Fully loaded	
	2025	2024	2025	2024
CET1 ratio	13.6%	14.2%	13.6%	14.2%
Total capital ratio	15.3%	16.0%	15.3%	16.0%
UK leverage ratio	6.6%	7.0%	6.6%	7.0%

While these ratios have fallen in the year, the reduction is similar to that in our capital requirement, meaning that the capital headroom represented has changed little over the year.

The PRA published near-final proposals in September 2024 for changes to its Rulebook to reflect the impact of the revisions to the international Basel 3 framework made by the Basel Committee on Banking Supervision ('BCBS'), referred to as Basel 3.1. While the BCBS is responsible for the international Basel regime, it is implemented by competent authorities in each economic jurisdiction, including the PRA in the case of the UK.

These changes, which will affect both firms applying Internal Ratings Based ('IRB') approaches to capital and those using the Standardised Approach, were originally intended to take effect on 1 January 2026. In January 2025, however, the PRA announced a delay to 1 January 2027, while it considered the potential impact of global take-up of the reforms, particularly in the USA, in light of UK Government announcements on competitiveness, as it was concerned that there was a risk of impacting the international competitiveness of UK banks and the UK financial services sector, as an investment proposition, more widely.

The PRA has stated that it remains committed to the 1 January 2027 impact date and no significant changes to the proposed regime for large and medium sized firms have yet been announced. Additionally, in October 2025 the regulator announced changes in its wider, Pillar 2A capital processes which assume the implementation of the proposals as currently drafted.

The current near-final Basel 3.1 changes principally impact on our buy-to-let and SME lending portfolios and have been evaluated as part of our capital planning. We estimate that the changes would reduce our CET1 ratio by 100 basis points, based on the 30 September 2025 position. However, our forecasts indicate that sufficient capital is being held to meet the proposed scenario.

The PRA has also set out the first stages of its future approach to the supervision of UK institutions, following the country's exit from the EU. The regulator has defined a category of 'Small Domestic Deposit Takers' ('SDDTs') which will be subject to a lighter regulatory touch in some areas. To apply for designation as an SDDT an institution must operate only in the UK, have limited trading activities, less than £20.0 billion of assets, and must not operate an IRB approach to credit risk. The proposed capital regime for SDDTs was published in near final form by the PRA in October 2025.

We currently meet the criteria to qualify as an SDDT, however, our longer-term goal remains the adoption of a Basel 3.1 IRB basis for capital, but this will be subject to the PRA granting its permission.

MANAGEMENT REPORT

3 CAPITAL AND LIQUIDITY REVIEW

We have applied to the regulator for the required authorisation to adopt an IRB approach, and we continue to refine our submission for the buy-to-let business. This is currently being processed by the PRA, and we are engaging closely with the regulator. In addition, we have also prepared much of the documentation to support an IRB approach for our development finance assets, which represents the next stage of our IRB roadmap.

3.2 LIQUIDITY

We hold liquid assets to meet cash requirements in the short and long term, as well as to provide a buffer under stress. There is also a regulatory requirement to hold liquidity in Paragon Bank. Our policy is to maintain strong levels of liquidity cover, and this policy impacts operational capital and funding requirements.

Our liquidity is principally held in the form of deposits at the Bank of England, with the proportion represented by highly-rated listed securities such as gilts and UK covered bonds increasing during the year as we continued to diversify our holdings.

The Board regularly reviews liquidity risk appetite and closely monitors several key internal and external measures. The most significant of these, which are calculated for Paragon Bank's regulatory group on a basis which is standardised across the banking industry, are the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR').

The LCR measures short-term resilience and compares available highly-liquid assets to forecast short-term stressed outflows, calculated according to a regulatory formula, with a 30-day horizon. The monthly average of the Bank's LCR for the period was 154.0% compared to 211.5% during the 2024 financial year.

This reduction reflects both the refinement of our liquidity policy as our deposit book matures, releasing excess amounts, and the utilisation of liquidity to facilitate debt repayments over the past two years, particularly on our TFSME borrowings. The average LCR has been on a managed downward path for some time, and the 2025 year end level should be regarded as being closer to the long-term norm than that at the previous year end.

The NSFR is a longer-term measure of liquidity with a one-year horizon, supporting the management of balance sheet maturities. At 30 September 2025 the Bank's NSFR stood at 135.0% (30 September 2024: 139.5%), broadly similar to its position twelve months earlier.

3.3 DIVIDENDS AND DISTRIBUTION POLICY

The sustainable enhancement of shareholder returns, while protecting the capital base, is fundamental to our capital strategy. The continuing positive results and our capital outlook forecasts support the ongoing return of capital to investors, both as dividends and through our share buy-back programme.

MANAGEMENT REPORT

3 CAPITAL AND LIQUIDITY REVIEW

Our long-standing dividend policy is to distribute 40% of consolidated underlying earnings to shareholders in ordinary circumstances, achieving a dividend cover ratio of approximately 2.5 times. We use market buy-backs of shares to manage overall capital levels, where these enhance shareholder value and excess capital is available, addressing the expectations and requirements of different types of investors and potential investors.

An interim dividend for the year of 13.6 pence per share (2024: 13.2 pence per share) was paid in July 2025, in line with our policy of paying an interim dividend equal to half the previous year's final dividend. For our final dividend the Board is proposing, subject to approval at the AGM on 4 March 2026, a final dividend for the year of 30.3 pence per share (2024: 27.2 pence per share). This would give a total dividend of 43.9 pence per share (2024: 40.4 pence per share).

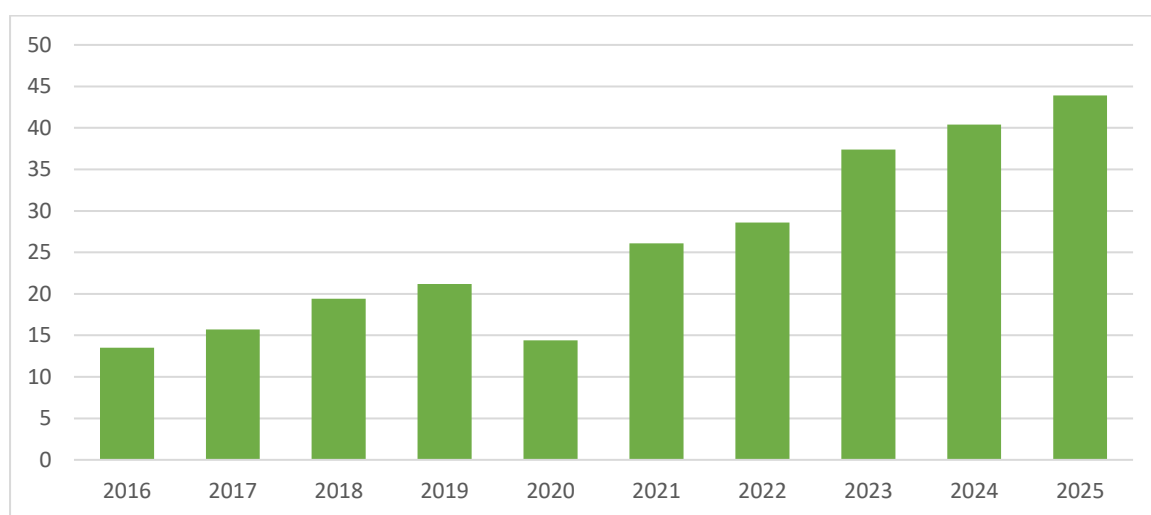
In calculating this dividend, we have disregarded fair value losses, in the same way as we have disregarded similar gains in earlier periods, of which these losses are essentially a reversal. In addition we have considered whether it is appropriate to reduce the level of dividend in respect of our provision for historical motor finance commission liabilities and concluded that, given the capital strength of the Group and the time period to which these liabilities relate, it is appropriate to exclude their impact, meaning that current investors' return will be based on current trading performance.

The dividend proposed therefore represents approximately 40% of underlying profit, giving a dividend cover on the adjusted basis of 2.5 times (2024: 2.5 times), in line with policy (Appendix D).

The progress of the dividend for the year is shown in the chart below.

Dividend for the year (pence)

In respect of the ten years 2016 – 2025



The directors have considered the distributable reserves and available cash and other resources of the Company and concluded that the proposed dividend is appropriate.

MANAGEMENT REPORT

3 CAPITAL AND LIQUIDITY REVIEW

At 30 September 2024 an irrevocable authority to purchase the Company's own shares had been put in place, as part of our 2024 share buy-back programme, which was incomplete at that point. £16.3 million of shares were purchased under that authority during the current year, leaving £7.5 million of the originally announced programme outstanding. As part of its November 2024 capital discussions, the Board authorised the completion of this remaining balance following the announcement of the 2024 results.

At the same time, the Board authorised a buy-back programme for the current financial year of £50.0 million, which was extended to £100.0 million in June 2025, and was completed in September 2025.

£124.7 million, including costs, was expended during the year under these programmes (note 28) (2024: £76.6 million).

As part of the November 2025 review of capital management described above, the Board decided that it was appropriate to authorise a further share buy-back programme of up to £50.0 million for the 2026 financial year. These purchases will commence shortly after the announcement of the results for the 2025 financial year in December 2025.

The Company has the general authority to make such purchases, granted at the AGM on 5 March 2025. Any purchases made under these programmes will be announced through the Regulatory News Service ('RNS') of the London Stock Exchange and the shares will initially be held in treasury.

During November 2025, the Board confirmed the existing dividend policy, subject to an assessment of prevailing conditions at the time of each dividend, addressing matters such as future operational and regulatory capital requirements, business strategy and external economic risks.

MANAGEMENT REPORT

4 FINANCIAL RESULTS

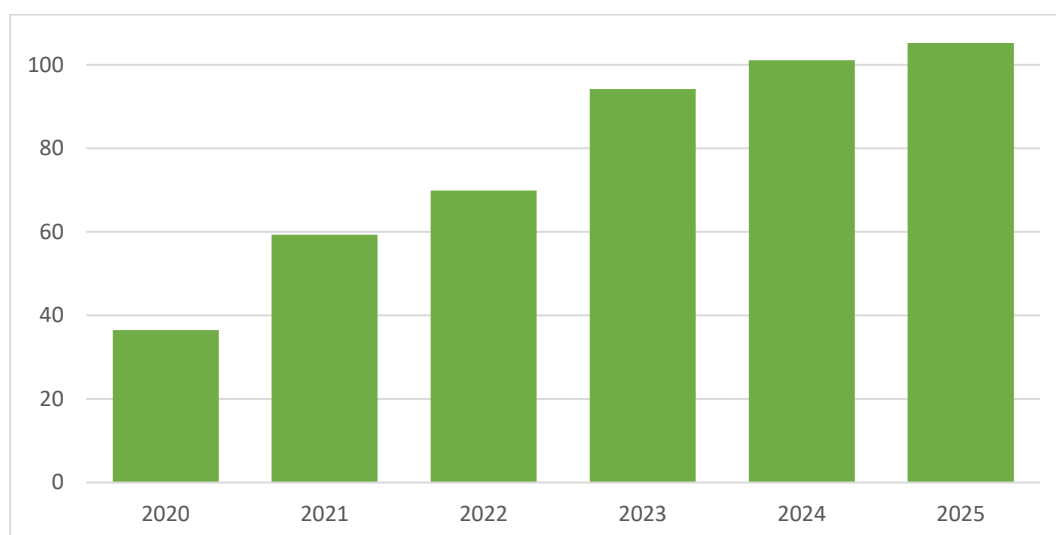
The year ended 30 September 2025 has seen a strong operating performance, with a growing book, stable margins and costs well controlled, despite the external pressures imposed by a competitive market and rising UK labour costs. Economic uncertainty in the UK remained a factor, although the majority of our customers continue to manage the current elevated interest rate environment successfully, leaving us well placed to continue to deliver on our strategy going forward.

Underlying profit (Appendix A), which excludes fair value gains and one-off items, increased marginally in the year, reaching £293.9 million (2024: £292.7 million), with improved net interest earnings offset by an increase in bad debt provisions, the majority of which arose in our development finance operation. With the continuing share buy-back programme in the year, this result generated growth in underlying basic earnings per share ('EPS') of 8.5%, which reached 109.7 pence per share (2024: 101.1 pence per share) (Appendix A).

The progression of our underlying earnings per share over the last six years is shown below.

Underlying earnings per share (pence)

Year ended 30 September 2020 – 2025



The statutory results for the year also include a provision for potential liabilities in respect of historical motor finance commission issues of £25.5 million, which we have estimated following the basis of redress set out in the FCA consultation published in October 2025. We have excluded this from underlying profit as a one-off item relating to historical events rather than to current trading. We also continue to exclude fair value items arising from hedge accounting from the underlying results, as we have done in previous years, although the impact in the current year is much reduced from earlier periods.

Together these items reduce our statutory profit before tax to £256.5 million, a similar level to the previous year (2024: £253.8 million), with basic earnings per share at 91.2 pence per share, increased by 3.1% (2024: 88.5 pence per share).

MANAGEMENT REPORT

4 FINANCIAL RESULTS**4.1 CONSOLIDATED RESULTS****CONSOLIDATED RESULTS****For the year ended 30 September 2025**

	2025	2024
	£m	£m
Interest receivable	1,249.0	1,314.7
Interest payable and similar charges	(746.7)	(831.5)
Net interest income	502.3	483.2
Net leasing income	6.1	6.2
Other income	6.7	7.0
Total operating income	515.1	496.4
Operating expenses	(179.3)	(179.2)
Provisions for losses	(41.9)	(24.5)
Underlying profit	293.9	292.7
Provisions for liabilities	(25.5)	-
Fair value net (losses)	(11.9)	(38.9)
Operating profit being profit on ordinary activities before taxation	256.5	253.8
Tax charge on profit on ordinary activities	(76.2)	(67.8)
Profit on ordinary activities after taxation	180.3	186.0
	2025	2024
Dividend – rate per share for the year	43.9p	40.4p
Basic earnings per share	91.2p	88.5p
Diluted earnings per share	87.9p	85.2p

Income

Our total operating income increased by 3.8% in the year to £515.1 million (2024: £496.4 million). The principal element on this remains our net interest from customer lending, which rose by 4.0%, year-on-year, to £502.3 million, from the £483.2 million recorded in 2024. This main factor behind this increase was the continuing growth in our net loan book, with the average outstanding balance increasing by 4.8% to £16,023.4 million (2024: £15,289.9 million) (Appendix B).

MANAGEMENT REPORT

4 FINANCIAL RESULTS

This was offset, to a degree, by a marginal tightening in net interest margin ('NIM'), which decreased overall by 3 basis points, in the face of a more normalised environment for both lending and retail savings, together with a more stable level of benchmark interest rates than seen in some recent periods. This effect was seen across our operations, with both the Mortgage Lending and Commercial Lending divisions seeing their margins tightening a little.

The progression of the Group's NIM over the past five years is set out below.

	Total basis points
<i>Year ended 30 September</i>	
2025	313
2024	316
2023	309
2022	269
2021	239

The long-term management of NIM across our business lines is fundamental to the achievement of our business strategy, and the use of a variety of funding options to underpin our position. We do not focus on short-term lending volumes at the expense of yields, preferring to build a strong book for the longer term. To this end, we carefully deploy our available capital and manage our lending risk appetites over time to optimise overall returns on a sustainable basis.

Interest income from our loan assets is accounted for using the effective interest rate ('EIR') method set out in IFRS 9. This spreads the impact of initial and terminal fees received from the customer or paid to third parties through the life of the account and, where an account has different interest charging bases during its life, attempts to spread this effect. This applies particularly to our buy-to-let mortgage accounts where the majority of cases have a fixed initial rate. The pattern of income recognition is therefore based on estimates of customer settlement behaviour and future charging rates. During the year these projections have remained relatively stable, so the required adjustments to recognition patterns have been minor.

Our other operating income comprises net income from operating lease income and sundry fees, mostly related to lending activity, reduced slightly to £12.8 million (2024: £13.2 million). This movement related mostly to account fee income, where portfolio performance led to a reduction in the number of fee-charging incidents.

Costs

Inflationary pressures continued to impact on our cost base in the year, coupled with the effect of the increase in the rate of employers National Insurance ('NI') contributions from April 2025. Despite these headwinds, however, our operating cost base, at £179.3 million, increased only 0.1% (2024: £179.2 million), as our firm focus on cost control was maintained.

MANAGEMENT REPORT

4 FINANCIAL RESULTS

Employment costs, continue to form the largest part of the cost base, representing 61.5% of the total (2024: 62.0%). Average headcount for the year, at 1,400, was 3.0% lower than the 1,444 reported in 2024, despite our loan book growth, as we continued to generate efficiencies. However, the impact of market-based pay increases received by most employees at the start of the period, and the increased employers NI rate meant that employment costs fell only 0.8%, to £110.2 million (2024: £111.1 million).

Costs not related to employment, at £69.1 million, were 1.5% higher than those recorded in the 2024 financial year (2024: £68.1 million), impacted by recent years' inflation in the UK as suppliers pass on their cost increases when contracts are renewed. This will be affected by the NI increase, particularly going forward, as many of our principal suppliers, such as IT and professional consultants and providers of outsourced services also have cost bases dominated by people costs.

Within these costs, our spend on technology increased by 6.2% to £27.4 million, in contrast to the wider cost base (2024: £25.8 million), as a number of major projects, including our Spring savings platform and our new buy-to-let mortgage origination system, went live. Technology related employment costs, at £10.2 million increased more than employment costs in general (2024: £10.0 million), representing our strategy of developing internal capacity as part of our digitalisation plan.

Technology costs not related to employment increased 8.9% to £17.2 million from £15.8 million in 2024, a further impact of our ongoing cloud-based digitalisation strategy. In addition, £2.6 million of software was capitalised (2024: £4.5 million), a relatively low amount for projects of this magnitude, meaning that the drag on future profits is reduced, with only £8.8 million held on the balance sheet at the year end (2024: £8.0 million).

The progress of our cost:income ratio (Appendix C) over the last five years is set out below.

	Underlying %	Statutory %
<i>Year ended 30 September</i>		
2025	34.8	34.8
2024	36.1	36.1
2023	36.6	36.6
2022	39.4	38.9
2021	41.7	41.7

Our cost:income ratio continued its gradual improvement this year, despite the significant headwinds in the UK economy, pressure on margins and the ongoing levels of spend required to support our digitisation journey. It is also important to note that within this ratio there has been a change in the nature of the costs being incurred, as technology is enhanced and efficiencies generated.

Cost control is a fundamental component of our business strategy, but we see this not simply as a process to reduce costs, but to apply resources where they can generate the greatest benefit, as efficiently as possible. While the achievement of a sustainably lower cost:income ratio is therefore a long-term aspiration, our short-term priorities will always be focussed on the delivery of our business strategy, the meeting of regulatory expectations and the enhancement of operational capacity for the future.

MANAGEMENT REPORT

4 FINANCIAL RESULTS**Impairment provisions**

The charge recognised in respect of credit losses on our loan books in the year rose to £41.9 million (2024: £24.5 million). However, this increase represented a mixed performance across our loan portfolios, with almost all of the increase related to our development finance portfolio, which accounted for £34.2 million of the charge (2024: £17.8 million). Of the development finance provision in the year, 98.3% relates to the cohort of loans approved prior to September 2022, highlighted in our previous reporting.

These loans were underwritten before the sharp increases in building costs, including labour and materials costs, and interest rates which impacted on developers from the latter part of 2022, invalidating the original project assessments and generating losses. More of these cases encountered difficulties in the year, and those cases already in default experienced more complexities as they were worked out. However, other than the identified default cases, few accounts of this vintage remain in the portfolio, and the performance of subsequent lending in the business has not generated the same level of concern.

Provision levels in this operation are inflated by the IFRS 9 requirement to discount expected recoveries to the balance sheet date using the EIR. This impact is particularly marked for portfolios where EIRs are relatively high, such as development finance. This discounting of recoveries has added £9.4 million to the charge for the year, but the IFRS 9 treatment does mean that income will continue to be recognised at the EIR on the net loan balance going forward.

Outside development finance, provisions increased by only £1.0 million, with most customers continuing to perform, despite the continuing economic pressures for UK consumers and SMEs, arising from inflation and interest rates. These, while generally gently falling in the year, remained stubbornly high and it still remains unclear to what extent the rises in consumer and business costs over recent years have fully impacted on credit quality. Similarly, the ultimate impact on the UK economy of the financial and other policies introduced or planned by the new administrations in the UK and USA, cannot be predicted with any certainty. This means that the mildly positive outlook for credit seen in the year may soon be subject to new pressures.

Our recognition of credit losses is governed by the accounting standard IFRS 9, which requires the directors to take a view on the future performance of our loan assets and to base provisioning on expected credit losses ('ECL'). Where the economic outlook is complex, or where there is little relevant historical data to base loss predictions upon, this can be a challenging exercise.

MANAGEMENT REPORT

4 FINANCIAL RESULTS

The progress of the impairment charge and cost of risk in the last five years is set out below.

	Charge / (release) £m	Cost of risk %
<i>Year ended 30 September</i>		
2025	41.9	0.26
2024	24.5	0.16
2023	18.0	0.12
2022	14.0	0.10
2021	(4.7)	(0.04)

The fluctuations shown above represent the progress of the UK economy over the period, with the 2021 release representing the recalibration of provisioning after the Covid-19 pandemic. The following years saw increasing impacts from rising costs and interest rates, with issues in the development finance book particularly impacting the two most recent years.

Multiple economic scenarios and impacts

We use statistical models to support our estimation of ECLs, where possible, with their performance regularly monitored, reviewed and updated. These models project losses for our largest books based on the performance of loan accounts up to the reporting date and the impact of anticipated future economic conditions. The use of these models therefore requires the use of a range of forward-looking economic scenarios which are each evaluated and then weighted to form an overall projection.

For portfolios where detailed models cannot be used, generally because the number of accounts is low, available historic loss data insufficient for statistical forecasting methodologies to be validly applied, or both, the potential impact of these economic scenarios is also considered. In the current period this applied particularly to the development finance portfolio where the potential impacts of higher build costs, falling development values and longer project timescales were considered in our assessment of expected loss.

At 30 September 2025, there was generally more consensus on the central forecast for the UK's economic outlook than at the previous year end, albeit with most forecasters taking a more benign but still mildly pessimistic view of prospects. However, the range of plausible alternative outcomes around that central position remains large.

Despite the mild improvements in most UK economic metrics in the period, forecasters remain cautious, noting a potential for interest rates to decline only slowly, inflation to remain stubborn as a result of pressure on employment costs, house price growth to remain subdued or negative and growth to remain minimal. The current UK economic environment of comparatively high interest rates and low growth is a relatively unusual one, with history therefore providing little guidance in forecasting.

MANAGEMENT REPORT

4 FINANCIAL RESULTS

Broader scope forecasting risks arise from the impact of new government policies either recently introduced or planned in both the UK and overseas, and also from ongoing armed conflicts in Eastern Europe, the Middle East and elsewhere. These factors may cause outturns to be significantly divergent from consensus economic forecasts.

To reflect the possible range of economic outcomes, four scenarios have been constructed for provisioning purposes, based on forecasts from several public and private bodies, synthesised to produce internally coherent sets of data. The general trend of the central forecast follows that published by the Bank of England in August 2025. This reflects a pattern of solid but unimpressive growth for the UK economy, with inflation rising in the short term, although returning to target levels towards the end of the forecast period. Bank base rates continue to fall, although we expect the Bank of England to move cautiously in light of concerns over inflation. House prices, which have been more resilient than many had forecast, continue to increase modestly in the short term, strengthening toward the end of the forecast.

Compared with the central forecast adopted at 30 September 2024, this is a little more optimistic, with unemployment and interest rates at lower levels and a more positive outlook for house prices in the short term. However, GDP and inflation remain on a similar trajectory. The scenario also begins from the actual September 2025 position, so that variances against the 2024 scenarios in the year are reflected, with house prices at 30 September 2025, especially, starting the forecast period at a higher level than previously modelled.

The upside and downside scenarios are derived from our central forecast. The upside scenario assumes that inflation remains lower than generally expected, driving faster growth and higher employment and enabling the Bank of England to cut the base rate further and faster than in the central case, while house prices recover more strongly. Conversely, the downside case represents increased pressure on CPI, leading to increases of base rates in the short term, with reduced economic confidence leading to stagnant growth, declining house prices and a pick-up in unemployment levels.

The severe scenario has been derived from the most recent Annual Cyclical Scenario ('ACS') published by the Bank of England in March 2025. This includes persistently high interest rates, causing a pronounced recession impacting on growth and employment levels, with a significant fall in house prices.

The weightings applied to each scenario have been reviewed and revised. The consensus view for the UK economic outlook is a little more settled and more benign than it was at 30 September 2024. However, the potential for significant downside impacts from the domestic economic climate and wider geopolitical factors remains. This has led to a wide range of potential paths for the UK economy being suggested, with an emphasis on the potential downsides.

On balance, it was decided that it was still appropriate to continue our move back towards a more normal set of economic weightings, closer to those seen in the early years of IFRS 9, before the impacts of Brexit and Covid. However, the analysis also suggested a cautious approach, with a continued focus on the downside scenarios. Therefore, the weighting of the severe scenario has been reduced, with the weightings of the upside and downside held steady. The forecast economic assumptions within each scenario, and the weightings applied, are set out in more detail in note 13, with the impact of the change in weightings shown in note 14.

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4 FINANCIAL RESULTS

To illustrate the impact of these scenarios on the IFRS 9 modelling, the impairment provisions before judgemental adjustments are set out below on the weighted average basis, and also shown on a single scenario basis, weighting each of the central and severe scenarios at 100%.

	2025		2024	
	Unadjusted provision £m	Cover ratio	Unadjusted provision £m	Cover ratio
Weighted average	84.8	0.52%	70.0	0.45%
Central scenario	80.5	0.49%	64.8	0.41%
Severe scenario	109.1	0.66%	93.9	0.59%

The increase in model generated provision coverage results from economic pressures on customers manifesting themselves, to some extent, in the year, with the marginally higher levels of cases which were in arrears at some point during the year increasing default probabilities on such cases. This is a natural result of the pressures which customers have been subjected to for some time now beginning to impact performance.

There is little recent historical evidence of the impact of a sustained period of high interest rates and inflation on customer credit, and both products and regulatory expectations have evolved significantly since interest rates last reached current levels. Our models have therefore been derived from datasets which include very few observations representative of the current type of economic environment and little evidence on which to base conclusions on how rapidly or severely customer behaviour might respond to the current type of economic climate.

The distribution of gross balances by IFRS 9 stage produced by our impairment methodology at the two most recent year ends is set out below.

	2025	2024
Stage 1	93.5%	93.2%
Stage 2	4.4%	4.9%
Stage 3	2.0%	1.8%
POCI	0.1%	0.1%
Total	100.0%	100.0%

The staging of our book remains similar to that seen at the 2024 year end with, with some movement into Stage 3, mostly arising in development finance, and mild improvement elsewhere. Given the relative economic stability in the period, this is to be expected.

MANAGEMENT REPORT

4 FINANCIAL RESULTS*Judgemental adjustments*

Where key economic measures are at materially different levels to those which existed when the impairment models were created, management may add judgemental overlays to calculated impairment levels. These are required where it is considered, taking account of all available evidence, that current or anticipated levels of delinquency and / or loss in the modelled portfolios could exceed those implied by the model outputs, or where the normal methodology for provisioning on non-modelled books does not cover all identified risks.

Examples of such circumstances include the period of the Covid pandemic and its aftermath, and the period of rapid growth in interest rates and inflation which commenced in late 2022. Whilst the current economic outlook at 30 September 2025 appears more stable than was seen in those periods, the cumulative effect of a longer period of elevated interest rates is also potentially challenging for the effectiveness of the provisioning models, and we have seen particular challenges in the pre-2022 cohort of development finance lending.

Having reviewed these potential additional impacts, we have:

- Reduced the adjustment in our buy-to-let mortgage book to £1.5 million (2024: £3.0 million). This overlay was principally to allow for idiosyncratic impacts affecting legacy portfolios which might not be handled well by the approach in the model. Given the reduction in the number of such cases over the period, the full amount is no longer required
- Released the £1.0 million adjustment in our motor finance book and the £1.0 million adjustment to the SME lending model output. These adjustments were made to compensate for potential issues with newly introduced models, and are being released on the basis of monitoring outputs for the year
- Removed the temporary uplift to provision floors in the non-modelled development finance book, which was intended to allow for increased incidence of distress in pre-2022 projects, which had increased the impairment provision by £1.5 million. These cases now have an additional year's seasoning and relatively few cases remain in Stage 1 or Stage 2. However, the Stage 3 population has had an additional stress applied to allow for the potential future downside, increasing provision levels by £1.5 million

The judgemental adjustments generated by this process, analysed by division, are summarised below.

	2025 £m	2024 £m
Mortgage Lending	1.5	3.0
Commercial Lending	1.5	3.5
	3.0	6.5

We continue to monitor the appropriateness and scale of each of these overlays and consider the extent to which any of the elements giving rise to them can or should be incorporated into models and standard processes.

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4 FINANCIAL RESULTS

Ratios and trends

The results of the ECL modelling and other provisioning, including the impact of the economic scenarios described above, together with the adjustments adopted to address uncertainties over the future performance of accounts, has resulted in the overall provision amounts and coverage ratios set out below.

	2025 £m	2024 £m	2023 £m
Calculated provision	84.8	70.0	67.1
Judgemental adjustments	3.0	6.5	6.5
Total	87.8	76.5	73.6
Cover ratio			
Mortgage Lending	0.23%	0.26%	0.33%
Commercial Lending	2.23%	1.77%	1.56%
Total	0.53%	0.48%	0.49%

Following the judgemental adjustments, these ratios remain broadly in line with those seen in recent periods, although with an uplift in coverage in the Commercial Lending division attributable to development finance impairments.

Future levels of coverage will be dependent on the performance of the UK economy and its impact on our business, our customers and their markets.

Provisions for liabilities

Since January 2024, historical practices in the motor finance industry for the payment of commissions to business introducers have been subject to a process of heightened legal and regulatory scrutiny, including actions by the FCA and the Financial Ombudsman Service ('FOS') and customer litigation and judicial review processes before the English courts. These actions are discussed in more detail in Section 1.2 above and in note 25 to the accounts.

While we have not been directly involved in any significant legal or regulatory actions to date, we have been active in this market, principally since 2014, and did have DCA arrangements in place. While we consider that our lending policies complied with regulatory requirements and general market practice at the relevant time, this lending would be in scope for any potential redress scheme.

During the year the Court of Appeal's general finding of liability against the lenders in the cases of Johnson, Wrench and Hopcraft, handed down in October 2024, was set aside by the Supreme Court, except for certain specific matters in the Johnson case. However, the FCA, in October 2025, published a Consultation Paper (CP 25/27) setting out a scheme of redress in motor finance cases, based on its investigations into the market over the last eighteen months.

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This scheme was broader in scope than lenders had anticipated but also delivered lower levels of compensation than some consumer interests considered appropriate. The FCA is therefore expected to receive significant volumes of representations, and a final policy is not expected to be published until early in 2026.

We have calculated our potential exposure to these matters on the basis that the approach set out in CP 25/27 is adopted by the regulator as its final position, which seems quite likely, given comments made by senior FCA office holders since its publication. This exercise indicated a potential provision of £25.5 million, for redress, interest, and the costs of running a redress programme as envisaged by the FCA. While the FCA proposal might be changed before finalisation, or challenged by other interested parties, resulting in a greater or lesser liability, we believe that this provision represents the most likely outcome at the balance sheet date.

This amount has been excluded from the underlying results due to its historical nature, and because it is therefore likely to obscure operating trends within our businesses.

At 30 September 2024 it was considered possible that a scheme would either not be brought forward or would only be limited in its scope. Our assessment of exposure at that date included scenarios with these outcomes alongside those including various potential options for redress schemes. Given the size of the outcome, no provision was reflected in the 2024 accounts.

We would expect to be able to update stakeholders further on this matter in the 2026 half-yearly report, when the regulatory and legal processes currently in progress are expected to have progressed further.

Fair value movements

The fair value line in our profit and loss account primarily reports fair value movements arising from interest rate hedging arrangements. These are put in place to protect margins when fixed interest rate products are offered in either our savings or lending markets, enabling us to continue to honour offers to customers in the event of significant interest rate movements. We also hedge certain fixed rate investments and liabilities.

We have a cautious approach to interest rate risk and consider our exposures to be appropriately economically hedged. No speculative derivative trading is undertaken, and all fair value movements relate to banking book exposures.

The accounting entries included in this balance are primarily non-cash items, which reverse over the life of the hedging arrangement and such movements are essentially considered to represent the anticipation of gains belonging economically to later accounting periods and their subsequent unwinding. They are therefore excluded from underlying results.

During the 2022 financial year, particularly during the second half, there was a significant level of volatility in UK benchmark interest rate expectations, resulting in a fair value gain of £191.9 million being recorded in the year. This impact was amplified by the approach adopted to pipeline hedging at that time and the retention strategy applied to five-year fixed loans maturing in that period, which

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4 FINANCIAL RESULTS

meant that the pipeline was larger and of longer duration (and hence more exposed to movements in rates) than at most other times.

In the year ended 30 September 2025 the unwinding of this large gain, which had begun in 2023, continued to impact the fair value line, although to a lesser extent than in earlier periods. Coupled with the accounting hedge ineffectiveness in the period and the effect of new pipeline hedges, this resulted in a loss on fair value items of £11.9 million being reported (2024: £38.9 million).

We also have £369.0 million (at net notional value) of derivative contracts at 30 September 2025 which are unmatched for hedge accounting, although form part of the economic hedging position (2024: £126.6 million). These derivatives must be carried at a fair value based on expected cash flows over their contractual lives. As a substantial proportion of this balance has a lifetime of two to five years, volatility in the interest rate markets can generate substantial month-to-month fluctuations in this valuation which have to be included in profit.

Tax

We operate only in the UK and materially all our profit falls within the scope of UK taxation. The standard rate of corporation tax applicable to the business in the year was therefore 25.0% (2024: 25.0%), with the surcharge applicable to the profits of Paragon Bank at 3.0% (2024: 3.0%). The effective tax rate applied to our profits has increased from 26.7% in 2024 to 29.7% during 2025, with the increase principally relating to the disallowable element of the charge for historical motor finance commission liabilities and other related adjustments (note 8).

The effective tax rate on underlying profit, which excludes this provision was 26.2% (2024: 27.4%), with the change mostly related to other timing differences (Appendix A).

Results

Our resulting statutory profit before tax for the year was increased by 1.1% to £256.5 million (2024: £253.8 million), with the underlying profit increasing to £293.9 million (2024: £292.7 million). Profit after tax was decreased by 3.1% at £180.3 million due to the higher effective tax rate described above (2024: £186.0 million).

In addition, other comprehensive expenditure of £1.2 million, net of tax, was recorded (2024: income of £5.4 million), relating to valuation movements on our defined benefit pension scheme (the 'Plan').

Total consolidated accounting equity at the year end, after dividends and share buy-backs was £1,420.2 million (2024: £1,419.5 million), and consolidated tangible equity was £1,248.1 million (2024: £1,248.0 million), representing a tangible net asset value of £6.55 per share (2024: £6.11 per share) and a net asset value on the statutory basis of £7.45 per share (2024: £6.95 per share) (Appendix E).

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4 FINANCIAL RESULTS

4.2 ASSETS AND LIABILITIES

The key driver of movements in our balance sheet is the size and composition of our loan book. This, together with our policies on capital and liquidity, determines our required funding and hence the level of our liabilities.

The loan portfolio grew by 4.0% year-on-year during 2025, with growth in both segments of the business. More detail on these movements is given in the business review in Section 1.

Our assets and liabilities at the end of the financial year are summarised below.

SUMMARY BALANCE SHEET

30 September 2025

	2025 £m	2024 £m	2023 £m
Investment in customer loans			
Mortgage Lending	13,876.4	13,415.7	12,902.3
Commercial Lending	2,464.9	2,289.8	1,972.0
	<u>16,341.3</u>	<u>15,705.5</u>	<u>14,874.3</u>
Hedging adjustments	(5.4)	(75.2)	(379.3)
Derivative financial assets	275.4	391.8	615.4
Cash and investments	3,015.7	2,952.8	2,994.3
Pension surplus	23.5	22.2	12.7
Intangible assets	172.1	171.5	168.2
Other assets	107.4	101.4	134.6
	<u>19,930.0</u>	<u>19,270.0</u>	<u>18,420.2</u>
Total assets			
Equity	1,420.2	1,419.5	1,410.6
Retail deposits	16,265.7	16,298.0	13,265.3
Hedging adjustments	5.1	16.7	(30.9)
Other borrowings	1,699.8	1,005.3	3,086.4
Derivative financial liabilities	68.2	99.7	39.9
Provisions for liabilities	25.5	-	-
Other liabilities	445.5	430.8	648.9
	<u>19,930.0</u>	<u>19,270.0</u>	<u>18,420.2</u>
Total equity and liabilities			

MANAGEMENT REPORT

4 FINANCIAL RESULTS**Funding structure and cash resources**

Our retail and wholesale funding balance increased by 3.8% during the year, a similar increase to the growth in the loan book. This is despite a managed reduction in target funding over the period, and the growth would be less if the TFSME funding, which was repaid in early October, is excluded.

The year-end liquidity buffer had been further diversified, with additional investment securities purchased for liquidity purposes in the year. At 30 September 2025, £626.2 million of highly-rated UK government and commercial bonds were held (2024: £427.4 million), as well as liquidity buffer deposits at the Bank of England.

The proportion of our funding represented by retail deposits reduced a little to 90.5% (2024: 94.2%). This level is depressed by the TFSME drawings awaiting repayment in October 2025, and our long-term funding strategy remains focussed on our retail deposit-taking businesses. Movements in funding balances are discussed in more detail in Section 2.

Derivatives and hedging

The derivative assets and liabilities shown in the table above relate almost entirely to arrangements for hedging interest rate risk on fixed rate mortgage and savings products. These assets and liabilities are held at fair value, with the valuation based on future expectations of interest rates. The size of the balances is driven by the difference between current expectations for variable rates and the fixed rates applicable to the hedged items, set at the point of origination, meaning that where market rates have moved sharply, large balances will be carried, which will reduce as the derivatives move towards their maturity dates.

During the year, market interest rate expectations began to turn downwards, to some extent, with asset swap valuations falling back, and in some cases turning negative, while swaps put in place in the lower rate environments of three or more years ago continued to amortise.

As a result, the year end derivative asset position of £275.4 million was reduced by £116.4 million, year-on-year (2024: £391.8 million), with derivative liabilities, which decreased by £31.5 million to £68.2 million, also impacted (2024: £99.7 million).

While these movements do contribute to the fair value accounting adjustments, they are largely offset by movements in the hedging adjustments to loan assets and deposit liabilities, with the adjustment in assets reducing by £69.8 million in the year and that in liabilities reducing by £11.6 million, a net £81.4 million movement.

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4 FINANCIAL RESULTS**Pension obligations**

The IAS 19 valuation surplus on our defined benefit pension scheme increased slightly from £22.2 million at the start of the year to £23.5 million at the year end. The assumptions for this valuation are based on market-derived interest and bond rates and can be subject to fluctuation where market rates do not move in parallel. However, the scheme's investment strategy includes a high level of hedging, which should mitigate market impacts on the surplus amount.

The changes in inputs between the valuations at the beginning and end of the year are smaller than those seen in some recent periods, with the principal differences being the movement in the discount rate used in evaluating scheme liabilities, based on long-term corporate bond yields, which increased from 5.10% to 6.05%, and that in the assumed rate of RPI inflation, based on gilt yields, which fell slightly, from 3.05% to 3.00%. These movements reduced the Plan's gross liabilities, although this was largely offset by a downward valuation of Plan assets, driven by the hedging strategy. Overall, these movements led to a pre-tax valuation loss of £1.4 million being booked in other comprehensive income (2024: gain of £7.2million).

Other assets and liabilities

Other assets increased by £6.0 million, from £101.4 million to £107.4 million in the year, mostly a result of new assets acquired for leasing under operating leases.

Other liabilities increased from £430.8 million to £445.5 million at 30 September 2025. This was principally a result of an increase in collateral received against swap assets, which increased by £86.2 million, driven by changes in derivative positions and the distribution of those positions between counterparties. This was offset by a reduction in other sundry balances including the £23.8m accrual which was made at 30 September 2024 for the completion of that year's share buy-backs.

The motor commission redress provision has been recognised as a separate balance sheet item.

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4 FINANCIAL RESULTS**4.3 SEGMENTAL RESULTS**

The underlying operating profits of the two segments described in the Lending Review in Section 1 are detailed fully in note 2 and are summarised below.

	2025 £m	2024 £m
Segmental profit		
Mortgage Lending	264.2	257.7
Commercial Lending	82.6	88.3
	<u>346.8</u>	<u>346.0</u>
Unallocated central costs and income	(52.9)	(53.3)
	<u>293.9</u>	<u>292.7</u>

Central administration and funding costs, principally the costs of service areas, establishment costs and bond interest have not been allocated, nor has interest income from surplus liquidity. The size of these unallocated balances is broadly similar, year-on-year.

Mortgage Lending

Our Mortgage Lending division continued to increase its asset base while controlling margins in a competitive environment, a result built on strong customer relationships and retention in the professional buy-to-let sector. Net interest grew by 1.9% in the year to £287.7 million (2024: £282.3 million), with the 3.7% growth in average net loan balances, to £13,646.1 million (2024: £13,159.0 million) offsetting a tightening of net margins. NIM decreased 4 basis points to 211 basis points (2024: 215 basis points), with margins on fixed-rate accounts protected by hedging arrangements.

Overall credit performance of the book improved slightly in the period, with long-term issues continuing to be resolved. The number of properties with a receiver of rent in place reduced by 10.5%, with the number of long-standing (pre-2020 appointment) receiverships 38.9% less than a year earlier. While arrears have marginally increased in the year, only 1.3% of the gross loan book by value at the year end was considered to be credit impaired (2024: 1.4%), including an increase in IFRS 9 Stage 3 cases from £171.1 million to £176.1 million, mostly a result of the increase in three-month arrears cases.

The charge for impairment increased to £6.3 million in the year (2024: £5.6 million) although the cost of credit risk for the year increased only slightly, to 5 basis points (2024: 4 basis points) (Appendix B). The low cost of risk reflects the high levels of security cover in the division's portfolios.

Overall contribution from the division for the year increased by 2.5% to £264.2 million (2024: £257.7 million).

MANAGEMENT REPORT

4 FINANCIAL RESULTS**Commercial Lending**

Our Commercial Lending division continued to grow its loan portfolio strongly, with the total average loan balance growing by 11.6% to £2,377.3 million (2024: £2,130.9 million), which, together with a relatively small decrease in NIM from 586 basis points to 570 basis points, generated an increase of 8.6% in net interest to £135.5 million (2024: £124.8 million). This reflected changes in the proportion of segmental income generated in each of the division's operations, coupled with the increase in average funding costs seen during the year.

Operating profit before impairment charges for the year was £118.2 million, an increase of 10.3%, slightly ahead of the growth in income (2024: £107.2 million), due to efficiencies from our investment in systems and process improvements.

Impairment charges for the year, at £35.6 million, had increased significantly from the 2024 financial year (2024: £18.9 million), with this increase concentrated in the development finance operation. Charges outside development finance increased to £1.4 million (2024: £1.1 million), with credit performance largely stable in the motor finance and SME lending elements of the portfolio, with low arrears and relatively few defaulted cases.

6.1% by gross value of cases in the segment's portfolio were considered to be credit impaired at 30 September 2025, compared to 5.1% at the previous year end. However, a substantial amount of this balance relates to development finance projects, where security cover can be high. In development finance the lending cohort approved in 2022 and earlier continues to experience issues, with a number of further cases entering Stage 3 in the year, some of which have encountered significant distress. Development finance stage 3 cases increased by £43.4 million at gross value, more than the £42.2 million increase seen in the segment's IFRS 9 Stage 3 balances as a whole. Losses in this business are highly cyclical and generally linked to idiosyncratic factors or economic shocks and these losses follow several years where loss levels were minimal.

These factors led to a reduction in segmental profit of 6.5% to £82.6 million (2024: £88.3 million).

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Our strategy as a specialist bank relies on in-depth knowledge of the sectors in which we operate, bespoke systems and the careful management of risk across all our operations. Delivery of our purpose, “to support the ambitions of the people and businesses of the UK by delivering specialist financial services”, relies on our customer-focussed culture and a dedicated team. Our recognition of the importance of an experienced, skilled and engaged workforce facilitated by effective systems, detailed use of analytics and focussed use of data lies at the heart of our business model.

This operations review discusses how our business has been conducted over the year, and anticipated developments going forward, under the following headings:

- 5.1 Operations (systems, infrastructure and conduct)
- 5.2 Governance
- 5.3 People
- 5.4 Sustainability (including environmental impacts)
- 5.5 Risk (including risk profile and risk management)
- 5.6 Regulatory change

Our long-term programme to enhance processes and technology has reached significant milestones in the year. The Spring savings business was launched and the roll-out of our new mortgage origination system was completed. In parallel, we have continued to invest in our people and processes, in these areas and across the wider business, to ensure the effectiveness of our operations going forward. It was particularly pleasing to retain platinum Investors in People status in our triennial reassessment in the year, recognising our focus on this area.

This continuing focus ensures that our operations are ready to support our strategy going forward, while taking account of the interests and aspirations of all our stakeholders.

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5 OPERATIONS REVIEW**5.1 OPERATIONS****Systems**

Digitalisation has been at the heart of the development of our businesses over recent years, touching all aspects of our operations. Significant investment has been made on a long-term basis in our 'IT Roadmap' to ensure effective service delivery to our customers, enhance the resilience of the business and support our people's capabilities. This has included migration of processing to the cloud and the provision of new systems and functionality in various business areas, with several significant milestones achieved in the year.

Our new Spring savings business ('Spring') was launched in April 2025. This is a wholly digital offering, operating through a bespoke app, downloadable to customers' phones, developed by our in-house team in conjunction with experts in the field. This also delivered the functionality for in-house savings administration for the first time since the launch of Paragon Bank in 2014.

The Spring infrastructure makes use of significant software tools not previously used in our infrastructure. The system includes our first chatbot and has a significant reliance on types of API technology not previously used in our IT environment, with over twenty different API connections to support the customer experience. The app also includes machine-learning artificial intelligence ('AI') features, which, as well as supporting the chatbot, are used to enhance cyber security and anti-fraud protection and to reduce operational burdens.

Several of the fundamental building blocks in the Spring infrastructure, including those related to cyber and fraud protections, are shared with our other principal IT Roadmap applications, in line with one of the principal objectives of our digitalisation strategy. This means that the learnings from each project can be fed back to inform future developments across all our businesses, that technical skills are more interchangeable within the business and that our IT environment, as a whole, is more resilient. In particular, the development work on APIs can be leveraged in future projects across the business.

The successful delivery of the Spring infrastructure was recognised in September 2025, when we were named as winners of the 2025 OutSystems Innovation Award for business impact. These awards, run by a leading software development platform, recognise project delivery on a global basis, with other winners including Roche, Clarins and Pokémon.

In our 2024 annual report, we noted the initial launch of our new, state-of-the-art mortgage origination system. During the current year this was rolled out across our whole mortgage broker community. Since March 2025, all our brokers have had access to the new system and have been submitting cases through it. This means that the IT Roadmap has now delivered new origination systems for our buy-to-let mortgage, development finance and SME lending businesses, covering the majority of new business flows.

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Since the launch of these systems, we have continued to review feedback from both customers and users, rolling out enhancements in response. We have also continued to enhance systems already delivered under the roadmap as our real-life experience of their capabilities and potential develops, with upgrades being delivered monthly.

One of the largest remaining projects on the IT Roadmap also made significant progress in the year. We appointed Alfa Systems to support our new post-completion system in SME lending. This will replace a number of legacy systems, streamlining processing, providing enhanced flexibility and improving the experience for customers and intermediaries. Development has progressed during the period with input sought from both users and customers.

We continued to develop our broader infrastructure environment in the year, with an upgrade to contact centre software rolled out across the business, and significant work carried out to ensure that our cyber-security systems remain up-to-date.

The introduction of AI into the systems of financial services businesses is currently one of the more significant challenges across the sector. As noted above, machine learning AI is playing an increasingly important role in systems for underwriting, administration and fraud prevention, amongst other usage. The use of generative AI has, to date, been more limited, but we have undertaken several pilot projects to establish proofs in concept and to support the development of the training and risk management approaches needed to ensure the risks involved in any such use are appropriately controlled.

Moving into 2026, we will continue to progress on the IT Roadmap with major projects under way, many focussing on customers' in-life experience of their products. These both build on the work delivered so far and leverage user feedback to enhance systems delivered to date. In parallel we will continue to make more general enhancements to the tools used to support our people in delivering on their own objectives.

Facilities

Our hybrid working model remains in place. This approach is popular with our people and aligns with our business model, allowing business areas to adopt the working methods which best suit the needs of their customers, operations and people. We have no current plans to change this approach, despite the move back to increased expectations of office attendance seen elsewhere in the sector.

The majority of our people work at one of our offices two or three days in each week and office occupancy has remained at similar daily levels to previous periods. Around three quarters of our people attend our Homer Road, Solihull, head office at some time in each month. We continue to develop our premises in line with the requirements of this model of working and the first stages of the modernisation of this building began in the year. This has the dual objectives of providing updated facilities to better support hybrid working, and improving our carbon footprint, with the refurbishment being one of our key operational sustainability objectives.

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5 OPERATIONS REVIEW

Our head office at Homer Road in Solihull, which was completed in the early 1990s is both the largest and the least up-to-date of our facilities, with our London and Southampton premises relatively modern in comparison, and far more sustainable. This programme of refurbishment will, therefore, bring our estate more into line with the current expectations of stakeholders, employees and potential employees.

Operational resilience has been a significant area of focus over recent years, with regulators codifying their expectations. March 2025 was set as the date by which firms had to be able to demonstrate the appropriateness and robustness of their planning, enabling them to remain within impact tolerances and we were pleased with the positive results of our self-assessment at that point, which was further reviewed by our Internal Audit function. The introduction of Spring, which has increased our reliance on third parties and upgraded the technology we have in place has been a significant part of our ongoing resilience work in the year, and appropriate controls have been put in place to ensure our profile remains robust.

Customers

We maintained our focus on high-quality customer service throughout the period. Regular surveys are conducted with customers and business introducers to monitor satisfaction, and these have remained positive during the year (as set out in Sections A4.1 and A4.2). The FCA Consumer Duty is now fundamentally embedded in our processes, and has informed all new developments, including the launch of Spring. Our second formal internal Consumer Duty Annual Report was presented to, and approved by, the Board in the year. While not all our business lines are covered by the Duty, its ethos is reflected in our approach to customer service across all our businesses.

A particular focus during the year has been services provided to customers in vulnerable circumstances. Our services to these customers were reviewed, continuing training provided to our people and specialist resources enhanced across the business to ensure needs were met appropriately.

During the year we have continued to monitor the emerging issues in the motor finance sector surrounding historical commission arrangements and charging practices, including the FCA review, which was ongoing throughout the period, and other legal and regulatory processes addressing related matters. With the conclusion of some of the legal cases and the publication of the FCA's consultation on a proposed redress scheme in October 2025, the likely future direction of this process has become clearer, and we have appropriate contingency planning in place to put such a scheme into effect.

During the year motor finance commission complaint cases were handled in line with the FCA's moratorium and will be processed as and when further directions are received from the regulator. Our other complaint volumes remained low, and our level of adverse FOS determinations was in line with industry averages.

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5 OPERATIONS REVIEW**5.2 GOVERNANCE**

We believe that high standards of corporate governance are fundamental to the effective execution of our strategy. The Group is subject to the 2018 UK Corporate Governance Code (the 'Code'), and we have continued to comply with the Code's principles and provisions throughout the period.

From 1 October 2025, most of the provisions of the new 2024 edition of the Code, have applied to us. Provision 29, which relates to financial control is not applicable to us until the 2027 financial year. During the year we conducted a governance review to ensure that our processes align to the new Code, and we can confirm that we expect to be able to comply with the applicable provisions of that Code in the financial year ended 30 September 2026.

We have also commenced a project to embed the expectations of the new Provision 29 into our risk management and governance structures. As a financial services firm, our framework of risk and controls is already designed to meet the expectations of our regulators, and we expect to be able to comply with the new requirements building largely on our existing structures.

Our annual general meeting ('AGM') was held on 5 March 2025. All resolutions were carried comfortably with at least 96% of votes in favour, and the Board extends its thanks to those shareholders who participated. Detailed results can be found on our corporate website.

At the time of our 2024 results announcement, we reported on the tender process in respect of our external audit which had been carried out by the Audit Committee. The Committee recommended the appointment of Deloitte LLP in place of KPMG LLP. The Board accepted this recommendation and will propose a resolution to appoint Deloitte LLP as external auditor at the 2026 AGM, with effect from the conclusion of the meeting. Deloitte LLP will therefore first report on our accounts for the financial year ending 30 September 2026.

With the signing of this year's accounts KPMG will have completed a full ten-year cycle and we thank the firm, and particularly the partners and audit staff involved in the engagement, for their diligent work and the level of constructive challenge provided over the past decade.

Board of directors and senior management

Throughout the year the Board has comprised two executive directors, six independent non-executive directors, one non-independent non-executive director and the Chair, who was considered independent on appointment.

At 30 September 2025, it included four female directors, comprising 40% of its membership, with one of the senior roles designated by the FCA held by a woman, Alison Morris, the Senior Independent Director. Half of the Board's principal committees are also chaired by female directors.

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5 OPERATIONS REVIEW

Hugo Tudor, our non-independent non-executive director, has announced his intention of stepping down from the Board at the conclusion of the forthcoming AGM, in March 2026. Hugo has served over a decade on the Board, having held the roles of Senior Independent Director and Chair of the Remuneration Committee. Hugo's term covers almost the whole life of Paragon Bank, significant acquisitions in SME lending and development finance, a near doubling of the Group's assets and equity and many other major changes. Throughout this period of change and growth, Hugo has contributed his experience and wisdom to the Board's discussions, and his curiosity, challenge and counsel will be much missed. We wish him well for the future.

In a reorganisation at the beginning of the year end, Sarah Mayne, the Chief Internal Auditor, joined the executive committees as a member, having previously attended their meetings as an observer. Sarah's appointment brought the number of executive committee members to thirteen, and the percentage of female members to 30.8%, a level it remained at throughout the year.

Following the year end Anne Barnett, our Chief People Officer, retired from that role and from the executive committees. She joined Paragon in 2004 and has held her current role since 2008. This period has seen significant changes in our business, affecting our people in many different ways, with the challenge of these developments running parallel with ever-increasing legal and regulatory expectations of employers, and with a heightened focus on the position of employees as stakeholders as part of the emerging sustainability agenda. Anne's commitment and skill in guiding our business through this landscape has been invaluable.

From 1 November 2025, Anne's role as Chief People Officer and her place on the executive committees was assumed by Andrea Knott, our former Head of Human Resources, who worked closely with Anne over the last five years. Andrea was responsible for the development of our EDI strategy and our People Forum over recent years, and has an in-depth understanding of our businesses' strategic, legal and regulatory priorities.

Remuneration policy

The last triennial review of our directors' remuneration policy was approved at the 2023 AGM, and a further approval at the 2026 AGM will be required. Our Remuneration Committee has therefore reviewed the policy in light of changes in regulatory and stakeholder expectations since 2023. As part of this process, we sought input from shareholders and other interested parties, and we thank those who took the time to contribute. We found their views useful and incorporated their feedback into the drafting of the new policy, as appropriate.

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5 OPERATIONS REVIEW**5.3 MANAGEMENT AND PEOPLE**

Around 1,400 people work for the Group across the UK, with the majority based at our Head Office in Solihull, continuing to work with hybrid working arrangements. Our people are the cornerstone of our success, and we are proud to be an accredited Platinum employer under the Investors in People ('IIP') programme. We focus on providing opportunities for varied and rewarding careers, offering extensive training and development opportunities to enable them to meet their own ambitions, whilst delivering on our strategic objectives.

Conditions and culture

In April 2025, we were reaccruited as a Platinum IIP employer for the second time. This status is held by only 7% of the organisations assessed by IIP, and we are proud to have achieved such recognition. The triennial re-accreditation process included a confidential, externally managed all-employee survey, which achieved a response rate of 71% (2022: 73%). IIP assessors also randomly selected 10% of employees for interview. Notably, we outperformed peer organisations of similar size across all nine IIP indicators, reaffirming our leadership in people management and organisational development. Employee engagement continued to trend positively, exceeding the financial services and the all-industry average benchmarks. Furthermore, 90% of employees reported feeling confident in being themselves at work, highlighting the inclusive nature of our environment. This reaccruitation reflects our strategic focus on cultivating a high-performing, inclusive, and values-driven working environment.

As we continue our digitalisation journey, we continue to review our operating model, so that we are organised in a way that allows us to best serve our customers, preserve our specialist skills, and realise the benefits of our investments. Our approach anticipates future challenges and opportunities, ensuring that the resourcing required to effectively support sustainable growth is in place, so that we can operate in the most cost-efficient way possible.

Our employees continued to show flexibility during the year with many undertaking secondments and transfers to different areas of the business, often supporting transformation programmes, meaning the needs of our customers continued to be appropriately met.

During the year, we updated our Code of Conduct to ensure that FCA requirements regarding non-financial misconduct are clearly communicated to employees. While this is not an area of concern, we have further strengthened our controls regarding bullying, harassment and other forms of inappropriate behaviour. This has included the provision of enhanced eLearning, to support the message that behaviour of this type will not be tolerated, and ensuring that members of our employee networks are enabled to support employees in speaking up, should they be made aware of any concerns. Enhancements made reflect the FCA's expanded Conduct Rules ('COCON') and reinforce our zero-tolerance stance. In addition, we have enhanced our reporting and investigation procedures, so we can continue to be certain that all concerns are managed with fairness, confidentiality and rigour.

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With an employee attrition rate, excluding redundancies, of 11.1% (2024: 10.8%), our retention levels continue to be better than the national average. These positive levels are further bolstered by 60% of employees achieving over five years' service and 13.5% achieving over twenty years with the Group.

We have continued to support our employees and enhance working conditions, with paternity leave entitlements increased in the year and the qualifying service period for all enhanced maternity, paternity and similar pay reduced to twelve months.

We have closely monitored the progress of the UK Government's Employment Rights Bill, currently in its final parliamentary stages. We have assessed its potential impacts on our employment practices and procedures and consider that we are well placed to manage its introduction into law.

We retain our accreditation from the UK Living Wage Foundation and minimum pay has exceeded the levels set by the Foundation throughout the year. The minimum wage paid to our employees increased to £13.46 per hour from 1 November 2025, with a higher level for London-based employees.

Our profit related pay scheme continues to provide employees with a benefit linked to our financial performance. In the current year, as a result of the 2024 profit, an additional £2,642 was paid to all full-time employees below senior management level. Employees also benefitted in the year from our maturing 2022 three-year Sharesave scheme, being able to buy shares with a market value in the region of £8.70 each for an option price of £3.91.

Equality and diversity

Continued progress has been made on our equality, diversity, and inclusion ('EDI') agenda during the year, with the launch of an updated strategy to employees, with three main focus areas: gender, ethnicity and socio-economic background ('SEB'). The EDI Network continues to inform our plans in this area, and is sponsored at executive level by Ben Whibley, the Chief Risk Officer.

The drive to capture diversity data for as many employees as possible continues, with fresh initiatives in the year and, by September 2025, 83.6% (2024: 80.9%) of employees had completed a diversity profile on the HR management system. The collation of this data from employees provides us with an enhanced ability to monitor and improve the diversity of the workforce going forward and ensure the experiences of our employees are not unfavourably impacted based on diversity characteristics. ExCo and Board members are regularly provided with data demonstrating the progress being made.

We remain committed to improving workforce diversity and ensuring that talented people from all backgrounds can reach their full potential by breaking down barriers to progression and are pleased to have already met our Women in Finance target of 40.0% female representation in Senior Management roles by December 2025, achieving 40.4% representation at 30 September 2025 (2024: 37.9%).

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Last year, in line with the expectations of the Parker Review, we committed to achieve 5% ethnic minority representation in Senior Management roles by December 2027. At 30 September 2025 this had increased to 3.5% from 1.7% a year earlier. Developing the strength of our talent pipeline to provide candidates for these roles in future, and critically reviewing external recruitment procedures, will be central to achieving this stretching target.

To support its efforts to improve socio-economic equality we continue our partnership with both Progress Together and Future First, a social mobility charity supporting inner city colleges and schools. As a youth-friendly employer, we are committed to creating opportunities for young people and bridging the gap between education and employment. Through a range of school and college events, we help students develop the skills and experiences they need, through meaningful and good quality experiences.

5.4 SUSTAINABILITY

Sustainability, including resilience in the face of climate change risks, is core to our strategy: to focus on specialist customers, delivering long-term sustainable growth and returns through a low risk and robust business model. Sustainability influences every aspect of our business and means:

- Delivering sustainable lending through the design of products
- Reducing the impact of our operations on the environment
- Ensuring we have a positive effect on our stakeholders and communities

Sustainability issues are coordinated on a group-wide basis by the Sustainability Committee, which reports directly to the Executive Performance Committee. The Sustainability Committee is responsible for driving the Group's initiatives on climate change and progressing other projects in the field of sustainability, ensuring that information on all such initiatives is shared across our businesses and facilitates the development of a coordinated and proactive approach.

In December 2025 we publish our fifth Responsible Business Report, our annual sustainability report. This provides more detailed information on sustainability initiatives and demonstrates how sustainability is embedded. It can be found, alongside other information and documentation relevant to ESG issues, on our corporate website at www.paragonbankinggroup.co.uk.

Climate change

We have made a commitment to achieve net zero in line with, and in support of, UK Government commitments. In doing so we recognise that net zero cannot be achieved by any entity in isolation and therefore our commitment is dependent on appropriate government and industry support and action. As members of Bankers for Net Zero ('B4NZ'), we are active in providing input into the wider efforts of the financial services industry to creating a clear pathway to support the decarbonisation of the UK economy.

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We have designated climate change as a principal risk within our Enterprise Risk Management Framework. This means that our response to climate change issues is considered within our overall strategy at board level. These risks fall into two main groups:

- Physical risks (which arise from the impact of more frequent or severe weather-related events on our business or our customers)
- Transitional risks (which come from the speed, nature and level of regulations designed to promote the adoption of a low-carbon economy)

Information and measures on climate-related risks and opportunities are considered at board level through the CEO's monthly reports. Developments in sustainable products and climate-related exposures are considered for each of our business lines as part of strategy deep dives which feed into the annual board strategy event and into our business planning process.

No new material risks related to climate change were identified during the year. As there has been no material change in the business model the previous year's risk reviews, carried out on each key business area supported by the ESG and Credit Risk teams were not repeated. The climate change scenario analysis exercise was not reperformed as the existing outputs and conclusions were deemed fit for purpose.

As part of the ongoing development of our climate-related reporting, we have enhanced our analysis of financed emissions, and a more detailed emissions balance sheet is being presented in the 2025 Annual Report and Accounts.

Developments within business lines which contribute towards our climate risk strategy are set out in the relevant business reviews.

As a financial services provider the direct environmental impact of our operational footprint is considered low. However, we recognise the importance of reducing the impact our operations have on the environment. We have committed to reduce our operational footprint to net zero by 2030 and it is now reported on a quarterly basis to the Sustainability Committee, with a summary report escalated to the Board.

In support of this net zero target, certified carbon offsets equivalent to our operational footprint for the twelve months ended 30 September 2025 have been purchased, in the same way as for the three preceding financial years. We intend to repeat this for each future year, but accept that reducing impacts is preferable to offsetting, where possible.

Initiatives to reduce operational environmental impacts during the year include:

- Commencing a project to decarbonise and refurbish our Solihull head office building based on the decarbonisation assessment delivered during 2023, with work due to commence in 2026.
- Further energy efficiency measures put in place at our Solihull head office.
- Continuing to electrify our company car fleet and working to reduce unnecessary business travel. At 30 September 2025, 93% of all company cars were either fully electric or hybrid (2024: 95%). We also offer an electric car scheme via salary sacrifice to all employees, providing those not entitled to a company vehicle with access to lower emissions travel. These initiatives are expected to reduce both direct and indirect travel emissions.

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- Continuing to transition our electricity supplies to renewable or low carbon sources. During the year 93% of our purchased electricity was certified as renewable.
- ESG due diligence at the beginning of the relationship with all significant new suppliers, considering climate related targets and greenhouse gas reporting.

Social engagement

During the year, the employee-led Paragon Charity Committee raised £59,000 for Guide Dogs, the charity chosen by our employees. For the financial year ending 30 September 2026, CRY (Cardiac Risk in the Young) has been selected as the beneficiary of the committee's fundraising activities.

Our employee volunteering initiative also continued to make an impact in our communities during the year. Employees are entitled to an annual paid volunteering day, and opportunities offered during the year have focussed on supporting people who are experiencing poverty; providing educational opportunities for children and young people; and improving the local environment. Projects supported have included initiatives building on long-standing relationships with charities and schools, such as: Oasis MIND Garden providing mental health support to local people; several 'forest-schools' at local primary schools; canal and river charities; and woodland and parkland charities.

We are pleased to report that engagement in the volunteering programme across all our locations has increased significantly this year, with the number of volunteer sessions completed in the financial year rising to 513 (2024: 460).

Customer experience

Customers are at the heart of our business, and we are committed to delivering good customer outcomes and continuing to find ways to enhance the customer journey and experience in all our operations. Customer-focused management groups are dedicated to improving customer journeys and supporting customers on an ongoing basis. Our internal Customer Vulnerability Awareness Group continues to raise awareness around vulnerabilities, making sure that impacted customers are considered throughout every stage of their financial journey. During the year initiatives to improve the experience of such customers have included an improved bereavement process for buy-to-let and residential mortgage customers, and group-wide communications highlighting real-life case studies.

The Customer and Conduct Committee monitors complaint volumes, identifies any trends and ensures issues are resolved effectively and lessons learnt, and throughout the year complaint metrics have remained positive, excluding the effect of motor finance related cases.

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The effective management of risk remains crucial to the achievement of our strategic objectives. Our risk governance framework is designed around a formal three lines of defence model (business areas, the risk and compliance function and internal audit), which is supervised at board level. This is part of a formal Enterprise Risk Management Framework ('ERMF'), which is fundamental to our management of risk.

The effectiveness of the ERMF is ensured through clear articulation of risk strategy, risk appetites and policies that are understood throughout our businesses and enable us to assess and deal with new and emerging risks in a consistent and considered way. This is coupled with embedded oversight and regular review and governance across all of our financial and non-financial risks, allowing any changes in risk profile to be identified and addressed in a prompt, agile and transparent manner.

Risk environment

The maintenance of a robust risk management approach has assumed an ever-greater role in navigating the evolving risk environment over the last twelve months. Whilst some threats have receded or been resolved, the risk landscape remains dynamic against a background of heightened global tensions. These, in turn, have the potential to impact the operating environment in a variety of ways as we navigate our business through a diverse landscape of risk issues, ranging from economic uncertainty to heightened cyber security threats. Our ability to evaluate the potential impact of these challenges on our businesses on an ongoing basis remains fundamental to maintaining both resilience and our focus on delivering good outcomes for customers.

Whilst there is a greater degree of stability in the domestic economy compared to the situations which followed events such as the Covid-19 outbreak of 2020 and the UK mini budget of 2022, there are a number of factors that could disrupt this relative equilibrium. The approach to international trade of the new US Administration, and the aggressive tariffs it imposed during 2025, have the potential to dislocate global trade, to a greater or lesser extent, which will, in turn, impact the future trajectory of the UK economy. Although the UK has not, so far, been impacted by some of the most severe tariff levels, it is acknowledged that US economic policy continues to evolve and has the potential to develop on an unusually rapid timescale. We continue to assess the impact of varying scenarios as to how this may affect UK economic conditions in general and our business models in particular through our use of stress testing and scenario modelling.

Against this backdrop however, our specific risk landscape remains complex, with significant interplay between macro challenges and specific issues impacting the UK financial services sector, whether operational or regulatory, including those specific to our core businesses. It is important therefore that our ERMF remains relevant, scalable and pragmatic in order to supporting us in assessing, mitigating and managing the risks identified.

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During the year our risk governance and oversight processes have been integral in monitoring the evolving legal and regulatory situation in respect of historical motor finance commissions. We have remained close to the developments in this area since the FCA initially launched its investigation into the use of discretionary commission arrangements ('DCA's) in January 2024 and have managed related customer complaints in line with the FCA's developing guidance and timeframes.

The Supreme Court ruling in August 2025 in the cases of Johnson, Wrench and Hopcraft clarified the legal basis on which claims for redress could be made, enabling the FCA to produce a Consultation Paper outlining an industry-wide redress scheme in October 2025. Whilst we await the final outcome of this consultation process, we have undertaken comprehensive scenario analysis to ensure we are operationally ready to meet requirements and timeframes once known.

Throughout the year we continued to monitor the progress of the reforms in the PRS being introduced through the Renters' Rights Act 2025, which include ending 'no fault' Section 21 evictions and introducing a 'Decent Homes Standard' for rental homes. The legislation received royal assent, shortly after the year end and is expected to come into force early 2026. As that date approaches, we remain focussed on how these changes can be practically implemented. At the same time, we continue to assess and remain focussed on how these proposals might impact the risk profile of our buy-to-let portfolio and the viability of our landlord customers.

The armed conflict in Ukraine and the unfolding events in the Middle East, as attempts at peace are brokered, continue to be issues of global concern. There is ongoing uncertainty as to how these situations might develop, and their effects on the global economy are still emerging. Impacts on the UK economy have been relatively limited, to date, but the situation remains dynamic and there remains a significant potential for supply chain issues to emerge.

In addition to the economic impacts, we remain vigilant to the wider threats posed by international hostilities including those to physical security and the potential of increased cyber threats. Significant cyber-related attacks have been reported over the last year affecting both major UK institutions, and international organisations and infrastructure. Whilst the origin of these attacks is varied and not necessarily directly attributable to the wider geopolitical situation, it is clear that an increased risk of cyber disruption is an inherent consequence of our increasing reliance on digitalisation, one we share with many UK firms. Therefore, cyber risk remains high on our risk agenda, and our programme of ongoing threat analysis and investment in the rapid identification and containment of any perceived cyber threat is core to our risk management strategy.

Following the general election in July 2024 the UK government continued to implement its economic policies, with the stated aim of stimulating growth while addressing the UK's budgetary deficit and dealing with ongoing cost of living and wider economic challenges. We have monitored these policy changes and their initial impacts throughout the year, assessing potential impacts on our businesses and those of our customers. With the November 2025 budget also likely to have significant economic consequences, the impact of UK economic policy remains an area of focus going forward.

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Whilst the future contains the prospect of significant economic uncertainties and we maintain vigilance as the global and UK situation evolves, we have continued to successfully manage issues as they arise and mitigate their impacts on our businesses. We remain comfortable we are well-placed to manage emerging and other risks appropriately, whilst balancing the needs of our various stakeholders. In particular:

- Interest rates have continued to edge downwards during the period, and although those movements are slower than previously anticipated, the relatively stable forecast provides a reassuring outlook for lending. However, we are aware that inflationary pressures and high costs of living remain a challenge for many individuals and businesses, and we continue to closely monitor potential impacts on both customers and employees
- We continued to focus on high-quality lending, continuing to apply prudent credit policies. Actual and projected arrears trends are assessed in setting lending criteria. Adjustments to origination credit policy are made, when appropriate, to cater for both economy-wide or idiosyncratic sector events. This philosophy underlies the positive through-the-cycle credit performance across the lending portfolios
- Whilst the current risk profile of loans across our lending portfolios does not indicate any noticeable signs of significantly increased widespread financial stress, we continue to take a forward-looking, as well as current, view of affordability, and adjust credit policy to ensure loan repayments are sustainable for customers where necessary
- We take our responsibilities in respect of customers in vulnerable circumstances extremely seriously and continue to ensure that, where appropriate forbearance solutions are necessary, these are tailored to individual customer circumstances and aligned to regulatory guidance and expectations

Risk management

Our ERMF is fundamental to our ability to ensure that we remain alert to emerging risks facilitating their effective identification, assessment and mitigation. The solid foundation provided by the ERMF has supported the development of our approach to risk management, with the level of maturity around risk understanding across our businesses continuing to become embedded within day-to-day operations, with risk issues addressed promptly and losses remaining well within appetite.

Our risk management capability is based on a strategy of continuous improvement with the Group's values emphasising the importance of risk management. The "tone from the top" is important in embedding these values, and ensures that effective risk management is always central to business decision-making. Against a volatile risk environment, the ERMF is crucial in providing assurance that new and developing risks are promptly identified, assessed and managed, with appropriate escalation and oversight provided.

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As the risk landscape continues to change and present new challenges, the role of the ERMF remains critical, both in the early identification of risk issues, and in providing a mechanism to manage them. We remain confident that the ERMF continues to be effective in allowing us to address the current uncertainties in a way that supports us in making pragmatic and appropriate risk-based decisions.

The importance of well-understood and embedded risk management tools has been further reinforced through the successful delivery of key initiatives during the year, including significant milestones in our ongoing digital road map. We also developed our operational resilience framework to the point where the business had set, and was operating within impact tolerances, by the prescribed regulatory deadline of 31 March 2025. The ERMF has provided a consistent mechanism to define and quantify risks, drive ownership, assurance and resolve issues, and has been fundamental to controlled and risk-aware implementations of these and other key initiatives. It will continue to be an enabler of risk-aware strategic and regulatory delivery going forward.

The ERMF has also been integral to the launch of our new savings proposition, Spring. Not only has it enabled the identification of the consequent changes to our risk profile in an effective and consistent way, but it has also provided a mechanism to ensure focus on higher-risk areas and drive timely and proportionate assurance across these material risks. At the same time, the ERMF gave us a framework to make considered risk-informed decisions at key project milestones.

Whilst the benefits of new technologies and product offerings have enhanced our financial and operational resilience, we are mindful of the incremental risks around cyber security, data protection and reliance on third party servicers that potentially arise as a consequence of such changes. We continue to actively assess these risks using the capabilities of the ERMF, as balances and transaction volumes on Spring savings products increase, ensuring that the controls remain scalable and that customers are protected from cyber threats and receive good outcomes, both on their Spring accounts and across all our products and services.

We remain mindful that risks continue to evolve and therefore our risk management framework must continue to keep pace with the internal and external challenges we face. As new technologies such as generative AI become more widely disseminated, regulatory expectations continue to drive high standards, while the interaction of these technologies with the operational environment poses new challenges. We are committed to ensuring our ERMF remains capable of meeting the risk management demands these new situations create, as they emerge.

We have responded to these challenges on an ongoing basis and continue to respond to them as appropriate. During the year we have hired more specialist oversight resources for the Second Line in data management and related areas, as well as developing a more formal governance framework around the effective and appropriate use of AI across our businesses.

Our focus on forward-looking and emerging risk identification continues to be a priority area and we have further enhanced horizon-scanning and reporting processes over the last twelve months to facilitate discussion and to ensure that we can pre-empt any risk issues as early as possible.

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The importance of the ERMF as a mechanism in setting and managing our risk-appetites is critical. It has been key to assessing and navigating the economic and global headwinds as well as a diverse variety of specific threats and sectoral challenges which continue to manifest themselves. Despite the dynamic risk landscape there are a number of fundamental ongoing risk management initiatives which are imperative to the successful execution of our strategy. Good progress continues to be made on these and we remain focussed on delivering these commitments which we deem priority areas:

- **Operational resilience** – Having successfully met all requirements of the final rules and guidance on ‘building operational resilience in financial services’ published in 2021 by the FCA, PRA and Bank of England we remain focussed on continuous embedding and improvement of our resilience capabilities. Our regular self-assessment framework ensures we continue to identify potential vulnerabilities promptly and that we challenge existing processes to drive ongoing refinement of critical business services and tolerances

Our scenario testing approach is fully embedded into day-to-day operations meaning that Important business services are mapped and tested using severe but plausible scenarios to test the ability of the infrastructure, key dependencies and third parties to recover from disruption in a stressed situation, using a scenario library which is updated on a regular basis

Resilience by design is a fundamental component of our approach, particularly as we continue with our digitalisation programme. We are committed to ensuring that the digitalisation process is executed so as not to compromise our ability to remain resilient during development and implementation, and to ultimately deliver technologies and processes which increase overall resilience as a key outcome

- **Cyber security** – A robust cyber security framework to identify and contain such threats is critical to our operations. With high-profile disruptive attacks during the last twelve months, we remain alert to the evolving nature of this risk and the potential consequences of a severe cyber attack. The safety and integrity of our customers’ and employees’ data, and the ability to provide continuity of service are fundamental

Investment in cyber prevention and enhancing threat monitoring across our operations, including third party oversight, has been significant and remains a priority. We have invested in leading cyber defence technologies, and continue to analyse wider industry learnings and intelligence to bolster defences and address any identified vulnerabilities. Furthermore, as described above, the potential impact of AI developments has been a priority

- **IRB** – Our buy-to-let application continues to remain the focus of our IRB project. A refreshed set of models and associated modules has been submitted to the PRA following feedback and we continue to have ongoing close contact with the regulator as part of the application process. Preparatory work on our development finance portfolio, the next element in our proposed roll-out, is also well under way
- **Stress testing** – Ongoing enhancement to stress testing procedures were introduced to ensure the robustness of capital and liquidity positions. This included further refinement of our IRB stress testing models for buy-to-let and development finance

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- **Third-party dependency** – We have further strengthened oversight frameworks and undertaken work to ensure the resilience of critical suppliers as reliance on such contractors continues to increase, particularly following the onboarding of a number of new relationships to support the delivery of our Spring savings offering
- **Climate** – We continued to address the potential impact of climate change on the management of our financial risks, considering this as part of the wider sustainability

We continue to monitor and focus on the ongoing progress of these initiatives to ensure the expectations of regulators and wider stakeholders are met whilst maintaining good outcomes for customers.

Significant and emerging risks

The principal significant and emerging risk areas expected to impact our businesses during the coming year ending 30 September 2026 and beyond include:

- **Interest rates** – Whilst rates have followed a slow downward trajectory, there is still uncertainty over the speed and timing of any potential future reductions. We continue to closely monitor UK and macro-economic trends, assessing their impact on lending and savings to ensure we are well placed to manage the associated risks
- **Strategic risk** – interest rates remaining higher for longer has resulted in an increase in strategic risk. Competition for deposits has increased, raising the cost of deposits relative to reference rates, and demand for property backed loans has reduced, reflecting heightened macro economic and political uncertainty. We would expect strategic risk to moderate as the speed and timing of potential interest rate reductions becomes less uncertain
- **Motor finance commissions** – We continue to monitor the FCA's work in relation to historical motor finance commissions and assess how this may impact our business both in terms of our exposure under any remediation scheme, and the operational implications of such a scheme. Whilst the comparatively small size of our motor finance portfolio means our expected exposure remains manageable, a final assessment of the operational and financial impact cannot be made until the FCA finalises its proposals
- **Compliance expectations** – Whilst the FCA has signalled a move towards reducing the regulatory burden, expectations around consumer protection remain consistently high. We have maintained our focus on providing support to customers facing financial difficulties, continuing to set high standards for ourselves. Consumer Duty is embedded into our culture and the way we conduct business, and we remain committed to ensuring that good outcomes and a culture of continuous improvement remain the focus of customer interactions

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- **Financial crime** – Methods of financial crime become ever more sophisticated year-on-year, and the launch of our Spring proposition has inevitably added additional vulnerabilities in this area. In response, the programme of continuous improvement in our financial crime technology and resources remains a key focus and an important consideration in our wider strategic change initiatives, and we remain alert to changing threats. We have invested heavily in ensuring that regulatory expectations are met in respect of anti-money laundering and wider financial crime control frameworks, and this commitment is ongoing
- **Climate** – We remain focussed on increasing our understanding of the impact and potential timings of risks associated with climate change. Whilst the UK Government maintains its stated intention to move towards a goal of net zero carbon by 2050, uncertainty still remains as to the detailed policies and regulations required to enable this. As global and domestic strategies are further refined, we seek to ensure that the impact of climate change is considered as a core driver for our operational and lending strategies, ensuring we are well placed to adapt and progress as the outlook becomes more certain

5.6 REGULATION

Paragon Bank is authorised by the PRA and regulated by the PRA and the FCA. The Group is subject to consolidated supervision by the PRA, and a number of subsidiary entities are authorised and regulated by the FCA. As a result, current and projected regulatory changes continue to pose a significant risk for our business.

Our governance and risk management framework is instrumental in ensuring the impacts of all new regulatory requirements are clearly understood and mitigated as far as possible. Regular reports on key regulatory developments are received at both executive and board risk committees.

During the year all relevant regulatory publications have been considered, their implications identified and required changes implemented within an appropriate timeframe. We engage in regular dialogue with regulators and respond to all their requests promptly. The volume of requests for information from the FCA has continued to remain high, as expected, with a particular continuing focus on information to support its ongoing activity around historical motor finance commission arrangements. We respond to all such requests in a timely fashion and maintain robust controls to support the delivery of good outcomes for customers.

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The following regulatory developments currently in progress have the greatest potential impact on our businesses:

- Motor finance commissions** – We continue to monitor all developments in respect of the motor finance market and historical discretionary commission arrangements. The decision of the Supreme Court in the cases of Johnson, Wrench and Hopcraft clarified the law in this area, however the specific details are still subject to finalisation following the publication of the FCA's Consultation Paper on redress. Until the FCA publishes its final rules, the full impact cannot be accurately assessed, but we are actively involved in the consultation process and will continue to monitor any further developments, ensuring we are well positioned to implement the FCA's ultimate requirements for remediation or redress activity
- Basel 3.1 and the regulatory capital framework** – In March 2025, the PRA announced a one-year delay to the implementation of the Basel 3.1 rules to 1 January 2027 – a decision made in consultation with HM Treasury to reflect the delays to the equivalent reforms in the USA. Before implementation the PRA intends to rebase and adjust all firms' Pillar 2A requirements and PRA buffers, publishing a revised Statement of Policy (SoP5/15) in October 2025. Changes to methodologies, where relevant to Paragon, have been incorporated in capital planning
- Minimum requirements of own funds and eligible liabilities ('MREL')** – Following an extensive consultation process, the Bank of England published a Policy Statement amending its approach to setting MREL requirements. Most relevant for our business were the changes to the threshold at which the requirement applies. This increased from £15 billion - £25 billion to £25 billion - £40 billion. The Bank of England has also committed to reviewing the thresholds every three years. While discretion remains with the Bank of England on when to apply the MREL framework to a firm within the threshold, the changes are a positive step and provide significant headroom for our business to grow without entering the regime
- Solvent exit planning** – In the early part of 2024, the PRA published its final policy on solvent exit plans for non-systemic banks and building societies (PS5/24). It requires firms to undertake a Solvent Exit Analysis ('SEA') and, when the circumstances require it, develop a Solvent Exit Execution Plan. We completed our initial SEA ahead of the October 2025 deadline and will continue to refine this to reflect any feedback and best practice
- Foundation IRB approach for residential mortgage exposures** – The PRA published a Discussion Paper in July 2025 outlining its initial thoughts on the introduction of a simplified approach to IRB, under which firms would use internal models for probability of default, while applying fixed supervisory values for loss given default and exposure at default. While still at an early stage in the development of a potential policy, the PRA believes this approach could provide a proportionate and risk sensitive alternative to both the standardised approach and the advanced IRB approach (AIRB). We continue to progress with our AIRB application but are monitoring developments in this area closely

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- **Changes to the Sterling Monetary Framework** – In December 2024, the Bank of England published a discussion paper ‘Transitioning to a Repo-led Operating Framework’ where the Bank set out its plans to move to a demand-driven framework in the second half of 2025. A key part of this is the expectation that ILTR and STR facilities provided by the Bank will play a greater role in ongoing liquidity management at firms than before. We are well positioned to meet Bank of England expectations in this area and have incorporated the ILTR into our ongoing liquidity management
- **Supporting customers and their financial resilience** –The FCA’s published strategy for 2025 to 2030 has reinforced the regulator’s ongoing commitment to focusing on strengthening protection for consumers. We continue to focus on providing support to our customers and their individual needs and this will remain a key priority area across all our operational areas
- **Increase in the FSCS covered deposits level** – The PRA has announced an increase in the level of FSCS covered deposits for each customer from £85,000 to £120,000, to take account of inflation since the limit was last changed. In addition, the limit applicable to temporary high balance claims will also be increased. The new limit will be implemented from 1 December 2025. We continue to monitor developments in this area and will incorporate any changes required
- **Climate change** – Oversight of the progress on our climate change agenda by the Sustainability Committee includes consideration of regulatory requirements as these emerge. The PRA published Consultation Paper 10/25, on managing the financial risks associated with climate change, in April 2025 which built on their 2019 publication, and looks to further enhance and embed firms approach to managing climate-related risks. We are actively working through the PRA requirements ensuring that we have no material gaps as we embed climate risk oversight across all aspects of the business

Certain regulations applying in the financial services sector only affect entities over a certain size, which the Group might meet within its current planning horizon, although the potential for MREL to apply has reduced in the year, as described above. We consider whether and when these regulations might apply in light of the growth implicit in our business plans and put appropriate arrangements in place to ensure we would be able to comply at that point.

Whilst there are several specific regulatory developments detailed above which are expected to have direct and specific impacts on our operations, there continue to be wider regulatory, legal and political developments where further clarification and implementation strategies are yet to be provided. We are fully engaged in relevant discussions through industry, regulatory and governmental bodies and undertake ongoing monitoring and assessment, to ensure any specific implications for our businesses are identified early on.

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We are particularly mindful of the development of UK Government policy as legislation is brought forward to further election and other commitments and to respond to wider economic, social and industrial challenges. In July, the Chancellor of the Exchequer announced 'The Leeds Reforms' (a specific set of proposals aimed at simplifying the regulatory landscape and promoting growth within the financial sector) alongside the Financial Services Growth and Competitiveness Strategy (a ten-year sector plan for financial services). The implications of these interventions on the regulatory landscape may be significant and we, together with others in the sector, continue to monitor any changes which might impact our businesses. We also continue to participate in relevant consultations as the opportunity arises.

Given our engagement and proactive approach to new and emerging regulatory change we believe we are well placed to address any impacts of which our businesses are presently exposed to.

PRINCIPAL RISKS

We have identified a number of principal risks, arising from both the environment in which we operate and our business model, which could impact our ability to achieve our strategic priorities. We have an Enterprise Risk Management Framework ('ERMF') in place to ensure that these risks are monitored and managed in accordance with our risk appetite.

Capital Risk of insufficient capital to operate effectively and meet minimum requirements	Liquidity and funding Risk of insufficient liquidity and funding resources to enable us to meet our obligations as they fall due
Market Risk of changes in the net value of, or net income arising from, our assets and liabilities from adverse movements in market prices	Credit Risk of financial loss arising from a loan customer or counterparty failing to meet their financial obligations
Model Risk of making incorrect decisions based on the output of internal models	Reputational Risk of failing to meet the expectations and standards of our stakeholders
Strategic Risk that the corporate plan does not fully align to and support strategic priorities or is not executed effectively	Climate change Risk of financial risks arising through climate change impacting our businesses and our strategy
Conduct Risk of poor behaviours or decision making leading to failure to achieve good outcomes for customers or to act with integrity	Operational Risk resulting from inadequate or failed internal procedures, people, systems or external events

DIRECTORS' RESPONSIBILITIES

The following statement of directors' responsibilities in respect of financial statements is included in the Annual Report and Accounts of the Group for the year ended 30 September 2025.

The directors are responsible for preparing this Annual Report, including the consolidated and company financial statements in accordance with applicable law and regulations.

Company law, including the Companies Act 2006 (the 'Companies Act'), requires the directors to prepare consolidated financial statements for the Group and separate financial statements for the Company in respect of each financial year. In respect of the financial statements for the year ended 30 September 2025, that law requires the directors to prepare the consolidated financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act and they have also elected to prepare the separate financial statements of the Company on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and the Group's profit or loss for the year. In preparing each of the consolidated and company financial statements the directors are also required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- state whether the consolidated and company financial statements have been prepared in accordance with UK-adopted international accounting standards
- assess the ability of the Group and the Company to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they intend to liquidate the Company and / or the Group or to cease operations or they have no realistic alternative to doing so
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors are responsible for keeping adequate accounting records for the Company that are sufficient to record and explain its transactions, disclose with reasonable accuracy at any time its financial position and enable them to ensure that its financial statements comply with the requirements of the Companies Act.

They are responsible for the implementation of such internal control processes as they deem necessary to enable the preparation of financial statements which are free from material misstatements, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' Responsibility (Continued)

Under applicable law and regulations, the directors are also responsible for the preparation of a strategic report, directors' report, directors' remuneration report and corporate governance statement, which comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website (www.paragonbankinggroup.co.uk). Legislation in the UK governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule ('DTR') 4.1.16R, the financial statements will form part of the annual financial report prepared in accordance with DTR 4.1.17R and 4.1.18R. The auditor's report on these financial statements provides no assurance over whether the annual financial report has been prepared in accordance with those requirements.

Directors' Responsibility (Continued)

Confirmation by the Board of Directors

The Board of Directors currently comprises:

R D East (Chair of the Board)	G H Yorston (Non-executive director)
N S Terrington (CEO)	A C M Morris (Senior Independent Director)
R J Woodman (CFO)	P A Hill (Non-executive director)
H R Tudor (Non-executive director)	T P Davda (Non-executive director)
B A Ridpath (Non-executive director)	Z L Howorth (Non-executive director)

Each of the directors named above confirms that, to the best of their knowledge:

- The financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole
- The Directors' Report, including those other sections of the Annual Report incorporated by reference, comprises a management report for the purposes of the DTR, and includes a fair review of the development and performance of the business and the consolidated position of the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces
- The Annual Report (including the consolidated and company financial statements), taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy

Approved by the Board of Directors as the persons responsible within the Company.

Signed on behalf of the Board

MARIUS VAN NIEKERK

General Counsel and Company Secretary

3 December 2025

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 30 September 2025

		2025	2025	2024	2024
	Note	£m	£m	£m	£m
Interest receivable	3		1,249.0		1,314.7
Interest payable and similar charges	4		(746.7)		(831.5)
Net interest income			<u>502.3</u>		<u>483.2</u>
Other leasing income		31.7		30.4	
Related costs		(25.6)		(24.2)	
Net operating lease income		<u>6.1</u>		<u>6.2</u>	
Other income	5	<u>6.7</u>		<u>7.0</u>	
Other operating income			12.8		13.2
Total operating income			<u>515.1</u>		<u>496.4</u>
Operating expenses			(179.3)		(179.2)
Provisions for credit losses	6		(41.9)		(24.5)
Provisions for liabilities	25		(25.5)		-
Operating profit before fair value items			<u>268.4</u>		<u>292.7</u>
Fair value net (losses)	7		<u>(11.9)</u>		<u>(38.9)</u>
Operating profit being profit on ordinary activities before taxation			256.5		253.8
Tax charge on profit on ordinary activities	8		<u>(76.2)</u>		<u>(67.8)</u>
Profit on ordinary activities after taxation for the financial year			<u><u>180.3</u></u>		<u><u>186.0</u></u>
			2025		2024
Earnings per share	Note				
- basic	9		91.2p		88.5p
- diluted	9		<u>87.9p</u>		<u>85.2p</u>

The results for the current and preceding years relate entirely to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2025

	Note	2025 £m	2025 £m	2024 £m	2024 £m
Profit for the year			180.3		186.0
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Actuarial (loss) / gain on pension scheme	19	(1.4)		7.2	
Tax thereon		0.2		(1.8)	
Other comprehensive income for the year net of tax			(1.2)		5.4
Total comprehensive income for the year			179.1		191.4

CONSOLIDATED BALANCE SHEET
30 September 2025

	Note	2025 £m	2024 £m	2023 £m
Assets				
Cash – central banks	10	2,175.7	2,315.5	2,783.3
Cash – retail banks	10	213.8	209.9	211.0
Investment securities		626.2	427.4	-
Loans to customers	11	16,335.9	15,630.3	14,495.0
Derivative financial assets	17	275.4	391.8	615.4
Sundry assets	18	24.2	20.7	51.0
Current tax assets		6.2	9.7	8.9
Retirement benefit obligations	19	23.5	22.2	12.7
Property, plant and equipment		77.0	71.0	74.7
Intangible assets	20	172.1	171.5	168.2
Total assets		19,930.0	19,270.0	18,420.2
Liabilities				
Short term bank borrowings		0.5	0.4	0.2
Retail deposits	21	16,270.8	16,314.7	13,234.4
Derivative financial liabilities	17	68.2	99.7	39.9
Asset backed loan notes		-	-	28.0
Covered bonds	23	499.2	-	-
Retail bond issuance		-	-	112.4
Corporate bond issuance		150.1	149.9	145.8
Central bank facilities		950.0	755.0	2,750.0
Sale and repurchase agreements		100.0	100.0	50.0
Sundry liabilities	24	431.6	417.4	631.2
Provisions	25	25.5	-	-
Deferred tax liabilities		13.9	13.4	17.7
Total liabilities		18,509.8	17,850.5	17,009.6
Called up share capital	26	197.4	210.6	228.7
Reserves	27	1,276.6	1,274.3	1,257.5
Own shares	28	(53.8)	(65.4)	(75.6)
Total equity		1,420.2	1,419.5	1,410.6
Total liabilities and equity		19,930.0	19,270.0	18,420.2

Approved by the Board of Directors on 3 December 2025.

Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

R J Woodman
Chief Financial Officer

CONSOLIDATED CASHFLOW STATEMENT
For the year ended 30 September 2025

	Note	2025 £m	2024 £m
Net cash generated by operating activities	30	(377.4)	2,216.4
Net cash (utilised) by investing activities	31	(236.9)	(424.7)
Net cash (utilised) by financing activities	32	478.3	(2,260.8)
Net (decrease) in cash and cash equivalents		<u>(136.0)</u>	<u>(469.1)</u>
Opening cash and cash equivalents		2,525.0	2,994.1
Closing cash and cash equivalents		<u>2,389.0</u>	<u>2,525.0</u>
Represented by balances within:			
Cash	10	2,389.5	2,525.4
Short term bank borrowings		<u>(0.5)</u>	<u>(0.4)</u>
		<u>2,389.0</u>	<u>2,525.0</u>

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
For the year ended 30 September 2025

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Year ended 30 September 2025							
<i>Transactions arising from</i>							
Profit for the year	-	-	-	-	180.3	-	180.3
Other comprehensive income	-	-	-	-	(1.2)	-	(1.2)
Total comprehensive income	-	-	-	-	179.1	-	179.1
<i>Transactions with owners</i>							
Dividends paid (note 29)	-	-	-	-	(81.0)	-	(81.0)
Own shares purchased	-	-	-	-	-	(132.4)	(132.4)
Irrevocable instruction accrual	-	-	-	-	-	23.8	23.8
Exercise of share awards	-	-	-	-	(15.2)	16.0	0.8
Shares cancelled	(13.2)	-	13.2	-	(104.2)	104.2	-
Charge for share-based remuneration	-	-	-	-	8.1	-	8.1
Tax on share-based remuneration	-	-	-	-	2.3	-	2.3
Net movement in equity in the year	(13.2)	-	13.2	-	(10.9)	11.6	0.7
Opening equity	210.6	71.4	31.0	(70.2)	1,242.1	(65.4)	1,419.5
Closing equity	197.4	71.4	44.2	(70.2)	1,231.2	(53.8)	1,420.2
Year ended 30 September 2024							
<i>Transactions arising from</i>							
Profit for the year	-	-	-	-	186.0	-	186.0
Other comprehensive income	-	-	-	-	5.4	-	5.4
Total comprehensive income	-	-	-	-	191.4	-	191.4
<i>Transactions with owners</i>							
Dividends paid (note 29)	-	-	-	-	(83.5)	-	(83.5)
Own shares purchased	-	-	-	-	-	(89.5)	(89.5)
Irrevocable instruction accrual	-	-	-	-	-	(23.8)	(23.8)
Exercise of share awards	-	-	-	-	(12.8)	13.5	0.7
Shares cancelled	(18.1)	-	18.1	-	(110.0)	110.0	-
Charge for share-based remuneration	-	-	-	-	9.2	-	9.2
Tax on share-based remuneration	-	-	-	-	4.4	-	4.4
Net movement in equity in the year	(18.1)	-	18.1	-	(1.3)	10.2	8.9
Opening equity	228.7	71.4	12.9	(70.2)	1,243.4	(75.6)	1,410.6
Closing equity	210.6	71.4	31.0	(70.2)	1,242.1	(65.4)	1,419.5

NOTES TO THE FINANCIAL INFORMATION**For the year ended 30 September 2025****1. GENERAL INFORMATION**

The financial information set out in the announcement does not constitute the Company's statutory accounts for the years ended 30 September 2023, 30 September 2024 or 30 September 2025, but is derived from those statutory accounts, which have been reported on by the Company's auditors. Statutory accounts for the years ended 30 September 2023 and 30 September 2024 have been delivered to the Registrar of Companies and those for the year ended 30 September 2025 will be delivered to the Registrar following the Company's 2026 Annual General Meeting. The reports of the auditors in each case were unqualified, did not draw attention to any matters by way of emphasis and did not contain an adverse statement under sections 498(2) or 498(3) of the Companies Act 2006.

Copies of the Annual Report and Accounts for the year ended 30 September 2025 will be distributed to shareholders in due course. Copies of this announcement can be obtained from the Company Secretary, Paragon Banking Group PLC at 51 Homer Road, Solihull, West Midlands, B91 3QJ and on the Group's website at www.paragonbankinggroup.co.uk.

The financial information is presented on a consolidated basis and in pounds sterling, which is the currency of the economic environment in which the Group operates.

The remaining notes to the accounts are organised into three sections:

- Analysis – providing further analysis and information on the amounts shown in the primary financial statements
- Capital and Financial Risk – providing information on the Group's management of operational and regulatory capital and its principal financial risks
- Basis of preparation – providing details of the Group's accounting policies and of how they have been applied in the preparation of the financial statements

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025**

The notes set out below give more detailed analysis of the balances shown in the primary financial statements and further information on how they relate to the operations, results and financial position of the Group.

2. SEGMENTAL INFORMATION

The Group analyses its operations, both for internal management reporting and external financial reporting, on the basis of the markets from which its assets are generated. The segments used at 30 September 2025 are described below:

- Mortgage Lending, including the Group's buy-to-let, and owner-occupied first and second charge lending and related activities
- Commercial Lending, including the Group's equipment leasing activities, development finance, structured lending and other offerings targeted towards SME customers, together with its motor finance business

These segments are the same as those used at 30 September 2024.

Dedicated financing and administration costs of each of these businesses, including the interest impacts of fair value hedging, are allocated to the segment. Shared central costs are not allocated between segments, nor is income from central cash and investment balances. Provisions made in respect of potential historical liabilities related to motor finance commissions have also not been allocated to a segment.

Loans to customers and operating lease assets (other than those related to the internal green car scheme) are allocated to segments as are dedicated securitisation funding arrangements and their related cash balances.

Retail deposits and their related costs are allocated to the segments based on the utilisation of those deposits. Retail deposits raised in advance of lending and the costs related to those deposits are not allocated.

Other assets and liabilities are not allocated between segments.

All the Group's operations are conducted in the UK, all revenues arise from external customers and there are no inter-segment revenues. No customer contributes more than 10% of the revenue of the Group.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****2. SEGMENTAL INFORMATION (CONTINUED)**

Financial information about these business segments, prepared on the same basis as used in the consolidated accounts of the Group, is shown below.

Year ended 30 September 2025

	Mortgage Lending £m	Commercial Lending £m	Unallocated items £m	Total £m
Interest receivable	880.4	247.4	121.2	1,249.0
Interest payable	(592.7)	(111.9)	(42.1)	(746.7)
Net interest income	287.7	135.5	79.1	502.3
Other leasing income	-	31.2	0.5	31.7
Related costs	-	(25.2)	(0.4)	(25.6)
Net operating lease income	-	6.0	0.1	6.1
Other income	3.9	2.8	-	6.7
Other operating income	3.9	8.8	0.1	12.8
Total operating income	291.6	144.3	79.2	515.1
Operating expenses	(21.1)	(26.1)	(132.1)	(179.3)
Provisions for losses	(6.3)	(35.6)	-	(41.9)
Segment profit	264.2	82.6	(52.9)	293.9

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS

For the year ended 30 September 2025

2. SEGMENTAL INFORMATION (CONTINUED)*Year ended 30 September 2024*

	Mortgage Lending £m	Commercial Lending £m	Unallocated items £m	Total £m
Interest receivable	914.9	234.7	165.1	1,314.7
Interest payable	(632.6)	(109.9)	(89.0)	(831.5)
Net interest income	282.3	124.8	76.1	483.2
Other leasing income	-	30.1	0.3	30.4
Related costs	-	(24.0)	(0.2)	(24.2)
Net operating lease income	-	6.1	0.1	6.2
Other income	3.8	3.2	-	7.0
Other operating income	3.8	9.3	0.1	13.2
Total operating income	286.1	134.1	76.2	496.4
Operating expenses	(22.8)	(26.9)	(129.5)	(179.2)
Provisions for losses	(5.6)	(18.9)	-	(24.5)
Segment profit	257.7	88.3	(53.3)	292.7

The segmental profits disclosed above reconcile to the Group results as shown below.

	2025 £m	2024 £m
Results shown above	293.9	292.7
Provisions for liabilities	(25.5)	-
Fair value items	(11.9)	(38.9)
	<u>256.5</u>	<u>253.8</u>

The assets of the segments listed above are:

	2025 £m	2024 £m	2023 £m
Mortgage Lending	13,996.0	13,523.6	12,988.4
Commercial Lending	2,515.4	2,333.7	2,016.3
Total segment assets	16,511.4	15,857.3	15,004.7
Unallocated assets	3,418.6	3,412.7	3,415.5
Total assets	<u>19,930.0</u>	<u>19,270.0</u>	<u>18,420.2</u>

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS
For the year ended 30 September 2025

3. INTEREST RECEIVABLE

Interest receivable is analysed as follows.

	Note	2025 £m	2024 £m
<i>Interest receivable in respect of</i>			
Loans and receivables		888.5	819.8
Finance leases		84.9	73.4
Invoice finance income		5.5	5.8
		<hr/>	<hr/>
Interest on loans to customers		978.9	899.0
Effect of fair value hedging of loan assets		143.6	245.8
		<hr/>	<hr/>
Interest on loans to customers after hedging		1,122.5	1,144.8
Pension scheme surplus	19	1.1	0.8
Investment securities		22.5	8.0
Effect of fair value hedging of securities		2.4	2.4
Other interest receivable		100.5	158.7
		<hr/>	<hr/>
Total interest on financial assets		1,249.0	1,314.7
		<hr/>	<hr/>

The above amounts relate to:

	2025 £m	2024 £m
Financial assets held at amortised cost	1,017.0	992.3
Finance leases	84.9	73.4
Pension scheme surplus	1.1	0.8
Derivative financial instruments held at fair value	146.0	248.2
	<hr/>	<hr/>
	1,249.0	1,314.7
	<hr/>	<hr/>

Other interest receivable relates principally to cash deposits at central and retail banks.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****4. INTEREST PAYABLE AND SIMILAR CHARGES**

	2025	2024
	£m	£m
<i>On financial liabilities</i>		
Retail deposits	674.9	667.0
Effect of fair value hedging of deposits	(0.4)	33.6
Interest on retail deposits after hedging	674.5	700.6
Asset backed loan notes	-	2.6
Bank loans and overdrafts	6.6	14.1
Corporate bonds	6.8	6.6
Effect of fair value hedging of bonds	0.7	1.8
Covered bonds	13.6	-
Retail bonds	-	5.7
Central bank facilities	38.4	95.2
Sale and repurchase agreements	5.3	4.0
Total interest on financial liabilities	745.9	830.6
Discounting on lease liabilities	0.3	0.3
Other finance costs	0.5	0.6
	<u>746.7</u>	<u>831.5</u>

The above amounts relate to:

	2025	2024
	£m	£m
Financial liabilities held at amortised cost	745.6	795.2
Derivative financial instruments held at fair value	0.3	35.4
Other items	0.8	0.9
	<u>746.7</u>	<u>831.5</u>

Amounts payable in respect of bank loans and overdrafts include interest and fees payable in respect of collateral amounts received in respect of derivative financial instruments (note 17).

5. OTHER INCOME

	2025	2024
	£m	£m
Loan account fee income	4.1	4.5
Broker commissions	1.3	1.6
Other income	1.3	0.9
	<u>6.7</u>	<u>7.0</u>

All loan account fee income arises from financial assets held at amortised cost.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****6. LOAN IMPAIRMENT PROVISIONS CHARGED TO INCOME**

The amounts charged to the profit and loss account in the year are analysed as follows.

	Mortgage Lending £m	Commercial Lending £m	Total £m
30 September 2025			
Provided in period (note 14)	6.5	35.6	42.1
Recovery of written off amounts	(0.2)	-	(0.2)
	<u>6.3</u>	<u>35.6</u>	<u>41.9</u>
30 September 2024			
Provided in period (note 14)	6.0	20.4	26.4
Recovery of written off amounts	(0.4)	(1.5)	(1.9)
	<u>5.6</u>	<u>18.9</u>	<u>24.5</u>

7. FAIR VALUE NET (LOSSES)

	2025 £m	2024 £m
Ineffectiveness of fair value hedges		
Portfolio hedges of interest rate risk		
Deposit hedge	(0.6)	7.3
Loan hedge	7.0	(3.1)
	<u>6.4</u>	<u>4.2</u>
Individual hedges of interest rate risk	-	-
	<u>6.4</u>	<u>4.2</u>
Other hedging movements	(27.3)	(26.2)
Net gain / (losses) on other derivatives	9.0	(16.9)
Total net (loss)	<u>(11.9)</u>	<u>(38.9)</u>

The fair value net (loss) represents the accounting volatility on derivative instruments which are matching risk exposures on an economic basis, generated by the requirements of IAS 39. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items.

Fair value movements on derivatives which are not part of a hedge for accounting purposes are shown as 'net gain / (loss) on other derivatives' above.

The losses and gains are primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities. Such differences will reverse over time and have no impact on the cash flows of the Group.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES**

Income tax for the year ended 30 September 2025 is charged at an effective rate of 29.7% (2024: 26.7%).

The standard rate of corporation tax in the UK applicable to the Group in the year was 25.0% (2024: 25.0%), based on legislation enacted at the year end.

The Bank Corporation Tax Surcharge subjects any taxable profits arising in the Group's banking subsidiary, Paragon Bank PLC (and no other Group entity), to an additional rate of tax to the extent these profits exceed a threshold. The surcharge applying to Paragon Bank in the current year was 3.0% on profits over £100.0m (2024: 3.0% on profits over £100.0m).

The combination of the standard rate of tax and the surcharge results in taxable profits in excess of the annual threshold arising in Paragon Bank being taxed at 28.0% in the current year (2024: 28.0%).

9. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	2025	2024
Profit for the year (£m)	180.3	186.0
Basic weighted average number of ordinary shares ranking for dividend during the year (m)	197.7	210.1
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (m)	7.5	8.3
Diluted weighted average number of ordinary shares ranking for dividend during the year (m)	205.2	218.4
Earnings per ordinary share - basic	91.2p	88.5p
- diluted	87.9p	85.2p

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****10. CASH BALANCES**

‘Cash balances’ includes current bank balances, money market placements and fixed rate sterling term deposits with London banks, and balances with the Bank of England. It is analysed as set out below.

	2025 £m	2024 £m	2023 £m
Deposits with the Bank of England	2,175.7	2,315.5	2,783.3
Balances with central banks	2,175.7	2,315.5	2,783.3
Deposits with other banks	213.8	209.9	211.0
Balances with other banks	213.8	209.9	211.0
Cash and cash equivalents	2,389.5	2,525.4	2,994.3

Not all of the Group’s cash is immediately available for its general purposes, including liquidity management. Cash received in respect of loan assets funded through warehouse facilities and securitisations, or forming part of a security pool for covered bonds (note 23) is not immediately available, due to the terms of those arrangements. This cash is shown as ‘securitisation cash’ below.

Cash held by the Trustee of the Group’s employee share ownership plan (‘ESOP’) may only be used to invest in the shares of the Company, pursuant to the aims of that plan. This is shown as ‘ESOP cash’ below.

The total ‘Cash balances’ may be analysed as shown below:

	2025 £m	2024 £m	2023 £m
Available cash	2,269.7	2,417.4	2,907.7
Securitisation cash	119.6	107.9	86.1
ESOP cash	0.2	0.1	0.5
	2,389.5	2,525.4	2,994.3

Cash balances are classified as Stage 1 exposures (see note 13) for the purposes of impairment provisioning. The probabilities of default have been assessed to be so low as to require no significant impairment provision.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****11. LOANS TO CUSTOMERS**

The Group's loans to customers at 30 September 2025, analysed between the segments described in note 2 are as follows:

	Note	2025 £m	2024 £m	2023 £m
First mortgages		13,791.1	13,299.6	12,747.8
Second charge mortgages		85.3	116.1	154.5
Total Mortgage Lending		13,876.4	13,415.7	12,902.3
Motor finance		360.5	331.4	297.7
Asset finance		689.4	664.2	609.6
Finance lease receivables		1,049.9	995.6	907.3
Development finance		960.4	884.0	747.8
Other secured commercial lending		339.9	320.8	227.6
Other commercial loans		114.7	89.4	89.3
Total Commercial Lending		2,464.9	2,289.8	1,972.0
Loans to customers		16,341.3	15,705.5	14,874.3
Fair value adjustments from portfolio hedging	17	(5.4)	(75.2)	(379.3)
		16,335.9	15,630.3	14,495.0

12. LOAN IMPAIRMENT – BASIS OF PROVISION*Provisioning approach*

IFRS 9 requires that impairment is evaluated on an expected credit loss ('ECL') basis. ECLs are based on an assessment of the probability of default ('PD') and loss given default ('LGD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward-looking economic assumptions and a range of possible outcomes. The provision may be based on either twelve month or lifetime ECL, dependent on whether an account has experienced a significant increase in credit risk ('SICR').

The Group determines its ECL provisions using a model-based approach, overlaid with judgemental adjustments as required, for its largest portfolios. For those containing fewer accounts, or with lower values, non-modelled approaches are adopted, following consistent procedures year-on-year.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****12. LOAN IMPAIRMENT – BASIS OF PROVISION (CONTINUED)**

The Group's approach to impairment provision on loans to customers, in accordance with IFRS 9, is set out in detail in note 21 to the 2024 annual accounts. This includes an outline of the calculations used and definition of relevant terms, and the information in this preliminary announcement should be read in conjunction with it.

There have been no significant changes in overall approach since the 2024 year end. At that time, as discussed in the 2024 annual accounts, it was necessary for the Group to make various judgemental adjustments to model-generated provisions to allow for factors related to the uncertain economic outlook for the UK at that time, which had not been reflected in the Group's models. While the position during the year ended 30 September 2025 has been relatively stable, the continuing economic and political uncertainties in the UK, and the economic risks to the UK inherent in the wider geopolitical situation, mean that the Group has taken a broadly similar approach in determining provision at 30 September 2025 to that used at the prior year end.

The methodologies used to derive the Group's ECL provisions at 30 September 2025 are analysed below.

	Gross £m	Impairment £m	Net £m
30 September 2025			
Modelled portfolios	14,920.9	(38.5)	14,882.4
Judgemental adjustments thereon	-	(1.5)	(1.5)
	<u>14,920.9</u>	<u>(40.0)</u>	<u>14,880.9</u>
Non-modelled portfolios	1,508.2	(47.8)	1,460.4
	<u>1,508.2</u>	<u>(47.8)</u>	<u>1,460.4</u>
Total	<u>16,429.1</u>	<u>(87.8)</u>	<u>16,341.3</u>
30 September 2024			
Modelled impairments	14,418.7	(41.2)	14,377.5
Judgemental adjustments thereon	-	(5.0)	(5.0)
	<u>14,418.7</u>	<u>(46.2)</u>	<u>14,372.5</u>
Non-modelled	1,363.3	(30.3)	1,333.0
	<u>1,363.3</u>	<u>(30.3)</u>	<u>1,333.0</u>
Total	<u>15,782.0</u>	<u>(76.5)</u>	<u>15,705.5</u>

In addition to the judgemental adjustments to model outputs shown above, at 30 September 2024 management applied a £1.5m uplift to provision floors in the development finance operation, reflecting specific economic risks to that business. The monitoring of the portfolio in the year has indicated that this general uplift was no longer required for that portfolio at 30 September 2025.

However, the concerns in relation to the development finance portfolio have become focussed on a cohort of accounts written in 2022 and earlier which have exhibited poor performance in the current economic environment and are still being worked out. Focussed stress testing on these accounts resulted in an uplift to provision of £1.5m at 30 September 2025.

Total uplifts across the Group's loan portfolio as a whole were therefore £3.0m (2024: £6.5m). The derivation of these adjustments is discussed further below.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****12. LOAN IMPAIRMENT – BASIS OF PROVISION (CONTINUED)***Significant Increase in Credit Risk ('SICR')*

Under IFRS 9, SICR is not defined solely by account performance, but on the basis of the customer's overall credit position, and this evaluation should include consideration of external data. The Group's aim is to define SICR to correspond, as closely as possible, to that population of accounts which are subject to enhanced administrative and monitoring procedures operationally. The Group assesses SICR in its modelled portfolios primarily on the basis of the relative difference in an account's lifetime PD between origination and the reporting date. The levels of difference required to qualify as an SICR may differ between portfolios and will depend, to some extent, on the level of risk originally perceived and are monitored on an ongoing basis to ensure that this calibrates with actual experience.

It should be noted that the use of the current PD, which includes external factors such as credit bureau data, means that all relevant information in the Group's hands concerning the customers' present credit position is included in the evaluation, as well as the impact of future economic expectations.

For non-modelled portfolios, the SICR assessment is based on the credit monitoring position of the account in question and for all portfolios a number of qualitative indicators which provide evidence of SICR have been considered.

Loans will generally be considered to retain significantly increased credit risk for a period after the SICR trigger no longer remains.

As part of its determination of whether model outputs form a reliable basis for impairment provisioning, the Group considered whether it had any evidence of groups of accounts demonstrating factors indicating a higher level of credit risk than other accounts in the same portfolios, either from operational experience or its regular credit risk monitoring activities. No such evidence was noted at 30 September 2025 or 30 September 2024, and hence no additional accounts were identified as having an SICR, outside those identified by standard, portfolio-wide, procedures.

Model development

The models used by the Group are updated from time-to-time to allow for changes in the business, developments in best practice and the availability of additional data with the passing of time. During the year ended 30 September 2025 a major update to the Second Charge Mortgage PD model took place, meaning that all the Group's four principal PD models have been updated since IFRS 9 was first implemented in the 2019 financial year.

The new Second Charge Mortgage models adopts a more simplified approach than the Group's other PD models, reflecting the continuing reduction in the size of the portfolio, with no new lending having taken place since 2021.

The impact of the adoption of the new model in the year ended 30 September 2025, on a like-for-like basis, was to leave the provision unchanged and transfer £0.6m of gross balances from stage 1 to stage 2.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****12. LOAN IMPAIRMENT – BASIS OF PROVISION (CONTINUED)**

The Group's programme of model development continued during the year with a particular focus on analysing how default and loss data recorded over the period of the Covid pandemic should be reflected in the next generation of forward-looking models, given the unprecedented nature of the pandemic and the national and international response to it.

All revised models and model enhancements are carefully reviewed and tested before adoption, and are subject to a governance process for their approval.

Judgemental adjustments

To ensure that the Group's loan portfolios are properly provisioned, the Group considers factors that might impact on customers, but which may either not be reflected by its provision processes, be only partially reflected or not be reflected sufficiently quickly. These may include consideration of the likely impact of the broad economic environment, customer and market sentiment and expert knowledge within the Group's businesses.

Where management has identified a requirement to amend the calculated provision as a result of either model deficiencies or idiosyncratic behaviour in part of the portfolio, judgemental adjustments are applied to the modelled outputs so that the ECL recognised corresponds to expert judgement, taking into account the widest possible range of current information, which might not be factored into the modelling process. Similarly where non-modelled books come under stress, methodologies may be adjusted to ensure coverage is sufficient.

Evidence considered by management in order to assess the need for adjustments and the size of any adjustments required included internal performance data, customer and broker feedback, insight surveys, industry intelligence, evidence on the wider economy and quantitative and qualitative data and statements from industry, government and regulatory bodies. These were combined with the expert knowledge within the business to form a broad estimate of the level of provision required across the Group.

A similar process was undertaken in respect of non-modelled books to ensure that specific issues and impacts were being identified, and the minimum provisions set for each portfolio remained sufficient.

The requirement for judgemental adjustments is considered on a portfolio-by-portfolio basis, and the potential for the existence of significant groups of assets being particularly exposed to credit risk in the expected economic scenarios is also considered.

The total amounts of judgemental adjustments provided across the Group are set out below by segment.

	2025	2025	2024	2024
	£m	£m	£m	£m
Mortgage Lending – modelled		1.5		3.0
Commercial Lending – modelled	-		2.0	
Commercial Lending – non-modelled	1.5		1.5	
		1.5		3.5
		3.0		6.5

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****12. LOAN IMPAIRMENT – BASIS OF PROVISION (CONTINUED)**

The adjustment in the Mortgage Lending book at the previous year end had represented the level to which the credit metrics and other model inputs did not produce a result for the buy-to-let portfolio which accorded with the credit expectations of management, brokers and customers, particularly in respect of legacy assets. While there has been some upward movement in arrears metrics, both for the Group and the buy-to-let market more generally, the year has seen the resolution of a number of significant long-standing cases. In response to these factors, it was decided that it was appropriate to reduce the level of overlay at 30 September 2025.

The Group's SME lending portfolio performed generally strongly in the period, with a consequent impact on the calculated provision, and while a level of caution remains as to the broader outlook for UK SMEs in the current economic climate, performance of the Group's provisioning model has been satisfactory in the current high interest rate environment. On this basis the judgemental adjustment has been released in the current year (2024: £1.0m).

For the motor finance portfolio, the overlay to the modelled provision has also been released (2024: £1.0m). Indications to date continue to show the second generation motor finance PD model introduced last year to be effective at identifying credit risk cases. Additionally, while values in the second-hand car market in the year have been lower than for some time, with a consequential increase in the levels of voluntary terminations, this did not significantly impact on the assessment of model performance.

The Group's analysis found no evidence of particular concentrations of credit risk below portfolio level. Given this, and the high level nature of the exercise undertaken, the judgemental adjustments on modelled balances have been apportioned across the Group's buy-to-let mortgage, SME lending and motor finance portfolios, as appropriate, to individual Stage 1 cases. As such they are included in the credit risk disclosures required by IFRS 7.

While there was some further deterioration within the development finance book in the period, the cases involved shared similarities with those identified at 30 September 2024. The majority of such cases had been originally evaluated in 2022 and before, and had been impacted by increased materials and labour costs and higher interest rates, since the point at which they were agreed. As the cases with identified issues have been considered for provisioning individually at 30 September 2025, and few other cases of this vintage remain, the Group determined that the uplift to minimum provision for all cases applied at 30 September 2024 was no longer necessary. However, for those cases in that cohort with identified issues an additional exercise was carried out to examine their behaviour under further stress. This resulted in an additional provision requirement of £1.5m and hence the total impact at 30 September 2025 remained at £1.5m (2024: £1.5m). The majority of these cases were in Stage 3.

The Group will continue to monitor the requirement for all these adjustments as the economic situation develops and its impacts are more fully reflected in model outputs. It is anticipated that a more normal economic situation would require a lower value of adjustments, but the timescale in which such a scenario might be reached appears uncertain.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****12. LOAN IMPAIRMENT – BASIS OF PROVISION (CONTINUED)***Climate change*

As part of the Group's consideration of the requirement for judgemental adjustments, described above, the potential for climate related issues to impact on customer business models or security values over the timescales for ECL calculation required by IFRS 9 was evaluated. This was based on the ongoing internal monitoring of climate change risk exposures and the scenario analysis carried out as part of the Group's ICAAP during the 2024 financial year. Focussing on the Group's mortgage lending and motor finance operations, this analysis leveraged material published by the Network for Greening the Financial System ('NGFS') and proposed UK Government policy. For the purposes of the 2025 ICAAP, this analysis was reconsidered, and it was concluded that the results were still applicable and that there was no need to repeat the analysis at this time.

No specific requirement for additional impairment provisions in respect of climate change related factors over the amounts already determined was identified.

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION

IFRS 9 calculations and related disclosures require loan assets to be divided into three stages, with accounts which were credit impaired on initial recognition representing a fourth class.

The three classes comprise: those where there has been no SICR since advance or acquisition (Stage 1); those where there has been an SICR (Stage 2); and loans which are credit impaired (Stage 3).

- On initial recognition, and for assets where there has not been an SICR, provisions will be made in respect of losses resulting from the level of credit default events expected in the twelve months following the balance sheet date
- Where a loan has experienced an SICR, whether or not the loan is considered to be credit impaired, provisions will be made based on the ECLs over the full life of the loan
- For credit impaired assets, provisions will also be made on the basis of lifetime ECLs

For assets which were 'Purchased or Originated as Credit Impaired' ('POCI') accounts (those considered as credit impaired at the point of first recognition), such as certain of the Group's acquired assets in Mortgage Lending, the carrying valuation is based on expected cash flows discounted by the EIR determined at the point of acquisition.

The recommendations of the taskforce on Disclosures about Expected Credit Loss ('DECL') suggest standard categories for analysis of firm's loan books. In the context of the DECL categorisation the Group's Mortgage Lending balances are classified as 'UK retail mortgage' business while its Commercial Lending balances, being advanced primarily to SME entities correspond with the 'UK other retail' business classification.

The Group defines coverage as the value of the ECL provision divided by the gross carrying value of the related loans.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)**

An analysis of the Group's loan portfolios between the stages defined above is set out below.

	Stage 1 £m	Stage 2 * £m	Stage 3 * £m	POCI £m	Total £m
30 September 2025					
Gross loan book					
Mortgage Lending	13,152.2	570.1	176.1	9.6	13,908.0
Commercial Lending	2,216.7	149.7	154.7	-	2,521.1
Total	15,368.9	719.8	330.8	9.6	16,429.1
Impairment provision					
Mortgage Lending	(1.8)	(1.3)	(28.5)	-	(31.6)
Commercial Lending	(10.6)	(3.2)	(42.4)	-	(56.2)
Total	(12.4)	(4.5)	(70.9)	-	(87.8)
Net loan book					
Mortgage Lending	13,150.4	568.8	147.6	9.6	13,876.4
Commercial Lending	2,206.1	146.5	112.3	-	2,464.9
Total	15,356.5	715.3	259.9	9.6	16,341.3
Coverage ratio					
Mortgage Lending	0.01%	0.23%	16.18%	-	0.23%
Commercial Lending	0.48%	2.14%	27.41%	-	2.23%
Total	0.08%	0.63%	21.43%	-	0.53%

* Stage 2 and 3 balances are analysed in more detail below.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS

For the year ended 30 September 2025

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	Stage 1 £m	Stage 2 * £m	Stage 3 * £m	POCI £m	Total £m
30 September 2024					
Gross loan book					
Mortgage Lending	12,670.3	598.9	171.1	10.7	13,451.0
Commercial Lending	2,034.9	177.2	112.5	6.4	2,331.0
Total	14,705.2	776.1	283.6	17.1	15,782.0
Impairment provision					
Mortgage Lending	(3.4)	(2.2)	(29.7)	-	(35.3)
Commercial Lending	(12.6)	(5.0)	(21.1)	(2.5)	(41.2)
Total	(16.0)	(7.2)	(50.8)	(2.5)	(76.5)
Net loan book					
Mortgage Lending	12,666.9	596.7	141.4	10.7	13,415.7
Commercial Lending	2,022.3	172.2	91.4	3.9	2,289.8
Total	14,689.2	768.9	232.8	14.6	15,705.5
Coverage ratio					
Mortgage Lending	0.03%	0.37%	17.36%	-	0.26%
Commercial Lending	0.62%	2.82%	18.76%	39.06%	1.77%
Total	0.11%	0.93%	17.91%	14.62%	0.48%

* Stage 2 and 3 balances are analysed in more detail below.

In terms of the Group's credit management processes, Stage 1 cases will fall within the appropriate customer servicing functions and Stage 2 cases will be subject to account management arrangements. Stage 3 cases will include both those subject to recovery or similar processes and those which, though being managed on a long-term basis, are included with defaulted accounts for regulatory purposes. However, these broad categorisations may vary between different product types.

POCI balances included in the Commercial Lending segment arose principally from acquired businesses, where those assets were identified as credit impaired at the point of acquisition when the acquired portfolios as a whole were evaluated. Additional provision arising on these assets post-acquisition was shown as 'Impairment Provision' above.

The Group's acquired secured consumer loans are included in the Mortgage Lending segment, together with its closed second charge mortgage portfolios. Acquired loans which were performing on acquisition are included in the staging analysis above.

Acquired portfolios of second charge mortgage assets which were largely non-performing at acquisition, and which were purchased at a deep discount to face value, are shown as POCI assets above. Although no provision is shown above for such assets, the effect of the discount on purchase is included in the gross value ensuring that the carrying value is substantially less than the current balances due from customers and the level of cover is considerable. These balances continue to reduce as customers make repayments.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)***Analysis of Stage 2 loans*

The table below analyses the accounts in Stage 2 between those not more than one month in arrears where an SICR has nonetheless been identified from other information and accounts more than one month in arrears.

Cases which have been greater than one month in arrears in the last three months, but which are not at the balance sheet date are shown as 'recent arrears' in the tables below.

In all cases accounts which are more than one month in arrears, where this is a meaningful measure, are considered to have an SICR. However, in certain loan portfolios, regular monthly payments of pre-set amounts are not required and hence this criterion cannot be used.

The Group uses arrears multiples as a proxy for days past due, as this measure is commonly used in its arrears reporting. A loan will generally be one month in arrears from the point at which a payment is one day past due until it is thirty days past due.

The value of Stage 2 loans in the mortgage segment has declined a little in the year with economic conditions stable but somewhat adverse. The number of cases incurring arrears increased, particularly in the second half of the year, meaning that both the number of Stage 2 arrears accounts and that of accounts curing from Stage 2 arrears was heightened. The most significant part of the Stage 2 balance remains cases identified through their PD scores, although the size of this balance reduced in the period, as accounts moved to arrears.

Both provision coverage levels for Stage 2 Mortgage Lending cases, and the absolute level of provision have reduced in the period. This is principally related to cases identified through their PD, where the effect of the slow, but continuing growth in house prices, and therefore security values, has reduced exposure in the period. The coverage levels have also been reduced as a result of some long standing, high provision cases having moved through to Stage 3, and in some cases realisation, in the year.

For Commercial Lending cases, values of Stage 2 accounts have reduced significantly, with the most marked movement in non-arrears cases. This principally relates to the Stage 2 element of the development finance book, where a number of cases with identified issues have moved to Stage 3 in the period. The trend for Stage 2 arrears cases in the period was mildly positive, reflecting the more stable economic environment.

Stage 2 coverage has reduced in the Commercial Lending segment. This is largely a result of the movement of development finance cases, some with significant coverage, from Stage 2 to Stage 3 in the period. This has caused a reduction in coverage on non-arrears accounts. Coverage on the relatively low number of Stage 2 arrears cases in the segment tends to be idiosyncratic, based on the nature of security available on each of the cases included.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS

For the year ended 30 September 2025

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
30 September 2025				
Gross loan book				
Mortgage Lending	475.2	21.1	73.8	570.1
Commercial Lending	145.7	1.3	2.7	149.7
Total	620.9	22.4	76.5	719.8
Impairment provision				
Mortgage Lending	(0.8)	-	(0.5)	(1.3)
Commercial Lending	(2.6)	(0.2)	(0.4)	(3.2)
Total	(3.4)	(0.2)	(0.9)	(4.5)
Net loan book				
Mortgage Lending	474.4	21.1	73.3	568.8
Commercial Lending	143.1	1.1	2.3	146.5
Total	617.5	22.2	75.6	715.3
Coverage ratio				
Mortgage Lending	0.17%	-	0.68%	0.23%
Commercial Lending	1.78%	15.38%	14.81%	2.14%
Total	0.55%	0.89%	1.18%	0.63%

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS

For the year ended 30 September 2025

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
30 September 2024				
Gross loan book				
Mortgage Lending	521.8	13.5	63.6	598.9
Commercial Lending	171.9	2.7	2.6	177.2
Total	693.7	16.2	66.2	776.1
Impairment provision				
Mortgage Lending	(1.7)	-	(0.5)	(2.2)
Commercial Lending	(4.5)	(0.1)	(0.4)	(5.0)
Total	(6.2)	(0.1)	(0.9)	(7.2)
Net loan book				
Mortgage Lending	520.1	13.5	63.1	596.7
Commercial Lending	167.4	2.6	2.2	172.2
Total	687.5	16.1	65.3	768.9
Coverage ratio				
Mortgage Lending	0.33%	-	0.79%	0.37%
Commercial Lending	2.62%	3.70%	15.38%	2.82%
Total	0.89%	0.62%	1.36%	0.93%

Analysis of Stage 3 loans

The table below analyses the accounts in Stage 3 between those:

- In the process of sale or other enforcement procedures ('Realisations')
- Where a receiver of rent ('RoR') has been appointed by the Group to manage the property on the customers' behalf
- Which are being managed on a long-term basis and where full recovery is possible, but which are considered to meet regulatory default criteria at the balance sheet date ('>3 month arrears'). This category includes accounts identified as defaults using non-arrears based unlikeliness to pay ('UTP') indicators
- Which no longer meet regulatory default criteria, but which are being retained in Stage 3 for a probationary period ('Probation')

Where an account meets two of the criteria, it will be assigned to the category shown first in the list above.

RoR accounts in Stage 3 may be fully up-to-date with full recovery possible. These accounts are included in Stage 3 as they are classified as defaulted for regulatory purposes.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)**

The value of Stage 3 cases in the Mortgage Lending segment has remained stable in the year, as cases impacted by the economic issues of recent years continue to make their way through the system. While the number of live arrears cases has grown, the receiver of rent book continues to reduce as older cases are worked out.

While new receivership arrangements continued to be put in place in the year, these have generally moved to sale more quickly, based on the positive property market. However, the Group continues to use the receivership process to ensure good outcomes for its landlord customers, their tenants and itself and, where appropriate, will manage these accounts on a longer-term basis.

Stage 3 coverage levels in the Mortgage Lending segment are a little reduced, a result of increasing property values in the period providing enhanced security and also of the crystallisation of losses on some older, heavily provided, receivership cases.

The growth in Stage 3 cases in the Commercial Lending division is attributable largely to a number of cases in the development finance business impacted by issues in the UK building sector over recent periods. These appear in the '>3 month arrears' and 'realisations' columns. While such cases enjoy security over the development funded, the Group has taken a careful approach to estimating recoverable values, especially where the security may comprise an unfinished structure. For the most at-risk cohort, the Group's normal provisioning process has been enhanced with focussed stress testing. The performance of this cohort has been the main driver for the growth in provision coverage in the year for the segment and overall.

	Probation	> 3 month	RoR	Realisations	Total
	£m	arrears	managed		
		£m	£m	£m	£m
30 September 2025					
Gross loan book					
Mortgage Lending	11.7	56.4	38.4	69.6	176.1
Commercial Lending	0.4	134.4	-	19.9	154.7
Total	12.1	190.8	38.4	89.5	330.8
Impairment provision					
Mortgage Lending	-	(0.1)	(8.5)	(19.9)	(28.5)
Commercial Lending	(0.1)	(38.8)	-	(3.5)	(42.4)
Total	(0.1)	(38.9)	(8.5)	(23.4)	(70.9)
Net loan book					
Mortgage Lending	11.7	56.3	29.9	49.7	147.6
Commercial Lending	0.3	95.6	-	16.4	112.3
Total	12.0	151.9	29.9	66.1	259.9
Coverage ratio					
Mortgage Lending	-	0.18%	22.14%	28.59%	16.18%
Commercial Lending	25.00%	28.87%	-	17.59%	27.41%
Total	0.83%	20.39%	22.14%	26.15%	21.43%

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS

For the year ended 30 September 2025

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	Probation £m	> 3 month arrears £m	RoR managed £m	Realisations £m	Total £m
30 September 2024					
Gross loan book					
Mortgage Lending	10.3	44.6	45.2	71.0	171.1
Commercial Lending	0.4	105.0	-	7.1	112.5
Total	10.7	149.6	45.2	78.1	283.6
Impairment provision					
Mortgage Lending	-	(0.7)	(11.2)	(17.8)	(29.7)
Commercial Lending	(0.1)	(17.7)	-	(3.3)	(21.1)
Total	(0.1)	(18.4)	(11.2)	(21.1)	(50.8)
Net loan book					
Mortgage Lending	10.3	43.9	34.0	53.2	141.4
Commercial Lending	0.3	87.3	-	3.8	91.4
Total	10.6	131.2	34.0	57.0	232.8
Coverage ratio					
Mortgage Lending	-	1.57%	24.78%	25.07%	17.36%
Commercial Lending	25.00%	16.86%	-	46.48%	18.76%
Total	0.93%	12.30%	24.78%	27.02%	17.91%

The security values available to reduce exposure at default in the calculation shown above for Stage 3 accounts are set out below. The estimated value of the security represents, for each account, the lesser of the valuation estimate and the exposure at default in the central scenario. Security values are based on the most recent valuation of the relevant asset held by the Group, indexed or depreciated as appropriate.

	2025 £m	2024 £m
First mortgages	129.1	119.1
Second mortgages	6.6	8.0
Asset finance	2.0	1.9
Motor finance	1.4	1.2
	139.1	130.2

The RoR managed accounts are being managed to ensure the optimal resolution for landlords, tenants and lenders and have largely reached a long-term, stable position, but the existence of the RoR arrangement causes the accounts to be treated as defaulted for regulatory purposes. The Group's RoR arrangements are described in more detail below.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)**

Mortgage Lending balances with over three months arrears include second charge mortgage accounts originated over ten years ago which have been over three months in arrears for some time. These accounts are generally making regular payments and have significant levels of equity in the underlying property which reduces the required provision to the value shown above. It is expected that a high proportion of these accounts will eventually redeem naturally, either on the sale of the property or by the satisfaction of the amount due through instalment payments.

Buy-to-let receiver of rent cases (Stage 3)

Where a buy-to-let mortgage customer in England or Wales falls into arrears on their account the Group has the power to appoint a receiver of rent ('RoR') under the Law of Property Act. The receiver will then manage the property on behalf of the customer, collecting rents and remitting them to make payments on the account. While the receiver has the power to sell the property, in many cases they will operate it as a buy-to-let on at least a short to medium term basis, potentially longer, depending on the individual circumstances of the case. This causes less disruption to the tenants and may result in the mortgage account returning to performing status and the property being handed back to the customer.

While legacy cases continued to be resolved in the period, with the number of pre-2020 appointments still in place reduced by 39%, new RoR appointments continued to be made in the year, including on some larger portfolio cases. These overwhelmingly relate to legacy cases advanced before 2009 and will therefore have a long rental history, with tenants in place in many cases. Overall the receiver of rent portfolio has reduced, with the proportion in the course of sale relatively high, reflecting a largely positive property market.

The following table analyses the number and gross carrying value of RoR managed accounts shown above by the date of the receivers' appointment, illustrating this position.

	30 September 2025		30 September 2024	
	No.	£m	No.	£m
<i>Managed accounts</i>				
<i>Appointment date</i>				
2010 and earlier	63	10.4	94	14.6
2011 to 2015	8	1.2	16	2.2
2016 to 2020	-	-	6	0.8
2021 and later	131	26.8	167	27.6
Total managed accounts	202	38.4	283	45.2
Accounts in the process of realisation	370	68.0	356	57.6
	572	106.4	639	102.8

RoR accounts in the process of realisation at the period end are included under that heading in the Stage 3 tables above. In addition to the cases analysed above there were no other RoR cases in acquired mortgage books classified as POCI (2024: four), meaning that the Group's total number of RoR cases at 30 September 2025 was 572 (2024: 643).

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****14. LOAN IMPAIRMENTS – PROVISION MOVEMENTS IN THE YEAR**

The movements in the impairment provision calculated under IFRS 9, analysed by business segments, are set out below.

	Mortgage Lending £m	Commercial Lending £m	Total £m
At 30 September 2024	35.3	41.2	76.5
Provided in period (note 6)	6.5	35.6	42.1
Amounts written off	(10.2)	(20.6)	(30.8)
At 30 September 2025 (note 13)	31.6	56.2	87.8
At 30 September 2023	42.3	31.3	73.6
Provided in period (note 6)	6.0	20.4	26.4
Amounts written off	(13.0)	(10.5)	(23.5)
At 30 September 2024 (note 13)	35.3	41.2	76.5

Accounts are considered to be written off for accounting purposes if a balance remains once standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. This has no effect on the net carrying value, only on the amounts reported as gross loan balances and accumulated impairment provisions.

A more detailed analysis of these movements by IFRS 9 stage on a consolidated basis for the years ended 30 September 2025 and 30 September 2024 is set out below.

These tables, and the matching tables analysing movements in gross balances, have been compiled by comparing opening and closing balances on each account and analysing the movements between them.

Changes due to credit risk includes all changes in model parameters whether related to account performance, external credit data or model assumptions, including economic scenarios and weightings.

The changes in models introduced during the year did not create significant movements in balances.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****14. LOAN IMPAIRMENTS – PROVISION MOVEMENTS IN THE YEAR (CONTINUED)**

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Loss allowance at					
30 September 2024	16.0	7.2	50.8	2.5	76.5
New assets originated	6.3	-	-	-	6.3
Changes in loss allowance					
Transfer to Stage 1	2.0	(1.9)	(0.1)	-	-
Transfer to Stage 2	(0.9)	1.3	(0.4)	-	-
Transfer to Stage 3	(0.3)	(1.5)	1.8	-	-
Changes on stage transfer	(1.7)	1.2	9.6	-	9.1
Changes due to credit risk	(9.0)	(1.8)	39.1	(1.6)	26.7
Write offs	-	-	(29.9)	(0.9)	(30.8)
Loss allowance at					
30 September 2025	12.4	4.5	70.9	-	87.8
Loss allowance at					
30 September 2023	19.6	9.4	39.8	4.8	73.6
New assets originated	6.5	-	-	-	6.5
Changes in loss allowance					
Transfer to Stage 1	2.0	(1.8)	(0.2)	-	-
Transfer to Stage 2	(2.2)	3.0	(0.8)	-	-
Transfer to Stage 3	(0.2)	(4.5)	4.7	-	-
Changes on stage transfer	(1.6)	2.4	26.4	-	27.2
Changes due to credit risk	(8.1)	(1.3)	4.4	(2.3)	(7.3)
Write offs	-	-	(23.5)	-	(23.5)
Loss allowance at					
30 September 2024	16.0	7.2	50.8	2.5	76.5

During the year ended 30 September 2025, provision levels increased overall, although the generally stable economic situation in the UK, coupled with gently rising house prices saw provision in Stages 1 and 2 falling. However, this positive movement was outweighed by an increase in Stage 3 provision, as problem cases, particularly in our development finance operation, moved through the credit cycle, but were not generally replaced by additional distressed accounts.

Provision levels on secured lending tended to decline, especially for loans secured on property, with house prices continuing to grow in the period, and a number of long-standing cases moving to resolution in the year. However, in the development finance portfolio, the cohort of lending which had been noted as problematic at the previous year end generated additional provision, with cases moving from Stage 2 to Stage 3 and further issues being encountered, causing expected losses to increase, particularly in Stage 3.

Write offs increased in the period, with a number of legacy buy-to-let cases resolved along with a number of development finance cases, including a case classified as POCI.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****14. LOAN IMPAIRMENTS – PROVISION MOVEMENTS IN THE YEAR (CONTINUED)**

During the previous year, ended 30 September 2024, provision levels remained broadly stable overall, although the generally more benign economic climate and increased confidence in the UK saw provision in Stages 1 and 2 falling, compensated by an increase in Stage 3 provision as problem cases moved through the credit cycle, but were not generally replaced by new arrears accounts at the same rate.

Provision levels on secured lending tended to decline in that year, especially for loans secured on property, with house prices increasing in most areas. However, a number of problem cases in development finance saw an increased level of provision being booked, as issues with project progress and financing emerged, with these changes being recognised in the Stage 3 movements.

The level of write-offs in the year ended 30 September 2024 was higher than in the previous year as some long-term cases were finally resolved and the related provision applied.

The movements in the Loans to Customers balances in respect of which these loss allowances have been made are set out below.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Balance at 30 September 2024	14,705.2	776.1	283.6	17.1	15,782.0
New assets originated	2,867.2	-	-	-	2,867.2
Changes in staging					
Transfer to Stage 1	269.9	(267.1)	(2.8)	-	-
Transfer to Stage 2	(385.2)	399.1	(13.9)	-	-
Transfer to Stage 3	(42.2)	(121.5)	163.7	-	-
Redemptions and repayments	(2,914.4)	(114.2)	(94.8)	(12.7)	(3,136.1)
Write offs	-	-	(29.9)	(0.9)	(30.8)
Other changes	868.4	47.4	24.9	6.1	946.8
Balance at 30 September 2025	15,368.9	719.8	330.8	9.6	16,429.1
Loss allowance	(12.4)	(4.5)	(70.9)	-	(87.8)
Carrying value	15,356.5	715.3	259.9	9.6	16,341.3
Balance at 30 September 2023	13,972.3	744.8	206.0	24.8	14,947.9
New assets originated	2,757.4	-	-	-	2,757.4
Changes in staging					
Transfer to Stage 1	329.3	(325.9)	(3.4)	-	-
Transfer to Stage 2	(566.5)	585.2	(18.7)	-	-
Transfer to Stage 3	(38.1)	(137.6)	175.7	-	-
Redemptions and repayments	(2,558.0)	(137.2)	(76.0)	(11.0)	(2,782.2)
Write offs	-	-	(23.5)	-	(23.5)
Other changes	808.8	46.8	23.5	3.3	882.4
Balance at 30 September 2024	14,705.2	776.1	283.6	17.1	15,782.0
Loss allowance	(16.0)	(7.2)	(50.8)	(2.5)	(76.5)
Carrying value	14,689.2	768.9	232.8	14.6	15,705.5

Other changes includes interest and similar charges.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****15. LOAN IMPAIRMENTS – ECONOMIC INPUTS TO CALCULATIONS**

Impairment provision under IFRS 9 is calculated on a forward-looking ECL basis, based on expected economic conditions in multiple internally coherent scenarios. While the provision calculation is intended to address all possible future economic outcomes, the Group, in common with most other lenders, uses a small number of differing scenarios as representatives of this universe of potential outturns.

The Group uses four distinct economic scenarios chosen to represent the range of possible outcomes and allow for the impact of economic asymmetry in the calculations. Each scenario comprises a number of economic parameters and while models for different portfolios may not use all the variables, the set, as a whole, is defined for the Group and must be internally consistent.

As the Group does not have an internal economics function, in developing its economic scenarios it considers analysis from reputable external sources to form a general market consensus which informs its central scenario. These sources include data and forecasts produced by HM Treasury, the Office of Budget Responsibility ('OBR') and the PRA as well as private sector economic research bodies and industry sources. The Group also takes account of public statements from bodies such as the Bank of England and the UK Government to inform its final position.

The central scenario used for IFRS 9 impairment purposes is consistent with the scenario which forms the basis of the Group's business planning and forecasting and will therefore generally carry the highest probability weighting. In its September 2025 forecasting cycle (the 'October forecast'), the Group has adopted a central economic scenario derived using a broadly equivalent approach to that used in September 2024, with the starting point of the scenario updated to reflect the actual movements of economic variables in the year.

The general trend of the Group's central forecast follows that published by the Bank of England in August 2025. This reflects a pattern of solid but unimpressive growth for the UK economy, with inflation rising in the short term, although returning to target levels towards the end of the forecast period. Bank base rates continue to fall, although we expect the Bank of England to move cautiously in light of concerns over inflation. House prices, which have been more resilient than many had forecast, continue to increase modestly in the short term, strengthening toward the end of the forecast.

Compared with the central forecast adopted at 30 September 2024, this is a little more optimistic, with unemployment and interest rates at lower levels and a more positive outlook for house prices in the short term. However, GDP and inflation remain on a similar trajectory. The scenario also begins from the actual September 2025 position, so that variances against the 2024 scenarios in the year are reflected, with house prices at 30 September 2025, especially, starting the forecast period at a higher level than previously modelled.

The upside and downside scenarios are derived from the central forecast, as they have been in previous periods. The shape of the curves representing all three scenarios are similar across the forecast period, but the upside scenario assumes inflation remaining lower than generally expected, driving faster growth and higher employment and enabling the Bank of England to cut the base rate further and faster than in the base case, while house prices recover more strongly. Conversely, the downside case represents increased pressure on CPI, leading to increases of base rates in the short term, with reduced economic confidence leading to stagnant growth, declining house prices and a pick-up in unemployment levels.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****15. LOAN IMPAIRMENTS – ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)**

The severe scenario has been derived from the most recent Annual Cyclical Scenario ('ACS') published by the Bank of England, as in recent periods. The ACS published in March 2025 forms the basis for the Group's scenario and includes persistently high interest rates, causing a pronounced recession impacting on growth and employment levels, with a significant fall in house prices.

Following a review of the weightings of the different scenarios, set against the overall potential for variability in the future economic outlook, the Group decided to adjust the scenario weightings which had been used at 30 September 2024 for the current year.

The central consensus view for the UK economic outlook is a little more settled and more benign than it was at 30 September 2024, however, the potential for significant downside impacts from geopolitical factors, including conflicts in Eastern Europe and the Middle East, remains. The impact on the UK economy of the policies of the UK Government elected in 2024 are yet to become clear, and the long-term impact on the global situation of the new Administration in the United States is also uncertain. This has led to a wide range of potential paths for the UK economy being suggested, with an emphasis on the potential downsides.

Balancing these factors the Group determined that it was still appropriate to continue to move back towards a more normal set of economic weightings, closer to those seen in the early years of IFRS 9, before the impacts of Brexit and Covid. However, the analysis also suggested a cautious approach, with a continued focus on the downside scenarios. Therefore, the weighting of the severe scenario has been reduced, with the weightings of the upside and downside held steady.

Sensitivities comparing the effect of these weightings with those adopted in the previous year and those which might be seen in a more normal economic environment are set out in note 16.

The weightings attached to each scenario are set out below.

	2025	2024
Central scenario	50%	45%
Upside scenario	10%	10%
Downside scenario	30%	30%
Severe scenario	10%	15%
	<hr/>	<hr/>
	100%	100%
	<hr/>	<hr/>

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****15. LOAN IMPAIRMENTS – ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)**

The Group's economic scenarios comprise seven variables based on standard publicly available metrics for the UK. These variables are:

- Year-on-year change in Gross Domestic Product ('GDP') as measured by the Office of National Statistics ('ONS')
- Year-on-year change in the House Price Index ('HPI') as measured by the Nationwide Building Society
- Bank Base Rate ('BBR'), as set by the Bank of England
- Consumer Price Inflation ('CPI') rate, as measured by the ONS
- Unemployment rate, as measured by the ONS
- Annual change in secured lending, as measured by the Bank of England 'mortgage advances' data series
- Annual change in consumer credit, as measured by the Bank of England 'unsecured advances' data series

The projected average annual values of each of these variables in each of the first five financial years of the forecast period are set out below.

30 September 2025*GDP (year-on-year change)*

	2026	2027	2028	2029	2030
Central scenario	1.4%	1.3%	1.6%	1.6%	1.6%
Upside scenario	2.3%	2.4%	2.0%	1.7%	1.6%
Downside scenario	0.0%	0.4%	1.5%	1.6%	1.6%
Severe scenario	(1.8)%	(2.4)%	1.3%	1.4%	1.4%

HPI (year-on-year change)

	2026	2027	2028	2029	2030
Central scenario	2.5%	4.4%	3.2%	2.4%	2.4%
Upside scenario	5.0%	5.8%	4.5%	3.4%	2.4%
Downside scenario	(2.2)%	(0.7)%	2.1%	1.7%	2.4%
Severe scenario	(4.6)%	(12.3)%	(11.3)%	2.0%	7.1%

BBR (rate)

	2026	2027	2028	2029	2030
Central scenario	3.7%	3.5%	3.5%	3.5%	3.5%
Upside scenario	3.4%	2.9%	2.5%	2.5%	2.5%
Downside scenario	4.4%	3.8%	3.5%	3.5%	3.5%
Severe scenario	6.3%	6.4%	5.0%	3.6%	2.4%

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****15. LOAN IMPAIRMENTS – ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)***CPI (rate)*

	2026	2027	2028	2029	2030
Central scenario	3.1%	2.2%	2.0%	2.0%	2.0%
Upside scenario	2.8%	1.9%	1.9%	2.1%	2.0%
Downside scenario	3.6%	2.4%	1.9%	2.0%	2.0%
Severe scenario	7.6%	6.2%	3.9%	2.4%	2.0%

Unemployment (rate)

	2026	2027	2028	2029	2030
Central scenario	5.0%	5.1%	5.1%	4.5%	4.0%
Upside scenario	4.6%	4.6%	4.6%	4.1%	4.0%
Downside scenario	5.4%	5.5%	5.5%	4.9%	4.3%
Severe scenario	5.6%	7.5%	8.4%	7.6%	6.8%

Secured lending (annual change)

	2026	2027	2028	2029	2030
Central scenario	2.9%	3.0%	3.0%	3.0%	3.0%
Upside scenario	4.2%	4.3%	4.3%	4.3%	4.3%
Downside scenario	1.4%	1.5%	1.5%	1.5%	1.5%
Severe scenario	0.9%	1.0%	1.0%	1.0%	1.0%

Consumer credit (annual change)

	2026	2027	2028	2029	2030
Central scenario	6.6%	6.1%	5.6%	5.1%	4.8%
Upside scenario	7.6%	7.1%	6.6%	6.1%	5.8%
Downside scenario	4.6%	4.1%	3.6%	3.1%	2.8%
Severe scenario	0.8%	(3.0)%	0.3%	1.3%	1.3%

30 September 2024*GDP (year-on-year change)*

	2025	2026	2027	2028	2029
Central scenario	1.4%	1.2%	1.6%	1.6%	1.6%
Upside scenario	2.9%	2.4%	2.3%	1.7%	1.6%
Downside scenario	0.5%	0.5%	1.3%	1.6%	1.6%
Severe scenario	(0.5)%	(3.1)%	(0.1)%	1.9%	1.8%

HPI (year-on-year change)

	2025	2026	2027	2028	2029
Central scenario	-	2.3%	4.4%	3.2%	2.4%
Upside scenario	2.7%	4.6%	5.0%	4.5%	3.4%
Downside scenario	(2.4)%	0.5%	4.0%	2.6%	1.7%
Severe scenario	(1.9)%	(11.0)%	(14.6)%	-	6.5%

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****15. LOAN IMPAIRMENTS – ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)***BBR (rate)*

	2025	2026	2027	2028	2029
Central scenario	4.3%	3.6%	3.4%	3.3%	3.3%
Upside scenario	4.1%	3.2%	3.0%	3.0%	3.0%
Downside scenario	5.0%	5.0%	4.6%	3.7%	3.5%
Severe scenario	7.1%	8.8%	6.3%	4.3%	3.5%

CPI (rate)

	2025	2026	2027	2028	2029
Central scenario	2.6%	1.9%	1.5%	1.7%	2.0%
Upside scenario	2.1%	1.9%	2.0%	2.0%	2.0%
Downside scenario	2.5%	2.5%	2.3%	1.9%	2.0%
Severe scenario	4.7%	11.9%	4.7%	2.1%	2.0%

Unemployment (rate)

	2025	2026	2027	2028	2029
Central scenario	4.5%	4.8%	4.7%	4.2%	4.0%
Upside scenario	4.1%	4.4%	4.3%	3.9%	3.6%
Downside scenario	4.9%	5.6%	5.8%	5.3%	4.5%
Severe scenario	5.0%	7.5%	8.4%	7.8%	7.1%

Secured lending (annual change)

	2025	2026	2027	2028	2029
Central scenario	0.3%	1.8%	3.0%	3.0%	3.0%
Upside scenario	1.3%	2.8%	3.3%	3.0%	3.0%
Downside scenario	(0.5)%	1.0%	2.8%	3.0%	3.0%
Severe scenario	(1.8)%	(0.3)%	2.5%	3.0%	3.0%

Consumer credit (annual change)

	2025	2026	2027	2028	2029
Central scenario	6.8%	5.1%	4.8%	5.0%	5.0%
Upside scenario	7.5%	5.9%	5.0%	5.0%	5.0%
Downside scenario	5.8%	4.1%	4.6%	5.0%	5.0%
Severe scenario	4.3%	2.6%	4.2%	5.0%	5.0%

After the end of the initial five year period, the final rate or rate of change (as appropriate) is assumed to continue into the future in each scenario.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****15. LOAN IMPAIRMENTS – ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)**

To illustrate the levels of non-linearity in the various scenarios, the maximum and minimum quarterly levels for each variable over the five year period commencing on the balance sheet date are set out below.

30 September 2025

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	1.7	1.2	2.6	1.6	1.6	(0.8)	1.4	(4.6)
HPI	4.4	1.4	7.5	2.3	2.9	(4.1)	7.4	(12.6)
BBR	4.0	3.5	3.8	2.5	4.5	3.5	7.2	2.2
CPI	3.6	1.9	3.2	1.6	4.0	1.7	10.0	2.0
Unemployment	5.1	3.9	4.6	3.9	5.5	4.1	8.5	4.9
Secured lending	3.0	2.8	4.3	4.1	1.5	1.3	1.0	0.8
Consumer credit	6.7	4.8	7.7	5.8	4.7	2.8	4.0	(4.0)

30 September 2024

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	2.0	1.0	3.0	1.6	1.6	(0.3)	1.9	(3.7)
HPI	4.4	(1.3)	5.1	1.7	4.0	(4.6)	6.9	(15.9)
BBR	4.5	3.3	4.5	3.0	5.0	3.5	9.0	3.5
CPI	2.7	1.5	2.2	1.7	2.7	1.7	12.3	1.9
Unemployment	4.8	4.0	4.4	3.6	5.8	4.2	8.5	4.3
Secured lending	3.0	-	4.0	1.0	3.0	(0.8)	3.0	(2.0)
Consumer credit	7.0	4.5	7.8	4.8	6.0	3.5	5.0	2.0

The asymmetry in the models is demonstrated by comparing the calculated impairment provision with that which would have been produced using the central scenario alone, 100% weighted.

	2025 £m	2024 £m
<i>Provision using central scenario 100% weighted</i>		
Mortgage Lending	28.6	31.6
Commercial Lending	54.9	39.7
	<hr/>	<hr/>
	83.5	71.3
Calculated impairment provision	87.8	76.5
	<hr/>	<hr/>
Effect of multiple economic scenarios	4.3	5.2
	<hr/>	<hr/>

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****16. LOAN IMPAIRMENTS – SENSITIVITY ANALYSIS**

The calculation of impairment provisions under IFRS 9 is subject to a variety of uncertainties arising from assumptions, forecasts and expectations about future events and conditions. To illustrate the impact of these uncertainties, sensitivity calculations have been performed for some of the most significant.

These sensitivities are intended as mathematical illustrations of the impacts of the various assumptions on the Group's modelling. They do not necessarily represent alternative potential impairment values as other factors might also need to be considered in arriving at a final provision figure if circumstances differed from those at the balance sheet date.

Economic conditions

To illustrate the potential impact of differing future economic scenarios on the total impairment, the provisions which would be calculated if each of the economic scenarios were 100% weighted are shown below:

Scenario	2025		2024	
	Provision £m	Difference £m	Provision £m	Difference £m
Central	83.5	(4.3)	71.3	(5.2)
Upside	80.6	(7.2)	68.0	(8.5)
Downside	89.8	2.0	76.8	0.3
Severe	112.1	24.3	100.4	23.9

The weighted average of these 100% weighted provisions need not equal the weighted average ECL due to the impact of the differing PDs on staging.

Scenario weightings

In order to illustrate the impact of scenario weightings on the outcomes, the impairment provision requirements were sensitised using alternative weightings. Sensitivity A is based on the weightings used at IFRS 9 transition on 1 October 2018. The use of the 2018 weighting is intended to represent a more settled outlook than has been evident at any of the most recent year ends. Sensitivity B is based on the weightings used at the previous year end, to demonstrate the impact of the adoption of the new weightings.

The weightings used, and the results of applying these sensitivities to the 30 September 2025 scenarios are set out below.

	Weighting				Impairment £m	Difference £m
	Central	Upside	Downside	Severe		
As reported	50%	10%	30%	15%	87.8	-
Sensitivity A	40%	30%	25%	5%	85.6	(2.2)
Sensitivity B	45%	10%	30%	10%	89.1	1.3

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****16. LOAN IMPAIRMENTS – SENSITIVITY ANALYSIS (CONTINUED)***Significant increase in credit risk*

The most important driver of SICR is relative PD. If all PDs across the Group's principal buy-to-let mortgage book were increased by 10%, loans with a gross value of £22.3m would transfer from Stage 1 to Stage 2 (2024: £44.4m), and the total provision would increase by £0.2m from the combined effects of higher PDs on expected losses and the impact of providing for expected lifetime losses, rather than 12-month losses on the additional Stage 2 cases (2024: £0.3m).

Value of security

The principal assumptions impacting on LGD are the estimated security values. If the rate of growth in house prices assumed by the model after the forecast minimum were halved, ignoring any PD effects, then the provision for the Group's first and second mortgage assets under the central scenario would increase by £0.8m (2024: £0.5m).

Receiver of rent

The majority of receiver of rent cases, which are included in Stage 3, are managed long-term and therefore their assumed realisation date has an important impact on the provision calculation. If the assumed rate of realisations was increased by 20%, the impairment provision in the central scenario would increase by £0.3m (2024: £0.4m).

17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group uses derivative financial instruments such as interest rate risk swaps for risk management purposes only. Each such derivative contract is entered into for economic hedging purposes to manage a particular identified risk and any gains or losses arising are incidental to this objective. No trading in derivative financial instruments is undertaken.

A detailed description of the Group's use of derivatives and its accounting for derivatives and hedging is set out in note 26 to the 2024 Group Accounts.

	30 September 2025 £m	30 September 2024 £m	30 September 2023 £m
Derivative financial assets	275.4	391.8	615.4
Derivative financial liabilities	(68.2)	(99.7)	(39.9)
	<u>207.2</u>	<u>292.1</u>	<u>575.5</u>
Of which:			
Interest rate swaps in			
hedging relationships	198.1	291.5	559.4
Other interest rate swaps	9.1	0.6	16.1
Currency futures	-	-	-
	<u>207.2</u>	<u>292.1</u>	<u>575.5</u>

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)**

All hedging relationships and strategies at 30 September 2024 described in note 26 to the 2024 Group Accounts have continued in the period.

The balances held on the Group's balance sheet relating to the hedging of interest rate risk on its fixed rate customer loan and deposit balances are summarised below.

	Note	2025 £m	2024 £m
<i>Derivative financial instruments</i>			
Assets		275.4	391.8
Liabilities		(68.2)	(99.7)
		<u>207.2</u>	<u>292.1</u>
<i>Fair value hedging adjustments</i>			
On loans to customers	11	(5.5)	(75.2)
On investment securities		(26.5)	7.7
On retail deposits	21	(5.1)	(16.7)
On borrowings		(0.2)	(0.3)
		<u>(37.3)</u>	<u>(84.5)</u>
Net balance sheet position		<u>169.9</u>	<u>207.6</u>
<i>Collateral balances</i>			
Posted (in sundry assets)	18	-	-
Received (in sundry liabilities)	24	(189.8)	(103.6)
		<u>(189.8)</u>	<u>(103.6)</u>

18. SUNDRY ASSETS

	Note	2025 £m	2024 £m	2023 £m
Accrued interest income		11.8	11.1	4.6
CSA assets	17	1.5	-	-
Other sundry assets		10.9	9.6	46.4
		<u>24.2</u>	<u>20.7</u>	<u>51.0</u>

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****19. RETIREMENT BENEFIT OBLIGATIONS**

The defined benefit obligation at 30 September 2025 has been calculated on a year-to-date basis. Since the last IAS 19 actuarial valuation at 30 September 2024, there have been movements in financial conditions, requiring an adjustment to the actuarial assumptions underlying the calculation of the defined benefit obligation. In particular, over the period since the 30 September 2024 actuarial valuation, the discount rate has increased by 95 basis points per annum, while expectations of long-term inflation have remained broadly stable.

The net effect of these changes, together with the Group's contributions and the performance of the plan assets, has resulted in the value of the net defined benefit surplus at 30 September 2025 increasing from the position at 30 September 2024. The impact of allowing for the changes in actuarial assumptions has been recognised as an actuarial loss in other comprehensive income.

An updated actuarial valuation, as at 31 March 2025, is in progress, but was not complete at the time of signing those accounts. However, the conclusions of the early stages of the process have been incorporated in the IAS 19 valuation.

The Group has recognised the surplus as an asset at the balance sheet date as it anticipates being able to access economic benefits at least as great as the carrying value. However such assets are eliminated from capital for regulatory purposes (note 34).

The movements in the surplus on the defined benefit plan during the year ended 30 September 2025 are summarised below.

	2025	2024
	£m	£m
Opening pension surplus	22.2	12.7
Employer contributions	2.6	2.8
<i>Amounts posted to profit and loss</i>		
Service cost	(0.3)	(0.4)
Past service cost	-	-
Net funding income (note 3)	1.1	0.8
Administrative expenses	(0.7)	(0.9)
<i>Amounts posted to other comprehensive income</i>		
Return on plan assets not included in interest	(12.8)	7.0
Experience gain / (loss) on liabilities	(0.1)	1.5
Actuarial (loss) / gain from changes in financial assumptions	11.5	(3.7)
Actuarial gain / (loss) from changes in demographic assumptions	-	2.4
Closing pension surplus	23.5	22.2

Pursuant to the recovery plan agreed with the Trustee of the pension plan, the Group has effectively granted a first charge over its freehold head office building as security for its agreed contributions. No account of this charge is taken in the calculation of the above surplus.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****20. INTANGIBLE ASSETS**

Intangible assets at net book value comprise:

	2025	2024	2023
	£m	£m	£m
Goodwill	162.8	162.8	162.8
Computer software	8.8	8.0	4.4
Other intangibles	0.5	0.7	1.0
Total assets	<u>172.1</u>	<u>171.5</u>	<u>168.2</u>

The balance for goodwill at 30 September 2025 shown above includes £113.0m in respect of the SME lending Cash Generating Unit ('CGU') and £49.8m in respect of the Development Finance CGU.

(a) SME lending

The goodwill carried in the accounts relating to the SME lending CGU was recognised on acquisitions in the years ended 30 September 2016 and 30 September 2018.

An impairment review undertaken at 30 September 2025 indicated that no write down was required.

The recoverable amount of the SME lending CGU used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board in November 2025 covering a five-year period.

The key assumptions underlying the value in use calculation for the SME lending CGU are:

- Level of business activity, based on management expectations. The forecast assumes a compound annual growth rate ('CAGR') for new lending over the five-year period of 13.6%, compared with 11.7% used in the calculation at 30 September 2024. The new lending forecasts are the key driver for the profit and cashflow forecasts. Cash flows beyond the five-year budget are extrapolated using a constant growth rate of 1.3% (2024: 1.2%) which does not exceed the long-term average growth rates for the markets in which the business is active

Management concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment

- Discount rate, which is based on third-party estimates of the implied industry cost of capital. The pre-tax discount rate applied to the cash flow projection is 15.9% (2024: 16.5%)

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****20. INTANGIBLE ASSETS (CONTINUED)**

As an illustration of the sensitivity of this impairment test to movements in key assumptions, the Group has calculated that a 0.0% growth rate combined with a 18.5% reduction in profit levels would eliminate the projected headroom of £112.8m. Such movements are not expected by management. A 0.0% growth rate combined with an 20.7% reduction in profit levels would generate a write down of £10.0m.

In the testing carried out at 30 September 2024, a 0.0% growth rate combined with an 19.8% reduction in profit levels, would have eliminated the projected headroom at that date of £91.7m. A 0.0% growth rate combined with a 22.6% reduction in profit levels would have generated a write down of £10.0m.

(b) Development finance

The goodwill carried in the accounts relating to the development finance CGU was first recognised on a business acquisition in the year ended 30 September 2018.

An impairment review undertaken at 30 September 2025 indicated that no write down was required.

The recoverable amount of the development finance CGU used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board in November 2025 covering a five-year period.

The key assumptions underlying the value in use calculation for the development finance CGU are:

- Level of business activity, based on management expectations. The forecast assumes a CAGR for drawdowns over the five-year period of 12.5%, compared with 15.6% used in the calculation at 30 September 2024. Cash flows beyond the five-year budget are extrapolated using a constant growth rate of 1.3% (2024: 1.2%) which does not exceed the long-term average growth rate for the UK economy

Management concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment
- Discount rate, which is based on third party estimates of the implied industry cost of capital. The pre-tax discount rate applied to the cash flow projection is 15.9% (2024: 16.4%)

As an illustration of the sensitivity of this impairment test to movements in key assumptions, the Group has calculated that a 0.0% growth rate combined with a 13.3% reduction in profit levels would eliminate the projected headroom of £68.4m. Such movements are not expected by management. A 0.0% growth rate combined with a 16.3% reduction in profit levels would generate a write down of £10.0m.

In the testing carried out at 30 September 2024 a 0.0% growth rate combined with a 9.5% reduction in profit levels would have eliminated the projected headroom at that date of £53.2m. A 0.0% growth rate combined with a 12.1% reduction in profit would have generated a write down of £10.0m.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****21. RETAIL DEPOSITS**

The Group's retail deposits, held by Paragon Bank PLC, were received from customers in the UK and are denominated in sterling. The deposits comprise principally term deposits, and notice and easy access accounts. The method of interest calculation on these deposits is analysed as follows:

	2025	2024	2023
	£m	£m	£m
Fixed rate	7,632.6	8,257.2	8,690.2
Variable rates	8,633.1	8,040.8	4,575.1
	<u>16,265.7</u>	<u>16,298.0</u>	<u>13,265.3</u>

The weighted average interest rate on retail deposits at 30 September 2024, analysed by charging method, was:

	2025	2024	2023
	%	%	%
Fixed rate	4.32	4.77	4.07
Variable rates	3.61	4.19	3.74
All deposits	<u>3.95</u>	<u>4.49</u>	<u>3.95</u>

The contractual maturity of these deposits is analysed below.

	2025	2024	2023
	£m	£m	£m
Amounts repayable			
In less than three months	1,371.1	1,621.4	1,589.4
In more than three months, but not more than one year	5,152.0	4,847.1	5,193.7
In more than one year, but not more than two years	983.5	1,502.6	1,643.0
In more than two years, but not more than five years	516.9	615.0	631.8
Total term deposits	<u>8,023.5</u>	<u>8,586.1</u>	<u>9,057.9</u>
Repayable on demand	<u>8,242.2</u>	<u>7,711.9</u>	<u>4,207.4</u>
	<u>16,265.7</u>	<u>16,298.0</u>	<u>13,265.3</u>
Fair value adjustments for portfolio hedging (note 17)	5.1	16.7	(30.9)
	<u>16,270.8</u>	<u>16,314.7</u>	<u>13,234.4</u>

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****22. BORROWINGS**

On 6 February 2025, Fitch Ratings affirmed the Group's Long-Term Issuer Default Rating at BBB+, with a stable outlook. It also affirmed the senior unsecured debt rating at BBB and the rating of the Group's Tier-2 bond at BBB-, with this security therefore enjoying an investment-grade rating.

At the same time Fitch Ratings affirmed its BBB+ Long-term Issuer Default Rating for Paragon Bank PLC, the Group's principal operating subsidiary.

On 29 November 2024, Moody's Investors Service commenced coverage of the Group, assigning an issuer rating of Baa3 to the Group and a long-term deposit rating of Baa2 to Paragon Bank.

All borrowings described in the Group Accounts for the year ended 30 September 2024 remained in place throughout the period. On 24 February 2025, the Group made its first issue of covered bonds as described in note 23.

Central bank borrowings include £250.0m of drawings under the Term Funding Scheme with additional incentives for SMEs ('TFSME') (2024: £750.0m) and £750.0m of Indexed Long-Term Repo ('ILTR') drawings (2024: £5.0m). ILTR drawings are payable within twelve months of the balance sheet date.

Repayments made in respect of the Group's borrowings are shown in note 28.

Substantial prepayments were also made on TFSME drawings, with an outstanding balance of £250m. The maturity date of the majority of the Group's TFSME drawing was 21 October 2025, with £5.2m falling due on 31 March 2027.

On 15 October 2025, after the year end, the Group redeemed all the outstanding notes of the Paragon Mortgages (No. 27) PLC securitisation at par. The underlying assets were subsequently funded by other group companies.

Notice has been given to noteholders that the Group will redeem all the outstanding notes of the Paragon Mortgages (No. 28) PLC securitisation at par on 15 December 2025, after the year end.

23. COVERED BONDS

On 24 February 2025, Paragon Bank PLC established a covered bond programme, regulated and approved by the Financial Conduct Authority ('FCA'). Under this programme Paragon Bank has the ability to issue a total of up to £5,000.0m of bonds, secured on a pool of mortgage assets, when market conditions are acceptable, with a relative short preparation and lead time.

On 11 March 2025, Paragon Bank made its first issue of bonds under the programme. The principal amount of bonds issued was £500.0m, and the bonds have a due date of 20 March 2028 and bear interest at a rate of 0.6% over compounded daily SONIA. They have been assigned a credit rating of Aaa by Moody's and AAA by Fitch.

The amount outstanding in respect of these covered bonds at 30 September 2025 was £499.2m and the gross amount of the cover pool was £891.6m.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****24. SUNDRY LIABILITIES**

	Note	2025 £m	2024 £m	2023 £m
Amounts payable within one year				
Lease payables		2.5	2.9	2.6
Accrued interest		160.6	191.7	156.7
CSA liabilities	17	189.8	103.6	383.4
Purchase of own shares	28	-	23.8	-
Other sundry liabilities		50.8	50.1	47.2
		<u>403.7</u>	<u>372.1</u>	<u>589.9</u>
Amounts payable after more than one year				
Lease payables		4.3	5.0	6.3
Accrued interest		18.5	35.0	31.5
Other accruals		5.1	5.3	3.5
		<u>27.9</u>	<u>45.3</u>	<u>41.3</u>
Lease payables		6.8	7.9	8.9
Other sundry liabilities		424.8	409.5	622.3
Total sundry liabilities		<u>431.6</u>	<u>417.4</u>	<u>631.2</u>

25. PROVISIONS FOR LIABILITIES

Provisions are recognised for present obligations arising as a consequence of past events where it is considered more probable than not that a liability will arise, where the liability can be reliably estimated. Where these conditions are not met, but there is still the potential for a material liability to arise, this is disclosed as a contingent liability.

The provisions carried in the Group's accounts at 30 September 2025 are set out below:

	Conduct £m	Total £m
At 30 September 2024	-	-
Provided in the period	25.5	25.5
Utilised in the period	-	-
At 30 September 2025	<u>25.5</u>	<u>25.5</u>

Some of this provision may give rise to outflows after more than one year from the balance sheet date.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****25. PROVISIONS FOR LIABILITIES (CONTINUED)****Conduct**

The Group, as a regulated participant in the financial services industry, is exposed to a high level of regulatory supervision, which could in the event of conduct failures expose it to additional liabilities. The objective of the Group's compliance and conduct framework, which is supervised by the second line compliance function, is to provide a strong mitigant to this risk, although it is impossible to eliminate it entirely.

As described below, there is significant uncertainty with regard to legal and regulatory interventions around commissions paid in the motor finance market. These processes are still not complete, and therefore the scope and extent of any exposure remains uncertain.

The broader regulatory environment continues to develop, through regulatory policies, legislative rules and court rulings, and the Group's assessment of potential liabilities for issues relating to motor finance commission or other conduct issues, is based on our current interpretation of requirements and hence further liabilities may arise as these develop over time.

Motor finance commissions

In January 2024 the FCA had announced that it was conducting a review of the historical use of discretionary commission arrangements ('DCA's) across the motor finance industry, in the period from 2007 onwards, following action taken in this specific area by the courts and the Financial Ombudsman Service ('FOS'). This review has subsequently been broadened in scope to consider other historical commission practices in the sector as a result of related litigation activity.

At the same time the FCA imposed a pause on the handling of such complaints, which has been subsequently extended to enable the regulator to finalise its work in this area, and remained in place at the year end.

A number of legal cases were resolved in the year enabling the FCA to finalise its review and formulate proposals for a redress scheme. These proposals were published on 7 October 2025, shortly after the year end, as Consultation Paper CP 25/27, and are principally concentrated on DCA cases, high-commission transactions and tied broker relationships. The latter two have only a limited impact on the Group. While the redress scheme is still in its consultation phase, it represents the most likely basis against which to assess the level of our exposure.

The scope of the FCA's proposals includes loans made since 2007, when the Group was active in the motor finance market. However, it ceased making new loans in this sector in February 2008. It re-entered the market in 2014, on the formation of Paragon Bank. Between 2007 and 31 October 2024, the Group had paid out a total of £51.0m of commissions to support the origination of motor finance loans. Included in this amount was £26.7m of commissions related to DCA cases, all of which were originated prior to 2022.

Given the public statements of the FCA the Group has concluded that a redress scheme broadly in line with that proposed in CP 25/27 is likely. It has therefore made provision for such liabilities. The provision is estimated based on the Group's detailed data and the calculations set out in the FCA consultation paper, including an allowance for the costs of administering the scheme. This provision would be expected to be utilised over the eighteen months following the balance sheet date, if the FCA confirms its proposals, including the timescales set out in its document, as final.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****25. PROVISIONS FOR LIABILITIES (CONTINUED)**

While the FCA intends that its programme of redress should be final for all motor finances cases advanced in the period covered by its review, it is possible that consumers who do not qualify for redress or who feel the redress offered by the scheme is inadequate may attempt to assert their claims through alternative routes. As the FCA consultation is still open, it is also possible that the final version differs from the proposal set out in the CP. As such it is possible that the ultimate liability in respect of these matters is materially different from the amount provided.

26. CALLED-UP SHARE CAPITAL

The share capital of the Company consists of a single class of £1 ordinary shares.

Movements in the issued share capital in the year were:

	2025 Number	2024 Number
Ordinary shares		
At 1 October 2024	210,604,960	228,700,413
Shares issued	-	-
Shares cancelled	(13,200,000)	(18,095,453)
At 30 September 2025	<u>197,404,960</u>	<u>210,604,960</u>

On 19 March 2025, 6,200,000 of the shares held in treasury at that date were cancelled, and 7,000,000 further shares were cancelled on 3 September 2025.

On 23 February 2024, 12,095,4453 of the shares held in treasury at that date were cancelled, and 6,000,000 further shares were cancelled on 30 August 2024 (note 28).

27. RESERVES

	2025 £m	2024 £m	2023 £m
Share premium account	71.4	71.4	71.4
Capital redemption reserve	44.2	31.0	12.9
Merger reserve	(70.2)	(70.2)	(70.2)
Profit and loss account	1,231.2	1,242.1	1,243.4
	<u>1,276.6</u>	<u>1,274.3</u>	<u>1,257.5</u>

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****28. OWN SHARES**

	Treasury shares	ESOP shares	Irrevocable authority to purchase	Total
	£m	£m	£m	£m
At 1 October 2023	54.0	21.6	-	75.6
Shares purchased	76.6	12.9	-	89.5
Options exercised	(4.3)	(9.2)	-	(13.5)
Shares cancelled	(110.0)	-	-	(110.0)
Irrevocable authority				
Given in year	-	-	23.8	23.8
Exercised / expired in year	-	-	-	-
At 30 September 2024	16.3	25.3	23.8	65.4
Shares purchased	124.7	7.7	-	132.4
Options exercised	(6.2)	(9.8)	-	(16.0)
Shares cancelled	(104.2)	-	-	(104.2)
Irrevocable authority				
Given in year	-	-	-	-
Exercised / expired in year	-	-	(23.8)	(23.8)
At 30 September 2025	30.6	23.2	-	53.8

At 30 September 2025 the number of the Company's own shares held in treasury was 3,418,725 (2024: 2,124,162). These shares had a nominal value of £3,418,725 (2024: £2,124,162). These shares do not qualify for dividends.

The ESOP shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes and awards under the Paragon PSP and Deferred Share Bonus Plan. The trustees' costs are included in the operating expenses of the Group.

At 30 September 2025, the trust held 3,432,947 ordinary shares (2024: 4,182,232) with a nominal value of £3,432,947 (2024: £4,182,232) and a market value of £29,780,815 (2024: £32,516,854). Options, or other share-based awards, were outstanding against all these shares at 30 September 2025 (2024: all). The dividends on all these shares have been waived (2024: all).

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****29. EQUITY DIVIDEND**

Amounts recognised as distributions to equity shareholders in the period:

	2025	2024	2025	2024
	Per share	Per share	£m	£m
<i>Equity dividends on ordinary shares</i>				
Final dividend for the previous year	27.2p	26.4p	54.5	56.1
Interim dividend for the current year	13.6p	13.2p	26.5	27.4
	<u>40.8p</u>	<u>39.6p</u>	<u>81.0</u>	<u>83.5</u>

Amounts paid and proposed in respect of the year:

	2025	2024	2025	2024
	Per share	Per share	£m	£m
Interim dividend for the current year	13.6p	13.2p	26.5	27.4
Proposed final dividend for the current year	30.3p	27.2p	57.7	55.6
	<u>43.9p</u>	<u>40.4p</u>	<u>84.2</u>	<u>83.0</u>

The proposed final dividend for the year ended 30 September 2025 will be paid on 6 March 2026, subject to approval at the AGM, with a record date of 6 February 2026. The dividend will be recognised in the accounts when it is paid.

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****30. NET CASH FLOW FROM OPERATING ACTIVITIES**

	2025	2024
	£m	£m
Profit before tax	256.5	253.8
Non-cash items included in profit and other adjustments:		
Depreciation of operating property, plant and equipment	3.5	5.4
(Profit) on disposal of operating property, plant and equipment	(0.3)	(0.1)
Amortisation of intangible assets	2.0	1.2
Non-cash movements on investment securities	34.4	(7.8)
Non-cash movements on borrowings	0.6	4.5
Impairment losses on loans to customers	41.9	24.5
Charge for share-based remuneration	8.1	9.2
Net (increase) / decrease in operating assets:		
Assets held for leasing	(6.2)	0.7
Loans to customers	(677.7)	(855.7)
Derivative financial instruments	116.4	223.6
Fair value of portfolio hedges	(69.8)	(304.1)
Other receivables	(6.2)	28.0
Net increase / (decrease) in operating liabilities:		
Retail deposits	(32.3)	3,032.7
Derivative financial instruments	(31.5)	59.8
Fair value of portfolio hedges	(11.6)	47.6
Provision for Liabilities	25.5	-
Other liabilities	39.0	(236.6)
Cash generated by operations	(307.7)	2,286.7
Income taxes (paid)	(69.7)	(70.3)
	<u>(377.4)</u>	<u>2,216.4</u>

Cash flows relating to plant and equipment held for leasing under operating leases are classified as operating cash flows.

31. NET CASH FLOW FROM INVESTING ACTIVITIES

	2025	2024
	£m	£m
Investment in securities	(233.2)	(419.6)
Proceeds from sales of operating property, plant and equipment	0.2	0.3
Purchases of operating property, plant and equipment	(1.3)	(0.9)
Purchases of intangible assets	(2.6)	(4.5)
Net cash (utilised) by investing activities	<u>(236.9)</u>	<u>(424.7)</u>

NOTES TO THE FINANCIAL INFORMATION - ANALYSIS**For the year ended 30 September 2025****32. NET CASH FLOW FROM FINANCING ACTIVITIES**

	2025	2024
	£m	£m
Dividends paid (note 29)	(81.0)	(83.5)
Repayment of asset backed floating rate notes	-	(28.3)
Issue of covered bonds	498.8	-
Repayment of retail bond	-	(112.5)
Repayment of long-term central bank facilities	(500.0)	(2,000.0)
Movement on short-term central bank facilities	695.0	5.0
Movement on sale and repurchase agreements	-	50.0
Capital element of lease payments	(2.9)	(2.7)
Purchase of own shares (note 28)	(132.4)	(89.5)
Exercise of share awards	0.8	0.7
Net cash generated / (utilised) by financing activities	478.3	(2,260.8)

33. RELATED PARTY TRANSACTIONS

During the year, certain directors of the Company were beneficially interested in savings deposits made with Paragon Bank, on the same terms as were available to members of the public. Deposits of £1,785,000 were outstanding at the year end (2024: £850,000), and the maximum amounts outstanding during the year totalled £1,904,000 (2024: £939,000).

For other members of the Group's executive committees, the total amount of retail deposits outstanding at the period end was £1,036,000 (2024: £663,000) and the maximum amount outstanding in the period was £1,547,000.

The Paragon Pension Plan (the 'Plan') is a related party of the Group. Transactions with the Plan are described in note 19.

The Group had no other transactions with related parties other than the key management compensation.

NOTES TO THE FINANCIAL INFORMATION – CAPITAL AND FINANCIAL RISK**For the year ended 30 September 2025**

The notes below describe the processes and measurements which the Group uses to manage its capital position and its exposure to financial risks including credit, liquidity and market risk. It should be noted that certain capital measures, which are presented to illustrate the Group's position, are not subject to audit. Where this is the case, the relevant disclosures are marked as such.

34. CAPITAL MANAGEMENT

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and strategic objectives
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk
- To ensure that sufficient regulatory capital is available to meet any externally imposed requirements

The protection of the Group's capital base and its long-term viability are key strategic priorities.

The Group sets its target amount of capital in proportion to risk, availability and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as retail or corporate bonds, or sell assets to reduce debt.

The Group is subject to regulatory capital rules imposed by the PRA on a consolidated basis as a group containing an authorised bank. This is discussed further below.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****34. CAPITAL MANAGEMENT (CONTINUED)****(a) Regulatory capital**

The Group is subject to supervision by the PRA on a consolidated basis, as a group containing an authorised bank. For regulatory purposes the Company is designated as a CRR consolidation entity, as defined by the PRA rulebook. As part of this supervision the regulator will issue a Total Capital Requirement ('TCR') setting the amount of regulatory capital relative to its Total Risk Exposure ('TRE') which the Group is required to hold at all times, in order to safeguard depositors from loss through the business cycle. This is set in accordance with the international Basel 3 rules, issued by the Basel Committee on Banking Supervision ('BCBS'), which are implemented in the UK through the PRA Rulebook.

The Group's regulatory capital is monitored by the Board of Directors, its Risk and Compliance Committee and by the Executive Risk Committee ('ERC') and the Asset and Liability Committee, which ensure that appropriate action is taken to ensure compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

The Group elected to take advantage of the IFRS 9 transitional arrangements set out in Article 473a of the CRR, which allowed the capital impact of expected credit losses to be phased in over a five-year period. The phase-in factors applying to transition adjustments allowed for a 95% add back to CET1 capital and Risk Weighted Assets ('RWA') in the financial year ended 30 September 2019, reducing to 85%, 70%, 50% and 25% for the financial years ending in 2020 to 2023, with full recognition of the impact on CET1 capital in the year ended 30 September 2024.

As part of the regulatory response to Covid, Article 473a was revised to extend the transitional arrangements for Stage 1 and Stage 2 impairment provisions created in the financial year ended 30 September 2020 and the financial year ended 30 September 2021, while maintaining the transitional arrangements for impairment provisions created before those years. In order to increase institutions lending capacity in the short term, the EU determined that these additional provisions should be phased into capital over the financial years ending 30 September 2022 to 30 September 2024, rather than recognising the reduction in capital immediately.

Where these reliefs were taken, firms were also required to disclose their capital positions calculated as if the reliefs were not available (the 'fully loaded' basis). From 1 October 2024 the reliefs were fully phased out and hence the fully loaded and regulatory bases for the Group are equal for the current financial year.

The tables below demonstrate that at 30 September 2025 the Group's total regulatory capital of £1,322.4m (2024: £1,327.9m) exceeded the amounts required by the regulator, including £701.2m (2024: £724.1m) in respect of its TCR, which is comprised of fixed and variable elements (amounts not subject to audit).

The total regulatory capital at 30 September 2025 on the fully loaded basis of £1,322.4m (2024: £1,325.2m) was in excess of the TCR of £701.2m (2024: £723.8m) on the same basis (amounts not subject to audit).

At 30 September 2025, the Group's TCR represented 8.1% of TRE (2024: 8.7%) with the reduction principally a result of the most recent review of the Group's risk profile and exposures by the regulator, which was completed during the year.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****34. CAPITAL MANAGEMENT (CONTINUED)**

The PRA Rulebook also requires firms to hold additional capital buffers, including a Capital Conservation Buffer ('CCoB') of 2.5% of TRE (at 30 September 2025) (2024: 2.5%) and a Countercyclical Capital Buffer ('CCyB'), currently 2.0% of TRE (2024: 2.0%). This is expected to be the long-term rate of the CCyB in a standard risk environment. Firm specific buffers may also be required.

The Group's regulatory capital differs from its equity as certain adjustments are required by the PRA Rulebook. A reconciliation of the Group's equity to its regulatory capital determined in accordance with the PRA Rulebook at 30 September 2025 is set out below.

	Note	Regulatory basis		Fully loaded basis	
		2025	2024	2025	2024
		£m	£m	£m	£m
Total equity		1,420.2	1,419.5	1,420.2	1,419.5
<i>Deductions</i>					
Proposed final dividend	29	(57.7)	(55.6)	(57.7)	(55.6)
IFRS 9 transitional relief	*	-	2.7	-	-
Intangible assets	20	(172.1)	(171.5)	(172.1)	(171.5)
Pension surplus net of deferred tax	19	(17.6)	(16.7)	(17.6)	(16.7)
Prudent valuation adjustments	§	(0.4)	(0.5)	(0.4)	(0.5)
Common Equity Tier 1 ('CET1') capital		1,172.4	1,177.9	1,172.4	1,175.2
Other tier 1 capital		-	-	-	-
Total tier 1 capital		1,172.4	1,177.9	1,172.4	1,175.2
Corporate bond		150.0	150.0	150.0	150.0
Eligibility cap	Φ	-	-	-	-
Total tier 2 capital		150.0	150.0	150.0	150.0
Total regulatory capital ('TRC')		1,322.4	1,327.9	1,322.4	1,325.2

* Firms are permitted to phase in the impact of IFRS 9 transition as described above.

§ For capital purposes, assets and liabilities held at fair value, such as the Group's derivatives, are required to be valued on a more conservative basis than the market value basis set out in IFRS 13. This difference is represented by the prudent valuation adjustment above, calculated using the 'Simplified Approach' set out in the PRA Rulebook.

Φ The PRA Rulebook restricts the amount of tier 2 capital which is eligible for regulatory purposes to 25% of TCR.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****34. CAPITAL MANAGEMENT (CONTINUED)**

The TRE amount calculated under the PRA Rulebook framework against which this capital is held, which includes Risk Weighted Asset ('RWA') amounts for credit risk, and the proportion of the TRE which that capital represents, are calculated as shown below.

	Regulatory basis		Fully loaded basis	
	2025	2024	2025	2024
	£m	£m	£m	£m
<i>Credit risk</i>				
Balance sheet assets	7,573.6	7,303.0	7,573.6	7,303.0
Off balance sheet	112.1	95.8	112.1	95.8
IFRS 9 transitional relief	-	2.7	-	-
Total credit risk	7,685.7	7,401.5	7,685.7	7,398.8
Operational risk	928.3	848.0	928.3	848.0
Market risk	-	-	-	-
Other	16.7	29.2	16.7	29.2
Total risk exposure amount ('TRE')	8,630.7	8,278.7	8,630.7	8,276.0
Solvency ratios	%	%	%	%
CET1	13.6	14.2	13.6	14.2
TRC	15.3	16.0	15.3	16.0

This table is not subject to audit

The risk weightings for credit risk exposures are currently calculated using the Standardised Approach ('SA'). The Basic Indicator Approach is used for operational risk.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****34. CAPITAL MANAGEMENT (CONTINUED)*****Leverage ratio***

The table below shows the calculation of the Group's leverage ratio as defined in the PRA Rulebook. This rate is based on consolidated balance sheet assets adjusted as shown. The PRA has set a minimum UK leverage ratio of 3.25% for UK firms with retail deposits of over £50.0 billion, or with significant overseas assets. In addition, in October 2021 the PRA stated its expectation that all other UK firms, such as the Group, should manage their leverage risk so that this ratio does not ordinarily fall below 3.25%.

	Note	2025 £m	2024 £m
Total balance sheet assets		19,930.0	19,270.0
Add: Credit fair value adjustments on loans to customers	11	5.4	75.2
Debit fair value adjustments on retail deposits	21	-	-
Adjusted balance sheet assets		19,935.4	19,345.2
Less: Derivative assets	17	(275.4)	(391.8)
Central bank deposits	10	(2,175.7)	(2,315.5)
Accrued interest on sovereign exposures		(3.0)	(3.8)
On balance sheet items		17,481.3	16,634.1
Less: Intangible assets	20	(172.1)	(171.5)
Pension surplus	19	(23.5)	(22.2)
Total on balance sheet exposures		17,285.7	16,440.4
Regulatory exposure for derivatives		109.5	154.7
Total derivative exposures		109.5	154.7
Post offer pipeline at gross notional amount		1,407.6	1,210.2
Adjustment to convert to credit equivalent amounts		(1,151.8)	(1,000.1)
Off balance sheet items		255.8	210.1
Tier 1 capital		1,172.4	1,177.9
Total leverage exposure before IFRS 9 relief		17,651.0	16,805.2
IFRS 9 relief		-	2.7
Total leverage exposure		17,651.0	16,807.9
UK leverage ratio		6.6%	7.0%

This table is not subject to audit

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK
For the year ended 30 September 2025

34. CAPITAL MANAGEMENT (CONTINUED)

The fully loaded leverage ratio is calculated as follows

	2025	2024
	£m	£m
Fully loaded Tier 1 capital	1,172.4	1,175.2
Total leverage exposure before IFRS 9 relief	17,651.0	16,805.2
	<hr/>	<hr/>
Fully loaded UK leverage exposure	6.6%	7.0%
	<hr/>	<hr/>

This table is not subject to audit

The Group calculates regulatory exposure on derivatives using the Standardised Approach for Counterparty Credit Risk ('SA-CCR'), which includes elements based on the market value of derivative assets adjusted for collateral, amongst other things, and based on potential future exposure in respect of all derivatives held.

The UK leverage ratio is prescribed by the PRA and differs from the leverage ratio defined by Basel due to the exclusion of central bank balances from exposures.

Capital requirements in subsidiary entities

The regulatory capital disclosures in the financial information relate only to the consolidated position for the Group. Individual entities within the Group are also subject to supervision on a standalone basis. All such entities complied with the requirements to which they were subject during the year.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****34. CAPITAL MANAGEMENT (CONTINUED)****(b) Return on tangible equity ('RoTE')**

RoTE is a measure of an entity's profitability used by investors. RoTE is defined by the Group by comparing the profit after tax for the year, adjusted for amortisation charged on intangible assets, to the average of the opening and closing equity positions, excluding intangible assets and goodwill.

It effectively reflects a return on equity as if all intangible assets are eliminated immediately against reserves. As this is similar to the approach used for the capital of financial institutions it is widely used in the sector.

The Group's consolidated RoTE for the year ended 30 September 2025 is derived as follows:

	Note	2025 £m	2024 £m
Profit for the year after tax		180.3	186.0
Amortisation and derecognition of intangible assets		2.0	1.2
Adjusted profit		<u>182.3</u>	<u>187.2</u>
Divided by			
Opening equity		1,419.5	1,410.6
Opening intangible assets	20	<u>(171.5)</u>	<u>(168.2)</u>
Opening tangible equity		<u>1,248.0</u>	<u>1,242.4</u>
Closing equity		1,420.2	1,419.5
Closing intangible assets	20	<u>(172.1)</u>	<u>(171.5)</u>
Closing tangible equity		<u>1,248.1</u>	<u>1,248.0</u>
Average tangible equity		<u>1,248.1</u>	<u>1,245.2</u>
Return on Tangible Equity		<u>14.6%</u>	<u>15.0%</u>

This table is not subject to audit

(c) Dividend and distribution policy

The Company is committed to a long-term sustainable dividend policy. Ordinarily, dividends will increase in line with earnings, subject to the requirements of the business and the availability of cash resources. The Board reviews the policy at least twice a year in advance of announcing its results, taking into account the Group's strategy, capital requirements, principal risks and the objective of enhancing shareholder value.

In determining the level of dividend for any year, the Board expects to follow the dividend policy, but will also take into account the level of available retained earnings in the Company, its cash resources and the cash and capital requirements inherent in its business plans. In addition to the payment of dividends, the Board may also consider whether it is appropriate to apply excess capital in the market purchase of the Group's shares.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****34. CAPITAL MANAGEMENT (CONTINUED)**

The distributable reserves of the Company comprise its profit and loss account balance (note 27) and, other than the regulatory requirement to retain an appropriate level of capital in Paragon Bank PLC, there are no restrictions preventing profits elsewhere in the Group from being distributed to the parent.

Since the year ended 30 September 2018, the Company has adopted a policy of paying out approximately 40% of its basic earnings per share as dividend (a dividend cover ratio of around 2.5 times), in the absence of any idiosyncratic factors which might make such a dividend inappropriate. This policy is reviewed by the Board at least annually. The Company considers it has access to sufficient cash resources to pay dividends at this level and that its distributable reserves are abundant for this purpose.

To provide greater transparency, the Board also adopted a policy of paying an interim dividend in each year equivalent to half of the preceding final dividend in the absence of any factors which might make such a distribution inappropriate. For the current year, based on its review of the Group's capital position and forecasts, the Board determined that an interim dividend in line with this policy was appropriate. It therefore declared an interim dividend for the year of 13.6p per share (2024: 13.2p per share). The Board also confirmed that the Group's normal approach of paying an interim dividend of 50% of the preceding year's final dividend would continue to apply in future years.

The appropriate level of final dividend for the current year was considered by the Board in light of economic and regulatory developments in the year, and the various potential paths for the UK economy. In particular the levels of provision in the Group's loan portfolios and the potential for further provision under stress in the event of a worsening UK economic position were considered by the Board. These were compared to the regulatory capital position at the year end along with the capital impacts of stress testing carried out as part of the ICAAP and forecasting processes, and the potential impacts of ongoing developments in the regulatory regime for capital including the introduction in the UK of Basel 3.1.

The Board particularly considered the appropriateness of including net losses relating to fair value adjustments from hedging in the calculation of any dividend or distribution, as these primarily result from the reversal of gains recorded in earlier years which were disregarded, at the time, for the purpose of determining dividends. Given the size of such adjustments in the period, the Board concluded that their inclusion was not consistent with its overarching aim of delivering a sustainable dividend which grows with the earnings of the business. This is in line with the approach adopted in previous years.

For the current year the Board considered the charge made for historical motor finance commission liabilities, in conjunction with the Group's current and forecast capital positions and concluded that the current year impact of the provision could be disregarded for the purpose of determining the dividend for the year. This approach maintains an appropriate return to shareholders on the Group's activities in the year, while also being affordable in terms of the Group's capital management strategy.

On the basis of this analysis the Board concluded that a total dividend of around 40% of earnings excluding fair value items could be paid.

The Board will therefore propose a final dividend for the year of 30.3p per share (2024: 27.2p per share) for approval at the 2026 AGM, making a total dividend for the year of 43.9p per share (2024: 40.4p per share).

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****34. CAPITAL MANAGEMENT (CONTINUED)**

In the preceding financial year, ended 30 September 2024, a share buy-back programme of up to £100.0m had been authorised. At the end of the period £76.6m had been expended, with the remainder completed in the current financial year.

A share buy-back programme for the current financial year, for up to £50.0m of ordinary shares was authorised at the time of the Group's 2024 results announcement. This was extended to £100.0m in June 2025. This amount was fully utilised during the year.

The total amount expended in the year under these programmes was £124.7m (2024: £76.6m) (note 28).

As part of its consideration of capital described above the Board of Directors authorised a new buy-back of up to £50.0m to commence shortly after the announcement of the 2025 results. All shares acquired in buy-back programmes are initially held in treasury.

The directors have considered the distributable resources of the Company and concluded that these distributions are appropriate.

The most recent policy review, in November 2025, also confirmed the existing dividend policy would continue to apply for future periods, subject to the impact of any future events, and the Board will consider the appropriateness and scale of any interim dividend in the context of the Group's results and the operating and economic environment at the time. Share buy-backs will be considered where excess capital has arisen, either operationally or as a result of changed regulatory requirements.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK****Loans to customers**

The Group's credit risk is primarily attributable to its loans to customers and its business objectives rely on maintaining a high-quality customer base and place strong emphasis on prudent credit management, both at the time of acquiring or underwriting a new loan, where robust lending criteria are applied, and throughout the loan's life.

The Group's balance sheet loan assets at 30 September 2025 are analysed as follows:

	2025		2024	
	£m	%	£m	%
Buy-to-let mortgages	13,774.7	84.3%	13,279.3	84.6%
Owner-occupied mortgages	16.4	0.1%	20.3	0.1%
Total first charge residential mortgages	13,791.1	84.4%	13,299.6	84.7%
Second charge mortgage loans	85.3	0.5%	116.1	0.7%
Loans secured on residential property	13,876.4	84.9%	13,415.7	85.4%
Development finance	960.4	5.9%	884.0	5.6%
Loans secured on property	14,836.8	90.8%	14,299.7	91.0%
Asset finance loans	671.9	4.1%	633.2	4.1%
Motor finance loans	360.5	2.2%	331.4	2.1%
Aircraft mortgages	37.2	0.2%	31.2	0.2%
Secured BBB schemes	17.5	0.1%	31.0	0.2%
Structured lending	267.3	1.7%	256.9	1.6%
Invoice finance	35.4	0.2%	32.7	0.2%
Total secured loans	16,226.6	99.3%	15,616.1	99.4%
Professions finance	39.3	0.2%	53.0	0.3%
Unsecured BBB schemes	46.6	0.3%	10.5	0.1%
Other unsecured commercial loans	28.8	0.2%	25.9	0.2%
Total loans to customers	16,341.3	100.0%	15,705.5	100.0%

First and second charge mortgages are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities.

Development finance loans are secured by a first charge (or similar Scottish security) over the development property and various charges over the build.

Asset finance loans and motor finance loans are effectively secured by the financed asset, while aircraft mortgages are secured by a charge on the aircraft funded.

Structured lending and invoice finance balances are effectively secured over the assets of the customer, with security enhanced by maintaining balances at a level less than the total amount of the security (the advance percentage).

Professions finance balances are generally short term unsecured loans made to firms of lawyers and accountants for working capital purposes.

Loans made under BBB supported schemes have the benefit of a guarantee underwritten by the UK Government.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)**

There are no significant concentrations of credit risk to individual counterparties due to the large number of customers included in the portfolios. All lending is to customers within the UK. The total gross carrying value of the Group's loans to customers due from customers with total portfolio exposures over £10.0m is analysed below by product type.

	2025	2024
	£m	£m
Buy-to-let mortgages	160.8	162.0
Development finance	535.9	497.9
Structured lending	256.3	239.3
Asset finance	10.1	11.5
	<u>963.1</u>	<u>910.7</u>

The threshold of £10.0m is used internally for monitoring large exposures.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)*****Credit grading***

An analysis of the Group's loans to customers by absolute level of credit risk at 30 September 2025 is set out below. The analysed amount represents gross carrying amount.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
30 September 2025					
Very low risk	12,478.6	64.3	1.0	3.4	12,547.3
Low risk	2,427.4	329.6	37.5	0.4	2,794.9
Moderate risk	150.0	188.2	7.6	1.3	347.1
High risk	143.4	70.3	8.1	2.4	224.2
Very high risk	55.2	65.4	274.4	1.5	396.5
Not graded	114.3	2.0	2.2	0.6	119.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total gross carrying amount	15,368.9	719.8	330.8	9.6	16,429.1
Impairment	(12.4)	(4.5)	(70.9)	-	(87.8)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total loans to customers	15,356.5	715.3	259.9	9.6	16,341.3
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
30 September 2024					
Very low risk	12,028.0	75.6	1.1	3.3	12,108.0
Low risk	2,194.7	343.9	44.9	0.7	2,584.2
Moderate risk	182.1	199.5	16.4	1.4	399.4
High risk	127.6	78.1	12.4	3.0	221.1
Very high risk	37.0	76.3	205.2	8.2	326.7
Not graded	135.8	2.7	3.6	0.5	142.6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total gross carrying amount	14,705.2	776.1	283.6	17.1	15,782.0
Impairment	(16.0)	(7.2)	(50.8)	(2.5)	(76.5)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total loans to customers	14,689.2	768.9	232.8	14.6	15,705.5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Gradings above are based on credit scorecards or internally assigned risk ratings as appropriate for the individual asset class. These measures are calibrated across product types and used internally to monitor the Group's overall credit risk profile against its risk appetite.

These gradings represent current credit quality on an absolute basis and this may result in assets in higher IFRS 9 stages with low risk grades, especially where a case qualifies through breaching, for example, an arrears threshold but is making regular payments. This will apply especially to Stage 3 cases reported in note 13, other than those shown as 'realisations'.

Examples of lower risk cases in higher IFRS 9 stages include fully up-to-date receiver of rent cases; accounts where the customer is in arrears on their account with the Group but up to date on accounts with other lenders, creating an overall positive credit rating; and accounts where the default on the Group's loan has yet to impact on the external credit score.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)**

A small proportion of the loan book (2025: 0.7%, 2024: 0.9%) is classed as 'not graded' above. This rating generally relates to loans that have been fully underwritten at origination but where the customer falls outside the automated assessment techniques used post-completion.

Credit characteristics by portfolio***Loans secured on residential property***

An analysis of the indexed Loan-to-Value ('LTV') ratio for those loan accounts secured on residential property by value at 30 September 2025 is set out below. LTVs for second charge mortgages are calculated allowing for the interest of the first charge holder, based on the most recent first charge amount held by the Group, while for acquired accounts the effect of any discount on purchase is allowed for.

	First charge mortgages		Second charge mortgages	
	2025	2024	2025	2024
	%	%	%	%
Loan to value ratio				
Less than 70%	69.2	71.5	96.8	96.1
70% to 80%	28.8	25.9	2.0	2.3
80% to 90%	1.2	1.7	0.4	0.8
90% to 100%	0.2	0.2	0.3	0.2
Over 100%	0.6	0.7	0.5	0.6
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Average LTV ratio	<u>63.2</u>	<u>62.8</u>	<u>49.0</u>	<u>50.3</u>
<i>Of which:</i>				
Buy-to-let	63.2	62.8		
Owner-occupied	<u>38.6</u>	<u>38.9</u>		

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an annual increase of 2.2% in the year ended 30 September 2025 (2024: increase of 3.2%).

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)**

The geographical distribution of the Group's residential mortgage assets by gross carrying value is set out below.

	First Charge		Second Charge	
	2025	2024	2025	2024
	%	%	%	%
East Anglia	3.3	3.3	3.1	3.3
East Midlands	6.1	6.0	6.4	6.3
Greater London	17.8	18.0	7.3	7.5
North	3.5	3.4	4.5	4.4
North West	9.9	10.1	7.5	7.4
South East	30.8	31.0	37.7	37.8
South West	9.2	9.1	8.0	8.0
West Midlands	6.5	6.3	7.3	7.2
Yorkshire and Humberside	7.1	7.1	6.2	6.0
Total England	94.2	94.3	88.0	87.9
Northern Ireland	-	-	2.8	2.5
Scotland	2.7	2.6	5.5	5.8
Wales	3.1	3.1	3.7	3.8
	100.0	100.0	100.0	100.0

Development finance

Development finance customers are not usually required to make payments during the life of the loan, arrears and so past due measures cannot be used to monitor credit risk. Instead, cases are monitored on an individual basis against the costs and progress in the agreed development programme by management and Credit Risk. The average loan to gross development value ('LTGDV') ratio for the portfolio at year end, a measure of security cover, is analysed below.

	2025	2025	2024	2024
	By value	By number	By value	By number
LTGDV	%	%	%	%
50% or less	14.1	8.6	12.4	8.9
50% to 60%	11.5	14.9	13.4	20.1
60% to 65%	23.7	29.4	27.5	27.3
65% to 70%	28.9	32.2	24.1	30.1
70% to 75%	6.4	7.5	8.1	7.2
Over 75%	15.4	7.4	14.5	6.4
	100.0	100.0	100.0	100.0

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)**

The average LTGDV cover at the year end was 63.8% (2024: 63.0%).

LTGDV is calculated by comparing the current expected end of term exposure with the latest estimate of the value of the completed development based on surveyors' reports. The focus on residential property development within the portfolio means that asset values will generally move in line with the UK residential property market.

An analysis of the number of cases in the Group's development finance portfolio by IFRS 9 impairment stage is set out below.

	2025	2024
Stage 1	215	214
Stage 2	17	17
Stage 3	23	19
POCI	-	1
Total	<u>255</u>	<u>251</u>

The POCI loan was recognised on the acquisition of part of the development finance business and an allowance for losses made in the IFRS 3 fair value calculation.

The geographical distribution of the Group's development finance loans by gross carrying value is set out below.

	2025 %	2024 %
East Anglia	5.2	4.6
East Midlands	7.1	11.2
Greater London	13.0	11.0
North	0.2	0.6
North West	3.4	0.7
South East	32.5	33.9
South West	18.0	19.7
West Midlands	9.3	7.9
Yorkshire and Humberside	6.6	6.1
Total England	<u>95.3</u>	<u>95.7</u>
Northern Ireland	-	-
Scotland	3.6	3.8
Wales	1.1	0.5
	<u>100.0</u>	<u>100.0</u>

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)***Asset finance and motor finance*

Asset finance customers are generally small or medium sized businesses. The nature of the assets underlying the Group's asset finance lending, including loans financed through BBB sponsored schemes, by gross carrying value is set out below.

	2025	2024
	%	%
Commercial vehicles	46.9	45.3
Construction plant	26.9	29.4
Manufacturing	6.5	5.3
Technology	3.8	4.2
Refuse disposal vehicles	5.2	4.2
Other vehicles	3.9	4.4
Agriculture	1.2	1.6
Print and paper	0.8	1.1
Other	4.8	4.5
	<u>100.0</u>	<u>100.0</u>

Motor finance loans are secured over cars, leisure vehicles (motorhomes, caravans and campervans) and light commercial vehicles and represent exposure to consumers and small businesses.

Structured lending

The Group's structured lending division provides revolving loan facilities to support non-bank lending businesses. Loans are made to a Special Purpose Vehicle ('SPV') company controlled by the customer and effectively secured on the loans made by the SPV. Exposure is limited to a percentage of the underlying assets, providing a buffer against credit loss.

Summary details of the structured lending portfolio are set out below.

	2025	2024
Number of active facilities	13	11
Total facilities (£m)	403.0	330.0
Carrying value (£m)	<u>267.3</u>	<u>256.9</u>

The maximum advance under these facilities was generally 80% of the underlying assets, except where loans secured by residential property form the security for the facility, where 90% is permissible.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)**

Customers are charged interest on their drawn balance at a rate linked to SONIA, and a commitment fee on the undrawn amount of their facility. However, there is generally no requirement to make regular payments of specific amounts, with the facilities operating on a revolving basis, able to be paid down and redrawn over their term.

The performance of each loan is monitored monthly on a case-by-case basis by the Group's Credit Risk function, assessing compliance with covenants relating to both the customer and the performance and composition of the asset pool. These assessments, which are reported to Credit Committee, are used to inform the assessment of expected credit loss under IFRS 9.

At 30 September 2025 all these facilities were identified as Stage 1. At 30 September 2024 one facility was identified as Stage 2 (2024: one) with the remainder in Stage 1.

BBB supported schemes

These schemes are managed by the British Business Bank ('BBB') and loans made under them have the benefit of guarantees underwritten by the UK Government.

The Coronavirus Business Interruption Loan Scheme ('CBILS') and the Bounce Back Loan Scheme ('BBLs') were launched in 2020 and remained open for new applications until March 2021. The Recovery Loan Scheme ('RLS') was launched in April 2021 as a successor scheme and has subsequently been extended twice. It was available for new lending until June 2024 at which point it was rebranded as the Growth Guarantee Scheme ('GGS'), on broadly similar terms.

The Group offered term loans and asset finance loans under the CBIL scheme. Interest and fees were paid by the UK Government for the first twelve months and the government guarantee covers up to 80% of the lender's principal loss after the application of any proceeds from the asset financed (if applicable).

Loans under the BBL scheme are six year term loans at a standard 2.5% per annum interest rate. The UK Government paid the interest on the loan for the first twelve months and provides lenders with a guarantee covering the whole outstanding balance.

The Group offers term loans and asset finance loans under the RLS / GGS. Interest and fees are payable by the customer from inception. The government guarantee covers up to 80% of the lender's principal loss, after the application of any proceeds from the asset financed (if applicable), on applications received before 1 January 2022 and up to 70% for applications received thereafter under the RLS or under the successor GGS.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)**

The Group's outstanding RLS / GGS, CBILS and BBLS loans at 30 September 2025 were:

	2025	2024
	£m	£m
RLS / GGS		
Term loans	41.8	0.6
Asset finance	15.2	23.4
Total RLS	57.0	24.0
CBILS		
Term loans	3.5	7.7
Asset finance	2.3	7.6
Total CBILS	5.8	15.3
BBLS	1.3	2.2
	64.1	41.5
Total term loans	46.6	10.5
Total asset finance	17.5	31.0
	64.1	41.5

At 30 September 2025, £0.6m of this balance was considered to be non-performing (2024: £0.5m).

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)*****Arrears performance***

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 30 September 2025 and 30 September 2024, compared to the industry averages at those dates published by UK Finance ('UKF') and the Finance and Leasing Association ('FLA'), was:

	2025	2024
	%	%
First mortgages		
Accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	0.52	0.38
Buy-to-let accounts excluding receiver of rent cases	0.34	0.19
Owner-occupied accounts	5.60	6.59
UKF data for mortgage accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	0.75	0.86
Buy-to-let accounts excluding receiver of rent cases	0.64	0.76
Owner-occupied accounts	0.87	0.97
All mortgages	0.83	0.93
	<hr/>	<hr/>
Second charge mortgage loans		
Accounts more than 2 months in arrears		
All accounts	25.60	24.63
Post-2010 originations	4.54	2.92
Legacy cases (pre-2010 originations)	25.94	26.88
Purchased assets	32.61	31.47
FLA data for second mortgage loans	5.80	6.50
	<hr/>	<hr/>
Motor finance loans		
Accounts more than 2 months in arrears		
All accounts	0.91	1.06
Originated cases	0.91	1.06
Purchased assets	-	1.13
FLA data for consumer point of sale hire purchase	3.60	4.10
	<hr/>	<hr/>
Asset finance loans		
Accounts more than 2 months in arrears	0.11	0.14
FLA data for business lease / hire purchase loans	0.70	0.70
	<hr/>	<hr/>

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2024 has been published by the FLA or UKF, the comparative industry figures above have been amended.

Arrears information is not given for development finance, structured lending or invoice finance activities as the structure of the products means that such a measure is not appropriate.

No figure has been calculated for unsecured commercial lending balances due to the size of the exposure.

NOTES TO THE ACCOUNTS – CAPITAL AND CREDIT RISK**For the year ended 30 September 2025****35. CREDIT RISK (CONTINUED)**

The Group calculates its headline arrears measure for buy-to-let mortgages, shown above, based on the numbers of accounts three months or more in arrears, including purchased assets, but excluding those cases in possession and receiver of rent cases designated for sale. This is consistent with the methodology used by UKF in compiling its statistics for the buy-to-let mortgage market as a whole.

The number of accounts in arrears will naturally be higher for legacy books, such as the Group's legacy second charge mortgages and residential first mortgages than for comparable active ones, as performing accounts pay off their balances, leaving arrears accounts representing a greater proportion of the total.

The figures shown above for second charge mortgage loans incorporate purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price. However, this will lead to higher than average reported arrears.

Acquired assets

In the debt purchase industry, Estimated Remaining Collections ('ERC') is commonly used as a measure of the value of a portfolio. This is defined as the sum of the undiscounted cash flows expected to be received over a specified future period. In the Group's view, this measure may be suitable for heavily discounted, unsecured, distressed portfolios (which will be treated as POCI under IFRS 9), but is less applicable for the types of portfolio in which the Group has invested, where cash flows are higher on acquisition, loans may be secured on property and customers may not be in default. In such cases, the IFRS 9 amortised cost balance, at which these assets are carried in the Group balance sheet, provides a better indication of value.

However, to aid comparability, the 84 and 120 month ERCs value for the Group's purchased consumer loan assets, are set out below. These are derived using the same models and assumptions used in the EIR calculations. ERCs are set out both for all purchased consumer portfolios and for those classified as POCI under IFRS 9.

	2025	2024	2023
	£m	£m	£m
<i>All purchased consumer assets</i>			
Carrying value	31.3	41.1	58.6
84 month ERCs	36.5	48.6	68.9
120 month ERCs	40.4	52.9	73.4
	<hr/>	<hr/>	<hr/>
<i>POCI assets only</i>			
Carrying value	9.7	10.6	17.7
84 month ERCs	13.2	15.6	24.5
120 month ERCs	16.2	18.7	27.8
	<hr/>	<hr/>	<hr/>

Amounts shown above are disclosed as loans to customers. They include first mortgages and second charge mortgage loans.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025**

The notes set out below describe the accounting basis on which the Group prepare their accounts, the particular accounting policies adopted by the Group and the principal judgements and estimates which were required in the preparation of the financial statements.

They also include other information describing how the accounts have been prepared required by legislation and accounting standards.

36. ACCOUNTING POLICIES

The preliminary financial information has been prepared on the basis of the accounting policies used in the production of the financial statements for the year.

The Group is required, by the Companies Act 2006 and the Listing Rules of the FCA, to prepare its financial statements for the year ending 30 September 2025 in accordance with UK-adopted international accounting standards. In the financial years reported on this also means, in the Group's circumstances, that the financial statements also accord with IFRS as approved by the International Accounting Standards Board.

The requirements of UK-adopted IFRS have not changed for the current year and therefore the accounting policies adopted in the current year are the same as those set out in the 2024 Annual Report and Accounts of the Group.

The Group's covered bonds, issued in the period, are accounted for in some way as its other corporate borrowings, with interest recognised on the effective interest rate ('EIR') basis.

The Group has historically chosen to present an additional comparative balance sheet.

IFRS 18

On 9 April 2024 the IASB issued IFRS 18 – 'Presentation and Disclosure in Financial Statements'. This is expected to impact the way in which information is disclosed in financial statements without impacting materially on the underlying accounting.

IFRS 18 is expected to apply to the Group with effect from its financial year ending 30 September 2028 if the standard is endorsed for use in the UK. A detailed exercise to determine the impact of the new Standard on the Group's annual and half-year reporting will be carried out before the implementation date.

New and revised reporting standards

In the preparation of these consolidated financial statements, no accounting standards are being applied for the first time.

Other than IFRS 18, described above, there are no new reporting standards and interpretations in issue but not effective which address matters relevant to the Group's accounting and reporting.

No new or revised reporting standards significantly affecting the Group's accounting have been issued since the approval of the Group's financial statements for the year ended 30 September 2024, other than IFRS 18.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****36. ACCOUNTING POLICIES (CONTINUED)****Going concern basis**

The going concern basis has been adopted in the preparation of this preliminary financial information. The reasons for the adoption of this basis are set out in note 38.

37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The critical accounting estimates and judgements affecting the information are the same as those described in notes 68 and 69 to the accounts of the Group for the year ended 30 September 2024.

Updated commentary on the critical accounting judgements related to significant increase in credit risk, and the critical accounting estimates related to impairment losses on loans to customers and effective interest rates is set out below. In addition, information is provided in respect of the accounting estimate relating to provisions for liabilities.

(a) Significant Increase in Credit Risk ('SICR')

Under IFRS 9, the directors are required to assess where a credit obligation has suffered a Significant Increase in Credit Risk ('SICR'). The directors' assessment is based primarily on changes in the calculated PD, but also includes consideration of other qualitative indicators and the adoption of the backstop assumption in the Standard that all cases which are more than 30 days overdue have an SICR, for account types where days overdue is an appropriate measure.

As part of its consideration of the adequacy of its impairment provisioning, management have considered whether there are any factors not reflected in its normal approach which indicate that any group, or groups, of accounts should be considered as having an SICR. No such accounts were identified.

If additional accounts were determined to have an SICR, these balances would attract additional impairment provision, as such cases are provided on the basis of lifetime expected loss, rather than the 12-month expected loss, and the overall provision charge would be higher. Conversely, if cases are incorrectly identified as SICR, impairment provisions will be overstated. Furthermore, adjustments to current PD estimates in the Group's models may also have the effect of identifying more or less accounts as having an SICR.

More information on the definition of SICR adopted is given in note 12.

(b) Significant Impairment losses on loans to customers

Impairment losses for the majority of loans are calculated based on statistical models, applied to the present status, performance and management strategy for the loans concerned, which are used to determine each loan's PD and LGD.

Internal information used will include number of months arrears, qualitative information, such as possession by a first charge holder on a second charge mortgage or, where a buy-to-let case is under the control of a receiver of rent, the receiver's present and likely future strategy for the property (which might include keeping current tenants in place, refurbish and relet, immediate sale, etc).

External information used includes customer specific data, such as credit bureau information as well as more general economic data.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

Key internal assumptions in the models relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property or other charged assets. These cash flows will include payments received from the customer, and, for buy-to-let cases where a receiver of rent is appointed, rental receipts from tenants, after allowing for void periods and running costs. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition, the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect current and expected conditions.

In evaluating the potential impact of the economic situation at 30 September 2025 there is little recent history against which to benchmark likely customer behaviour. The UK base rate stood at 5.25% throughout much of the preceding financial year ending 30 September 2024, having risen rapidly to that level. This level had not previously been reached since April 2008, and the base rate has fallen back only slowly from that point, remaining significantly higher than its level between 2009 and 2022. There have also been significant regulatory interventions and changes in product structures in that period, including the growth on longer-term fixed-rate mortgage lending in recent years. All these factors make the historical record of behaviours in higher interest rate environments an uncertain guide to the likely impact of current rate levels.

There also remains an elevated degree of uncertainty over the direction of the UK economy. The UK Government's October 2024 budget contained significant fiscal measures which came into force during the year. These might plausibly impact the economy in a number of different ways and it remains too early to predict their ultimate impact. At the same time, the level to which existing economic pressures on customers have yet to manifest themselves in credit metrics is still unclear, with credit performance across the markets in which the Group is active being better than some expected over the past two years. However, considerable uncertainty exists as to whether this represents a more benign outcome, or merely a delay in credit issues emerging beyond what was anticipated. Together, these factors make forecasting credit behaviour in current conditions challenging.

The accuracy of the impairment calculations would be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model, then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the models might increase the provision required in respect of accounts currently provided. Similarly, if the account management approach assumed in the modelling cannot be adopted the provision required may be different.

In order to provide forward-looking economic inputs to the modelling of the ECL, the Group must derive a set of scenarios which are internally coherent. The Group addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes. These scenarios at 30 September 2025 have been derived in light of the current economic situation modelling a variety of possible outcomes as described in note 15.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

As noted above, there remains a significant range of different opinions amongst economists about the longer-term prospects for the UK. While some convergence of views on the central case has taken place over recent months, the level of deviation of alternative potential scenarios from this position remains significant, with the medium-term uncertainty over the direction and impact of UK economic policy adding inherent complexity to any forecasting exercise.

The variables are used for two purposes in the IFRS 9 calculations:

- They are applied as inputs in the models which generate PD values, where those found by statistical analysis to have the most predictive value are used
- They are used as part of the calculation where the variable has a direct impact on the expected loss calculation, such as the HPI

The economic variables will also inform assumptions about the Group's approach to account management given a particular scenario.

In addition to uncertainty represented by the economic scenarios, the Group recognises that economic situations can arise which lie outside the range of potential positions considered as a basis for its IFRS 9 approach to impairment when the current models were built. The current forecast scenarios, which include higher rates of interest and inflation than in the historically observed data, represent situations where these models may not be able to fully allow for potential economic impacts on the loan portfolios. The Group therefore assessed, for each class of asset, whether any adjustment to the normal approach was required to ensure sufficient provision was created by the models. It also reviewed other available data, both from account performance and customer feedback to form a view of the underlying reasons for observed customer behaviours and of their future intentions and prospects.

As a result of this exercise additional requirements for provision were identified, to compensate for potential model weakness and to allow for economic pressures in the wider economy which cannot be identified by a modelled approach. By their nature such adjustments are less systematic and therefore subject to a wider range of outturns. The nature and amounts of these judgemental adjustments are set out in note 12.

The position after considering all these matters is set out in notes 12 to 14, together with further information on the Group's approach. The economic scenarios described above and their impact on the overall provision are set out in note 15, while sensitivity analyses on impairment provisioning are set out in note 16.

(c) Significant Effective interest rates

In order to determine the EIR applicable to loans and borrowings an estimate must be made of the expected life of each asset or liability and the cash flows relating thereto, including those relating to early redemption charges together with any initial fees receivable from the customer or procurement fees payable to a mortgage broker or other introducer.

Where an account may have differing interest charging arrangements in different phases of its contractual life, such as the Group's buy-to-let mortgage accounts which have a fixed interest rate for a set period and then revert to a variable rate set by the Group (the 'reversionary rate'), the behavioural life and the expected level of the reversionary rate will have a significant impact on the overall EIR. For each portfolio a model is in place to ensure that income is appropriately spread.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

For loan accounts, such as those in the Group's mortgage portfolios, where borrowers typically repay their balances before the contractual repayment date, the estimated life of the account will be dependent on customer behaviour. The customer may choose to sell their property and redeem the mortgage at any point, but may also choose to refinance their account, if a more attractive alternative is available, based on the interest rate they are being charged at that point in time, or expect to be charged in the future. The behavioural life of the loan may therefore be influenced by levels of activity in the residential property market, or by the nature and pricing of alternative funding sources, at each point in the loan's life and these are likely to vary over time.

For loans which have a fixed-rate period, the length of that period will have a significant behavioural impact, with many customers choosing to consider their positions at the point at which the fixed rate expires, influenced by the market conditions then prevailing. The forecast future choices of customers currently on fixed-rate products at this point therefore has a significant impact on the EIR modelling for these assets.

Where loans are more likely to run to contractual term, and interest rates are less likely to vary over that term, as is the case for the majority of the Group's motor finance and asset-backed SME lending, the determination of an EIR model is less judgemental, and reflects principally the spreading of known fees and commissions.

The Group models lives for each of its asset classes, based on its current expectation of future borrower behaviour, and uses these profiles, together with its expectations of future interest rates, following the end of the fixed rate period, to determine the correct EIR to be applied to each account. The underlying estimates are based on historical data, adjusted for expected changes, and reviewed regularly. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and charging rates and those predicted, which in turn would depend directly on customer behaviour and market conditions.

The Group therefore keeps its models under review and refines its modelling in the light of any emerging deviations from expected behaviour. These are particularly likely where the current or expected economic environment differs from historic scenarios for which relevant data observations are available. This is currently the case, with market mortgage rates trending slowly downwards from a historically high level, a scenario not seen for some years. In such cases management consider carefully the impacts which any new conditions may have on customer behaviour and interest rates after the end of the fixed rate period, and reflect them in the model as appropriate, revisiting these assumptions regularly as observable data becomes available, with a detailed exercise to analyse any emerging themes taking place every six months as part of the half-year and year-end results processes.

The application of these estimates results in an overall increase in the carrying value of the Group's loans to customers, including POCI accounts, at 30 September 2025 of £7.1m (2024: decrease of £4.4m).

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

To illustrate the potential variability of the estimate, the amortised cost values were recalculated by changing one factor in the EIR calculation and keeping all others at their current levels.

- Currently the average behavioural life used in the buy-to-let modelling for non-legacy assets, which have an average fixed period of 48 months (2024: 48 months), was 101 months (2024: 80 months)

A reduction of the assumed average lives of all loans secured on residential property by three months would reduce balance sheet assets by £6.6m (2024: £9.3m), while an increase of the assumed asset lives of such assets by three months would increase balance sheet assets by £6.5m (2024: £9.1m). £5.8m of the increase (2024: £8.9m) and £5.8m of the decrease (2024: £9.1m) related to non-legacy buy-to-let assets

A reduction of the assumed average lives of all loans secured on residential property by six months would reduce balance sheet assets by £13.1m (2024: £18.5m), while an increase of the assumed asset lives of such assets by six months would increase balance sheet assets by £12.9m (2024: £17.5m). £11.4m of the increase (2024: £17.2m) and £11.6m of the decrease (2024: £18.2m) related to non-legacy buy-to-let assets

- The EIR calculation is based on management estimates of the reversionary rates which would be charged to customers after the end of their fixed rate periods

If it was assumed that the reversionary rate which would be charged in future was 0.1% lower, then the value of the non-legacy buy-to-let loan book would be decreased by £11.6m (2024: decrease by £8.4m)

If it was assumed that the reversionary rate which would be charged in future was 0.1% higher, then the value of the non-legacy buy-to-let loan book would be increased by £11.5m (2024: increase by £8.4m)

- Where fixed-rate buy-to-let assets redeem before the end of their fixed rate period, an early redemption charge is made, and an estimate for the impact of these charges must be included in the EIR calculation

An increase of 50% in the number of five-year fixed-rate buy-to-let loan assets assumed to redeem before the end of the fixed-rate period would increase balance sheet assets by £8.9m (2024: £9.9m)

As any of these changes would, in reality, be accompanied by movements in other factors, actual outcomes may differ from these estimates

(d) Provisions for liabilities

The Group is exposed to potential liabilities relating to historical payments of motor finance commission, as described in note 25. A provision has been made in the accounts for such liabilities, including redress amounts payable and related costs, based on the Group's best estimate of the amount which might be payable if the current proposals from the FCA, on which it is currently consulting are finalised unchanged.

This calculation includes estimates where outcomes are uncertain, including for levels of take up of any scheme, or where there is currently insufficient information to calculate a precise figure, such as the levels of costs which might be incurred in executing a redress programme in line with the regulator's expectations.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

As the proposals are currently still being consulted upon, there remains the possibility that the final requirements might be wider or narrower in scope than presently proposed, that the final redress calculation might differ from that currently proposed, or that the recommended operational approach to programme execution may be changed as a result of the consultation. Further, while the FCA has stated its intention that its scheme should be comprehensive, there remains the possibility of related claims being pursued through other channels.

The impact of any of these matters might result in an increase or decrease in the Group's ultimate liability compared to the amount presently provided. Information on the volume and nature of the Group's motor finance commissions is set out in note 25 in order that the potential sensitivities surrounding the provision may be assessed.

38. GOING CONCERN

The financial statements of the Group have been prepared on a going concern basis.

Accounting standards require the directors to assess the ability of the Group to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014.

Particular focus is given to the financial forecasts to ensure the adequacy of resources, including liquidity and capital, available for the Group to meet their business objectives on both a short-term and strategic basis. The guidance requires that this assessment covers a period of at least twelve months from the date of approval of these financial statements.

Financial and capital forecasting

The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, including its regulatory capital position, funding requirement and cash flows. Detailed plans are produced for two-year periods with longer-term forecasts covering a five-year period, including detailed income forecasts. These plans provide information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives, both on a short-term and strategic basis.

The forecast is updated every six months, and the directors have based their going concern assessment on the forecast for the period beginning on 1 October 2025.

The Group makes extensive use of stress testing in compiling and reviewing its forecasts. This stress testing approach was reviewed in detail during the year as part of the annual Internal Capital Adequacy Assessment Process ('ICAAP') cycle, where testing considered the impact of a number of severe but plausible scenarios. During the planning process, sensitivity analysis was carried out on a number of key assumptions that underpin the forecast to evaluate the impact of the Group's principal risks.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****38. GOING CONCERN (CONTINUED)**

The key stresses modelled in detail to evaluate the forecast were:

- **Increase in buy-to-let volumes.** This examined the impact of higher volumes at a reduced yield on profitability and illustrated the extent to which capital resources and liquidity would be stretched due to the higher cash and capital requirements
- **Prolonged reduction in buy-to-let volumes.** This analysis explored the effect of heightened competition in the buy-to-let market, highlighting its influence on the Group's return metrics, portfolio composition and overall profitability
- **Higher funding costs.** Higher cost on all new savings deposits, both front book and back book throughout the forecast horizon. This scenario illustrates the impact of a significant, prolonged margin squeeze on profitability, and whether this would cause significant impacts on any capital, liquidity or encumbrance ratios
- **Increased buy-to-let redemptions.** Higher redemption rates for buy-to-let mortgages reaching the end of their fixed rate period. This illustrates the potential risk inherent in the five-year fixed rate business
- **Reduced development finance volumes and yield.** This replicates a significant increase in competition within the sector, reducing yields and impacting market share, demonstrating how a lower mix of the Group's highest margin product impacts on contribution to costs and other profitability ratios
- **Increased economic stress on customers.** As well as modelling the impact of each of the economic scenarios set out in note 15 across the forecast horizon, the severe economic scenario was also modelled over the five-year horizon. To ensure this represented a worst-case scenario all other assumptions were held steady, although in reality adjustments to new business appetite and other factors would be made
- **Combined downside stress.** The IFRS 9 downside economic scenario described in note 15 was modelled out for the plan horizon along with a plausible set of other adverse factors to the business model, creating a prolonged tail-risk

The stresses noted above excluded potential management actions which would, in a real-life situation, be taken to mitigate their impact. Their purpose was to demonstrate how such stresses may affect the our financing, capital and liquidity positions , in turn highlighting areas which might impact the Group's going concern status. Under each scenario, the Group was able to both meet its obligations across the forecast horizon and maintain a surplus over its regulatory requirements for both capital and liquidity through the application of normal balance sheet management activities.

Potential operational risks are also assessed as part of the Group's annual ICAAP process, focusing on the impacts of a series of severe but plausible scenarios. This analysis did not create outputs that cast doubt on the ability of the Group to continue as a going concern.

The potential impacts of climate change on the Group were also reviewed. This exercise included a re-assessment of work done in 2024, leveraging the Bank of England Climate Biennial Exploratory Scenario ('CBES').

The opening position for the Group's forecasts and for these reviews includes a strong capital and liquidity base, supporting the management of any significant outflows of deposits and / or reduced inflows from customer receipts. The forecasts, even under reasonable further levels of stress show the Group retaining sufficient equity, capital, cash and liquidity resources to satisfy its regulatory and operational requirements across the forecast period.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****38. GOING CONCERN (CONTINUED)****Availability of funding and liquidity**

The availability of funding and liquidity is a key consideration, including retail deposit, wholesale funding, central bank and other contingent liquidity options.

The Group's retail deposits of £16,265.7m (note 21), raised through Paragon Bank, are repayable within five years, with 90.8% of this balance (£14,765.3m) payable within twelve months of the balance sheet date. The liquidity exposure represented by these deposits is closely monitored; a process supervised by the ALCO. The Group is required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 30 September 2025, Paragon Bank held £2,736.7m of balance sheet assets for liquidity purposes, in the form of central bank deposits and investment securities. A further £150.0m of liquidity was provided by the off balance sheet long / short transaction, bringing the total to £2,886.7m.

Paragon Bank manages its liquidity in line with the Board's risk appetite and the requirements of the PRA, which are formally documented in the Board's approved Individual Liquidity Adequacy Assessment Process ('ILAAP'), updated annually. The Bank maintains a liquidity framework that includes a short to medium-term cash flow requirement analysis, a longer-term funding plan and access to the Bank of England's liquidity insurance facilities, where pre-positioned assets would support further drawings of £4,168.3m (2024: £4,445.9m). Holdings of the Group's own externally rated mortgage-backed loan notes can also be used to access the Bank of England's liquidity facilities or other funding arrangements. At 30 September 2025 the Group had £1,614.2m (2024: £1,797.2m) of such notes available for use, of which £1,353.2m were rated AAA (2024: £1,536.2m). The available AAA notes would give access to £1,055.5m if used to support drawings on Bank of England facilities (2024: £751.9m).

The earliest maturity of any of the Group's wholesale debt at the balance sheet date was the central bank debt payable in October 2025, which was satisfied on its due date. No other long-term debt falls due before March 2027.

The Group has regularly accessed the capital markets for warehouse funding and corporate and retail bonds over recent years and continues to be able to access these markets. It also has access to the short-term repo market which it accesses from time-to-time for liquidity purposes.

During the year, the Group established a covered bond programme under which it can issue up to £5,000.0m of bonds from time to time, when market conditions are acceptable, with relatively short preparation and lead time.

The Group's access to debt is enhanced by its BBB+ corporate rating, confirmed by Fitch Ratings in February 2025, and its Baa3 corporate rating issued by Moody's Investor Services in November 2024. Its status as an issuer is evidenced by the BBB-, investment grade, rating of its £150.0m Tier-2 bonds awarded by Fitch.

The Group's cash analysis, which includes the impact of all scheduled debt and deposit repayments, continues to show a strong position, even after allowing scope for significant discretionary payments and capital distributions.

As described in note 34 the Group's capital base is subject to consolidated supervision by the PRA. Its capital at 30 September 2025 was in excess of regulatory requirements and its forecasts indicate this will continue to be the case, even allowing for currently proposed changes in the UK's capital requirements framework.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****38. GOING CONCERN (CONTINUED)****Going concern assessment**

In order to assess the appropriateness of the going concern basis, the directors considered the financial position of the Group, the cash flow requirements laid out in the Group's forecasts, its access to funding, the assumptions underlying the forecasts and potential risks affecting them. As part of this exercise, the potential impacts on funding, capital and cash of the motor finance exposures described in note 25 were considered.

After performing this assessment, the directors concluded that there was no material uncertainty as to whether the Group would be able to maintain adequate capital and liquidity for at least twelve months following the date of approval of these financial statements and consequently that it was appropriate for them to continue to adopt the going concern basis in preparing the financial statements of the Group.

39. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's financial assets and financial liabilities are valued on one of two bases, defined by IFRS 9:

- Financial assets and liabilities carried at fair value through profit and loss ('FVTPL')
- Financial assets and liabilities carried at amortised cost

IFRS 7 – 'Financial Instruments: Disclosures' requires that where assets are measured at fair value these measurements should be classified using the fair value hierarchy set out in IFRS 13 – 'Fair Value Measurement'. This hierarchy reflects the inputs used and defines three levels:

- Level 1 measurements are unadjusted market prices
- Level 2 measurements are derived from directly or indirectly observable data, such as market prices or rates
- Level 3 measurements rely on significant inputs which are not derived from observable data

As quoted prices are not available for level 2 and 3 measurements, the valuation is derived from cash flow models based, where possible, on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models, or the assumptions used.

The Group had no financial assets or liabilities at 30 September 2025 or 30 September 2024 carried at fair value and valued using level 3 measurements.

The Group has not reclassified any of its measurements during the year.

The methods by which fair value is established for each class of financial assets and liabilities are set out below.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION

For the year ended 30 September 2025

39. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**(a) Assets and liabilities carried at fair value**

The following table summarises the Group's financial assets and liabilities which are carried at fair value.

	Note	2025 £m	2024 £m
Financial assets			
Derivative financial assets	17	275.4	391.8
		<u> </u>	<u> </u>
Financial liabilities			
Derivative financial liabilities	17	68.2	99.7
		<u> </u>	<u> </u>

All these financial assets and financial liabilities are required to be carried at fair value by IFRS 9.

Derivative financial assets and liabilities

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a market interest rate, adjusted for risk as appropriate. The principal inputs to these valuation models are SONIA sterling benchmark interest rates.

In order to determine the fair values, the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued, such as particular contractual features or the identity of the counterparty. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors. These valuations are based on market information, and they are therefore classified as level 2 measurements. Details of these assets and liabilities are given in note 17.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****39. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)****(b) Assets and liabilities carried at amortised cost**

The fair values for financial assets and financial liabilities held at amortised cost, determined in accordance with the methodologies set out below are summarised below.

	Note	2025 Carrying amount £m	2025 Fair value £m	2024 Carrying amount £m	2024 Fair value £m
The Group					
Financial assets					
Cash	10	2,389.5	2,389.5	2,525.4	2,525.4
Investment securities		626.2	611.6	427.4	422.0
Loans to customers	11	16,341.3	16,357.5	15,705.5	15,772.5
Sundry financial assets	18	16.9	16.9	15.8	15.8
		<u>19,373.9</u>	<u>19,375.5</u>	<u>18,674.1</u>	<u>18,735.7</u>
Financial liabilities					
Short-term bank borrowings		0.5	0.5	0.4	0.4
Retail deposits	21	16,265.7	16,260.0	16,298.0	16,334.2
Corporate bonds		150.1	149.2	149.9	145.5
Covered bonds		499.2	501.3	-	-
Sale and repurchase agreements		100.0	100.0	100.0	100.0
Other financial liabilities	24	413.4	413.4	398.1	398.1
		<u>17,428.9</u>	<u>17,424.4</u>	<u>16,946.4</u>	<u>16,978.2</u>

The fair values of retail deposits, corporate bonds and covered bonds shown above will include amounts for the related accrued interest.

Cash, sale and repurchase agreements, bank borrowings and securitisation borrowings

The fair values of cash and cash equivalents, sale and repurchase agreements and bank borrowings, which are carried at amortised cost, are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets and the sale and repurchase agreements mature within three months of the year end and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises. This also applies to the parent company's loans to its subsidiaries.

As these valuation exercises are not wholly market-based, they are considered to be level 2 measurements.

Investment securities

The Group's investment securities are of types for which a liquid market exists, and for which quoted prices are available. It is therefore appropriate to consider that the market price of these assets constitutes a fair value. As this valuation is based on a market price it is considered to be a level 1 measurement.

NOTES TO THE FINANCIAL INFORMATION – BASIS OF PREPARATION**For the year ended 30 September 2025****39. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)***Loans to customers*

To assess the likely fair value of the Group's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers based on a mixture of market-based inputs, such as rates and pricing and non-market based inputs such as redemption rates. Given the mixture of observable and non-observable inputs these are considered to be level 3 measurements.

Corporate debt

The Group's corporate bonds and covered bonds are listed on the London Stock Exchange and there is presently a reasonably liquid market in the instruments. It is therefore appropriate to consider that the market price of these borrowings constitutes a fair value. As this valuation is based on a market price, it is considered to be a level 1 measurement.

Retail deposits

To assess the likely fair value of the Group's retail deposit liabilities, the directors have considered the estimated cash flows expected to arise based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as withdrawal rates. Given the mixture of observable and non-observable inputs, these are considered to be level 3 measurements.

Sundry assets and liabilities

Fair values of financial assets and liabilities disclosed as sundry assets and sundry liabilities are not considered to be materially different to their carrying values.

These assets and liabilities are of relatively low value and may be settled at their carrying value at the balance sheet date or shortly thereafter.

Appendices to the Financial Information

APPENDICES TO THE FINANCIAL INFORMATION**For the year ended 30 September 2025****A. UNDERLYING RESULTS**

The Group reports underlying profit excluding fair value accounting adjustments arising from its hedging arrangements and certain one-off items of income and costs relating to provisions, asset sales and acquisitions.

The fair value adjustments arise principally as a result of market interest rate movements, outside the Group's control. They are profit neutral over time and are not included in operating profit for management reporting purposes. They are also disregarded by many external analysts.

The transactions relating to the provisions, asset disposals and acquisitions do not form part of the day-to-day activities of the Group and, therefore, their removal provides greater clarity on the Group's operational performance.

This definition of 'underlying' has been chosen following consideration of the needs of investors and analysts following the Group's shares, and because management feel it better represents the underlying economic performance of the Group's business. However, it should be noted that definitions used for these measures differ between firms, and caution should be exercised in making direct comparisons.

	Note	2025 £m	2024 £m
Profit on ordinary activities before tax		256.5	253.8
Add back: Fair value adjustments	7	11.9	38.9
Motor finance provisions	25	25.5	-
Underlying profit		<u>293.9</u>	<u>292.7</u>

Underlying basic earnings per share, calculated on the basis of underlying profit adjusted for tax, is derived as follows.

	2025 £m	2024 £m
Underlying profit	293.9	292.7
Tax on underlying result	(77.1)	(80.3)
Underlying earnings	<u>216.8</u>	<u>212.4</u>
Basic weighted average number of shares (note 9)	<u>197.7</u>	<u>210.1</u>
Underlying earnings per share	<u>109.7p</u>	<u>101.1p</u>

Tax has been charged on the underlying profit at 26.2%, being the effective rate which would result from the exclusion of the adjusting items from the corporation tax calculation (2024: 27.4%).

APPENDICES TO THE FINANCIAL INFORMATION**For the year ended 30 September 2025****A. UNDERLYING RESULTS (CONTINUED)**

Underlying return on tangible equity is derived using underlying earnings calculated on the same basis shown above. As stated in its annual report for the year ended 30 September 2024, the Group has revised its definition of underlying RoTE to increase comparability with other entities in the sector, effective from the current financial year.

The disclosure of underlying RoTE set out below is calculated on the new basis.

	2025 £m	2024 £m
Underlying earnings	216.8	212.4
Amortisation and derecognition of intangible assets	2.0	1.2
Adjusted underlying earnings	<u>218.8</u>	<u>213.6</u>
Average tangible equity	1,248.1	1,245.2
Underlying RoTE	<u>17.5%</u>	<u>17.2%</u>

APPENDICES TO THE FINANCIAL INFORMATION**For the year ended 30 September 2025****B. INCOME STATEMENT RATIOS**

NIM and cost of risk (impairment charge as a percentage of average loan balance) for the Group and its segments are calculated as shown below. Not all net interest is allocated to segments and therefore total segment net interest in these tables will not equal net interest for the Group (see note 2).

Year ended 30 September 2025

	Note	Mortgage Lending £m	Commercial Lending £m	Group Total £m
Opening loans to customers	11	13,415.7	2,289.8	15,705.5
Closing loans to customers	11	13,876.4	2,464.9	16,341.3
Average loans to customers		13,646.1	2,377.3	16,023.4
Net interest	2	287.7	135.5	502.3
NIM		2.11%	5.70%	3.13%
Impairment provision charge	6	6.3	35.6	41.9
Cost of risk		0.05%	1.50%	0.26%

Year ended 30 September 2024

	Note	Mortgage Lending £m	Commercial Lending £m	Group Total £m
Opening loans to customers	11	12,902.3	1,972.0	14,874.3
Closing loans to customers	11	13,415.7	2,289.8	15,705.5
Average loans to customers		13,159.0	2,130.9	15,289.9
Net interest	2	282.3	124.8	483.2
NIM		2.15%	5.86%	3.16%
Impairment provision (release) / charge	6	5.6	18.9	24.5
Cost of risk		0.04%	0.89%	0.16%

APPENDICES TO THE FINANCIAL INFORMATION**For the year ended 30 September 2025****C. COST:INCOME RATIO**

Cost:income ratio is derived as follows:

	2025 £m	2024 £m
Cost – operating expenses	179.3	179.2
Total operating income	515.1	496.4
Cost / Income	34.8%	36.1%

D. DIVIDEND COVER

For the purposes of dividend policy, the Group defines dividend cover based on basic earnings per share, adjusted where considered appropriate, and dividend per share. This is the most common measure used by financial analysts.

For the current and preceding years, the Board has determined that it is appropriate to exclude the post-tax impact of fair value losses from its calculation. It has also decided, for the current year, to exclude the impact of provisions made for liabilities in respect of historical motor finance commissions. The dividend cover for the year, subject to the approval of the 2025 final dividend at the AGM in March 2026 is therefore as set out below.

	Note	2025	2024
Earnings per share (p)	9	91.2	88.5
Attributable fair value losses (p)		6.0	18.5
Attributable provision for liabilities (p)		12.9	-
Attributable tax on the above (p)		(0.4)	(5.9)
Adjusted earnings (p)		109.7	101.1
Proposed dividend per share in respect of the year (p)	29	43.9	40.4
Dividend cover (times)		2.50	2.50

APPENDICES TO THE FINANCIAL INFORMATION
For the year ended 30 September 2025

E. NET ASSET VALUE

	Note	2025	2024
Total equity (£m)		1,420.2	1,419.5
Outstanding issued shares (m)	26	197.4	210.6
Treasury shares (m)	28	(3.4)	(2.1)
Shares held by ESOP schemes (m)	28	(3.4)	(4.2)
		190.6	204.3
Net asset value per £1 ordinary share		£7.45	£6.95
Tangible equity (£m)	34	1,248.1	1,248.0
Tangible net asset value per £1 ordinary share		£6.55	£6.11

CAUTIONARY STATEMENT

Sections of this Preliminary Announcement, including but not limited to the Management Report may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Group. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as ‘anticipate’, ‘estimate’, ‘expect’, ‘intend’, ‘will’, ‘project’, ‘plan’, ‘believe’, ‘target’ and other words and terms of similar meaning in connection with any discussion of future operating or financial performance but are not the exclusive means of identifying such statements. These have been made by the directors in good faith using information available up to the date on which they approved this report, and the Group undertakes no obligation to update or revise these forward-looking statements for any reason other than in accordance with its legal or regulatory obligations (including under the UK Market Abuse Regulation, UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (‘FCA’)).

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Group and depend upon circumstances that may or may not occur in the future that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. There are also a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. As a result, you are cautioned not to place reliance on such forward-looking statements as a prediction of actual results or otherwise.

These factors include, but are not limited to: material impacts related to foreign exchange fluctuations; macro-economic activity; the impact of outbreaks, epidemics or pandemics, and the extent of their impact on overall demand for the Group’s services and products; potential changes in dividend policy; changes in government policy and regulation (including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which the Group operates) and the consequences thereof; actions by the Group’s competitors or counterparties; third party, fraud and reputational risks inherent in its operations; the UK’s exit from the EU; unstable UK and global economic conditions and market volatility, including currency and interest rate fluctuations and inflation or deflation; the risk of a global economic downturn; social unrest; acts of terrorism and other acts of hostility or war and responses to, and consequences of those acts; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; general changes in government policy that may significantly influence investor decisions (including, without limitation, actions taken in support of managing and mitigating climate change and in supporting the global transition to net zero carbon emissions); societal shifts in customer financing and investment needs; and other risks inherent to the industries in which the Group operates.

Nothing in this Preliminary Announcement should be construed as a profit forecast.