Paragon Bank PLC

Annual Report & Accounts

For the year ended 30 September 2025

CAUTIONARY STATEMENT

Sections of this Annual Report, including but not limited to the Directors' Report, the Strategic Report and the Directors' Remuneration 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 Paragon Bank Plc. 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 Bank 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 Bank 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 Bank'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 Bank operates) and the consequences thereof; actions by the Bank'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 Bank operates.

Nothing in this Annual Report should be construed as a profit forecast.

STRATEGIC REPORT

BUSINESS MODEL

The Bank was one of the first UK banks to be authorised under the regulatory regime introduced in 2014. It is a subsidiary of Paragon Banking Group Plc ('PBG'), a listed FTSE-250 company. PBG is the parent company of a group specialising in consumer finance and SME lending (the 'Group') of which the Bank is a member. It operates on a centralised basis with the majority of its employees based in Solihull, West Midlands.

The Bank shares in the Group's purpose - to support the ambitions of the people and the businesses of the UK by delivering specialist financial services.

The operating structure of the Group is such that the majority of its activities are undertaken through the Bank and its subsidiary entities. The Bank plays a key role in supporting the Group's diversified funding strategy through its retail deposit taking capabilities. Retail deposits are expected to represent the majority of Group and Bank funding going forward, augmented by tactical securitisation and other wholesale issuances.

PROFITABILITY OF THE BUSINESS

The profitability of the business in the long term builds on:

- vigilance in the underwriting process to mitigate losses, leaning on the Group's long history of strong credit performance
- appropriate pricing of new advances or purchased loans, with a disciplined approach to the relationship between growth, risk and returns
- careful management of loan accounts to increase retention and reduce levels of delinquency, which utilises the operating model employed by the Group over many years
- arranging appropriate funding sources to sustain the business, where retail deposits form the core of the funding programme supported by wholesale issuance
- maintaining control of operating costs and ensuring the efficient use of resources

GENERATION OF ASSETS

The Bank generates assets for its balance sheet through a combination of direct and intermediary distribution. No branch network exists, but direct sales are delivered through a series of local sales teams servicing specialist markets. It offers loans in a variety of niche and specialist fields in the consumer and SME finance markets including:

- Buy-to-let and specialist residential mortgages
- Structured lending
- Second charge mortgage loans
- Motor finance

The Bank also generates income through its asset finance subsidiaries which provide SME customers with leasing products and related services and its development finance subsidiary which funds the activities of smaller property developers.

STRATEGIC REPORT (Continued)

LENDING

New business advances in the year, together with the year end loan balances are summarised below:

	Advances in the year		Net loan balances at the year end	
	2025 £m	2024 £m	2025 £m	2024 £m
Mortgages	1,489.9	1,490.9	11,812.0	11,126.4
Commercial Lending	178.9	244.2	627.5	588.3
	1,668.8	1,735.1	12,439.5	11,714.7

The Bank's total loan book increased by 6.2% in the year following a 2.4% increase in the preceding year. The Bank continued to pursue its strategy objective of managed, targeted growth. Total advances decreased marginally, by 3.82% year-on-year, although the pattern of movements was not consistent between the Group's specialist markets. During the year the Bank sold £40.0m mortgage loans to Paragon Mortgages No 29 Plc ('PM29').

MORTGAGES

The Bank offers buy-to-let first charge on residential property in the UK. In all its offerings, it targets niche markets where its focus on detailed case-by-case underwriting and its robust and informed approach to property risk differentiate it from mass market and other specialist lenders.

New lending in this sector during the year is set out below.

	2025 £m	2024 £m
First charge buy-to-let	1,489.9	1,490.9
	1,489.9	1,490.9

Total mortgage originations were 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, with a higher conversion rate therefore expected and comparison on a like-for-like basis 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.

The Bank's focus within the mortgage sector remained tightly on the specialist buy-to-let product, lending to larger landlords, those operating through corporate structures and those with complex properties, with other products ancillary to this activity.

STRATEGIC REPORT (Continued)

The Bank's first charge mortgage lending has been carefully managed to ensure that owner occupied lending only with appropriate risks and returns is undertaken, as a consequence no advances were seen during the year.

The Banks's exposure to first charge residential lending is strictly limited, given the yields available in this market at acceptable levels of risk, and a limited demand for products where its specialist approach is cost-effective and adds value. The opportunities for the Bank in this area principally relate to complex propositions, which will arise on an opportunistic basis, including lending to the existing professional landlord customer base.

The Bank's outstanding first and second mortgage loan balances are set out below, analysed by business line.

	30 September 2025 £m	**30 September 2024 £m**
Originated assets		
First charge buy-to-let	11,735.3	11,023.1
First charge owner-occupied	13.9	16.2
Second charge	41.1	56.7
	11,790.3	11,096.0
Acquired assets		
Second charge	21.7	30.4
	11,812.0	11,126.4

Balances within the mortgage portfolio have continued to increase steadily, despite difficult market conditions, supported by a strong retention performance. At 30 September 2025, the total net mortgage portfolio was 6.2% higher than it had been twelve months earlier.

The annualised redemption rate on all mortgage assets is at 6.1% (2024: 7.2%), has continued 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.

Arrears on the buy-to-let book increased in the year to 0.51% (2024: 0.38%), with the payment performance of the Bank's 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.

Arrears on originated second charge mortgages increased to 4.54% from 2.92% in the year, as the book continued to season, with performance remaining strong.

STRATEGIC REPORT (Continued)

Arrears on the acquired secured lending business have increased marginally to 14.4% (2024: 14.1%), there were no purchases in the year and redemption of up to date accounts will naturally tend to increase the arrears percentage.

In the face of a difficult operating environment the Bank's mortgage lending division performed strongly in the year and the work done in the year to enhance retentions and develop new products means that it enters the new financial year with a robust proposition, with further improvements to its processes and systems progressing towards launch. These will ensure the Bank maintains its reputation for providing an effective and responsive service to its customers and their brokers.

The Bank's underwriting standards, credit performance and administration policies mean that the division is well placed to deliver value to shareholders whatever direction the UK economy takes, while ensuring that any issues of vulnerability amongst customers or their tenants are appropriately addressed.

COMMERCIAL LENDING

The Banks's focus within commercial lending is on lending to SME and mid-sized corporate customers. Its loan assets include motor finance and structured lending balances, while asset finance and development finance lending is conducted through subsidiary entities, funded by the Bank.

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 year is shown (which can be negative).

The Bank's focus across all its Commercial Lending business lines in the year has been on growing the scope of its operations to address a wider range of funding propositions for SME customers, while enhancing service, maintaining credit discipline and improving yields. The Bank's new commercial lending activity in the segment during the year is set out below.

	2025	**2024**
	£m	**£m**
Motor finance	169.6	156.4
Structured lending	9.3	87.8
	178.9	244.2

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 £266.9 million, was 3.9% greater than a year earlier (2024: £256.9 million), and the total available facilities in place had increased by 21.2% over the year to £400.0 million (2024: £330.0 million). This resulted from three new facilities totalling £45.0 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.

STRATEGIC REPORT (Continued)

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.

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.

The Bank's motor finance business is a focussed operation targeting 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 marketing 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.

The Bank's 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).

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

STRATEGIC REPORT (Continued)

The Bank's outstanding commercial loan balances are set out below, analysed by business line.

	30 September 2025 £m	30 September 2024 £m
Motor finance	360.6	331.4
Structured lending	266.9	256.9
	627.5	588.3

Margins on commercial lending have remained strong. Arrears on the commercial lending business remain low with arrears in the motor finance business at 0.91% (2024: 1.06%). On the structured lending book 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.

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.

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 28 to the accounts.

GROUP ENTITIES

During the period the amounts loaned to other Group entities increased to £1,528.6 million (2024: £1,447.5 million). The increase principally resulted from additional drawings made on loans provided to subsidiaries of the Bank for additional lending and funding their activity.

STRATEGIC REPORT (Continued)

FUNDING

The Bank is funded primarily through retail savings deposits accepted from the general public. It is regulated and authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'). Other sources of funding include central bank facilities provided by the Bank of England and group funding.

The Bank's funding at 30 September 2025 and 30 September 2024 is summarised as follows:

	2025 £m	2024 £m
Retail deposit balances	16,265.7	16,298.0
Central bank facilities	950.0	755.0
Covered bonds	499.2	-
Sale and repurchase agreements	100.0	100.0
Total on balance sheet funding	17,814.9	17,153.0
Off balance sheet central bank facilities	150.0	150.0
	17,964.9	17,303.0

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 the whole workforce of the group 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 financial year has seen Spring further maturing, with learnings from real-world experience and customer feedback 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.

STRATEGIC REPORT (Continued)

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').

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 balances 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.

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.

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 The 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.

STRATEGIC REPORT (Continued)

Savings accounts at the 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.

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 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.

The Bank's strategy in the savings market relies on providing a high quality customer offering and we conduct insight surveys throughout the customer journey. 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.

STRATEGIC REPORT (Continued)

For customers opening a savings account with the Bank in the year, 90% of those who provided data, stated that they would ‘probably’ or ‘definitely’ take a second product (2024: 89%). The NPS in the same survey was +68, similar to that in the previous year (2024: +66).

When customers with maturing savings balances in the year were surveyed, 88% stated that they would ‘probably’ or ‘definitely’ consider taking out a replacement product with the Bank (2024: 89%) with an NPS at maturity of +60, an decrease from that seen in the 2024 financial year (2024: +63).

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.

WHOLESALE FUNDING

During the year the Bank 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 the Group has historically issued. The inaugural programme, under which we can issue covered bonds up to a value of £5.0 billion was established on 24 February 2025, and our first issue of covered bonds was made on 11 March 2025. It also received the ‘Best Debut’ Award in the 2025 Covered Bond Report Awards for Excellence.

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.

STRATEGIC REPORT (Continued)

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.

The Group retains 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).

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.

GROUP FACILITIES

The Bank is also funded by its parent entity, using equity and various forms of debt, including £150.0m Tier 2 Bond issuance which ensures that the capital structure of the Bank is similar to that of the Group as a whole, rather than consisting entirely of equity. Indebtedness to Group entities decreased in the year from £452.6 million at 30 September 2024 to £400.5 million at 30 September 2025.

DIVIDENDS AND DISTRIBUTIONS

During the year the Bank paid an interim dividend of £155.8 million (2024: £158.9 million). Having considered its profit for the year and its future forecast capital requirements, the directors have proposed a final dividend for the year, which will distribute £56.7 million (2024: £nil), providing a total dividend of £212.5 million (2024: 158.9 milllion).

REGULATORY CAPITAL

The Bank is subject to supervision by the PRA on a consolidated basis as part of its regulatory capital group. As part of this supervision the regulator will issue a Total Capital Requirement (‘TCR’) setting the amount of regulatory capital which the Group is required to hold at all times, in order to safeguard depositors from loss in the event of severe losses being incurred by the Group. 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.

STRATEGIC REPORT (Continued)

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.

The PRA requires firms to disclose capital measures both on the regulatory basis and as if these reliefs had not been given, referred to as the 'fully loaded' basis. The Bank's principal capital measures, Core Equity Tier 1 ('CET1') and Total Regulatory Capital ('TRC') for the Bank's regulatory group are set out below on both bases.

		2025 **£m**	**2024** **£m**
CET1 capital	Basic	1,085.1	1,119.7
	Fully loaded	1,085.1	1,117.1
TRC	Basic	1,235.1	1,269.7
	Fully loaded	1,235.1	1,267.1

The Bank's CET1 capital comprises its equity shareholders' funds, adjusted as required by Regulatory Capital Rules of the PRA and can be used for all capital purposes. TRC, in addition, includes tier-2 capital representing the Tier-2 Bonds. This tier-2 capital can be used to meet up to 25% of the Bank's TCR. Capital levels on both measures have reduced in the year, reflecting paid and proposed distributions despite a positive operational performance.

CET1 capital must also cover the buffers required by the 'Capital Buffers' part of the PRA Rulebook, the Counter-Cyclical ('CCyB') and Capital Conservation ('CCoB') buffers. These apply to all firms and are based on a percentage of total risk exposure.

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%.

The capital ratios for the Bank's regulatory group are set out below.

		2025	**2024**
CET1 ratio	Basic	12.6%	13.6%
	Fully loaded	12.6%	13.6%
Total capital ratio	Basic	14.3%	15.4%
	Fully loaded	14.3%	15.4%
UK leverage ratio	Basic	6.2%	6.7%
	Fully loaded	6.2%	6.7%

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.

STRATEGIC REPORT (Continued)

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. 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.

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 development finance assets, within our regulatory group, which represents the next stage of our IRB roadmap.

LIQUIDITY

The Bank's operational capital and funding requirements are also influenced by the need to retain sufficient liquidity in the business to meet its 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. 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 the 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').

STRATEGIC REPORT (Continued)

The LCR measures short-term resilience and compares available highly liquid assets to forecast short-term outflows, calculated according to a prescribed formula, with a 30-day horizon. The monthly average of the Bank's LCR for the year 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.

FINANCIAL REVIEW

The Bank receives interest income from the assets on its own balance sheet but, also receives significant levels of dividends and other returns from its operating subsidiaries, reflected as other operating income in its income statement. Operating profits before tax for the Bank increased to £242.2 million in 2025 (2024: £224.4 million (restated – note 44)).

	2025	**2024 (restated – note 44)**
	£m	**£m**
Interest receivable	1,148.9	1,180.9
Interest payable and similar charges	(758.1)	(838.0)
Net interest income	390.8	342.9
Other operating income	51.9	81.8
Total operating income	442.7	424.7
Operating expenses	(132.6)	(132.5)
Provisions for losses	(6.4)	(51.1)
Provision for liabilities	(25.5)	-
	278.2	241.1
Fair value net (loss)	(36.0)	(16.7)
Operating profit being profit on ordinary activities before taxation	242.2	224.4
Tax charge on profit on ordinary activities	(61.2)	(46.2)
Profit on ordinary activities after taxation	181.0	178.2

The Bank's total operating income in the year of £442.7 million increased by 4.2% in the year (2024: 424.7 million).

STRATEGIC REPORT (Continued)

Net interest income increased by 14.0% to £390.8 million from £342.9 million recorded in the year ended 30 September 2024. There were a number of interacting factors generating this increase, with the Bank's loan portfolio seeing growth of 6.2% over the year to £12,439.5 million (2024: £11,714.7 million), while its retail funding balance reduced by 0.2% to £16,265.7 million (2024: £16,298.0 million) as the excess liquidity position was managed.

At the same time the wholesale funding mix evolved with a £500.0 million covered bond issued, significant repayments made on TFSME funding and more use made of short-term Bank of England facilities. With the Bank's average yield from loan assets broadly stable, after the effects of hedging and its average cost of deposit funds reducing in the year as market rates fell, these factors saw overall average net interest margin increase. However, these measures are based on the averages of opening and closing balances and are therefore affected, to some extent by the timing of funding flows in the year and the pattern of new loan advances, repayments and transfers to other group companies.

Other operating income in 2025 included £39.0 million of dividends from subsidiary companies (2024: £54.0 million) and £10.2 million of deferred sale consideration (2024: £24.8 million). Aside from this, fee income reduced slightly to £2.7 million (2024: £3.0 million).

Operating expenses increased marginally to £132.6 million from £132.5 million reported in the previous year. The Board remains focussed on controlling operating costs through the application of rigorous budgeting and monitoring.

The Bank's Expected Credit Loss ('ECL') evaluation of its customers loan balances at the year end has resulted in a net charge for impairment of £7.7 million which has decreased slightly from that seen in the previous year (2024: £9.2 million).

The provision charge in respect of customer loan balances decreased by £1.5 million in the year, 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, 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.

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.

Statistical models are used to support management's estimation of ECLs, where possible. These are kept under review and regularly updated. The models project losses for our largest books based on customer performance to the reporting date and 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 the Bank will also consider the potential impact of these economic scenarios where this might be significant.

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.

STRATEGIC REPORT (Continued)

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 or even rise, 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.

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 a number of forecasts from 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, with 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 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.

STRATEGIC REPORT (Continued)

In addition to impairment provisions on loans to customers, a provision credit of £1.3 million (2024: charge of £41.9 million – restated note 44) was applied to intercompany loan balances, principally in respect of the expected recoverability of loans made to support funding structures in subsidiary SPV entities. These loans support the overall structuring of the SPV. The requirement and methodology for the identification of IFRS 9 ECLs in respect of these balances was reassessed in the year, with an additional provision requirement of £40.6 million identified at 30 September 2024. The balances for 2024 have been restated in respect of this amount, and its tax impact. Full details of these adjustments are given in note 44.

Total ECL provisions in the Bank for the year were therefore £6.4 million (2024: £51.1 million (restated – note 44)).

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 FOS and customer litigation and judicial review processes before the English courts. These actions are discussed in more detail in note 28 to the accounts.

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 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.

The fair value line in the Bank’s profit and loss account primarily reports fair value movements arising from the Bank’s interest rate hedging arrangements. These are put in place to protect the Bank’s margins when offering fixed interest rate products in either its 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.

The Bank maintains a cautious approach to interest rate risk and considers its exposures to be appropriately economically hedged. The Bank does not engage in any form of speculative derivative trading 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 the Bank regards such movements as essentially representing 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 £191.2 million being recorded in the year. This impact having been amplified by the Bank’s approach to pipeline hedging and the retention strategy applied to maturing five-year fixed loans, which 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. Coupled with the accounting hedge ineffectiveness in the period and the impact of new pipeline hedges, this resulted in a loss on fair value items of £36.0 million being reported (2024: loss of £16.7 million).

STRATEGIC REPORT (Continued)

Accounting standards require that a company should account for tax in its year end accounts at the rates of tax enshrined in legislation at the reporting date, regardless of any indications of future tax policy given by governments.

Corporation tax has been charged at the rate of 25.3%, increasing from 20.6% for the previous year (restated – note 44). This is a result of the inclusion of dividend income in the Bank's profit, which does not fall to be taxed in the company. In addition, the provision charged for historical motor finance commission liability is disallowable for tax purposes. Excluding the dividends and provision charge, the effective rate increases to 26.7% (2024: 27.1% (restated – note 44).

Profit after taxation of £181.0 million (2024: £178.2 million (restated – note 44)) have been transferred to equity, which totalled £1,046.0 million at the year end (2024: £1,020.8 million (restated – note 44)).

PRINCIPAL RISKS AND UNCERTAINTIES

An analysis of the Bank's exposure to risk, including financial risk, and the steps taken to mitigate these risks are set out on pages 120 to 129 and in notes 39 to 43. A discussion of critical accounting estimates is set out in note 47.

After considering the above, the Bank's liquidity and its access to funding facilities, the directors have a reasonable expectation that the Bank will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

OPERATIONS

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Bank's activities. The Bank operates in accordance with group environment policies, which are described in the PBG's Annual Report, which does not form part of this Report.

EMPLOYEES

The Bank has no employees of its own, instead being operated by employees of other group companies. The Group operates group-wide employment policies, which address diversity, employee involvement and employment of disabled persons, and these are discussed in the Annual Report of PBG.

Approved by the Board of Directors

and signed on behalf of the Board

RICHARD WOODMAN

Director

23 January 2026

PRINCIPAL RISKS AND MITIGATIONS

The Bank's system of risk management and governance is integrated with that of the wider group. It is supervised by the Bank's Board of Directors, supported by its Audit Committee, Remuneration Committee and Risk and Compliance Committee. The work of the Risk and Compliance Committee is supported by an executive risk management structure, reporting to the Chief Executive Officer and headed by an Executive Risk Committee ('ERC'). Executive committees covering specific aspects of the Bank's risk management, including the Asset and Liability Committee ('ALCO'), Credit Committee, Customer and Conduct Committee ('CCC') and Operational Risk Committee ('ORC') report to the ERC. Additionally the Risk and Compliance Committee is supported by a Model Risk Committee ('MRC') with non-executive director representation. For each of these bodies, the membership is the same as for the equivalent bodies in PBG.

Further information on the risk framework of the Group is set out in the Annual Report and Accounts of PBG and its Pillar 3 report, which are available on its website at www.paragonbankinggroup.co.uk.

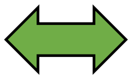
Principal risks

The Bank is exposed to a number of principal risks and uncertainties that arise from the operation of its business model and strategy. A summary of those risks and uncertainties which could prevent the achievement of the Bank's strategic objectives, how the Bank seeks to mitigate those risks and the change in the perceived level of each risk in the last financial year are described below.

This analysis represents the Bank's gross risk position as presented to, and discussed by, the Risk and Compliance Committee as part of its ongoing monitoring of the Bank's risk profile.

The risks are set out in accordance with the Bank's classification of its principal risks, approved by the Board in the year. The principal risks remain consistent from the previous financial year.

The changes in the perceived level of each risk during the last financial year are indicated using the symbols shown below:

	Risk increasing		Risk decreasing		Risk stable

PRINCIPAL RISKS AND MITIGATIONS (Continued)

<table>
<tr><th colspan="2">Capital Risk</th></tr>
<tr><th>Description</th><th>Mitigation</th></tr>
<tr><td>The Bank faces the risk of insufficient capital to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting its strategic goals.

Whilst the Bank of England has published its final policy for the implementation of the Basel 3.1 standards in the UK, currently intended to be effective from 1 January 2027, which raises the capital requirement for buy-to-let mortgage loans, our largest asset class.</td><td>A robust process exists over reporting capital metrics, both internally and to the PRA, with a comprehensive annual ICAAP assessment including all material capital risks.

An internal capital buffer is maintained in excess of minimum regulatory requirements to protect against unexpected losses and intra-period volatility

The Bank continues to engage with the PRA in respect of its application for the accreditation of its IRB approach to buy-to-let credit risk, responding to feedback as the regulator proceeds with its internal assessment process.

We retain the option to apply for the Small Domestic Deposit Takers ('SDDT') regime in due course.</td></tr>
<tr><td>Year on year change</td><td>The delivery of the Basel 3.1 policy statement package was a significant milestone for the overall UK capital risk framework, but there are still certain areas that will only be finalised through engagement with the regulator, which has stated that it intends to use the exercise of supervisory judgement in order support a smooth transition as firms move between capital regimes.

In January 2025, we received our latest SREP from the PRA, reducing capital requirements and leaving us with a higher surplus to regulatory requirements at the 2025 year end than was the case a year earlier.

Macroeconomic downside risks continue to present headwinds, but our strong underlying profitability and considerable headroom over requirements provide us with significant capacity to support lending to UK households and businesses.</td></tr>
</table>

PRINCIPAL RISKS AND MITIGATIONS (Continued)

<table>
<tr><th colspan="2">Liquidity and Funding Risk</th></tr>
<tr><th>Description</th><th>Mitigation</th></tr>
<tr><td>The Bank is exposed to the risk that it has insufficient funds to meet its obligations as they fall due.

Retail deposit taking is central to the Bank’s funding plans and therefore changes in market conditions could impact the ability of the business to maintain the level of funding required to sustain normal business activity.</td><td>The Bank maintains a diversified range of both retail and wholesale funding sources to cover current and future business requirements.

Comprehensive treasury policies are in place to ensure sufficient liquid assets are maintained and that all financial obligations can be met as they fall due, even under stressed conditions.

The Group has a dedicated Treasury function which is responsible for the day-to-day management of its overall liquidity and wholesale funding. The Board, through the delegated authority provided to the ALCO, sets limits for the level, composition and maturity of funding and liquidity resources.

The covered bond programme, put in place during the year, provides a relatively quick and cost-effective means of raising additional wholesale funding when conditions are appropriate.

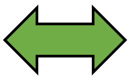
The Bank’s holdings of its own mortgage-backed securities and other investment assets, together with assets pre-positioned with the Bank of England, mean that it has ready access to wholesale funding or liquidity if required.</td></tr>
<tr><td>Year on year change</td><td>The Bank remains well placed to access funding from a wide range of sources to meet future funding requirements. Access to the retail savings market has been effective during the year through both direct and intermediated deposit platform distribution channels and has been further increased by the launch of the Spring savings proposition. The covered bond programme was established in the year and the inaugural £500.0 million issue was successfully completed in March 2025.

Liquidity and Funding Risk is therefore considered to have reduced from its level at the start of the year given the above initiatives. In addition, a substantial amount of TFSME funding was repaid in the year, with the majority of the remainder repaid shortly after the year end. The collateral released by this repayment materially increased our capacity to access contingent liquidity, and we have increased our usage of the Bank of England’s Indexed Long-Term Repo facility.</td></tr>
</table>

PRINCIPAL RISKS AND MITIGATIONS (Continued)

<table>
<tr><th colspan="3">Market Risk</th></tr>
<tr><th colspan="2">Description</th><th>Mitigation</th></tr>
<tr><td colspan="2">The Bank is exposed to the risk that changes in the interest rates at which we lend and those at which we borrow may adversely affect net interest income and profitability.</td><td>This risk is managed within Board approved risk appetite limits with comprehensive treasury polices in place to ensure that the risk posed by changes and mismatches in interest or exchange rates are effectively managed.

Day-to-day management of interest rate risk is the responsibility of the treasury function, with control and oversight provided by ALCO.

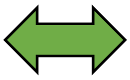
The Bank seeks to match the maturity profile of assets and liabilities and uses financial instruments, such as interest rate swaps, to hedge the exposure arising from repricing mismatches.</td></tr>
<tr><td>Year on year change
</td><td colspan="2">Reference rates of interest have reduced gradually in the period, but remain at a high level compared to much of recent history. There remains a particular focus on risk management in this area to ensure net interest margin is managed effectively. As part of this strategy, the net free reserves hedge was increased by £0.2billion to £1.4billion during the period.

Our overall market risk profile, relative to the balance sheet, has remained broadly similar to that at the previous year end and associated risk levels remain generally stable.</td></tr>
</table>

PRINCIPAL RISKS AND MITIGATIONS (Continued)

Credit Risk	
Description	**Mitigation**
Credit risk elements which could expose the Bank to the risk of unexpected material losses include: • Customer risks through failure to screen potential borrowers, and manage repayments • Concentration risk in credit portfolios through an uneven distribution of exposures of borrowers, asset classes, sectors or geographies • Reduction in value of collateral owned by the Bank, or secured against debt owed to it • Wholesale counterparty risk • Outsourcer default risk	The Bank has a robust credit risk framework supported by comprehensive policies in place that set out detailed criteria which must be met before loans are approved. Exceptions to credit policies require approval by the Credit Risk function, operating under a mandate from the Credit Committee. The Bank uses a range of sources to inform expectations of key external factors such as interest rate movements and house price inflation which, in turn, guide policy and underwriting. The Bank also continues to develop opportunities to diversify the range activities and income streams, consistent with its strategic objective of operating as a prudent, risk focussed specialist lender. The majority of the Bank's loans by value continue to be secured against UK residential property at conservative loan-to-value levels. The primary collateral therefore forms part of a highly mature, sustainable market, demonstrated over many decades of operation. Exposure to wholesale counterparty credit risk is limited to counterparties that meet specific credit rating criteria per the Bank's comprehensive treasury policies. Exposure to approved counterparties is monitored daily by senior management within the Treasury function with all exposures managed in accordance with ALCO approved limits. Ongoing monitoring of the credit rating and financial performance of all outsourced relationships and critical suppliers is undertaken.
Year on year change	Credit risk pressure has generally eased throughout the second half of the 2025 financial year with borrowers benefitting from the lower interest rate environment, and the level of payment increases for those buy-to-let customers reaching the end of product incentive periods continuing to reduce. The mildly positive outlook for interest rates continues to be reflected in market pricing for mortgage products and supports customer demand for residential property. As a result asset values have been, and are expected to remain firm, although sales continue to take longer to realise. Prudent lending policies have been maintained throughout the period, with added insight and control supported by the broader sourcing and usage of digitalised data. The potential headwinds inherent in the current economic outlook, set against the expectation of minor interest rate reductions over the next reporting period and the generally strong performance of our lending portfolios, mean that the overall assessment of credit risk remains stable.

PRINCIPAL RISKS AND MITIGATIONS (Continued)

Model Risk	
Description	**Mitigation**
Statistical models are used across the Bank to inform financial decision making and hence it is imperative that the environment in which the models are designed, implemented and operate is subject to appropriate rigour.	A robust framework of management and governance is in place to manage the risks associated with the use of internally developed models. This includes the MRC which oversees the development, implementation and ongoing monitoring of models used in the business. The Model Risk Management Framework provides a structured and disciplined approach to the management of model risk. It includes clear development, implementation and ongoing oversight principles, together with requirements for independent validation based on model materiality criteria. PRA Supervisory Statement SS 1/23, which addresses model risk management principles for banks, applies to firms with permission to use internal models to calculate regulatory capital. We are undertaking a programme of work to ensure compliance with the principles of the Supervisory Statement in advance of receiving IRB accreditation and consider that we are well-placed to meet its requirements within the timeframes required. This, in turn, means that our approach to managing this risk more generally complies with recognised external benchmarks.
Year on year change 	It is recognised that the increasing use of internally developed models will drive a commensurate increase in potential risk. However, given the strength of our model risk management framework and oversight processes and our continuing investment in this area, model risk remains within appetite and the outlook remains stable.

PRINCIPAL RISKS AND MITIGATIONS (Continued)

Reputational Risk	
Description	**Mitigation**
Maintenance of a strong reputation across all business lines, operational activities; and the conduct of employees and associated third parties is core to the Bank's philosophy. Detrimental reputational impacts could result from internal actions, or external events, as a consequence of the crystallisation of other principal risks, through failure to safeguard the integrity of our brand or meet external expectations in our business practices, or any combination of these.	The reputational risk policy supports reputational risk management across the Bank. Reputational issues are considered at Board and ExCo level and, where relevant, will be identified, reviewed and escalated through risk committee governance structure. The reputational impacts of changes to strategy, pricing, people, processes or third-party relationships are explicitly considered in the decision-making process and are reviewed by the External Relations Director. The Bank will not undertake any activity it considers might be damaging to its reputation. Employees adhere to defined standards of conduct, encompassing policies, procedures and ways of working. These are defined in the Group's Code of Conduct. The Group has an experienced External Relations function which manages all Bank communications and ensures that the reputational profile of the Bank is protected. Reputational risk is monitored through tracking traditional and social media coverage, net promoter scores, review platforms feedback and regular customer surveys. Any material risk events are reviewed for reputational impact, and mitigating actions are initiated as appropriate.
Year on year change	The launch of our Spring savings operation has expanded our digital presence and, to reflect this, our approach to monitoring and managing reputational risk has been enhanced during the year. We remain focused on continuing to manage our reputation and protect our brand effectively across all our business lines. Whilst we are mindful that reputational threats can emanate from a variety of different sources, we remain well-placed to respond quickly and efficiently to any potential reputational issue.

PRINCIPAL RISKS AND MITIGATIONS (Continued)

Strategic Risk	
Description	**Mitigation**
The Bank's strategy as a specialist lender is key to its operating model and business planning. However, there is a risk that changes to the business model or macroeconomic, geopolitical, regulatory, competitive or other external factors may impact delivery of strategic objectives.	The Bank closely monitors economic developments in the UK and overseas, with support from leading independent macro-economic and other advisors. Stress testing is performed to assess its expected performance under a range of operating conditions. This provides the Board with an informed understanding and appreciation of the Bank's capacity to withstand shocks of varying severities. The Bank continues to exploit opportunities to diversify the range of its activities and income streams and the optionality available in our existing activities, consistent with the strategic objective of operating as a prudent, risk focussed lender.
Year on year change	The macro-economic outlook remains complex. Internationally, the environment has remained volatile, with trade wars and continued conflicts in Europe and the Middle East weighing on confidence. Domestically, while the turn in the interest rate cycle is a welcome development, inflation has been more persistent than initially predicted. This, in turn, has held back real GDP growth and kept the pace of interest rate reductions modest. The future rate trajectory will be key in determining the outlook for our margins and volume growth given that the level of interest rates impacts both spreads and broader customer confidence in the economic outlook. Looking forward there remains uncertainty around the performance of the UK economy in both the medium and longer term, while global geopolitical risks are likely to remain elevated. Despite this volatile environment our businesses have remained resilient throughout the year, and we have made strong progress in meeting the strategic targets in our corporate plan. In particular, we have continued to make significant progress with our digitalisation programme, with key deliverables completed in the year. This remains an ongoing priority. However, we continue to operate in competitive markets, with the retail savings market, in particular, seeing its dynamics changing as UK interest rates fall, putting pressure on our strategic position. We recognise that the potential for geopolitical and associated macro-economic impacts remains elevated. This in turn could lead to further economic and property market disruption within the UK, presenting a risk to the execution of our strategy.

PRINCIPAL RISKS AND MITIGATIONS (Continued)

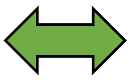
<table>
<tr><th colspan="3">Climate Risk</th></tr>
<tr><th colspan="2">Description</th><th>Mitigation</th></tr>
<tr><td colspan="2">The Group considers the impact of climate change both directly on the Group or indirectly through its third-party relationships or its lending activities.

This includes the transitional risk to its strategy and profile through moving to a low carbon environment and any physical risks arising from changes to the natural environment that could impact the calculation and valuation of assets and liabilities.</td><td>The Bank proactively manages physical risk relating to security taken on our loan assets and have specific underwriting policies aimed at the mitigation of, for example, risks associated with flooding, coastal erosion and subsidence.

The Sustainability Committee provides comprehensive oversight of climate initiatives across each business line, whilst the Credit Committee additionally monitors the performance of mortgaged property collateral against EPC data, and concentrations of electric vehicles.

The potential for transition risk is monitored within the different business lines, with external events prompting consideration of amendments to credit policy and underwriting criteria, as appropriate. Other climate risk mitigants, such as offering sustainable products, are used to support the evolution of our balance sheet in line with the markets in which we operate, mitigating stranded asset risk.

The Group continues to actively engage with public forums such as Bankers for Net Zero (‘B4NZ’) and UK Finance to support the development of future policy and regulation.

Ongoing and enhanced climate change analysis, supported by scenario testing, continues to be developed and expanded to cover a broader asset range to inform longer term strategic planning.</td></tr>
<tr><td>**Year on year change**
</td><td colspan="2">The Group has continued to make progress on our climate change agenda, with activity focused on enhancing our financed emissions balance sheet, continued public policy advocacy through B4NZ, and responding both independently and through UK Finance to climate related consultations.

The levels of regulatory scrutiny and public interest in this area continue to be high with an increased focus from regulators and the UK Government. However, our approach has further matured in the year whilst maintaining a proportionate approach to managing the risks and opportunities associated with climate change.

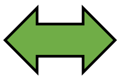
Although there remains uncertainty in respect of the timing and impact of government and regulatory interventions in this area, our scenario analysis assessment indicates that exposure to climate change impacts is being managed appropriately and does not pose a significant or increasing risk.</td></tr>
</table>

PRINCIPAL RISKS AND MITIGATIONS (Continued)

<table>
<tr><th colspan="2">Conduct Risk</th></tr>
<tr><th>Description</th><th>Mitigation</th></tr>
<tr><td>The commitment to delivering good customer outcomes is at the heart of the Bank's and the Group's culture and strategy.

Conduct risk arises where culture and behaviours fail to promote the customer's best interests and avoid foreseeable consumer harm, resulting in poor outcomes for them.</td><td>The management of conduct risk within the Group is tailored to each specific product and customer type and includes dedicated quality and control teams. Control teams focus on validating process adherence, measuring the delivery of good customer outcomes, and overseeing the appropriate management of those customers showing signs of vulnerability, including those in financial difficulties.

All employees, whether customer-facing or not, have clear customer focused objectives, acknowledging their ability to drive a culture designed to deliver good customer outcomes.

The Group's approach to employee remuneration means that very few employees are included in financial incentive schemes. The remuneration policy is reviewed by the Remuneration Committee annually and individual schemes require approval from the Chief People Officer, CFO and Conduct and Compliance Director before implementation.</td></tr>
<tr><td>Year on year change
</td><td>The Group remains cognisant of the ever-increasing need to tailor support to individual customer circumstances, and this year has seen ongoing focus in this area, particularly around our treatment of customers showing signs of vulnerability or financial stress.

The ongoing legal and regulatory activity relating to historic motor commissions has been, and will continue to be, closely monitored. We remain committed to ensuring that all customers receive good outcomes and therefore are keen to understand the FCA's proposals for a redress scheme. Clarity in this respect will ensure we can swiftly and effectively implement the regulators requirements, removing uncertainty for customers who have made, or who wish to make a claim.</td></tr>
</table>

PRINCIPAL RISKS AND MITIGATIONS (Continued)

Operational Risk	
Description	**Mitigation**
Operational Risk arises across the Bank through the possible inadequacy or failure of internal processes, people and systems or from the impact of external events. Operational risk is inherently diverse in nature. All the Bank's activities create various forms of operational risk which need to be managed through a strong control and oversight structure. Exposure to operational risk is exacerbated through periods of transformation and / or stress.	The Group has an established operational risk framework which enables timely and accurate analysis of operational risk exposures and drives accountability and remedial actions where issues are identified. Operational risk is managed through a comprehensive framework of policies which are designed to ensure that all key operational risks are managed consistently across the business. The operating landscape continues to evolve at a rapid pace, bringing with it innovative technologies. Whilst we are keen to embrace these opportunities, the ongoing resilience of the Group remains a core priority. The increasing use of AI, the commitment to harness digital capability as part of our IT roadmap and the reliance on third parties all inevitably increase the opportunities for malevolent cyber activity against our business. In response, we continue to invest in cyber defences, and ensuring we are well-prepared in the event of any cyber threat remains a priority area. Our cyber-risk profile is, therefore, subject to continual monitoring and enhancement given the dynamic nature of the threat. We continue to monitor the external landscape and react promptly to any intelligence on cyber threats that have the potential to cause us detriment. Whilst remaining alert to such emerging threats we also recognise the need to reduce operational risk exposures inherent in legacy systems and processes. Strategic transformation across all lending lines is key to remaining resilient and ensuring that our infrastructure remains scalable and robust across all product lines. As we undertake such activity the impact on our resilience and the impact on inherent operational risks is assessed on a continual basis to ensure it remains within risk appetite. A well-embedded change framework ensures that all changes are managed in a controlled way. Operational resilience remains a key driver, with consideration at all stages of the project lifecycle. A consequence of the Group's change programme is the expanding use of third-party providers. We have several significant suppliers and outsourced activities particularly in respect of material IT services and the Paragon-branded savings offering. The number of such suppliers has expanded significantly over the year with the launch of the Spring savings business. The robust oversight of third parties remains critical to overall resilience, and we have a well-established third-party framework to ensure effective oversight across the lifecycle of such relationships including contingency arrangements in the event of an exit scenario. The Group continues to focus on building an engaged and highly skilled workforce through the delivery of effective reward, succession planning, recruitment, development and retention strategies. In addition, the Group remains committed to the well-being of its employees, and responding to their feedback, enabled through our multiple employee networks.

PRINCIPAL RISKS AND MITIGATIONS (Continued)

Year on year change	The nature and volume of cyber-attacks across the broader UK business landscape continues to evolve. There have been certain notable and well-publicised attacks on high profile targets during the year, which caused significant disruption to the affected entities. However, we do not consider that we have a higher than average likelihood of being subject to cyber threats and our perceived threat level remains elevated, unchanged year-on-year. We continue to proactively monitor the cyber landscape and consider the likelihood and impact of both a direct attack on the Group and a more systemic industry-wide issue such as the Crowdstrike outage in 2024. Despite our assessment of cyber risk remaining consistent, consideration of and mitigation of cyber threats is fundamental to our activities. We continue to invest heavily in this area, particularly in key controls around data loss prevention and vulnerability management. Ongoing cyber risk assessment is undertaken and is fully embedded in our approach to transformation activity, with cyber risk mitigation remaining a key driver of activities such as technology strategy including extending the use of AI enabled applications and the corporate insurance programme. Recruitment challenges seen previously have eased during the period and retention rates for employees remain generally stable. Maintaining a skilled and engaged workforce is a priority and we continue to assess and invest in our people. We are cognisant that wider cost-of-living challenges still exist, and inflationary pressures are a feature of the economic landscape. We therefore continue to assess the potential that these may manifest themselves as heightened risk exposures across key operational risk categories, such as financial crime. However, we actively assess our resource profile and capabilities to ensure resources are deployed appropriately to manage any associated risks. Regulatory compliance expectations continue to rise, and we are committed to ensuring that we remain compliant in our operational activities. We engage on an ongoing basis with our regulators to ensure that we are well placed to address any particular areas of focus albeit as expectations increase, gaps may be identified which will need addressing to reduce inherent exposures. Strategic transformation remains a priority focus. The automation and efficiencies that these initiatives bring will support more effective operational risk management in the longer term. However, it is recognised that significant change can exacerbate operational strains in the short term. Potential for such issues is being carefully managed through robust governance and oversight as exemplified in the delivery of Spring. Therefore, the volume of transformative activity throughout the year is not considered to have adversely affected the assessment of our operational risk profile. Operational risks are diverse in nature with the operating environment constantly evolving through dynamic technologies and the external landscape. Despite these challenges the Group continues to maintain a robust control environment with operational risk related losses remaining at comparable levels to previous years, and the business has therefore seen no material adverse changes to its operational risk profile during the year.

DIRECTORS' REPORT

The directors present their Annual Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the audited Financial Statements of Paragon Bank PLC, a company registered in England and Wales with registration no: 05390593, for the year ended 30 September 2025.

DIRECTORS

The directors who served during the year were:

Robert D East

Nigel S Terrington

Richard J Woodman

Barbara A Ridpath

Hugo R Tudor

Graeme H Yorston

Alison C M Morris

Peter A Hill

Tanvi P Davda

Zoe L Howorth

The directors have no interests in the shares of the Bank. Their interest in the shares and securities of the parent company are set out in that company's accounts.

Directors' indemnity and insurance

Under Article 159 of the Articles, the Company has qualifying third party indemnity provisions for the benefit of its directors, for the purposes of section 234 of the Companies Act 2006, which were in place throughout the year, and which remain in force at the date of this report, in the form of directors' and officers' liability insurance. The directors' and officers' liability insurance covers all directors of the Company's subsidiary entities.

CORPORATE GOVERNANCE STATEMENT

As part of the wider Group, the Board is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued by the Financial Reporting Council ('FRC') in July 2018 ('the Code') and which is publicly available at www.frc.org.uk. Throughout the year ended 30 September 2025, the Bank complied with the principles and provisions of the Code, so far as these can be applied to the Bank as a subsidiary entity.

Although the Listing Rules only apply to PBG, which means that only PBG is (strictly speaking) required to comply (or explain its non-compliance) with the Code, PBG promotes high standards of governance, and there is therefore a clear need to ensure that robust corporate governance practices are applied throughout the Group to meet these high standards. Additionally, as a significantly-sized company, the Bank is also required to apply and disclose against a corporate governance code in its own right. With this in mind, insofar as the Code and the corporate governance framework for the Group is capable of being applied to the Bank, the Board has decided that it should be so applied.

DIRECTORS' REPORT (Continued)

Certain provisions of the Code are applied at PBG and Group level but cannot be applied at the level of the Bank. For example, Code provisions relating to workforce engagement are not applied by the Bank because the Bank does not have any direct employees. Wherever possible, however, the Bank applied the Code in the year ended 30 September 2025 just as the Code was applied at PBG in the same year. The Boards and Committees of PBG and the Bank have identical membership and sit jointly on most occasions. Meetings of each board are held concurrently, with separate meetings when appropriate to consider matters specific to either PBG or the Bank, as relevant. This aligned structure of the Boards and Committees of PBG and the Bank enables the concurrent application of the Code at parent and subsidiary level wherever possible, while also reducing complexity and unnecessary duplication of governance practices.

Detailed information regarding PBG's corporate governance arrangements and compliance with the Code is provided in PBG's Annual Report and Accounts for the year ended 30 September 2025. Given the application of similar corporate governance practices to PBG and the Bank, PBG's corporate governance statement as contained in its 2025 Annual Report and Accounts also describes corporate governance practices and Code compliance at the Bank.

An updated version of the Code was published by the FRC in January 2024 (the '2024 Code'). Almost all the provisions of the 2024 Code will apply to the Bank from its year ending 30 September 2026, and work has taken place in the year to ensure that it was in a position to comply with these elements from 1 October 2025.

The remaining amendment to the Code, relating to Provision 29 which addresses risk management and controls, applies to the Bank from its financial year ending 30 September 2027 and work continues on the implementation of this provision.

The table below: (i) signposts relevant sections of PBG's Annual Report and Accounts for the year ended 30 September 2025 which describe in further detail how the Code's Principles have been applied throughout the Group and to the Bank; and (ii) explains at a high level how the Bank has aligned its practices with the principles of the Code.

Section 1: Board Leadership and Company Purpose	**Section(s)**
A: The Bank is led by an effective and entrepreneurial board, who promote the long-term sustainable success of the Bank, generating shareholder value and contributing to wider society.	B3
B: The Bank's purpose, values and strategy, which align with its culture, have been established and are promoted by the Board.	B1
C. The Board ensures that necessary resources are in place for the Bank to meet its objectives and measure performance and has established a framework of effective controls which enables risk to be assessed and managed.	B8
D. The Board ensures effective engagement with stakeholders and encourages their participation.	B4.3
E. The Board ensures that, at Group-level, workforce policies and practices are consistent with the Group's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	B4.3

DIRECTORS' REPORT (Continued)

Section 2: Division of Responsibilities	
F. The Chair is objective and leads the Board effectively, facilitating constructive relations and effective contribution from non-executive directors.	B4.1
G. The Board includes an appropriate combination of executive and non-executive directors, with a clear division of responsibilities.	B4.1
H. Non-executive directors have sufficient time to meet their board responsibilities. They provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	B4.1
I. The Board, supported by the Bank's Company Secretary, has the policies, processes, information, time and resources required to function effectively and efficiently.	B4.1
Section 3: Composition, Succession and Evaluation	
J. Appointments to the Board are subject to a formal, rigorous and transparent procedure, and an effective succession plan is in place for Board and senior management. Appointments and succession plans are based on merit and objective criteria and promote diversity.	B5
K. There is an appropriate mix of skills, experience and knowledge. Tenure and membership of the Board and its committees are regularly reviewed.	B5
L. The annual board evaluation provides an opportunity for the directors to consider their collective and individual effectiveness and decide where there are areas for improvement.	B4.4
Section 4: Audit, Risk and Internal Control	
M. The policies and procedures, established by the Board, ensure the independence and effectiveness of internal and external audit functions. The Board has satisfied itself of the integrity of financial and narrative statements.	B6
N. The Board presents a fair, balanced and understandable assessment of the Bank's position and prospects.	B6
O. The Board has established procedures to manage risk, oversee the internal control framework, and determine the principal risks the Bank is willing to take in order to achieve its long-term strategic objectives.	B8
Section 5: Remuneration	
P. Remuneration policies and practices support strategy and promote long-term sustainable success. Executive remuneration is aligned to the Group's purpose, values and clearly linked to successful delivery of long-term strategy.	B7
Q. A formal and transparent procedure has been established to develop policy and determine Group director and senior management remuneration. No director is involved in deciding their own remuneration outcome.	B7
R. Directors exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Group and individual performance, and wider circumstances.	B7

DIRECTORS' REPORT (Continued)

BOARD AND STAKEHOLDERS

In addition to good corporate governance, maintaining a reputation for high standards of business conduct in all of the Banks operations is a key priority for the board, and management of conduct risk is a key part of the risk management framework. PBG's 2025 Annual Report sets out information on corporate responsibility and sustainability, including the Group's people policies and engagement with employees, involvement in industry initiatives, support for the community and environmental, social and conduct impacts. All of these Group policies and engagement initiatives apply to the Bank, as a member of the Group.

The Board, in its deliberations and decision-making processes, takes into account views of the Bank's stakeholders and, where applicable, considers the impact of those decisions on the communities and environment within which the Group operates. The Board is mindful of its duty to act in good faith and to promote the long term sustainable success of the Bank for the benefit of its shareholder and with regard to the interests of all of its stakeholders.

The Board is kept updated on all material issues affecting stakeholders by the executive directors and receives regular updates from ExCo members, other senior managers and external advisers. Members of the Board also engage directly with employees, shareholders of PBG (as the Bank's ultimate shareholders) and regulators, as further detailed below.

The Board confirms that, for the year ended 30 September 2025, it has acted in good faith to promote the long-term sustainable success of the Bank for the benefit of its member and continues to have due regard to the following matters laid out in section 172 (1) of the Companies Act 2006:

a. The likely consequences of any decision in the long-term

b. The interests of the Company's employees

c. The need to foster the Company's business relationships with suppliers, customers and others

d. The impact of the Company's operations on the community and the environment

e. The desirability of the Company maintaining a reputation for high standards of business conduct

f. The need to act fairly as between members of the Company

Companies are required to describe in the Annual Report how the directors have had regard to the matters set out above when performing their duties.

As part of the Group, the Bank's stakeholder engagement takes place at the Group level and the Bank looks to Group initiatives for guidance and takes this Group stakeholder engagement and these Group initiatives into account in the Bank's decision making as there is substantial common identity between the non-shareholder stakeholders of the Bank and those of the Group. The Bank follows Group policies and procedures as mentioned above, including those relating to standards of business conduct, employees, the environment, the community and other stakeholders. More detail may be found in the PBG 2025 Annual Report and Accounts.

DIRECTORS' REPORT (Continued)

The PBG and the Bank boards have identical membership and sit jointly on most occasions. Meetings of each board are held concurrently, with separate meetings when appropriate to consider matters specific to either PBG or the Bank, as relevant. In considering items of business, the Bank makes autonomous decisions on each item's own merits after due consideration of: the long-term success of the Bank; those factors set out in section 172 of the Companies Act 2006, where relevant; and the stakeholders impacted.

The Bank has no employees of its own, using staff employed by other group entities (s172 (1)(b)). It has a single shareholder, PBG (s172 (1)(f)).

The table below sets out: how the Board and Senior Management take the above factors into account when engaging with the Bank's key stakeholders; why the stakeholders listed are significant for the Bank; how stakeholder engagement and regard for the factors set out in section 172 (1) of the Companies Act 2006 have affected the Board's decision-making; and how decision-making and stakeholder engagement at the Bank align to the Bank's and the Group's strategic priorities and culture. Reference is made to group-level stakeholder engagement where appropriate.

Shareholders

Creating long-term shareholder value through growing profits and dividends (s172 (1)(a))

Although the Bank has no external shareholders, as a direct subsidiary of PBG the Board actively considers the Group's shareholders' interests and views (s172 (1)(f)). Our strategy is to build a specialist bank for our customers, which delivers sustainable growth and shareholder returns through a low risk and robust model.

How we engage and / or monitor

- During the year, 107 meetings were held with analysts and institutional investors under our Investor Relations Programme. This included results roadshows and investor events. In addition, the CEO and CFO hold regular analyst briefing meetings
- A comprehensive update on Investor Relations is presented to the Board on a quarterly basis
- The Remuneration Committee carries out comprehensive engagement and seeks the views of major shareholders and shareholder advisory groups. A thorough consultation process was undertaken in respect of the new Remuneration Policy, which will be presented to shareholders for approval at the 2026 AGM
- The Board receives an in-depth update on Investor Relations, which includes investor feedback, following the publication of PBG's financial results


Capital management


Growth


Diversification

DIRECTORS' REPORT (Continued)

Outcome

- The data on PBG shareholder feedback provided helps the Board align its strategy with the interests of the Group's shareholders
- Increasing shareholder interaction helps to frame the Group's response to reporting and targeting in relation to sustainability matters, in particular climate change risk

Further information on the Group's investor relations activities is given in section B4.3 of PBG's 2025 Annual Report and Accounts. Discussions with investors on remuneration matters are discussed in the Remuneration Report (Section B7) of PBG's 2025 Annual Report and Accounts.

Digitalisation

DIRECTORS' REPORT (Continued)

Customers

Supporting the ambitions of the people and businesses of the UK by delivering specialist financial services (s172 (1)(c))

Our customers are at the heart of our business and our eight core values (as set out in section A2 of PBG's 2025 Annual Report and Accounts) underpin the way we interact with them every day. Engagement with our customers enables us to maintain our deep understanding of them and the markets they operate in, designing products to meet their needs and continually striving to exceed their expectations.

How we engage and / or monitor

- Regular customer satisfaction surveys on key product lines are reported to the Board
- Buy-to-let mortgage customers were invited to attend a strategy event, hosted by the COO, to share their future plans, key challenges and shared information on how we could support their financial needs
- The Board subsequently attended a deep-dive presentation on insight into the buy-to-let business, which included feedback from customers on how the Group could best meet their needs
- Focussed analysis on key customer groups is undertaken, including quarterly surveys of SME and buy-to-let customers
- Customer Insight data is included in the CEO's report presented at each board meeting
- The Board reviewed and approved the Group's second Consumer Duty Annual Report, which covered all in scope products
- The Board continues to monitor developments regarding potential liabilities in respect of historical motor finance commissions in light of the FCA review of the sector, its consultation on its proposed approach to redress and other legal and regulatory developments relating to these matters
- Customer metrics are a key element of the Performance Share Plan ('PSP')


Digitalisation


Sustainability


Diversification


Growth

DIRECTORS' REPORT (Continued)

Outcome	
• Roll-out of 'Think Customer!' training for all Group employees • Greater understanding of customers and their priorities is used to refine product offerings, documentation and processes • Internal colleague and Friends and Family launches of our new Spring savings app were undertaken to enable testing of a greater breadth and depth of good customer journey scenarios prior to public launch. This helped obtain insight and feedback, as well as strengthen our operational readiness for public launch to ensure an exceptional customer experience • A new Vulnerability Knowledge e-learning series was introduced, including a Customers in Vulnerable Circumstances module to help employees develop awareness, skills and confidence to support customers who may face additional challenges • An improved bereavement process for buy-to-let and residential mortgage customers was introduced to provide additional support • Simplified power of attorney process introduced for savings customers • The Group's new buy-to-let mortgage origination platform was extended to existing customers to permit a full digital mortgage application process • Complaint levels (excluded motor finance) remain low by industry standards	
Further information on the Group's relationship with its customers is set out in section A6.2 of PBG's 2025 Annual Report and Accounts.	

DIRECTORS' REPORT (Continued)

Employees

Helping all of our people to develop their career and reach their potential (s172 (1)(b))

By working together, we help our customers to achieve their ambitions and we need a wide range of employee skills and expertise. To succeed our shared values and focus on employee engagement provide the foundation for this success and help us attract, develop and retain talent.

How we engage and / or monitor

- An all-employee survey was conducted as part of the IIP re-accreditation process
- Onboarding and leaver surveys are carried out to enhance feedback opportunities and drive improvements
- The Chief People Officer updates the Board and ExCo on group employee feedback from surveys and from the People Forum, as well as other metrics
- Feedback from the People Forum and regular updates from the Chief People Officer enable the Board to support and understand employees and their engagement
- The Chair and non-executive directors attend the Group's employee-led People Forum on a regular basis
- Designated ExCo members with responsibility for gender diversity and wider diversity regularly report progress on these matters
- The Group's EDI network is sponsored by a member of ExCo and, during the year, members of the Board and ExCo have attended employee listening circles
- The Nomination Committee receives six-monthly updates on succession planning and EDI network feedback from the Chief People Officer and the Head of Human Resources
- People metrics are a key element of the PSP

Sustainability

DIRECTORS' REPORT (Continued)

Outcome • The Group is accredited as an Investor in People with Platinum IIP employer status • The Group is a Disability Confident Employer under the UK Government Disability Confident scheme • New health and wellbeing benefits were launched during the year following feedback received from the 2024 benefits survey and the People Forum, as well as a new wellbeing platform, enhancing the support available to employees • Tailored career development programmes embedded across the Group for all levels • Pension Bonus Exchange scheme introduced, enabling employees to exchange part or all of their cash bonus for an employer pension contribution, supporting long-term financial wellbeing • New EDI e-learning module rolled out for all employees • HR data dashboards were rolled out to track performance and to embed focus on business areas people plans	
Further information on the involvement of the Group's people and the impact of policies on them can be found in section A6.3 of PBG's 2025 Annual Report and Accounts.	

DIRECTORS' REPORT (Continued)

Regulators

Engaging transparently and openly with regulators to ensure we comply with current legislation and maintain the Bank's reputation for high standards of business conduct (s172 (1)(c) and s172 (1)(e))

One of our key values is to be honest and open in everything we do. Frequent and transparent communication with regulators enables us to plan for regulatory change and maintain our high ethical standards.

How we engage and / or monitor

- Regular engagement with the PRA throughout the year on key regulatory matters, including the IRB implementation
- Direct contact between the Chair and non-executive directors and regulators
- ExCo and Board are kept updated on all interaction with the FCA and PRA
- Senior Managers and Certification Regime ('SMCR') is embedded across the organisation, with conduct measures monitored monthly, overseen by the Executive Risk Committee
- Dialogue maintained with HMRC, with the CFO designated as Senior Accounting Officer, directly responsible for the Group's tax policies
- The risk element of the PSP includes an assessment of any material regulatory breaches

Capital management

Sustainability

Outcome

- All changes to the Board and Senior Management Functions are approved by the regulator, where required
- The Risk Adjustment Review Group, with authority delegated by the Remuneration Committee, identifies and considers instances of potential risk adjustment for MRTs and others on a more formal and structured basis

Further information on the Group's tax policies is set out in Section A6.5 of PBG's 2025 Annual Report and Accounts.

DIRECTORS' REPORT (Continued)

Society and community

Helping the UK economy grow and supporting the communities in which we operate (s172 (1)(d))

We aim to be an energetic and valuable contributor to the communities in which we operate. Our commitment includes active involvement in a range of community volunteering and charity partnerships.

Sustainability

How we engage and / or monitor

- Members of the senior team are active in industry bodies, gaining insight into thinking about how the sector impacts communities and public policy
- ExCo members actively support community activities within the business
- Group employees support a nominated charity each year via payroll donations and fund-raising efforts
- All group employees are given one day per year to volunteer for specific initiatives

Outcome

- The Group partnered with Future First, supporting young people from disadvantaged and low-income backgrounds
- In the twelve months ended 30 September 2025 employees raised £59,000 for Guide Dogs
- The Group's Charity Committee is sponsored by a member of ExCo
- Group employees were supported to take part in a range of volunteering activities
- 513 employee volunteering sessions across the Group were used to support specific initiatives in local communities

Further information on the Group's community involvement is set out in Section A6.5 of PBG's 2025 Annual Report and Accounts.

DIRECTORS' REPORT (Continued)

Environment and climate change

Continually reducing our environmental impact and designing products that support positive environmental change (s172 (1)(d))

We take care to identify, manage and minimise our impact on the environment, both in terms of the impact of our lending products and our own operational impact.

Sustainability

How we engage and / or monitor

- The Group has an executive level Sustainability Committee which addresses all climate-related issues on a cross-group basis, escalating to the Board as appropriate
- Climate change is designated a principal risk
- The Board receives updates on the potential risks and strategic impacts of climate change
- Participated in the UK Government consultation on EPC reform and the Minimum Energy Efficient Standards for the private rental sector independently and through our membership of Bankers for Net Zero and UK Finance
- The Board has objectives in place against current energy performance to further reduce consumption and emissions
- The CFO has been designated as the responsible director for climate change matters
- The Groups annual ICAAP, approved by the Board, includes climate change scenario analysis

Outcome

- The Group offers a range of buy-to-let mortgage products including incentives for those landlords who wish to invest in energy efficient properties
- Our motor finance business offers loans to finance battery electric vehicles, including light commercial vehicles
- Operational emissions for the year have been offset with purchased carbon credits certified by Gold Standard programme
- Environmental / climate change targets are considered as part of the new Remuneration Policy
- The Groups Responsible Business Report is published annually and the corporate website has a dedicated sustainability section
- The 2025 Responsible Business Report includes our inaugural climate transition plan, described in Section A6.4

Further information on the Group's management of climate change risk and its environment policies is set out in Section A6.4 of PBG's 2025 Annual Report and Accounts.

DIRECTORS' REPORT (Continued)

Business partners and suppliers

Commitment to the fair treatment of all business partners. In return, we expect our partners to help us deliver a high standard of service to our customers and act responsibly (s172 (c))

We believe that working well with our business partners and suppliers is central to our purpose and key to our continued success.

How we engage and / or monitor

- Key business partner relationships, including intermediaries and suppliers are identified, actively monitored and reported to ExCo and the Board
- The Board was provided with an update on our procurement approach, and composition of the supplier base, including material outsourcing arrangements, the assurance approach and timeliness of payments
- Regular feedback surveys conducted amongst intermediaries with the results fed back to ExCo and Board
- The Group has a Supplier Code of Conduct which sets out its overall approach to supplier engagement and its expectations of its suppliers
- A questionnaire covering broad sustainability topics is issued to new suppliers as part of the onboarding process

Digitalisation

Sustainability

Outcome

- New digital platform launched to mortgage intermediaries, reflecting feedback received from brokers`
- Intermediary feedback key to updating and streamlining other operational systems and processes
- Our suppliers understand the minimum standards we expect from them and our commitments and expectations around bribery and corruption, data protection and modern slavery
- Ongoing engagement with our key suppliers ensuring operational resilience and reduced risk
- The Group is a signatory to the UK's Prompt Payment Code, and ensuring that suppliers are paid promptly is a priority

The Group's management of business partner relationships is discussed further in Section A6.7 of PBG's 2025 Annual Report and Accounts.

DIRECTORS' REPORT (Continued)

AUDITOR

The directors have taken all reasonable steps to make themselves and the Bank's auditor, KPMG LLP, aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the year, and, as far as each of the directors is aware, there is no relevant audit information of which the auditor is unaware. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The directors of PBG, having considered the requirements for rotation of auditors after 10 years of service from KPMG LLP, conducted an audit tender process in respect of the 2026 audit during the financial year ended 30 September 2024. Deloitte LLP were selected as a result of this process, and have expressed their willingness to take office.

Having regard to the benefits of all Group entities sharing the same auditor, the directors resolved that Deloitte LLP should also be appointed as auditors of the Bank and a resolution for the appointment of Deloitte LLP as the auditors of the Bank in place of KPMG LLP is to be proposed at the forthcoming Annual General Meeting.

POLITICAL CONTRIBUTIONS

The Bank has not made any political donations or incurred and political expenditure during the year.

DIVIDENDS

An interim dividend of 28.2 pence per share was paid in the year (2024: 28.8 pence per share), a final dividend of 10.25 pence per share is proposed (2024: nil pence), making a total dividend for the year of 38.45 pence per share (2024: 28.8 pence per share).

INFORMATION PRESENTED IN OTHER SECTIONS

Certain information required to be included in a directors' report by the Companies Act 2006 and regulations made there under can be found in the other sections of the Annual Report, as described below. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

- Commentary on the likely future developments in the business of the Bank is included in the Strategic Report
- A description of the Bank's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in notes 39 - 43 to the accounts
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in the strategic report

Approved by the Board of Directors and signed on behalf of the Board.

RICHARD WOODMAN

Director

23 January 2026

Registered Office: 51 Homer Road, Solihull, West Midlands, B91 3QJ

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in relation to Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law, including the Companies Act 2006 (the 'Companies Act'), requires the directors to prepare financial statements for the Bank in respect of each financial year. In respect of the financial statements for the year ended 30 September 2025, the directors have elected to prepare the financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act.

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 Bank and the Bank's profit or loss for the year. In preparing the 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 financial statements have been prepared in accordance with UK-adopted international accounting standards.
- assess the ability of the Bank 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 Bank 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 Bank 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 Bank and to prevent and detect fraud and other irregularities.

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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in relation to Financial Statements (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 current directors confirm 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 Bank.

Approved by the Board of Directors as the persons responsible within the Bank and signed on behalf of the Board.

RICHARD WOODMAN

Director

23 January 2026

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PARAGON BANK PLC

1 Our opinion is unmodified

We have audited the financial statements of Paragon Bank PLC ("the Company") for the year ended 30 September 2025 which comprise the:

- Statement of Profit or Loss
- Balance Sheet
- Cash Flow Statement
- Statement of Movements in Equity
- Related notes, including the accounting policies in note 45, other than the disclosures labelled as unaudited in note 38.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2025 and of its profit for the year then ended;
- have been properly prepared in accordance with UK – adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 9 February 2016. The period of total uninterrupted engagement is for the ten financial years ended 30 September 2025. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2024) in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	Our response
Impairment allowances on loans to customers Risk vs 2024: ◄► (£36.1 million; 2024: £40.8 million) *Refer to the accounting policy note 45, the critical accounting estimates note 47 and note 17 (financial disclosures).* **Subjective estimate** The measurement of expected credit losses ('ECL') involves significant judgements and estimates. There remains some uncertainty and volatility in the UK economy, which continues to impact the subjectivity in the estimate.	We performed the tests below rather than seeking to rely on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Our economic scenario expertise**: We involved our own economic specialists to assist us in: - assessing the reasonableness of the Company's methodology for determining the economic scenarios used and the probability weightings applied to them; and - assessing the overall reasonableness of the economic forecasts by comparing the Company's forecasts to our own modelled forecasts.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's estimation of ECL are set out below. For the buy-to-let loan book: **Economic scenarios** – IFRS 9 requires the Company to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determine the economic scenarios and the probability weightings assigned to each economic scenario. **Judgemental adjustments** – The Company make adjustments to the model-driven ECL results to address issues relating to model responsiveness or emerging trends relating to the current economic environment as well as risks not captured by the models. Such adjustments are inherently subjective and require significant management judgement in estimating these amounts. The judgemental adjustments recorded are immaterial, therefore the risk is regarding the completeness of these adjustments. **Significant Increase in Credit Risk ('SICR')** – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Company's ECL calculation as these criteria determine whether a 12-month or lifetime provision is recorded. **Model estimations** – Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The LGD model assumptions are the key drivers of the Company's ECL results and are therefore the most significant judgemental aspect of the Company's ECL modelling approach. The effect of these matters is that, as part of our risk assessment, we determined that the impairment allowances on loans to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. As a consequence of the inherent estimation uncertainty arising from the above matters, we have identified a specific fraud risk. The financial statements disclose the sensitivities estimated by the Company (note 17). **Disclosure quality** The disclosures regarding the Company's application of IFRS 9 are important in explaining the key judgements and material inputs to the IFRS 9 ECL results, as well as the sensitivity of the ECL results to changes in these judgements or the Directors' assumptions, in light of the estimation uncertainty arising.	• **Our credit risk modelling expertise:** We involved our own credit risk modelling specialists to assist us in: - evaluating the Company's impairment methodologies for compliance with IFRS 9; - evaluating the model output for a selection of models by independently recoding the model in line with the corresponding model functionality and comparing our output with the Company's; and - assessing the completeness of the Company's SICR criteria and its ongoing effectiveness for a selection of models. • **Test of details:** Additionally, key aspects of our testing included: - testing the key LGD assumptions impacting the Company's overall ECL model calculation to assess their reasonableness. This included performing sensitivity analysis to understand the significance of certain assumptions, and assessing the key assumptions against the Company's historical experience; - for a selection of portfolios, evaluating the compliance and completeness of the Company's SICR criteria. In addition, we independently applied the Company's staging methodology to assess whether each loan has been assigned to the correct stage per the Company's approved staging criteria; - for a selection of portfolios, reperforming the calculation of the LGD and the ECL measured on the loan portfolio. • **Benchmarking assumptions:** Key aspects of our testing involved: - assessing the completeness of judgemental adjustments to the model-driven ECL by performing benchmarking to comparable peer group organisations and using our knowledge of the Company and its industry to challenge the completeness of risks addressed in the adjustments; and - testing the key LGD assumptions impacting the Company's overall ECL model calculation by comparing the Company's assumptions to those of comparable peer group organisations. • **Sensitivity analysis:** We performed sensitivity analysis over the key assumptions including the economic scenarios and weightings as well as certain LGD assumptions, by applying alternative assumptions. • **Assessing transparency:** We assessed whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Company's overall ECL. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgements and assumptions made is sufficiently clear. **Our results** As a result of our work, we found the impairment provision recognised and the related disclosures to be acceptable (2024: acceptable).
Interest receivable on originated loan accounts Risk vs 2024: ◄► (£614.9million; 2024: £554.1 million) *Refer to the accounting policy note 45, the critical accounting estimates note 47 and note 4 (financial disclosures).* **Subjective estimate** The recognition of interest receivable on originated loan	We performed the tests below rather than seeking to rely on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Historical comparison:** We critically assessed the Company's analysis and key assumptions over the repayment profiles by comparing them to the Company's historical trends and actual portfolio behaviour. We also applied alternative repayment profiles based on our recalculations. The historical comparison included

accounts under the effective interest rate ('EIR') method requires the Directors to apply judgement, the most critical of which are the loans' expected behavioural life assumptions. There remains some uncertainty and volatility in the UK economy, which continues to impact the subjectivity in the estimate. The Company determines its expected behavioural life assumptions based on its forecasting processes which incorporate historical experience and judgement as to what the future rates will be and the expected customer behaviour. This judgement extends significantly into the future which creates a high degree of estimation uncertainty and subjects the judgement to future market changes. The cohorts of loans and advances for which the assumptions are most significant are the post-2010 originated buy-to-let assets. The effect of these matters is that, as part of our risk assessment, we determined that the EIR adjustment and corresponding interest receivable on originated loan accounts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. As a consequence of the inherent estimation uncertainty arising from the behavioural life, we have identified a specific fraud risk. The financial statements disclose the sensitivities estimated by the Company (note 47). **Disclosure quality** The disclosures regarding the Company's application of EIR accounting are important in explaining the key judgements and material inputs to the EIR adjustment, as well as the sensitivity of the EIR adjustment to changes in these judgements or the Directors' assumptions.	considering the potential impact of the current economic environment on the behavioural life assumption. • **Our sector experience:** We critically assessed the key assumptions used in determining the Company's expected behavioural lives against our own knowledge of industry experience and trends. • **Sensitivity analysis:** We performed sensitivity analysis over the repayment profiles by applying alternative profiles incorporating the results from the above procedures. • **Assessing transparency:** We assessed whether the disclosures appropriately reflect and address the estimation uncertainty that exists when determining the Company's EIR adjustments and interest receivable. We assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the critical estimates and assumptions made is sufficiently clear. **Our results** As a result of our work, we found the interest receivable on originated loan accounts and the related disclosures to be acceptable (2024: acceptable).
Recoverability of Investment in subsidiaries Risk vs 2024: ◄► (£664.1 million; 2024: £664.4 million) *Refer to the accounting policy note 45, the critical accounting estimates note 47 and note 21 (financial disclosures).* **Forecast-based assessment** The carrying amount of the Company's investment in subsidiaries is significant to the financial statements and the investment in each of the Company's acquired business may be at risk of impairment due to changes in market factors since acquisition. The estimated recoverable amount of this balance is subjective due to the inherent judgement involved in determining the assumptions used in the assessment. The most significant assumptions are considered to be the forecast future cash flows (projected income) and the discount rate. There remains some uncertainty and volatility in the UK economy, which continues to impact the subjectivity in the recoverability of investment in subsidiaries. **Disclosure quality** The disclosures regarding the Company's investments in subsidiaries are important in explaining the key judgements and material inputs to the impairment assessment, as well as the sensitivity of the recoverable amount (and therefore the impairment conclusion) to changes in these judgements or management's assumptions in light of the estimation uncertainty arising.	We performed the tests below rather than seeking to rely on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Test of details:** Comparing the carrying amount of 100% of the Company's investments with the relevant subsidiary's draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, are in excess of their carrying amount. We also assessed whether those subsidiaries have historically been profit-making. **Our industry experience:** Where the carrying value exceeds the net asset value and a value-in-use assessment was made, we performed additional procedures such as assessing the appropriateness of management's forecasting process, benchmarking to external data and sensitivity analysis. **Our results** As a result of our work, we found the resulting carrying amount of the Company's investment in subsidiaries and the related disclosures to be acceptable (2024: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £13.0 million determined with reference to a benchmark of profit before tax, normalised to exclude fair value movements and provision for liabilities, of £303.7m (2024: £11.0 million determined with reference to a benchmark of profit before tax normalised to exclude fair value movements, of £241.1m (restated)). We adjusted for these items because they do not represent the normal, continuing operations of the Company. This materiality level represents 4.3% (2024: 4.6% (restated)) of the stated benchmark. We performed audit procedures on the items excluded from the normalised profit before tax used as the benchmark for our materiality.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2024: 75%) of materiality for the financial statements as a whole, which equates to £9.75 million (2024: £8.25 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.65 million (2024: £0.55 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Impact of controls on our audit

We were able to rely upon the Company's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company’s financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company’s available financial resources over this period were:

- The availability of funding and liquidity in the event of a market-wide stress scenario; and
- The impact on regulatory capital requirements in the event of an economic slowdown or recession.

We considered whether these risks could plausibly affect the liquidity and regulatory capital in the going concern period, by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company’s financial forecasts.

We considered whether the going concern disclosure in note 48 to the financial statements gives a full and accurate description of the directors’ assessment of going concern. We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors’ assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company’s ability to continue as a going concern for the going concern period;
- we found the going concern disclosure in note 48 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and Internal Audit as to whether they have knowledge of any actual, suspected or alleged fraud, and inspection of policy documentation around the Paragon Banking Group plc's ("the Group", of which the Company is a part) high-level policies and procedures to prevent and detect fraud, including the Internal Audit function, and the Group's internal channel for 'whistleblowing'.
- Reading Board, Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for the Group and directors, including the Financial Performance metrics in the Annual Bonus and Performance Share Plan.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, and the risk of fraudulent revenue recognition, in particular:

- the risk that the EIR adjustment on interest income may be misstated, and
- the risk that management may be in a position to make inappropriate accounting entries.

We also identified a fraud risk related to the impairment allowance on loans to customers due to the fact this involves significant estimation uncertainty and subjective judgements that are inherently uncertain.

Further detail in respect of impairment allowances on loans to customers and interest income on originated loans is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. This included searching for those posted and approved by the same user, journals posted to seldom used accounts, unbalanced journal postings and those including specific descriptors, and testing any journal entries identified where applicable;
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory correspondence and discussed with the directors and other management, the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the Company's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct (including consumer duty), money laundering and financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the motor finance commissions conduct matter discussed in note 28, we assessed the provision recognised and the Company's disclosures against our understanding from inspecting regulatory correspondence, holding enquiries with the Company's internal legal counsel, inspecting relevant public regulatory announcements and performing audit procedures to respond to the risks of material misstatement identified.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the strategic report and the directors' report.

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out in page 47, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the

going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Michael McGarry (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

23 January 2026

The Accounts

Showing the financial position, results and cash flows of the Bank prepared in accordance with IFRS and UK law

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

	Note	2025 £m	2024 (restated*) £m
Interest receivable	4	1,148.9	1,180.9
Interest payable and similar charges	5	(758.1)	(838.0)
Net interest income		390.8	342.9
Other income	6	51.9	81.8
Total operating income		442.7	424.7
Operating expenses	7	(132.6)	(132.5)
Provisions for losses	9	(6.4)	(51.1)
Provision for liabilities	28	(25.5)	-
Operating profit before fair value items		278.2	241.1
Fair value net (loss)	10	(36.0)	(16.7)
Operating profit being profit on ordinary activities before taxation		242.2	224.4
Tax charge on profit on ordinary activities	11	(61.2)	(46.2)
Profit on ordinary activities after taxation for the financial year		181.0	178.2

* Restated - note 44

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

There were no other items of comprehensive income in the current or preceding years.

BALANCE SHEET
For the year ended 30 September 2025

	Note	2025 £m	2024 (restated*) £m
Assets			
Cash – central banks	12	2,175.7	2,315.5
Cash – retail banks	12	56.2	62.9
Investment securities	13	626.2	427.4
Loans to customers	14	12,446.0	11,671.6
Investment in structured entities	18	1,959.3	2,154.9
Derivative financial assets	19	241.1	319.1
Sundry assets	20	115.5	96.3
Investment in subsidiary undertakings	21	2,192.7	2,111.9
Total assets		19,812.7	19,159.6
Liabilities			
Retail deposits	22	16,270.8	16,314.7
Derivative financial liabilities	19	65.3	98.9
Covered bonds	23	499.2	-
Central bank facilities	24	950.0	755.0
Sale and repurchase agreements	25	100.0	100.0
Corporate bond	26	150.2	150.3
Sundry liabilities	27	621.4	635.4
Provisions	28	25.5	-
Current tax liabilities	29	73.4	61.9
Deferred tax liability	30	10.9	22.6
Total liabilities		18,766.7	18,138.8
Called up share capital	31	552.6	552.6
Reserves	32	493.4	468.2
Total equity		1,046.0	1,020.8
Total liabilities and equity		19,812.7	19,159.6

* Restated - note 44

Approved by the Board of Directors on 23 January 2026.
Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

R J Woodman
Chief Financial Officer

CASH FLOW STATEMENT
For the year ended 30 September 2025

	Note	2025 £m	2024 £m
Net cash (utilised) / generated by operating activities	33	(370.4)	2,084.9
Net cash (utilised) by investing activities	34	(314.1)	(462.5)
Net cash generated / (utilised) by financing activities	35	538.0	(2,104.0)
Net (decrease) / increase in cash and cash equivalents		(146.5)	(481.6)
Opening cash and cash equivalents		2,378.4	2,860.0
Closing cash and cash equivalents		2,231.9	2,378.4
Represented by balances within:			
Cash	12	2,231.9	2,378.4
Short term bank borrowings		-	-
		2,231.9	2,378.4

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

Year ended 30 September 2025	**Share capital** **£m**	**Profit and loss account** **£m**	**Total equity** **£m**
Transactions arising from			
Profit for the year	-	181.0	181.0
Other comprehensive income	-	-	-
Total comprehensive income	-	181.0	181.0
Transactions with owners			
Shares issued	-	-	-
Dividends paid	-	(155.8)	(155.8)
Net movement in equity in the year	-	25.2	25.2
Opening equity			
As previously reported	552.6	497.5	1,050.1
Restatement (Note 44)	-	(29.3)	(29.3)
As restated	552.6	468.2	1,020.8
Closing equity	552.6	493.4	1,046.0

Year ended 30 September 2024 (restated – note 44)	**Share capital** **£m**	**Profit and loss account** **£m**	**Total equity** **£m**
Transactions arising from			
Profit for the year	-	178.2	178.2
Other comprehensive income	-	-	-
Total comprehensive income	-	178.2	178.2
Transactions with owners			
Shares issued	-	-	-
Dividends paid	-	(158.9)	(158.9)
Net movement in equity in the year	-	19.3	19.3
Opening equity	552.6	448.9	1,001.5
Closing equity	552.6	468.2	1,020.8

NOTES TO THE ACCOUNTS
For the year ended 30 September 2025

1. GENERAL INFORMATION

Paragon Bank PLC is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 5390593. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Bank's operations and its principal activities are set out in the Strategic Report.

These financial statements are presented in pounds sterling, which is the currency of the economic environment in which the Bank operates.

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

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

NOTES TO THE ACCOUNTS - 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 Bank.

2. SEGMENTAL INFORMATION

The Bank is not currently obliged to provide information on operating segments in accordance with IFRS 8 as it has no listed debt or equity instruments.

All of the Bank's operations are conducted in the United Kingdom, all revenues arise from customers external to the Bank and the business is considered to represent a single segment. No customer contributes more than 10% of the revenue of the Bank, excluding dividends or deferred purchase consideration received from other Group companies.

Transactions with other Group entities are described in note 36.

3. REVENUE

	Note	2025 £m	2024 £m
Interest receivable	4	1,148.9	1,180.9
Other operating income	6	51.9	81.8
Total revenue		1,200.8	1,262.7

4. INTEREST RECEIVABLE

Interest receivable is analysed as follows.

	2025 £m	2024 £m
Interest receivable in respect of		
First mortgages	614.9	554.1
Secured consumer loans	5.3	7.2
Finance leases	28.1	24.7
Other loans	25.7	24.2
Interest on loans to customers	674.0	610.2
Effect of fair value hedging of loan assets	138.6	161.9
Interest on loans to customers after hedging	812.6	772.1
Investment securities	22.4	8.0
Effect of fair value hedging of securities	2.4	2.4
Interest on group loan	90.8	93.0
Interest on investment in structured entities	128.0	152.8
Other interest receivable	92.7	152.6
Total interest on financial assets	1,148.9	1,180.9

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

4. INTEREST RECEIVABLE (CONTINUED)

The above amounts relate to:

	2025 £m	2024 £m
Financial assets held at amortised cost	979.8	991.9
Finance leases	28.1	24.7
Derivative financial instruments held at fair value	141.0	164.3
	1,148.9	1,180.9

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

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2025 £m	2024 £m
On financial liabilities		
On retail deposits	674.9	667.0
Effect of fair value hedging of deposit	0.8	35.9
Interest on retail deposits after hedging	675.7	702.9
On bank loans and overdrafts	4.8	12.8
On corporate bonds	6.6	6.6
On covered bonds	13.6	-
On central bank facilities	43.6	99.2
On intercompany loans	13.1	16.3
Total interest on financial liabilities	757.4	837.8
Other finance costs	0.7	0.2
Total interest payable and similar charges	758.1	838.0

The above amounts relate to:

	2025 £m	2024 £m
Financial liabilities held at amortised cost	757.4	837.8
Other items	0.7	0.2
	758.1	838.0

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 19).

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

6. OTHER INCOME

	2025 £m	2024 £m
Loan account fee income	2.7	3.0
Deferred sale consideration	10.2	24.8
Dividend income	39.0	54.0
	51.9	81.8

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

7. OPERATING EXPENSES

	Note	2025 £m	2024 £m
Auditor remuneration	8	1.2	1.0
Financial Services Compensation Scheme levy		2.3	1.4
Bank of England levy		2.7	2.1
Other administrative costs		126.4	128.0
		132.6	132.5

Other administrative costs relate to management and administrative services provided by fellow group companies as disclosed in note 36.

8. AUDITOR REMUNERATION

The analysis of fees payable to the Bank's auditors (KPMG LLP) and their associates, excluding irrecoverable VAT, required by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 is set out below.

	2025 £m	2024 £m
Audit fee of the company	1.2	1.0
Total fees	1.2	1.0
Irrecoverable VAT	-	-
Total cost to the Bank	1.2	1.0

Fees paid to the auditors and their associates for non-audit services to the Company are not disclosed because the consolidated accounts of the Group are required to disclose such fees on a consolidated basis.

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

9. PROVISION FOR LOSSES

	Note	2025	2024 (restated*)
		£m	£m
Impairment of provision of financial assets:			
Loan accounts	17	6.7	7.2
Finance leases	17	1.0	2.0
		7.7	9.2
Investment in group companies	21	0.3	-
Balances with group companies	20	(1.6)	41.9
		6.4	51.1

* Restated – note 44

10. FAIR VALUE NET (LOSS)

	2025	2024
	£m	£m
Ineffectiveness of fair value hedges (note 19)		
Portfolio hedges of interest rate risk		
Deposit hedge	(0.6)	7.3
Loan hedge	11.7	34.0
	11.1	41.3
Individual hedges of interest rate risk	-	-
	11.1	41.3
Other hedging movements	(66.5)	(92.9)
Net gain on other derivatives	19.4	34.9
	(36.0)	(16.7)

The fair value net (loss) represents the accounting volatility on derivative instruments which are matching risk exposure 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 on other derivatives' above.

The gains and losses 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 Bank. Movements related to initial premiums paid or received on initial recognition of derivatives are excluded and instead adjusted against the interest received/paid on the interest rate swaps over time.

The impact of hedging arrangements on the Bank's balance sheet is summarised in note 19 which also provides a full description of the Bank's use of derivative financial instruments for hedging purposes.

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

11. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2025	2024 (restated*)
	£m	£m
Current tax		
UK Corporation Tax on profits of the period	72.9	61.4
Adjustment in respect of prior periods	-	1.1
Total current tax	72.9	62.5
Deferred tax (credit)	(11.7)	(16.3)
Tax charge on profit on ordinary activities	61.2	46.2

* Restated – note 44

The standard rate of corporation tax in the UK applicable to the Bank 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 to an additional rate of tax to the extent these profits exceed a threshold. The surcharge applying to the Bank in the current year was 3.0% on profits over £100.0m (2024: 3.0% on profits over £100.0m). The effect of the surcharge shown in note (c) below.

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

(b) Deferred tax (credit) for the year

The deferred tax (credit) in the income statement comprises the following temporary differences:

	2025	2024 (restated*)
	£m	£m
Loans and derivatives	(11.7)	(16.2)
Deferred tax (credit) for the year	(11.7)	(16.2)
Prior period adjustment	-	(0.1)
Deferred tax (credit) (note 30)	(11.7)	(16.3)

* Restated – note 44

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

11. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

(c) Factors affecting tax charge for the year

Accounting standards require companies to explain the relationship between tax expense and accounting profit. This may be demonstrated by reconciling the tax charge to the product of the accounting profit and the 'applicable rate', generally the domestic rate of tax levied on corporate income in the jurisdiction in which the entity operates.

The Bank operates wholly in the UK. Consequently, it is appropriate to use the prevailing UK corporation tax rate as the comparator to the effective tax rate. As noted in (a) above, the UK corporation tax rate applicable to the Bank for the year was 25.0% (2024: 25.0%).

The impact of the Banking Surcharge is shown as a difference between tax at this rate and the actual tax charge in the table below:

	2025	2024 (restated*)
	£m	£m
Profit on ordinary activities before taxation	242.2	224.4
Profit on ordinary activities multiplied by the UK standard rate of corporation tax	60.6	56.1
Effects of:		
Non-deductible expenditure less non-taxable income	(3.3)	(13.1)
Mismatch in timing differences	-	-
Bank Corporation Tax Surcharge – impact on current tax	5.1	3.8
Impact of surcharge and changes in tax rates – deferred tax	(1.2)	(1.7)
Prior year charge	-	1.1
Tax charge for the year	61.2	46.2

* Restated – note 44

Change in rate of taxation includes the effect of providing for deferred tax balances at rates other than the comparator rate. This includes deferred tax provision on fair value movements in the year, which form the largest part of this balance.

(d) Factors affecting future tax charges

No legislation which will have the effect of changing the rates of tax applicable to the Bank from those shown above has currently been enacted. However, the future direction of UK tax policy will significantly affect the tax payable by the Bank, and this remains uncertain.

The Bank's overall future effective tax rate will also be impacted by the future level of the Surcharge and by the proportion of its taxable profit subject to it.

At the balance sheet date there were no material tax uncertainties and no significant open matters with the UK tax authorities. The Bank has no material exposure to any other tax jurisdiction.

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

12. CASH AND CASH EQUIVALENTS

	2025 £m	2024 £m
Deposits with the Bank of England	2,175.7	2,315.5
Balances with central banks	2,175.7	2,315.5
Deposits with other banks	56.2	62.9
Cash and cash equivalents	2,231.9	2,378.4

'Cash and Cash Equivalents' includes current bank balances, and fixed rate sterling term deposits with London banks, and balances with the Bank of England.

Cash and cash equivalents are allocated to Stage 1 under the IFRS 9 impairment regime. The probabilities of default have been assessed to be so low as to require no significant impairment provision.

13. INVESTMENT SECURITIES

Investment securities, which are held as part of Bank's liquidity buffer, are analysed as follows:

	Principal amount		Carrying value	
	2025 £m	2024 £m	2025 £m	2024 £m
UK Government securities	550.0	400.0	509.4	404.4
Covered bonds	116.8	23.0	116.8	23.0
	666.8	423.0	626.2	427.4

The UK Government securities ('gilts') bear interest at a fixed rate, the average maturity of the gilts is 19.3 years (2024: 20.5 years), and the average fixed rate coupon is 4.5% (2024: 4.5%). Hedging arrangements in respect of these securities are described in note 19.

The covered bonds are issued by UK financial institutions, are denominated in sterling and bear interest at a variable rate of interest based on SONIA. The average maturity of the covered bonds is 4.0 years (2024: 5.0 years) and the average interest margin above SONIA is 0.53% (2024: 0.51%).

All the investment securities bear credit risk and are classified as Stage 1 exposures for IFRS 9 impairment purposes. As the securities are UK sovereign exposures, or secured exposures to UK financial institutions, the probability of default has been assessed to be so low that no significant impairment provision is required.

These securities are available to use as security against funding arrangements, such as sale and repurchase transactions, and for similar purposes. At 30 September 2025, £140.0 million of this balance, at principal value, had been pledged in this way (2024: £nil).

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

14. LOANS TO CUSTOMERS

	Note	2025 £m	2024 £m
Loan accounts	15	12,078.9	11,383.3
Finance lease receivables	16	360.6	331.4
Loans to customers		12,439.5	11,714.7
Fair value adjustments from portfolio hedging		6.5	(43.1)
		12,446.0	11,671.6

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

15. LOAN ACCOUNTS

Loan accounts at 30 September 2025 and 30 September 2024, which are all denominated and payable in sterling, were:

	2025 £m	2024 £m
First mortgage loans	11,749.2	11,039.3
Second charge mortgage loans	62.8	87.1
Structured lending loans	266.9	256.9
	12,078.9	11,383.3

The amounts of the loan assets above pledged as collateral under the covered bond arrangements described in note 23 and central bank facilities described in note 24 are set out in the table below. The table also shows assets prepositioned with the Bank of England for use in future drawings.

	First Mortgages £m	Consumer Finance £m	Other £m	Total £m
30 September 2025				
In respect of:				
Covered bonds	891.2	-	-	891.2
Central bank facilities	2,109.6	-	-	2,109.6
Total pledged as collateral	3,000.8	-	-	3,000.8
Prepositioned with Bank of England	5,909.8	-	-	5,909.8
Other assets not pledged as collateral	2,838.6	62.8	266.9	3,168.3
	11,749.2	62.8	266.9	12,078.9
30 September 2024				
In respect of:				
Covered bonds	-	-	-	-
Central bank facilities	1,097.8	-	-	1,097.8
Total pledged as collateral	1,097.8	-	-	1,097.8
Prepositioned with Bank of England	6,571.3	-	-	6,571.3
Other assets not pledged as collateral	3,370.2	87.1	256.9	3,714.2
	11,039.3	87.1	256.9	11,383.3

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

16. FINANCE LEASE RECEIVABLES

The minimum lease payments due under these loan agreements are:

	2025 £m	2024 £m
Amounts receivable		
Within one year	108.3	92.6
Within one to two years	103.2	93.9
Within two to three years	92.7	87.0
Within three to four years	65.6	66.4
Within four to five years	28.5	27.1
After five years	50.9	50.8
	449.2	417.8
Less: future finance income	(84.4)	(81.1)
Present value	364.8	336.7

The present values of those payments, net of provisions for impairment, carried in the accounts are:

	2025 £m	2024 £m
Amounts receivable		
Within one year	87.9	74.8
Within two to five years	235.6	221.0
After five years	41.3	40.9
Present value	364.8	336.7
Allowance for uncollectible amounts	(4.2)	(5.3)
Carrying value	360.6	331.4

The finance lease receivables stated above relate to motor finance leases.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

This note sets out information on the Bank's impairment provisioning under IFRS 9 for the loans to customers balances set out in note 14, including both finance leases, accounted for under IFRS 16, and loans held at amortised cost, accounted for under IFRS 9, as both groups of assets are subject to the IFRS 9 impairment requirements.

The disclosures are set out under the following headings:

- Basis of provision
- Impairments by stage
- Movements in impairment provision in the period
- Impairments charged to income
- Economic inputs to provision calculations
- Sensitivity analysis

Basis of provision

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. Provision may be based on either twelve months or lifetime ECL, dependant on whether an account has experienced a significant increase in credit risk ('SICR').

The Company's process for determining its provisions for impairments is summarised below. This includes

- The methods used for the calculation of ECL
- How it defines SICR
- How it defines default
- How it identifies which loans are credit impaired, as defined by IFRS 9
- How the ECL estimation process is monitored and controlled
- How the Bank develops and enhances the models it uses in the ECL estimation process
- How the Bank uses judgemental adjustments to ensure all elements of credit risk are fully addressed

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Calculation of expected credit loss ('ECL')

For the majority of the Bank's loan assets, the ECL is generated using statistical models applied to account data to generate PD and LGD components.

PD on both a twelve months and lifetime basis is estimated based on statistical models for the Bank's most significant asset classes. The PD calculation is a function of current asset performance, customer information and future economic assumptions. The models were developed through the analysis of correlation in historic data, which identified which current and historical customer attributes and external economic variables were predictive of future loss. PD measures are calculated for the full contractual lives of loans with the models deriving probabilities that, at a given future date, a loan will be in default, performing or closed. The Bank utilised all reasonably available information in its possession for this exercise.

LGD for each account is derived by calculating a value for exposure at the point of default (which will include consideration of future interest, account charges and receipts) and reducing this for security values, net of likely costs of recovery. These calculations allow for the Bank's potential case management activities, including the use of receivers of rent in buy-to-let cases. This evaluation includes the potential impact of economic conditions at the time of any future default or enforcement. The derivation of the significant assumptions used in these calculations is discussed below.

In certain asset classes a fully modelled approach is not possible. This is generally where there are few assets in the class, where there is insufficient historical data on which to base an analysis or where certain measures, such as days past due are not useful (including cases where the loan agreement does not require regular payments of pre-determined amounts). In these cases, which represent a small proportion of the total portfolio, alternative approaches are adopted. These rely on internal credit monitoring practices and professional credit judgement.

Notwithstanding the mechanical procedures discussed above, the Bank will always consider whether the process generates sufficient provision for particular loans, especially large exposures, and will provide additional amounts as appropriate.

In extreme or unprecedented economic conditions, it is likely that mechanical models will be less predictive of outcomes as the historical data used for modelling will be insufficiently representative of conditions at the balance sheet date. This may be the case where economic indicators at the reporting date and future expectations for those indicators lie outside the range of the observations used to construct the models. In such circumstances, management carefully review all outputs to ensure provision is adequate.

During the financial year the economic environment in the UK remained relatively stable, albeit with interest rates at far higher levels than had been seen for much of the ten years up to June 2023. This type of higher rate environment is not significantly represented in the historic data sets used to construct the Group's impairment models, and the Group has carefully considered their likely performance under these conditions and the requirement for additional judgemental adjustments at the period end to compensate for any weaknesses. However, the Group's monitoring of model performance over the period served to mitigate these concerns, to some extent, and the level of such adjustments reduced in the period.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (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 Bank'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 Bank 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 Bank'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.

As part of its determination of whether model outputs form a reliable basis for impairment provisioning, the Bank 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.

Definitions of default

As the IFRS 9 definition of ECL is based on PD, default must be defined for this purpose. The analysis of these default cases provides the foundation for the Bank's PD modelling. IFRS 9 provides a rebuttable presumption that an account is in default when it is 90 days overdue and this was used as the basis of the Bank's definition, combined with qualitative and quantitative factors specific to each portfolio.

The most influential quantitative factor in the majority of portfolios is the arrears level, while the principal qualitative factors relate to internal account management statuses. In particular the decision to commence a process of enforcement will be considered as a default in all portfolios. In the Bank's buy-to-let mortgage portfolio the appointment of a receiver of rent to manage the property on the customers behalf is considered a default, while for portfolios assessed on a case-by-case basis, such as the Bank's structured lending loans, the movement of an account to the highest risk category used for internal monitoring is considered as a default.

This ensures that Bank's definitions of default for its various portfolios are materially aligned to the regulatory definitions of default used internally, and are broadly aligned to its internal operational procedures, allowing for the arbitrary nature of the 90-day cut-off, which is a regulatory rather than an operational requirement. In particular the Bank's receiver of rent cases are defined as defaulted for modelling purposes as the behaviour of the case after that point is significantly influenced by internal management decisions.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Credit Impaired loans

IFRS 9 defines a credit impaired account as one where an account has suffered one or more event which has had a detrimental effect on future cash flows. It is thus a backward-looking definition, rather than one based on future expectations.

Credit impaired assets are identified either through quantitative measures or by operational status. Designations of accounts for regulatory capital purposes are also taken into account. Assets may also be assigned to Stage 3 if they are identified as credit impaired as a result of management review processes.

All loans which are in the process of enforcement, from the point where this becomes the administration strategy, are classified as credit impaired.

Loans are retained in Stage 3 for three months after the point where they cease to exhibit the characteristics of default. After this point, they may move to Stage 2 or Stage 1 depending on whether an SICR trigger remains.

All default cases are considered to be credit impaired, including all receiver of rent cases and all cases with at least one payment more than 90 days overdue, even where such cases are being managed in the expectation of realising whole carrying balance.

In order to provide better information for users, additional analysis of credit impaired accounts has been presented below distinguishing between probationary accounts, receiver of rent accounts, accounts subject to realisation / enforcement procedures and long term managed accounts, all of which are treated as credit impaired. While other indicators of default are in use, the categories shown account for the overwhelming majority of Stage 3 cases.

Monitoring of ECL estimation processes

The Bank's ECL models are compiled on the basis of the analysis of relevant historical data. Before a model is adopted for use its operations and outputs are examined to ensure that it is expected to be appropriately predictive and, if it is an updated model, expected to be more predictive than any existing model. Before a new model is adopted the changes and impacts will be considered by the CFO, alongside any advice from the Bank's independent model review functions. The performance of all models is reviewed on an ongoing basis, by senior finance and risk management, including the CFO. Monitoring packs comparing actual and predicted loss levels are produced at regular intervals, set on the basis of the materiality of each model. The continuing appropriateness of model assumptions is also reviewed as part of this process.

Models are revisited on a regular basis to ensure that they continue to reflect the most recent data as the available information increases over time.

On a monthly basis all model outputs, model overlays and provisions calculated for non-modelled books are reviewed by senior finance management including the CFO in conjunction with the latest credit risk operational and economic metrics to ensure that the impairment provision by assets type remains appropriate. This exercise will be the subject of particular focus at year end and the half year.

This information is summarised for the Audit Committee on a biannual basis, and they have regard to this data in forming their conclusions on the appropriateness of provisioning levels.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Model development

The models used by the Bank 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 Bank'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 Bank'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.

The Bank'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 Bank's loan portfolios are properly provisioned, the Bank considers factors 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 Bank's businesses.

In the year ended 30 September 2025 the most significant factors in these considerations were the extent to which the Bank's impairment approach fully addressed risks inherent in the current economic situation, particularly in view of the lack of recent observations relating to similar conditions. These risks include the historically high levels of UK interest rates, together with the increases in the cost of living and doing business in the UK seen in recent periods, and the impacts of continuing worldwide geopolitical instability, ongoing armed conflicts and issues around international trade.

While the economic outlook has not changed greatly over the course of the year, the principal UK economic indicators have been subject to fluctuations in the period. The longer-term results of the policies being adopted by the UK government elected in 2024, and the fiscal and economic measures announced in its October 2024 budget have yet to become clear, and there have been a number of significant leadership changes in major economies in the past twelve months which have the potential to impact on the global outlook.

The divergence of the current economic environment from those experienced over much of recent history inevitably weakens the ability of any experience-based model to predict credit performance accurately, and means that management have to consider carefully the requirement for the mechanically generated provision to be adjusted.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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.

The Bank's approach to impairment modelling is based on the analysis of historical credit data. In normal circumstances the Bank's objective is to develop its modelling to the point where the level of judgemental adjustments required is minimal, but in economic conditions where previous relevant experience is limited or non-existent, some form of judgemental adjustment is always likely to be necessary. While high interest rate and sharp price rises have occurred in the UK in the past, market conditions, products and regulatory expectations have moved on considerably in the meantime, and most such observations would pre-date the existence of buy-to-let mortgages as a distinct asset class. This means that the value of past history as a guide to future credit performance is reduced.

Current model behaviours and the potential for unobserved credit issues have meant that the requirement for such adjustments over recent periods has been significant, even given the work done to replace and enhance the Bank's first generation of IFRS 9 impairment models over recent years. Although as the latest generations of these models continue to bed in without significant validation issues, the level of confidence in them naturally increases.

Evidence considered by management in order to assess the size of the 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.

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.

At 30 September 2025 the amount of judgemental adjustments was £1.4m (2024: £3.8m), which all applied on the mortgage book.

The position at 30 September 2025 has somewhat reduced from that at 30 September 2024, representing the extent to which the concerns over future customer performance and the potential for future economic headwinds which gave rise to the original have stabilised in the year. While some adverse trends in performance have been noted in the portfolios, these have been minor and have been offset, to some extent, by the impact of forecast stable or mildly downward trends in future inflation and interest rates in the scenarios underlying the impairment models.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (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 Bank 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, management decided that it was appropriate to reduce the level of overlay at 30 September 2025.

For the motor finance portfolio, the overlay to the modelled provision has been released (2024: £1.0m). Indications to date continue to show the second generation motor finance PD model 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. Considering these factors, together with the other portfolio data, it was decided to remove the overlay to ensure provision in that book remains reasonable overall.

The Bank will continue to monitor the requirement for all these adjustments as the economic situation develops and its impacts begin to be 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.

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 a SICR (Stage 2); and loans which are 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 ECLs

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Impairments by stage

An analysis of the Bank'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	11,809.8	502.6	163.2	-	12,475.6
Impairment provision	(4.2)	(2.4)	(29.5)	-	(36.1)
Net loan book	11,805.6	500.2	133.7	-	12,439.5
Coverage ratio	0.04%	0.48%	18.08%	-	0.29%
30 September 2024					
Gross loan book	11,058.1	538.5	158.9	-	11,755.5
Impairment provision	(6.4)	(3.4)	(31.0)	-	(40.8)
Net loan book	11,051.7	535.1	127.9	-	11,714.7
Coverage ratio	0.06%	0.63%	19.51%	-	0.35%

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

Finance leases included above, analysed by staging, were:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
30 September 2025					
Gross loan book	344.1	17.6	3.1	-	364.8
Impairment provision	(1.6)	(1.2)	(1.4)	-	(4.2)
Net loan book	342.5	16.4	1.7	-	360.6
30 September 2024					
Gross loan book	315.3	18.4	3.0	-	336.7
Impairment provision	(2.3)	(1.4)	(1.6)	-	(5.3)
Net loan book	313.0	17.0	1.4	-	331.4

In terms of the Bank'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.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (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 Bank 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 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 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 though to Stage 3, and in some cases realisation, in the year.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
30 September 2025				
Gross loan book	418.2	19.9	64.5	502.6
Impairment provision	(1.5)	(0.1)	(0.8)	(2.4)
Net loan book	416.7	19.8	63.7	500.2
Coverage ratio	0.36%	0.50%	1.24%	0.48%
30 September 2024				
Gross loan book	464.7	13.0	60.8	538.5
Impairment provision	(2.6)	(0.1)	(0.7)	(3.4)
Net loan book	462.1	12.9	60.1	535.1
Coverage ratio	0.56%	0.77%	1.15%	0.63%

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 Bank 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’)
- 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 ACCOUNTS - ANALYSIS
For the year ended 30 September 2025

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

The value of Stage 3 cases 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 in the year. However, the Bank 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.

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£m
30 September 2025					
Gross loan book	11.1	46.4	36.8	68.9	163.2
Impairment provision	(0.2)	(1.5)	(8.2)	(19.6)	(29.5)
Net loan book	10.9	44.9	28.6	49.3	133.7
Coverage ratio	1.80%	3.23%	22.28%	28.45%	18.08%
30 September 2024					
Gross loan book	9.5	34.3	43.4	71.7	158.9
Impairment provision	(0.2)	(1.4)	(10.7)	(18.7)	(31.0)
Net loan book	9.3	32.9	32.7	53.0	127.9
Coverage ratio	2.11%	4.08%	24.65%	26.08%	19.51%

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 Bank, indexed or depreciated as appropriate.

	2025	2024
	£m	£m
First mortgages	121.3	113.6
Second mortgages	3.3	3.7
Motor finance	1.4	1.2
	126.0	118.5

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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 Bank's RoR arrangements are described in more detail below.

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 Bank 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.

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**
Managed accounts				
Appointment date				
2010 and earlier	63	10.6	94	15.0
2011 to 2015	8	1.3	16	2.2
2016 to 2020	-	-	6	0.8
2021 and later	124	25.9	161	26.5
Total managed accounts	195	37.8	277	44.5
Accounts in the process of realisation	366	66.6	351	57.1
	561	104.4	628	101.6

RoR accounts in the process of realisation at the period end are included under that heading in the Stage 3 tables above.

Movements in impairment provision by stage

An analysis of movements by IFRS 9 stage 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.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Loss allowance at 1 October 2024	6.4	3.4	31.0	-	40.8
New assets originated or purchased	0.9	-	-	-	0.9
Changes in loss allowance					
Transfer to stage 1	0.8	(0.8)	-	-	-
Transfer to stage 2	(0.4)	0.8	(0.4)	-	-
Transfer to stage 3	(0.3)	(0.2)	0.5	-	-
Changes on stage transfer	(0.6)	0.4	5.6	-	5.4
Changes due to credit risk	(2.6)	(1.2)	(0.6)	-	(4.4)
Write offs	-	-	(6.6)	-	(6.6)
Assets derecognised	-	-	-	-	-
Loss allowance at 30 September 2025	4.2	2.4	29.5	-	36.1
Loss allowance at 1 October 2023	7.8	6.5	30.5	-	44.8
New assets originated or purchased	3.2	-	-	-	3.2
Changes in loss allowance					
Transfer to stage 1	1.2	(1.2)	-	-	-
Transfer to stage 2	(0.7)	1.0	(0.3)		-
Transfer to stage 3	(2.3)	(3.0)	5.3	-	-
Changes on stage transfer	(1.0)	1.2	7.6	-	7.8
Changes due to credit risk	(1.6)	(1.0)	(7.6)	-	(10.2)
Write offs	-	-	(4.5)	-	(4.5)
Assets derecognised	(0.2)	(0.1)	-	-	(0.3)
Loss allowance at 30 September 2024	6.4	3.4	31.0	-	40.8

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

During the year ended 30 September 2025, provision levels decreased from those seen in the previous year. This trend was seen across all 3 stages.

Provision levels on secured lending tended to decline, especially for loans secured on property, with prices in most areas growing in the year.

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

During the 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.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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
Balances at 1 October 2024	11,058.1	538.5	158.9	-	11,755.5
New assets originated or purchased	1,600.7	-	-	-	1,600.7
Changes in staging					
Transfer to stage 1	210.3	(208.2)	(2.1)	-	-
Transfer to stage 2	(261.4)	274.3	(12.9)	-	-
Transfer to stage 3	(32.0)	(42.0)	74.0	-	-
Redemptions and repayments	(1,379.3)	(85.3)	(56.7)	-	(1,521.3)
Assets derecognised	(37.3)	(1.6)	-	-	(38.9)
Write offs	-	-	(6.6)	-	(6.6)
Other changes	650.7	26.9	8.6	-	686.2
Balance at 30 September 2025	11,809.8	502.6	163.2	-	12,475.6
Loss allowance	(4.2)	(2.4)	(29.5)	-	(36.1)
Carrying value	11,805.6	500.2	133.7	-	12,439.5
Balances at 1 October 2023	10,801.8	554.7	122.9	-	11,479.4
New assets originated or purchased	2,098.8	-	-	-	2,098.8
Changes in staging					
Transfer to stage 1	243.8	(241.6)	(2.2)	-	-
Transfer to stage 2	(363.3)	370.7	(7.4)	-	-
Transfer to stage 3	(39.6)	(58.6)	98.2	-	-
Redemptions and repayments	(815.8)	(62.5)	(51.5)	-	(929.8)
Assets derecognised	(874.9)	(23.5)	-	-	(898.4)
Write offs	-	-	(4.5)	-	(4.5)
Other changes	7.3	(0.7)	3.4	-	10.0
Balance at 30 September 2024	11,058.1	538.5	158.9	-	11,755.5
Loss allowance	(6.4)	(3.4)	(31.0)	-	(40.8)
Carrying value	11,051.7	535.1	127.9	-	11,714.7

Accounts are considered to be written off for accounting purposes when 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.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

At 30 September 2025 enforceable contractual balances of £13.1m (2024: £14.5m) were outstanding on non-POCI assets written off in the period. This will exclude those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances will be kept under review for operational purposes but no amounts will be recognised in respect of such accounts unless further cash is received or there is a strong expectation that it will be.

Impairments charged to income

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

	2025 £m	2024 £m
Provided in period	1.1	4.7
Written off amounts	6.6	4.5
	7.7	9.2
Of which		
Loan accounts	6.7	7.2
Finance leases	1.0	2.0
	7.7	9.2

Economic impacts

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 Bank, in common with most other lenders, uses a small number of differing scenarios as representatives of this universe of potential outturns.

The Bank 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 of the variables, the set, as a whole, is defined for the Bank and must be internally consistent.

As the Bank 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 the Office of Budget Responsibility (‘OBR’) and the PRA as well as private sector economic research bodies. The Bank also takes account of public statements from bodies such as the Bank of England and the UK Government to inform its final position.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

The central scenario used for IFRS 9 impairment purposes is consistent with the scenario which forms the basis of the Bank's business planning and forecasting and will therefore generally carry the highest probability weighting. In its September 2025 forecasting cycle (the 'October forecast'), the Bank 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 Bank'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 rather 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.

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 used at 30 September 2024.

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.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Balancing these factors the Group determined that this was an appropriate point to begin 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.

	2025	2024
Central scenario	50%	45%
Upside scenario	10%	10%
Downside scenario	30%	30%
Severe scenario	10%	15%
	100%	100%

The economic variables comprising each scenario, and their minimum and maximum projected values for the first five years of the forecast period 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	1.70	2.7	1.7	12.3	1.9
Unemployment	4.8	4.0	4.4	3.60	5.8	4.2	8.5	4.3
Secured lending	3.0	-	4.0	1.00	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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

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
Calculated provision	35.0	39.8
100% weighted central scenario	31.7	35.8
Effect of multiple economic scenarios	3.3	4.0

Sensitivity

The calculation of impairment provision 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.

Economic conditions

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

	2025		2024	
Scenario	**Provision £m**	**Difference £m**	**Provision £m**	**Difference £m**
Central	31.7	(3.3)	35.8	(4.0)
Upside	29.7	(5.3)	33.2	(6.6)
Downside	36.7	1.7	40.0	0.2
Severe	53.3	18.3	58.0	18.2

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.

Significant increase in credit risk

The most important driver of SICR is relative PD. If all PDs were increased by 10%, loans with a gross value of £14.3m (2024: £36.5m) would transfer from stage 1 to stage 2, and the total provision would increase by £0.2m (2024: 0.3m) from the effects of higher expected losses and the impact of providing for expected lifetime losses, rather than 12-month losses on the additional stage 2 cases.

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

17. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS (CONTINUED)

Value of security

The principal assumptions impacting on loss given default are the estimated security values. If the rate of growth in house prices assumed by the model were halved, ignoring any PD effects, then the provision for the Bank's first and second mortgages assets under the central scenario would increase by £0.8m (2024: £0.4m).

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).

18. INVESTMENT IN STRUCTURED ENTITIES

Investments in structured entities represent the Bank's investment in publicly traded, asset backed floating rate notes originally issued by Paragon Mortgages (No. 26) PLC ('PM26'), Paragon Mortgages (No. 27) PLC ('PM27'), Paragon Mortgages (No. 28) PLC ('PM28') and Paragon Mortgages (No 29) PLC ('PM29'), special purpose vehicle ('SPV'). These companies were established and controlled by entities in common control with the Bank to purchase pools of loan assets. During the prior year the floating rates notes issued by PM26 were repaid, the Bank received cash for the investment held at the time.

As PM26, PM27, PM28 and PM29 are controlled by PBG, the Bank's ultimate parent, these entities are considered to be related parties of the Bank.

These investments are denominated in sterling and are considered to be debt investments as defined by IFRS. The underlying assets are mortgage loans made to United Kingdom borrowers. The Bank is under no obligation to make any contribution to the SPV and its maximum loss is limited to the carrying value of its investment.

The Investments consist of notes issued by SPV's which are rated by external agencies. Given the levels and stability of these ratings, they are included in stage 1 for IFRS 9 purposes and the PD is considered to be so low that any expected loss would be immaterial. Listed below are the notes listed per the rating.

The floating rate notes issued by PM27, which were held by the Bank, were repaid on 15 October 2025. With the notes held from PM28 expected to be repaid in December 2025.

	2025 £m	2024 £m
AAA	1,568.5	1,761.7
AA	115.2	115.2
A	73.7	73.7
BBB	85.8	85.8
Not rated	116.1	118.5
At 30 September 2025	1,959.3	2,154.9

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

18. INVESTMENT IN STRUCTURED ENTITIES (CONTINUED)

The movements in the Bank's investment in structured entities in the year ended 30 September 2025 and the year ended 30 September 2024 were:

	2025 £m	2024 £m
Cost		
At 1 October 2024	2,154.9	1,427.9
Additions	-	912.8
Payments received	(195.6)	(185.8)
At 30 September 2025	1,959.3	2,154.9

£9.4m (2024: £12.5m) is included in Sundry Assets (note 20) in respect of accrued interest on these Notes at the year end.

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Introduction

The Bank uses derivative financial instruments such as interest rate swaps for risk management purposes only. Each such derivative contract is entered into for economic hedging purposes to manage a particular identified risk (as described in notes 39 to 43) and any gains or losses arising are incidental to this objective. No trading in derivative financial instruments is undertaken.

Hedge accounting is applied where appropriate, though some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under the IAS 39 rules, particularly where the hedged risk relates to an off balance sheet item. In other cases, hedge accounting has not been adopted either because natural accounting offsets are expected or because complying with the IAS 39 hedge accounting rules would be particularly onerous.

The Bank's hedging arrangements can be analysed for accounting purposes between:

- Fair value hedges of portfolio interest rate risk, which are used to manage the interest rate risk inherent in fixed rate lending and deposit taking
- Fair value hedges of interest rate risk relating to individual financial assets or liabilities

An economic hedge of interest rate basis risk in fixed rate lending will also address pipeline exposures, where future lending at a given fixed rate is anticipated. However, such arrangements do not qualify as hedges for accounting purposes.

In addition, the Bank utilises currency derivatives to hedge its exposure on the small amount of lending denominated in foreign currencies by one of its subsidiary undertakings. These are not treated as hedges for accounting purposes due to the low level of exposure.

While the Bank utilises economic hedging strategies to mitigate the impact of the changes in market interest rates on its capital base, and these activities do not give rise to accounting entries.

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

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

The analysis below splits derivatives between those accounted for within portfolio fair value hedges and those which, despite representing an economic hedge, are not accounted for as hedges.

	2025 Assets £m	2025 Liabilities £m	2024 Assets £m	2024 Liabilities £m
Derivatives in accounting hedge relationships				
Fair value hedges				
Interest rate swaps				
Fixed to floating	77.5	(32.2)	165.3	(43.8)
Floating to fixed	92.0	(1.6)	123.8	(1.7)
	169.5	(33.8)	289.1	(45.5)
Total derivatives in accounting hedge relationships	169.5	(33.8)	289.1	(45.5)
Individual fair value hedges				
Interest rate swaps				
Fixed to floating	41.0	-	5.9	(8.4)
Floating to fixed	0.2	-	0.3	-
Total derivatives in hedge accounting relationships	210.7	(33.8)	295.3	(53.9)
Other derivatives				
Interest rate swaps	30.4	(31.5)	23.8	(45.0)
Currency futures	-	-	-	-
Total recognised derivative assets/(liabilities)	241.1	(65.3)	319.1	(98.9)

The credit risk inherent in the derivative financial assets shown above is discussed in note 40.

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

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

a) Fair value macro hedges

Background and hedging objectives

The Bank's fair value hedges of portfolios of interest rate risk ('macro hedges') arise from its management of the interest basis risk inherent in its fixed rate lending and deposit-taking activities. These activities would expose the Bank to movement in market interest rates if not hedged.

This position arises naturally where fixed rate loans are funded with floating or variable rate borrowings but may also arise where retail deposit funding is used. Where possible the Bank takes advantage of natural hedging between fixed rate assets and deposits, but it is unlikely that a precise match for value and tenor of the instruments could be achieved leaving unmatched items on both sides. This is referred to as repricing risk and controlled within limits under the Bank's interest rate risk management process, described in note 42. In order to manage these exposures, they are hedged with financial derivatives and form part of the Bank's portfolio hedging arrangements. Repricing risk is monitored regularly to ensure mismatches or gaps remain within limits set by policy.

Responsibility to direct and oversee structural risk management has been delegated by the Board to ALCO. A hedging strategy is developed for each fixed product considering behavioural characteristics, such as whether a customer is likely to prepay before contractual maturity. This is reviewed from time to time with any changes agreed with ALCO.

In order to manage potential exposure to increases in interest rates it may be necessary to undertake pre-hedging of fixed rate assets in the pipeline. Interest rate swaps used to hedge pipeline loan exposures, which are not yet recognised on the balance sheet, can cause unmatched fair value cost or credit to arise until both sides of the hedge can be recognised within the interest rate portfolio hedging arrangement, generally a few months after the inception of the derivative contract.

In managing interest rate exposure, the Treasury function may use interest rate swaps, forward rate agreements, swaptions or interest rate caps and floors. However, interest rate swaps are the most generally used instruments.

This policy creates two macro hedges:

- The 'loan hedge' matching fixed rate buy-to-let mortgage assets with interest rate swaps to convert the interest receivable to a floating rate
- The 'deposit hedge' matching fixed rate deposits with interest rate swaps which operates in the opposite direction, converting the fixed rate interest payable to floating rate amounts

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

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

The designation of the macro hedges is updated, on a month-by-month basis, using software which compares the overall tenor, value and rate positions to match the expected fair value movement of the swaps with the expected interest rate risk related movement in the fair value of the relevant assets or liabilities over the designation period as closely as possible. The software applies regression analysis techniques to the potential impact of changes in expected interest rates over the designation period to maximise expected hedge effectiveness on a prospective basis. The value of the portfolio of loans or deposits selected is then designated, as a monetary amount of interest rate risk, as the hedged item, while the portfolio of swaps selected are designated as the hedging instruments.

Any swaps not selected in this process are disclosed as derivatives not in hedging relationships. These will generally be swaps taken out to pre-hedge the pipeline of fixed rate mortgage offers, which will match with the related loans when they complete.

At the end of each designation period the Bank will assess the effectiveness of each hedge retrospectively, based on fair value movements (relating to interest rate risk components only) which have actually occurred in the period. Movements are compared to pre-determined test thresholds to determine whether the hedge was effective in the period.

Potential sources of ineffectiveness

The Bank has identified the following possible sources of hedge ineffectiveness in its portfolio hedges of interest rate risk:

- The maturity profile of the hedging instruments may not exactly match that of the hedged items, particularly where hedged items settle early
- The use of derivatives as a hedge of interest rate additionally exposes the Bank to the derivative counterparties' credit risk, which is not matched in the hedged item. This risk is minimised by transacting only with high quality counterparties and through collateralisation arrangements (as described in note 40)
- The use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments
- Difference in the timing of interest payments on the hedged items and settlements on the hedging instruments

These sources of ineffectiveness are minimised by the portfolio matching process, which seeks to match the terms of the items as closely as possible.

In addition to the hedging ineffectiveness described above, bank profit will also be affected by the fair value movements of interest rate swap agreements which were entered into as part of the Bank's interest rate risk hedging strategy but failed to find a match in the hedging portfolio, particularly those relating to the pre-hedging of the lending pipeline.

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

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Hedging Instruments

The hedging portfolios at 30 September 2025 and 30 September 2024 consist of a large number of sterling denominated swaps In addition, at 30 September 2025 there were a small number of balance guarantee swaps ('BGS') in place. Settlement on all swaps is generally quarterly (monthly for BGS) where:

- One payment is calculated based on a fixed rate of interest and the nominal value of the swap
- An opposite payment is calculated based on the same nominal value but using a floating interest rate set at a fixed margin over a reference rate

On the BGS the nominal value of the swap is linked to the principal value of a pool of assets and reduces in line with redemptions and repayments until maturity. Other interest rate swaps have a fixed nominal value throughout their lives.

The Bank pays fixed rate and receives floating when hedging exposures from fixed rate assets (in the loan hedge). Conversely, the Bank pays floating rate and receives fixed rate when hedging fixed rate deposits, in the deposit hedge.

The principal terms of the hedging instruments are set out below, analysed between the two directions of the swap.

	2025		2024	
	Deposit Hedge	**Loan hedge**	**Deposit Hedge**	**Loan hedge**
Average fixed notional interest rate	4.12%	3.23%	4.73%	2.87%
Average notional margin over SONIA	-	-	-	-
	£m	**£m**	**£m**	**£m**
Notional principal value				
SONIA BGS	-	7.1	-	17.7
SONIA swaps	6,120.6	7,889.1	6,119.2	6,639.3
	6,120.6	7,896.2	6,119.2	6,657.0
Maturing				
Within one year	5,424.0	1,620.6	4,942.2	456.1
Between one and two years	654.6	2,450.5	1,097.0	1,793.7
Between two and five years	42.0	3,818.0	80.0	4,389.5
More than 5 years	-	7.1	-	17.7
	6,120.6	7,896.2	6,119.2	6,657.0
Fair value	90.4	45.3	122.1	121.5

The value included above for BGS are analysed by their contractual maturity dates although, due to the terms of the instruments, it is likely that the balance outstanding will reduce more quickly.

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

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Accounting impacts

Movements affecting the portfolio fair value hedges during the year are set out below.

	2025		2024	
	Deposit Hedge £m	Loan Hedge £m	Deposit Hedge £m	Loan Hedge £m
Hedging items				
Interest rate swaps				
Included in derivative financial assets	92.0	77.5	123.8	165.3
Included in derivative financial liabilities	(1.6)	(32.2)	(1.7)	(43.8)
	90.4	45.3	122.1	121.5
Notional principal value	6,120.6	7,896.2	6,119.2	6,657.0
Change in fair value used in calculating hedge ineffectiveness	(9.8)	(47.2)	48.7	(259.1)

	2025		2024	
	Deposit Hedge £m	Loan Hedge £m	Deposit Hedge £m	Loan Hedge £m
Hedged items				
Fixed rate deposits				
Monetary amount of risk relating to Retail Deposits	5,839.1	-	5,568.6	-
Fixed rate loans				
Monetary amount of risk relating to Loans to Customers	-	8,268.7	-	6,926.3
Accumulated amount of fair value hedge adjustments included on balance sheet (notes 22 and 14) *	(5.1)	6.5	(16.7)	(43.1)
Of which: amounts related to discontinued hedging relationships being amortised	0.3	43.4	(0.6)	62.7
Change in fair value used in recognising hedge ineffectiveness	9.2	58.9	(41.4)	293.1
Hedge ineffectiveness recognised				
Included in fair value gains/losses in the profit and loss account	(0.6)	11.7	7.3	34.0

* Under the IAS 39 rules relating to fair value hedge accounting for portfolios of interest rate risk, the change in the fair value of the hedged items attributable to the hedged risk is shown as ‘fair value adjustments from portfolio hedging’ next to the carrying value of the hedged assets or liabilities in the appropriate note.

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

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

b) Fair value micro hedges

Background and hedging objectives

The Bank's individual fair value hedges of interest rate risk ('micro hedges') relate to its long-term fixed interest rate liabilities and its investments in fixed rate securities. The structure of these borrowings and investments exposes the Bank to interest rate risk, in the event of an adverse movement in market interest rates and it hedges against such movements.

In each case the hedge takes the form of a single interest rate swap which is intended to be in place for the expected fixed rate period of the related borrowing or investment. The terms of the fixed rate leg of the derivative match the terms of the borrowing or investment as far as possible and each hedging relationship was designated at the point at which the swap contract was entered into.

Each hedging relationship is tested for effectiveness on a monthly basis by comparing the movements in the calculated fair value of the hedged item to the fair value movement in the derivative hedge.

Potential sources of ineffectiveness

In its interest rate hedging for individual items the Bank seeks to minimise hedge ineffectiveness by aligning the terms of the hedging instrument as closely as possible with those of the hedged item. The notional amount of the derivative matches that of the hedged item and settlements are due on the same days and at the same intervals.

Nonetheless, the Bank has identified the following possible sources of hedge ineffectiveness in its hedges of interest rate risk:

- The use of derivatives as a hedge of interest rate risk additionally exposes the Bank to the derivative counterparties' credit risk, which is not matched in the hedged item. This risk is minimised by transacting only with high quality counterparties and through collateralisation arrangements
- The small difference between the fixed rate of interest charged on the hedged item and the fixed rate leg of the derivative, where the impact of discounting will mean that movements in present values of the two flows are not exactly parallel
- The use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments

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

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Hedging Instruments

The financial derivatives used in the Bank's individual fair value hedges are sterling denominated interest rate swaps, with a single derivative used to hedge each individual asset or liability. Settlement is twice yearly, on the same days as payments for the associated hedged item fall due. For derivatives hedging liabilities, payments received by the Bank are calculated based on a fixed rate of interest, while payments made are calculated based on a floating interest rate set by reference to the compound SONIA reference rate. For derivatives hedging assets, the converse is true.

The principal terms of the hedging instruments are set out below, analysed by the two directions of the swaps.

	2025		2024	
	Asset hedges	**Liability hedge**	**Asset hedges**	**Liability hedge**
Average fixed notional interest rate	4.48%	3.99%	4.50%	3.99%
Average notional margin over SONIA	-	-	-	-
	£m	**£m**	**£m**	**£m**
Notional principal value				
SONIA swaps	550.0	150.0	400.0	150.0
	550.0	150.0	400.0	150.0
Maturing				
Within one year	-	150.0	-	-
Between one and two years	-	-	-	150.0
Between two and five years	-	-	-	-
More than five years	550.0	-	400.0	-
	550.0	150.0	400.0	150.0
Fair value	41.0	0.2	(2.5)	0.3

NOTES TO THE ACCOUNTS - ANALYSIS
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19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Accounting impacts

Movements affecting the micro fair value hedges during the year are set out below.

	2025		2024	
	Asset hedges £m	Liability hedge £m	Asset hedges £m	Liability hedge £m
Hedging instruments				
Interest rate swaps				
Included in derivative financial assets	41.0	0.2	5.9	0.3
Included in derivative financial liabilities	-	-	(8.4)	-
	41.0	0.2	(2.5)	0.3
Notional principal value	550.0	150.0	400.0	150.0
Change in fair value used in calculating hedge ineffectiveness	44.9	(0.1)	(4.3)	4.0

	2025		2024	
	Asset hedges £m	Liability hedge £m	Asset hedges £m	Liability hedge £m
Hedged items				
Fixed rate borrowings				
Corporate bond	-	(150.0)	-	(150.0)
Fixed rate assets				
Investment securities	550.0	-	400.0	-
	550.0	(150.0)	400.0	(150.0)
Accumulated amount of fair value hedge adjustments included in carrying value	(44.9)	0.1	4.3	(4.0)
Of which: amounts related to discontinued hedging relationships being amortised	-	-	-	-
Change in fair value used in recognising hedge ineffectiveness	(44.9)	0.1	4.3	(4.0)
Hedge ineffectiveness recognised				
Included in fair value gains/ losses in the profit and loss account	-	-	-	-

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

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

c) Derivatives not in a hedging relationship

The Bank's other derivatives comprise:

- Interest rate swaps which are economically part of the Bank's portfolio hedging arrangements but failed to find a match in the hedge designation, including swaps hedging interest rate risk on the new lending pipeline
- Currency futures, economically hedging exposures on lending denominated in currency, where hedge accounting has not been adopted due to the size of the exposure

The principal terms of these derivatives are set out below.

Interest rate swaps

	2025		2024	
	Pay fixed	**Pay floating**	**Pay Fixed**	**Pay floating**
Average fixed notional interest rate	2.25%	2.73%	2.47%	2.58%
Average notional margin over SONIA	-	-	-	-
	£m	**£m**	**£m**	**£m**
Notional principal value				
SONIA swaps	1,573.5	1,308.1	732.5	1,184.7
	1,573.5	1,308.1	732.5	1,184.7
Maturing				
Within one year	478.0	398.6	3.0	385.0
Between one and two years	647.0	313.0	182.0	209.6
Between two and five years	448.5	596.5	547.5	590.1
More than 5 years	-	-	-	-
	1,573.5	1,308.1	732.5	1,184.7
Fair value	28.7	(29.8)	22.4	(43.6)

Currency futures

	2025	2024
US Dollar futures		
Average future exchange rate	1.35	1.34
	£m	**£m**
Notional principal value	5.4	4.5
Maturing		
Within one year	5.4	4.5
Between one and two years	-	-
Between two and five years	-	-
	5.4	4.5
Fair value	-	-

NOTES TO THE ACCOUNTS - ANALYSIS
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20. SUNDRY ASSETS

	2025	2024 (restated*)
	£m	£m
Amounts owed by Group companies	91.3	71.6
Accrued interest income	21.9	23.6
CSA assets	1.5	-
Other receivables	0.8	1.1
Sundry financial assets	115.5	96.3

* Restated – note 44

Amounts owed by group companies includes £67.2m of loan balances with SPV entities which do not fall due for payment until after all rated notes are repaid (note 18). These are therefore unlikely to be repaid within twelve months of the balance sheet date. Other balances are receivable in less than one year.

Credit Support Annex ('CSA') assets are deposits placed with highly rated banks to act as security for the Bank's derivative financial liabilities. The balances are not accessible by the Bank at the balance sheet date. Therefore, they are included in sundry assets rather than cash balances.

CSA and accrued interest are considered to be stage 1 assets for IFRS 9 impairment purposes. The probabilities of default of the obligor institutions (major UK banks) has been assessed and is considered to be so low as to require no significant impairment provision.

Amounts owed by group companies includes unrated class S VFN notes issued by the structured entities described in note 18. Following a review of the expected future cash flows arising on these notes it was concluded that these were likely to be insufficient to repay the notes in full and a credit impairment provision was made. These amounts are therefore considered to be Stage 3 balances for IFRS 9 purposes. Other amounts owed by group companies are considered as stage 1 balances, with no requirement for any significant impairment provision required.

The amounts owed by group companies shown above can therefore be analysed as shown below.

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
30 September 2025				
Gross amount	24.1	-	107.5	131.6
Impairment provision	-	-	(40.3)	(40.3)
Net amount	24.1	-	67.2	91.3
30 September 2024 (restated – note 44)				
Gross amount	12.5	-	101.0	113.5
Impairment provision	-	-	(41.9)	(41.9)
Net amount	12.5	-	59.1	71.6

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

20. SUNDRY ASSETS (CONTINUED)

The provision movement in the year can be analysed as set out below.

	Note	2025	2024 (restated*)
		£m	£m
At 1 October 2024			
As originally reported		1.3	-
Restatement (note 44)		40.6	-
As restated		41.9	-
(Credit) / charge for the year	9	(1.6)	41.9
Amounts written off		-	-
At 30 September 2025		40.3	41.9

* Restated – Note 44

21. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in Group companies £m	Loans to Group companies £m	Total £m
At 1 October 2023	664.4	1,404.6	2,069.0
Investments in subsidiaries	-	-	-
Loans advanced	-	10,556.4	10,556.4
Loans repaid	-	(10,513.5)	(10,513.5)
Provision movements	-	-	-
At 30 September 2024	664.4	1,447.5	2,111.9
Investments in subsidiaries	-	-	-
Loans advanced	-	2,817.8	2,817.8
Loans repaid	-	(2,736.7)	(2,736.7)
Provision movements	(0.3)	-	(0.3)
At 30 September 2025	664.1	1,528.6	2,192.7

Investments in subsidiaries represent transactions between the Bank and various of its subsidiaries.

During the year ended 30 September 2025 the Bank received £39.0m in dividend income from its subsidiaries (2024: £54.0m) and £90.2m of interest on loans to Group companies (2024: £93.0m).

The Company's subsidiaries, and the nature of its interest in them, are shown in note 51.

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

22. RETAIL DEPOSITS

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

	2025 £m	2024 £m
Fixed rate	7,632.6	8,257.2
Variable rates	8,633.1	8,040.8
	16,265.7	16,298.0

The weighted average interest rate on retail deposits at 30 September 2025 and 30 September 2024, analysed by charging method, was:

	2025 %	2024 %
Fixed rate	4.32	4.77
Variable rates	3.61	4.19
All deposits	3.95	4.49

The contractual maturity of these deposits is analysed below.

	2025 £m	2024 £m
Amounts repayable		
In less than three months	1,371.1	1,621.4
In more than three months, but not more than one year	5,152.0	4,847.1
In more than one year, but not more than two years	983.5	1,502.6
In more than two years, but not more than five years	516.9	615.0
Total term deposits	8,023.5	8,586.1
Repayable on demand	8,242.2	7,711.9
	16,265.7	16,298.0
Fair value adjustments for portfolio hedging	5.1	16.7
	16,270.8	16,314.7

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

23. COVERED BONDS

On 24 February 2025, The Bank established a covered bond programme, regulated and approved by the Financial Conduct Authority ('FCA'). Under this programme the 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, the 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 respect of these covered bonds at 30 September 2025 was £499.2m and the gross amount of the cover pool was £891.6m.

24. CENTRAL BANK FACILITIES

During the year, the Bank has utilised facilities provided by the Bank of England including through its Sterling Monetary Framework. These facilities enable either funding or off-balance sheet liquidity to be provided to the Bank on the security of designated pools of first mortgage assets and/or the retained Notes described in note 18, with the amount available based on the value of the security given, subject, where appropriate, to a haircut.

Drawings under the Term Funding Scheme for SMEs ('TFSME') have an original maturity of four years and bear interest at Bank Base Rate ('BBR'). As these drawings were provided at rates below those available commercially, by a government agency, they are accounted for under IAS 20.

Drawings under the Indexed Long-Term Repo Scheme ('ILTR') have a maturity of six months and a rate of interest set in an auction process. At 30 September 2025, the average rate of interest on the Group's ILTR drawings was 0.15% above the Bank of England base rate. The Group makes drawings under the ILTR programme from time to time for liquidity purposes.

The amounts drawn under these facilities are set out below.

	2025 £m	2024 £m
TFSME	250.0	750.0
ILTR	700.0	5.0
Total central bank facilities	950.0	755.0

£244.8m of the Group's TFSME drawing fell due on 21 October 2025, after the year end, when it was repaid. The remaining £5.2m falls due on 31 March 2027.

Further first mortgage assets of the Bank have been pre-positioned with the Bank of England for future use in such schemes and eligible retained Notes can also be used to support this funding. The mortgage assets pledged in support of these drawings are set out in note 15.

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

24. CENTRAL BANK FACILITIES (CONTINUED)

The balances arising from the TFSME carried in the Banks accounts are shown below.

	2025 £m	2024 £m
TFSME at IAS 20 carrying value	249.8	745.2
Deferred government assistance	0.2	4.8
	250.0	750.0

25. SALE AND REPURCHASE AGREEMENTS

From time to time the Group enters into short-term sale and repurchase agreements with highly-rated UK banks as part of its liquidity management operations.

At 30 September 2025, £100.0m was outstanding under such arrangements (2024: £100.0m). The average term of the agreements was 3 months (2024: 3.0 months) and the average remaining term 1 months (2024: 1 months). The average interest rate payable was 0.47% (2024: 0.44%) above compounded SONIA.

The securities subject to the sale and repurchase agreement were certain of the Bank's purchased asset backed loan notes, described in note 18.

26. CORPORATE BOND

On 25 March 2021 the Bank issued £150.0m of Fixed Rate Callable Subordinated Tier-2 Notes due 2031 at par to its parent company, PBG, to provide it with long term capital. These bonds bear interest at a fixed rate of 4.375% per annum until 25 September 2026 after which interest will be payable at a reset rate which is 3.956% over that payable on UK Government bonds of similar duration at that time. These notes are callable at the option of the Company between 25 June 2026 and 25 September 2026 and may be called at any time in the event of certain tax or regulatory changes.

The carrying value of Tier 2 Notes in the accounts of the Bank at 30 September 2025 was £150.2m (2024: £150.3m), with the difference arising as a result of the hedging treatment described in note 19.

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

27. SUNDRY LIABILITIES

	2025 £m	2024 £m
Current liabilities		
Accrued interest	179.7	227.8
Amounts owed to group companies	250.4	302.6
CSA liabilities	189.8	103.6
Other accruals	1.5	1.4
Sundry financial liabilities	621.4	635.4

CSA liabilities represent collateral received in respect of interest rate swap agreements.

All sundry financial liabilities above are carried at amortised cost.

28. PROVISION 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 Bank'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	25.5	25.5

Some of this provision may give rise to outflows after more than one year from the balance sheet date.

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

28. PROVISION FOR LIABILITIES (CONTINUED)

Conduct

The Bank, 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 Bank'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 Bank'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 Bank. 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 the 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 ACCOUNTS - ANALYSIS
For the year ended 30 September 2025

28. PROVISION 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 though 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.

29. CURRENT TAX LIABILITIES

Current tax represents UK corporation tax owed.

30. DEFERRED TAX LIABILITY

The movements in the net deferred tax liability are as follows:

	2025	2024 (Restated*)
	£m	£m
Net liability at 1 October 2024		
As previously reported	34.0	38.9
Restatement (note 44)	(11.4)	-
As restated	22.6	38.9
Income statement (credit)	(11.7)	(16.3)
Net liability at 30 September 2025	10.9	22.6

* Restated - note 44

The net deferred tax liability for which provision has been made is analysed as follows:

	2025	2024 (Restated*)
	£m	£m
Loans and derivatives	10.9	22.6
Net deferred tax liability	10.9	22.6

* Restated - note 44

The temporary differences shown above have been provided at the rate prevailing when the Group anticipates these temporary differences to reverse. In the event that the temporary differences actually reverse in different periods a credit or charge will arise in a future period to reflect the difference. In the event that the temporary differences actually reverse in different periods a credit or charge will arise in a future period to reflect the difference. The timing of reversal of temporary differences will be affected by both matters within the Bank’s control and matters outside the Bank’s control.

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

31. 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 and 30 September 2025	552,625,034	552,625,034

32. RESERVES

Profit and loss account

	2025 £m	2024 (restated*) £m
At 1 October 2024		
As previously reported	497.5	448.9
Restatement (note 44)	(29.3)	-
As restated	468.2	448.9
Profit for the year	181.0	178.2
Dividends paid	(155.8)	(158.9)
At 30 September 2025	493.4	468.2

* Restated – note 44

An interim dividend of £0.282 per share was paid during the year (2024: £0.288 per share). A final dividend of £0.1025 per share is proposed (2024: £nil).

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

33. NET CASH FLOW FROM OPERATING ACTIVITIES

	2025	2024 (restated*)
	£m	£m
Profit before tax	242.2	224.4
Non-cash items included in profit and other adjustments:		
Non-cash movement on borrowing	0.4	-
Non-cash movement on investment securities	34.2	(7.8)
Impairment losses on loans to customers	8.0	9.2
Net (increase) / decrease in operating assets:		
Loans to customers	(536.9)	(1,016.3)
Derivative financial instruments	78.0	199.1
Fair value of portfolio hedges	(49.6)	(230.3)
Other receivables	21.4	(48.4)
Net increase / (decrease) in operating liabilities:		
Retail deposits	(32.3)	3,032.7
Derivative financial instruments	(33.6)	59.2
Fair value of portfolio hedges	(11.6)	47.6
Increase in provisions	25.5	-
Other liabilities	(54.7)	(131.0)
Cash (utilised) / generated by operations	(309.0)	2,138.4
Income taxes (paid)	(61.4)	(53.5)
	(370.4)	2,084.9

* Restated – note 44

34. NET CASH FLOW FROM INVESTING ACTIVITIES

	2025	2024
	£m	£m
Investment in securities	(233.0)	(419.6)
Advances of loans to subsidiary undertakings	(2,817.8)	(10,556.4)
Repayment of loans by subsidiary entities	2,736.7	10,513.5
Net cash (utilised) by investing activities	(314.1)	(462.5)

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

35. NET CASH FLOW FROM FINANCING ACTIVITIES

	2025 £m	2024 £m
Dividends paid (note 32)	(155.8)	(158.9)
Issue of covered bond	498.8	-
Repayment of long term bank facilities	(500.0)	(2,000.0)
Movement on short term central bank facilities	695.0	5.0
Movement on repurchase facilities	-	49.9
Net cash generated / (utilised) by financing activities	538.0	(2,104.0)

36. RELATED PARTY TRANSACTIONS

During the year the Bank has identified the following transactions with entities in common ownership, which are related parties.

Management and administrative services were provided to the Bank by Paragon Finance PLC. Details of the amounts charged to the Bank in respect of these services are disclosed in note 7. At the balance sheet date amounts owed by Paragon Finance PLC are disclosed in note 21.

Floating rate notes issued by PM26, PM27, PM28, and PM29, companies in common control with the Bank, which are therefore related parties have been acquired by the Bank. At the balance sheet date, the outstanding investment is shown in note 18 and accrued interest on the investment is shown in note 20. Interest received on the investment in structured entities is shown in note 4.

During the year the Bank provided an interest-bearing loan to each of Paragon Asset Finance Limited, Paragon Mortgages (2010) Limited, Paragon Finance Plc, Paragon Development Finance Limited and PBAF Acquisitions Limited which are related parties. Details of the interest charged on the loans is provided in note 4. At the balance sheet date, the outstanding loan amounts are shown in note 21 with the accrued interest due shown in note 20. The Bank also provided various management and administrative services to these companies and its subsidiaries.

During the year the Bank had an interest bearing loan from its parent company, Paragon Banking Group PLC, which is a related party. Details of the interest charged on this loan is provided in note 5. The outstanding loan amount at the balance sheet date is shown in note 21 with £0.0m (2024: £0.0m) shown within 'accrued interest' in note 26. The Banks borrowing from its parent company under the T2 bond is shown in note 26.

Details of the Bank investments in other group entities and income derived from them are shown in note 21.

Outstanding current account balances with group entities are shown in notes 20 and 27. The Bank earned £0.0m (2024: £1.1m) from PM26, £1.5m (2024: £9.9m) from PM27, £11.0m (2024: £11.6m)

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

36. RELATED PARTY TRANSACTIONS (CONTINUED)

from PM28 and £nil (2024: £nil) from PM29 in relation to deferred sale consideration, all these amounts are shown in note 6.

Intercompany dividends of £39.0m (2024: £54.0m) have been received during the year from direct subsidiaries of the Bank, which are related parties. Details of the income is shown in note 6.

The Bank has received a deemed loan from Paragon Covered Bonds LLP ('LLP') on which the Bank pays the LLP interest. Details of amounts paid is shown in note 5.

During the year, certain directors of the Group 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.

37. LEASING ARRANGEMENTS

As lessor

The Company, through its motor finance business, leases assets under finance leases.

Disclosures in respect of these balances are set out in these financial statements as follows:

Disclosure	Note
Investment in finance leases	16
Finance income on net investment in finance leases	4

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

The notes below describe the processes and measurements which the Bank uses to manage its capital position and their exposure to financial risks including credit, liquidity, interest rate and foreign exchange risk. It should be noted that certain capital measures, which are presented to illustrate the Bank's position, are not subject to audit. Where this is the case, the relevant disclosures are marked as such.

38. CAPITAL MANAGEMENT

The Bank's objectives in managing capital are:

- To ensure that the Bank has sufficient capital to meet its operational requirements and strategic objectives
- To safeguard the Bank'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 Bank's capital base and its long-term viability are key strategic priorities.

The Bank sets its target amount of capital in proportion to risk, availability and cost. The Bank 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 Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as corporate bonds, or sell assets to reduce debt.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

38. CAPITAL MANAGEMENT (CONTINUED)

Regulatory capital

The Bank is subject to supervision by the PRA on a consolidated basis as part of its regulatory capital group (‘Banking Group’). 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 in the event of severe losses being incurred by the Group. This requirement is set in accordance with the international Basel 3 rules, issued by the Basel Committee on Banking Supervision (‘BCBS’), which are implemented through the PRA Rulebook.

The Bank’s regulatory capital is monitored by the Board of Directors and ALCO, 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 Bank’s forecasting and strategic planning process.

The Bank elected to take advantage of the IFRS 9 transitional arrangements set out in Article 473a of the CRR, which allow 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 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 Bank are equal for the current financial year.

The tables below demonstrate that at 30 September 2025 the Bank’s regulatory capital of £1,235.10m (2024: £1,269.7m) exceeded the amounts required by the regulator, including £699.8m (2024: 721.0m) in respect of Total Capital Requirement (unaudited), which is comprised of fixed and variable elements (amounts not subject to audit).

The CRR also requires firms to hold additional capital buffers, including a Capital Conservation Buffer (‘CCoB’) of 2.5% of risk weighted assets at 30 September 2025 (2024: 2.5%) and a Counter-cyclical Capital Buffer (‘CCyB’), as at 30 September 2025, of 2.0% of risk weighted assets (2024: 2.0%). Firm specific buffers may also be required.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

38. CAPITAL MANAGEMENT (CONTINUED)

Regulatory capital (continued)

The Bank's regulatory capital differs from its equity as certain adjustments are required by the PRA Rulebook. A reconciliation of the Bank's equity to its regulatory capital determined in accordance with PRA Rulebook at 30 September 2025 and 30 September 2024 are set out below

	Note	2025	2024 (restated*)
		£m	£m
Total equity in the Bank		1,046.0	1,020.8
Other equity in regulatory consolidation	§	287.6	286.7
		1,333.6	1,307.5
Deductions			
Investments in shares	† §	(19.2)	(19.2)
Intangible assets in regulatory consolidation	§	(154.6)	(154.0)
Proposed final dividend		(56.7)	-
Pension surplus net of deferred tax		(17.6)	(16.7)
Prudent valuation adjustment	§ #	(0.4)	(0.5)
Add back IFRS9 transitional relief	§	-	2.6
Common Equity Tier 1 ('CET1') Capital		1,085.1	1,119.7
Other tier 1 capital		-	-
Total Tier 1 capital		1,085.1	1,119.7
Corporate bond	25	150.0	150.0
Total Tier 2 capital		150.0	150.0
Total regulatory capital		1,235.1	1,269.7

* Restated – note 44

† Investments by entities within the regulatory consolidation in entities outside it.

§ Not audited.

For capital purposes, assets and liabilities held at fair value, such as the Bank'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.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

38. CAPITAL MANAGEMENT (CONTINUED)

Regulatory capital (continued)

The total risk exposure for the Bank and subsidiary entities included in its regulatory consolidation calculated under the PRA Rulebook framework, against which this capital is held, and the proportion of these assets which that capital represents, are calculated as shown below.

	2025	2024
	£m	£m
Credit risk		
Balance sheet assets	7,579.6	7,281.1
Off balance sheet	112.1	95.8
IFRS 9 transitional relief	-	2.6
Total credit risk	7,691.7	7,379.5
Operational risk	904.8	833.8
Other risk	16.7	29.2
Total risk exposure	8,613.2	8,242.5
	%	%
Solvency ratios		
CET1 capital	12.6	13.6
Total regulatory capital	14.3	15.4

This table is not subject to Audit

The risk weightings for credit risk exposures are calculated using the Standardised Approach, while the Basic Indicator Approach for operational risk is used.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

38. CAPITAL MANAGEMENT (CONTINUED)

Regulatory capital (continued)

On a fully loaded basis (excluding the effect of IFRS 9 transitional relief) the Bank's capital ratios would be:

	2025 £m	2024 £m
CET1 Capital	1,085.1	1,119.7
Less: IFRS 9 relief	-	(2.6)
Fully loaded CET1 Capital	1,085.1	1,117.1
TRC	1,235.1	1,269.7
Add back: IFRS 9 relief	-	(2.6)
Fully loaded TRC	1,235.1	1,267.1
Total risk exposure	8,613.2	8,242.5
Add back: IFRS 9 relief	-	(2.6)
Fully loaded TRE	8,613.2	8,239.9
Fully loaded Solvency ratios	**%**	**%**
CET1	12.6	13.6
Total regulatory capital	14.3	15.4

This table is not subject to audit

The total regulatory capital at 30 September 2025 on the fully loaded basis of £1,235.1m was in excess of the Total Capital Requirement of £699.8m on the same basis (amounts not subject to audit).

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

38. CAPITAL MANAGEMENT (CONTINUED)

Regulatory capital (continued)

The table below shows the calculation of the leverage ratio, based on the balance sheet assets of the Bank's regulatory group adjusted as shown below. The PRA has proposed a minimum UK leverage ratio of 3.25% for UK firms, with retail deposits of over £50.0 billion. In addition, in October 2021 the PRA stated its expectation that all other UK firms should manage their leverage risk so that this ratio does not ordinarily fall below 3.25%.

	2025 £m	2024 £m
Total balance sheet assets	19,908.1	19,303.7
Less: Derivative assets	(275.5)	(391.8)
Central bank deposits	(2,175.7)	(2,315.5)
Accrued interest on sovereign exposure	(3.0)	(3.8)
On-balance sheet items	17,453.9	16,592.6
Less: Intangible assets	(154.6)	(154.0)
Investments	(19.2)	(19.2)
Pension surplus	(23.5)	(22.2)
Total on balance sheet exposures	17,256.6	16,397.2
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	1,034.0	1,119.3
Total leverage exposure before IFRS 9 relief	17,621.9	16,762.0
IFRS 9 relief	-	2.6
Total leverage exposure	17,621.9	16,764.6
UK leverage ratio	6.2%	6.7%

This table is not subject to audit

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

38. CAPITAL MANAGEMENT (CONTINUED)

Regulatory capital (continued)

The fully loaded leverage ratio is calculated as follows:

	2025 £m	2024 £m
Fully loaded Tier 1 capital	1,085.1	1,117.1
Total leverage exposure before IFRS 9 relief	17,621.9	16,762.0
	6.2%	6.7%

This table is not subject to audit

The Bank 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 Bank's return on assets for the year is calculated as follows:

	2025 £m	2024 (restated*) £m
Net profit after tax	181.0	178.2
Divided by		
Total balance sheet	19,812.7	19,159.6
	0.91%	0.93%

* Restated – note 44

This table is not subject to audit

39. FINANCIAL RISK MANAGEMENT

The principal financial risks arising from the Bank's exposure to financial instruments are credit risk, liquidity risk and market risk (particularly, interest rate risk and currency risk). The Board of Directors has a Risk and Compliance Committee, consisting of the Chair and the non-executive directors which is responsible for providing oversight and challenge to the Bank's risk management arrangements. Executive responsibility for the oversight and operation of the Group's risk management framework is delegated to the ERC. ERC discharges its duties through a number of sub-committees and escalates issues of concern to the Risk and Compliance Committee where appropriate.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Credit Committee and ALCO are sub-committees of the ERC which monitor performance against the risk appetites set by the Board and make recommendations for changes in risk appetite where appropriate. They also review and, where authorised to do so, agree or amend policies for managing each of these risks, which are summarised in the relevant note.

The financial risk management policies have remained unchanged throughout the year and since the year end. The position discussed in notes 40 to 43 is materially similar to that existing throughout the year.

40. CREDIT RISK

The Bank's business objectives rely on maintaining a high-quality customer base and place strong emphasis on good credit management, both at the time of underwriting a new loan, where strict lending criteria are applied, and in the collections process.

Primary responsibility for retail credit risk management across the Bank lies with the Credit Committee. The Credit Committee is made up of senior employees, drawn from financial and risk functions independent of the underwriting process. It is chaired by the Credit Risk Director. Its key responsibilities include setting and reviewing credit policy, under the delegated authority of the Risk and Compliance Committee controlling applicant quality, tracking account performance against targets, agreeing product criteria and lending guidelines and monitoring performance and trends.

In order to control credit risk relating to counterparties to the Bank's derivative financial instruments, short-term investments and cash deposits, ALCO determines which counterparties the Bank will deal with, establishes limits for each counterparty and monitors compliance with those limits.

The assets of the Bank which are subject to credit risk are set out below:

	Note	2025	2024 (restated*)
		£m	£m
Financial assets at amortised cost			
Cash	12	2,231.9	2,378.4
Loans to customers	14	12,439.5	11,714.7
Investment in structured entities	18	1,959.3	2,154.9
CSA debtor	20	1.5	-
Accrued interest	20	21.9	23.6
Loans to group companies	21	1,528.6	1,447.5
Amounts owed by group companies	20	91.3	71.6
Investment securities	13	626.2	427.4
		18,900.2	18,218.1
Financial assets at fair value			
Derivative financial assets	19	241.1	319.1
Maximum exposure to credit risk		19,141.3	18,537.2

* Restated – note 44

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

40. CREDIT RISK (CONTINUED)

Loans to customers

The largest part of the Bank's credit risk by value is attributable to its loans to customers. There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

The Bank's loan assets at 30 September 2025 and 30 September 2024 are analysed as follows:

	2025 £m	2025 %	2024 £m	2024 %
Buy-to-let mortgages	11,735.3	94.4%	11,023.1	94.2%
Owner occupied mortgages	13.9	0.1%	16.2	0.1%
Total first mortgages	11,749.2	94.5%	11,039.3	94.3%
Second charge mortgages	62.8	0.5%	87.1	0.7%
Loans secured on property	11,812.0	95.0%	11,126.4	95.0%
Motor finance loans	360.6	2.9%	331.4	2.8%
Structured lending	266.9	2.1%	256.9	2.2%
Total loans to customers	12,439.5	100.0%	11,714.7	100.0%

The Bank's underwriting philosophy is based on a combination of sophisticated individual credit assessment and the automated efficiencies of a scored decision making process. Information on each applicant is combined with data taken from a credit reference bureau to provide a complete credit picture of the applicant and the borrowing requested. Key information is validated through a combination of documentation and statistical data which collectively provides evidence of the applicant's ability and willingness to pay the amount contracted under the loan agreement.

In considering whether to acquire pools of loan assets or invest in loan portfolios, the Bank will undertake a due diligence exercise on the underlying loan accounts. The Bank's procedures may include inspection of original loan documents, verification of security and the examination of the credit status of borrowers. Current and historic cash flow data will also be examined. The objective of the exercise is to establish, to a level of confidence similar to that provided by the underwriting process, that the assets will generate sufficient cash flows to recover the Bank's investment and generate an appropriate return without exposing the Bank to material operational or conduct risks.

First and second charge mortgages are secured by charges over residential properties in England and Wales, or similar Scottish securities. Motor finance loans are effectively secured by the financed vehicle.

Structured finance balances are effectively secured over the assets of the customer, with by security enhanced by maintaining at a level less than the amount of total amount of the security.

Despite this security, in assessing credit risk, an applicant's ability and propensity to repay the loan remain the principal factors in the decision to lend.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

40. CREDIT RISK (CONTINUED)

Loans secured on residential property

An analysis of the indexed loan to value ratio ('LTV') for those loan accounts secured on property by value at 30 September 2025 and 30 September 2024 is set out below.

	2025 First Mortgages	2025 Second charge Mortgages	2024 First Mortgages	2024 Second charge Mortgages
	%	%	%	%
Loan to value ratio				
Less than 70%	68.0	98.6	70.1	98.0
70% to 80%	30.0	0.9	27.3	1.3
80% to 90%	1.1	0.3	1.5	0.2
90% to 100%	0.2	0.0	0.2	0.0
Over 100%	0.7	0.2	0.9	0.5
	100.0	100.0	100.0	100.0
Average loan to value ratio	63.4	48.7	63.0	50.0

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: 3.2%).

Structured lending

The Bank'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 transactions	12	11
Total facilities (£m)	400.0	330.0
Carrying value (£m)	266.9	256.9

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.

40. CREDIT RISK (CONTINUED)

These accounts do not have a requirement to make regular payments, operating on revolving basis. 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.

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 the UK Finance ('UKF') and the Finance and Leasing Association ('FLA'), was:

	2025	2024
	%	%
Buy-to-let mortgages		
Accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	0.51	0.38
Buy-to-Let accounts excluding receiver of rent cases	0.33	0.19
Owner-occupied accounts	6.00	5.09
UKF data for mortgage accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	0.75	0.87
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
Secured loans		
Accounts more than two months in arrears	11.68	10.85
FLA data for secured loans	5.80	6.50
Car loans		
Accounts more than two months in arrears	0.91	1.06
FLA data for consumer point of sale hire purchase	3.60	4.10

No data has been published for the structured lending category. 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 structured lending activities as the structure of the products means that such a measure is not appropriate.

The Bank calculates its headline arrears measure for buy-to-let mortgages, shown above, based on the numbers of accounts three months or more in arrears, 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.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

40. CREDIT RISK (CONTINUED)

The figures shown above for secured loans include purchased portfolios which generally include a 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.

Investment in structured entities

Investments in structured entities comprise publicly listed Mortgage Backed Floating Rate Notes issued by other Paragon Group companies to a purchase pools of residential mortgage assets. The investments are denominated in sterling and the underlying loans are made to UK borrowers. Cash generated by the assets is distributed to investors in accordance with a specified priority of payments. The Bank has no obligation to make further contributions to the company concerned.

The majority of these notes are externally rated, with the analysis of the investments by credit rating shown in note 18.

The management has considered the latest ratings on these notes, the position of the underlying assets and their forecast cashflows and concluded that they will generate sufficient cash flows to repay the amount of the investment.

Derivative financial assets

In order to control credit risk relating to counterparties to the Bank’s derivative financial instruments and cash deposits, ALCO determines which counterparties the Bank will deal with, establishes limits for each counterparty and monitors compliance with those limits. Such counterparties are typically highly rated banks. Where a derivative counterparty fails to meet the required criteria they are obliged under the terms of the instruments to set aside a cash collateral deposit.

Cash and cash equivalents

The Bank’s cash balances are held in sterling at the Bank of England in current accounts at highly rated London banks. The Bank has a policy on large exposures to mitigate any concentration risk in respect of its cash deposits. Credit risk on these balances, and the interest accrued thereon, is considered to be immaterial.

Loans to group companies

The Bank’s loans to group companies support the ongoing finance operations of its subsidiaries and investment in loan assets acquired by the subsidiaries.

Amounts owed by group companies

This balance includes current balances with other group entities and loans made to SPV entities in support of financing transactions.

Credit risk on current balances arises if the counterparty is not trading profitably or is not expected to do so in the future. Credit risk on other SPV balances arises where the design of the transaction and the performance of the assets in the SPV can mean that the applicable cash flows generated might be insufficient to settle the balance under certain conditions.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

40. CREDIT RISK (CONTINUED)

Investment Securities

The credit risk inherent in the Bank's investment securities is controlled by ALCO, which determines the nature of securities which may be invested in and the types of issuers in whose securities the Bank may invest. The Bank has formal risk appetites, policies and limits, approved by the Risk and Compliance Committee.

These securities, which are described in more detail in note 18, represent AAA rated exposures to UK financial institutions and gilts issued by the UK Government. The inherent credit risk is therefore considered to be minimal.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

41. LIQUIDITY RISK

Liquidity risk is the risk that the Bank might be unable to satisfy any payment which is required to be made out of cash available to it at the time. The Bank's retail funding strategy is focussed on building a stable mix of deposit products. A high proportion of balances, around 95%, are protected by the FSCS which mitigates against the possibility of a retail run.

The cash outflows, including principal and estimated interest contractually required by the Bank's retail deposit balances, analysed by the earliest date at which repayment can be demanded are set out below:

	2025 £m	2024 £m
Retail deposits		
Payable on demand	8,206.5	7,697.6
Payable in less than three months	1,446.5	1,718.0
Payable in less than one year but more than three months	5,438.7	5,144.1
Payable in less than one year or on demand	15,091.7	14,559.7
Payable in one to two years	1,054.1	1,657.2
Payable in two to five years	632.4	740.7
Payable in over five years	81.1	63.0
	16,859.3	17,020.6

The cash flows described above will include those for interest on retail deposits accrued at 30 September 2025 and 30 September 2024 disclosed in note 26. In order to reduce the liquidity risk inherent in the retail deposit balances, the PRA requires that the Bank, like other regulated banks, maintains a buffer of liquid assets to ensure it has sufficient available funds at all times to protect against unforeseen circumstances. The amount of this buffer is calculated using Individual Liquidity Guidance ('ILG') set by the PRA based on the Internal Liquidity Adequacy Assessment Process ('ILAAP') undertaken by the Bank. The ILAAP determines the liquid resources that must be maintained in the Bank to meet its Overall Liquidity Adequacy Requirement ('OLAR') and to ensure that it can meet its liabilities as they fall due. It is based on an analysis of its business as usual forecast cash requirements but also considers their predicted behaviour in stressed conditions.

At 30 September 2025 and 30 September 2024, the liquidity buffer comprised the following on and off balance sheet assets, all held within the Bank.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

41. LIQUIDITY RISK (CONTINUED)

	2025 £m	2024 £m
Balances with central banks	2,110.4	2,207.9
Investment securities	626.2	427.4
Total on balance sheet liquidity	2,736.6	2,635.3
Long / short repo transaction	150.0	150.0
	2,886.6	2,785.3

Borrowings

The Bank issued £150.0m of tier-2 debt in March 2021. This bond is optionally callable between 25 June 2026 and 25 September 2026 and has a final maturity date of 25 September 2031. Amounts expected to be payable, including interest, are shown as corporate debt in the table below.

The total undiscounted amounts, inclusive of estimated interest, which would be payable in respect of the borrowings of the Bank, should those balances remain outstanding until the contracted repayment date, or the earliest date on which repayment can be required, are set out below.

	Central Bank Facilities £m	Corporate Debt £m	Total £m
30 September 2025			
Payable in less than one year	960.1	6.6	966.7
Payable in one to two years	5.3	6.6	11.9
Payable in two to five years	-	19.7	19.7
Payable in over five years	-	156.6	156.6
	965.4	189.5	1,154.9
30 September 2024			
Payable in less than one year	39.4	6.6	46.0
Payable in one to two years	752.9	6.6	759.5
Payable in two to five years	5.3	19.7	25.0
Payable in over five years	-	163.0	163.0
	797.6	195.9	993.5

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

41. LIQUIDITY RISK (CONTINUED)

The cash flows which are expected to arise from derivative contracts in place at the year end, estimating future floating rate payments and receipts on the basis of the yield curve at the balance sheet date are as follows:

	2025 Total cash outflow / (inflow) £m	2024 Total cash outflow / (inflow) £m
On derivative liabilities		
Payable in less than one year	45.6	20.8
Payable in one to two years	25.0	30.0
Payable in two to five years	19.6	51.3
Payable in over five years	-	7.5
	90.2	109.6
On derivative assets		
Payable in less than one year	(63.6)	(80.3)
Payable in one to two years	(41.1)	(93.1)
Payable in two to five years	(6.3)	(31.1)
Payable in over five years	(71.2)	(8.4)
	(182.2)	(212.9)
	(92.0)	(103.3)

42. INTEREST RATE RISK

Interest rate risk is the current or prospective risk to capital or earnings arising from adverse movements in interest rates. The Bank's exposure to this risk is a natural consequence of its lending, deposit-taking and other borrowing activities, as some of its financial assets and liabilities bear interest at rates which float with various market rates while others are fixed, either for a term or for their whole lives. Such risk is referred to as Interest Rate Risk in the Banking Book ('IRRBB'). The Bank does not seek to generate income from taking interest rate risk and aims to minimise exposures that occur as a natural consequence of carrying out its normal business activities.

The Bank balance sheet also includes assets, liabilities and equity which, by their nature, do not attract interest.

The Bank has fixed and floating rate loan assets, together with fixed and floating rate savings deposit and manages mismatches using interest rate swap agreements to ensure any exposure remains appropriate to the Banks risk appetite. The Bank's ALCO monitors the interest rate risk exposure on the Bank's loan assets.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT
For the year ended 30 September 2025

42. INTEREST RATE RISK (CONTINUED)

The Bank's retail deposits either bear variable interest rates or are fixed rate liabilities which are hedged in accordance with the Bank's risk management strategy. The interest rates paid on the Bank's variable rate deposits are determined by reference to, inter alia, returns achievable in the Bank's lending markets and the rates being charged on similar products in the market.

The Bank's loan assets are predominantly hedged fixed rate assets. The interest rates charged on the Bank's variable rate loan assets are determined by reference to, inter alia, the Bank's funding costs and the rates being charged on similar products in the market.

Generally, these factors ensure the matching of changes in interest rates on the Bank's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term.

The Bank's use of derivatives and hedging to manage interest rate risk is described in more detail in note 19.

Interest rate sensitivity

To assess the Bank's exposure to interest rate movements the notional impact of a 1% change in UK interest rates on the equity of the Bank at 30 September 2025, and the notional annualised impact of such a change on the operating profit of the Bank, based on the year-end balance sheet have been calculated.

As a simplification this calculation assumes that all relevant UK interest rates move by the same amount in parallel and that all repricing takes place at the balance sheet date.

On this basis, a 1.0% increase in UK interest rates would decrease profit before tax by £30.1m (2024: £29.9m).

The principal direct point in time impact on the Group's equity would result from the revaluation of derivative assets and liabilities which are not part of fair value hedges at the balance sheet date. A 1% increase in rate expectations would increase equity by £1.4m (2024: decrease by £4.6m). For this illustration no ineffectiveness in hedging relationships is assumed.

These calculations allow only for the direct effects of any change in UK interest rates. In practice, such a change might have wider economic consequences which would themselves potentially affect the Group's business and results.

43. CURRENCY RISK

The asset finance business, originated in one of the Bank's subsidiaries, has a limited amount of lending denominated in US dollars and may contract to purchase assets for leasing in currency. These balances are economically hedged at the consolidated Group's level through the Bank by the purchase of currency derivatives and/or appropriate currency balances.

The Bank has no material exposure to foreign currency risk, and no sensitivity analysis is presented for currency risk.

The Bank's use of financial derivatives to manage currency risk is described further in note 19.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

The notes set out below describe the accounting basis on which the Bank prepares its accounts, the particular accounting policies adopted by the Bank 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.

44. BASIS OF PREPARATION

The Bank is required, by the Companies Act 2006 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 Bank's circumstances, that the financial statements also accord with IFRS as approved by the International Accounting Standards Board.

The particular accounting policies adopted have been set out in note 45 and the critical accounting judgements and estimates which have been regarded in preparing these financial statements are described in notes 46 and 47 respectively.

Prior year adjustment

During the year the Bank reassessed its processes for the identification of potential expected credit loss provisions on its balances with other group entities, particularly where those balances formed part of a structured funding transaction and where the ability for the Bank to receive payment, and the timing of any payment to be received, was governed by the funding documents relating to that transaction.

As a result of this assessment, it was identified that there was likely to be a significant shortfall in recovery, for IFRS 9 impairment purposes, in respect of an asset balance arising from a transaction entered into in November 2023. Further, it was considered likely that this impairment largely arose before the start of the current financial year on 1 October 2024. This additional requirement for impairment provision has therefore been accounted for as a prior period adjustment in accordance with IAS 8 – 'Accounting Policies, Changes in Accounting Estimates and Errors).

The effect of this adjustment is to increase the amount of ECL provision charged to profit in the year ended 30 September 2024 by £40.6m, reducing profit before tax by the same amount. After allowing for tax, profit after tax for that year is reduced by £29.3m, with a reduction in equity of the same amount.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

44. BASIS OF PREPARATION (CONTINUED)

Prior year adjustment (Continued)

The amounts reported in the profit and loss account for the year ended 30 September 2024 affected by this restatement are set out below.

	Note	As originally reported £m	As restated £m
Provisions for losses *(Balances with group companies)*	9	(10.5)	(51.1)
Operating profit before fair value items		281.7	241.1
Operating profit being profit on ordinary activities before taxation		265.0	224.4
Tax charge on profit on ordinary activities *(Deferred tax)*	11	(57.5)	(46.2)
Profit on ordinary activities after taxation for the financial year		207.5	178.2

The amounts reported in the Bank's balance sheet at 30 September 2024 affected by this restatement are set out below.

	Note	As originally reported £m	As restated £m
Sundry assets *(Amounts owed by group companies)*	20	137.0	96.3
Total assets		19,200.3	19,159.6
Deferred tax liabilities *(Loans and derivatives)*	30	(34.0)	(22.6)
Total liabilities		(18,150.2)	(18,138.8)
Reserves *(Profit and loss account)*	32	(497.5)	(468.2)
Total equity		(1,050.1)	(1,020.8)
Total liabilities and equity		(19,200.3)	(19,159.6)

As the S VFN note referred to above was not in place at 30 September 2023, the adjustment has no impact of balances at that date or results for earlier periods.

In the cash flow statement, the adjustment affects on the amounts reported in note 33. The profit before tax for the year ended 30 September 2024 is reduced as shown above, with a corresponding opposite entry in the 'movements in sundry liabilities' line in the same note. The primary cash flow statement is unaffected.

The Bank's regulatory capital position is determined on the basis of its regulatory capital group. As the adjustment relates to a balance with another entity within that regulatory group, the Bank's overall regulatory capital position at 30 September 2024 is unaffected by the adjustment.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

44. BASIS OF PREPARATION (CONTINUED)

Adoption of new and revised reporting standards

In the preparation of these financial statements, no accounting standards are being applied for the first time.

Standards not yet adopted

On 9 April 2024 the IASB issued IFRS 18 – 'Presentation and Disclosure in Financial Statements', which was adopted for use in the UK on 10 December 2025. This is expected to impact the way in which information is disclosed in financial statements without impacting materially on the underlying accounting.

IFRS 18 will apply to the Bank with effect from its financial year ending 30 September 2028. A detailed exercise to determine the impact of the new Standard on the Bank's annual reporting will be carried out before the implementation date. However, it is expected that impact of the new standard on banking companies will be less than that for companies in general.

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 Bank's accounting and reporting.

On February 2025 the Financial Reporting Council issued new 'Guidance on the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risks)' which will replace the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' referred to in note 68 (PBG's 2025 Annual Report and Accounts" with effect from the Bank's financial year ending 30 September 2026. This is not expected to have a significant impact on the Bank's reporting.

45. ACCOUNTING POLICIES

The particular policies applied by the Bank in preparing these financial statements with the IFRS regime are described below.

(a) **Accounting convention**

The financial statements have been prepared under the historical cost convention, except as required in the valuation of certain financial instruments which are carried at fair value.

(b) **Basis of consolidation**

The Bank is exempt under Section 400 of the Companies Act 2006 from the obligation to prepare group financial statements, being a wholly-owned subsidiary undertaking of Paragon Banking Group PLC.

(c) **Going concern**

The financial statements have been prepared on the going concern basis.

The directors have adopted this basis following a going concern assessment for the Group and the Company covering a period of at least twelve months following the date of approval of these financial statements. Details of this assessment are set out in note 48.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

45. ACCOUNTING POLICIES (CONTINUED)

(d) Cash and cash equivalents

Balances shown as cash and cash equivalents in the balance sheet comprise demand deposits and short-term deposits with banks with initial maturities of not more than 90 days.

(e) Investment in securities

The Bank's investments in securities are held as part of its liquidity buffer. They are therefore classified as 'held to collect' following an example set out in IFRS 9. These securities are carried at amortised cost, with income recognised in an effective rate ('EIR') basis.

(f) Leases

Leases where the Bank is lessor are accounted for as operating or finance leases in accordance with IFRS 16 – 'Leases'. A finance lease is one which transfers substantially all of the risks and rewards of the ownership of the asset concerned. Any other lease is an operating lease.

Finance lease receivables are accounted for as loans to customers, with impairment provisions determined in accordance with IFRS 9.

(g) Loans to customers

Loans to customers includes assets accounted for as financial assets and finance leases. The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and its business model for managing the asset. The Bank has concluded that its business model for its customer loan assets is of the type defined as 'Hold to collect' by IFRS 9 and the contractual terms of the asset should give rise to cash flows that are solely payments of principal and interest ('SPPI'). Such loans are therefore accounted for on the amortised cost basis.

Loans advanced are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. Loans acquired from third parties are initially valued at the purchase consideration paid or payable. Thereafter, all loans to customers are valued at this initial amount less the cumulative amortisation calculated using the EIR method. The loan balances are then reduced where necessary by an impairment provision.

The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payments and receipts arising from the loan to the initial carrying amount.

Where financial assets are credit-impaired at initial recognition the EIR is calculated on the basis of expected future cash receipts allowing for the effect of credit risk. In other cases, the expected contractual cash flows are used.

(h) Finance lease receivables

Finance lease receivables are included within 'Loans to Customers' at the total amount receivable less interest not yet accrued, unamortised commissions and provision for impairment.

Income from finance lease contracts is governed by IFRS 16 – 'Leases' and accounted for on the actuarial basis.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

45. ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of loans to customers

The carrying values of all loans to customers, whether accounted for under IFRS 9 or IFRS 16, are reduced by an impairment provision based on their ECL, determined in accordance with IFRS 9. These estimates are reviewed throughout the year and at each balance sheet date.

All assets are assessed to determine whether there has been a significant increase in credit risk ('SICR') since the point of first recognition (origination or acquisition). Assets are also reviewed to identify any which are 'Credit Impaired'. SICR and credit impairment are identified on the basis of pre-determined metrics including qualitative and quantitative factors relevant to each portfolio, with a management review to ensure appropriate allocation.

Assets which have not experienced an SICR are referred to as 'Stage 1' accounts, assets which have experienced an SICR but are not credit impaired are referred to as 'Stage 2' accounts, while credit impaired assets are referred to as 'Stage 3' accounts.

An impairment allowance is provided on an account by account basis:

- For Stage 1, at an amount equal to 12-month ECL, the total expected ECL that results from those default events that are possible within 12 months of the reporting date, weighted by the probability of those events occurring
- For Stage 2 and 3 accounts, at an amount equal to lifetime ECL, the total expected ECL that results from any future default events, weighted by the probability of those events occurring

In establishing an ECL allowance, the Bank assesses its PD, LGD and exposure at default for each reporting period, discounted to give a net present value. The estimates used in these assessments must be unbiased and take into account reasonable and supportable information including forward-looking economic inputs.

While the Bank uses statistical models as the basis for its calculation of ECLs where appropriate, expert judgement will always be used to assess the adequacy of any calculated amount and additional provision made if required.

Within its buy-to-let portfolio the Bank utilises a receiver of rent process, whereby the receiver stands between the landlord and tenant and will determine an appropriate strategy for dealing with any delinquency. This strategy may involve the immediate sale of any underlying security or the short or long term letting of the property to cover arrears and principal shortfalls. Such cases are automatically considered to have an SICR, but where a letting strategy is adopted by the receiver, a tenant is in place and arrears are reduced or cleared. Properties in receivership are eventually either returned to their landlord owners or sold.

For financial accounting purposes, provisions for impairments of loans to customers are held in an impairment allowance account from the point at which they are first recognised. These balances are released to offset against the gross value of the loan when it is written off for accounting purposes. This occurs when standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. Any further gains from post-write off salvage activity are reported as impairment gains.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

45. ACCOUNTING POLICIES (CONTINUED)

(j) Investment in structured entities

Investments in structured entities are intended to be held to maturity and are therefore accounted for on the amortised cost basis. The return from such investments is calculated on the EIR basis.

(k) Amounts owed by or to group companies

In the accounts of the Bank, balances owed by or to other group companies are carried at the current amount outstanding less any provision. Where balances owing between group companies fall within the definition of either financial assets or financial liabilities given in IAS 32 – 'Financial Instruments: Presentation' they are classified as assets or liabilities at amortised cost, as defined by IFRS 9.

(l) Deferred sale consideration

Under the mortgage sale agreements profits of PM26, PM27, PM28 and PM29 are paid to the Company as originator of the loans by way of deferred sale consideration. Deferred sale consideration is recognised in the period in which it is received.

(m) Investments in subsidiaries

The Bank's investments in subsidiary undertakings are valued at cost less provision for impairment.

(n) Retail deposits

Retail deposits are carried in the balance sheet on the amortised cost basis. The initial fair value recognised represents the cash amount received from the customer.

Interest payable to the customer is expensed to the income statement as interest payable over the deposit term on an EIR basis.

(o) Borrowings

Borrowings are carried in the balance sheet on the amortised cost basis. The initial value recognised includes the principal amount received less any discount on issue or costs of issuance.

Interest and all other costs of the funding are expensed to the income statement as interest payable over the term of the borrowing on an EIR basis.

(p) Central bank facilities

Where central bank facilities are provided at a below market rate of interest, and therefore fall within the definition of government assistance as defined by IAS 20 – 'Accounting for Government Grants and Disclosure of Government Assistance' the liability is initially recognised at the value of its expected cash flows discounted at a market rate of interest for a comparable commercial borrowing. Interest is recognised on this liability on an EIR basis, using the imputed market rate to determine the EIR.

The remaining amount of the advance is recognised as deferred government assistance and released to the profit and loss account through interest payable over the periods during which the arrangement affects profit.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

45. ACCOUNTING POLICIES (CONTINUED)

(q) Sale and repurchase agreements

Securities, including the Group's own retained asset-backed notes, can be sold subject to a commitment to repurchase them at a subsequent date at a price calculated on a pre-determined basis (a repo). Where this price comprises a fixed amount plus a lenders' return, the funds received are treated as borrowings of the Group.

Where the securities concerned are retained notes no liability is recognised in asset-backed loan notes and where the securities are recognised on the Group's balance sheet prior to the transaction, these are not derecognised.

(r) Provisions for liabilities

Provisions of liabilities are made in accordance with IAS 37 – 'Provisions, Contingent Liabilities and Contingent Assets'. Provision is made where it is probable that an outflow of resources will be required to settle an obligation arising from a past event. The amount of provision is based on the Bank's current estimate, at the balance sheet date, of the amount which would need to be paid to a third party at that point to extinguish all liabilities arising from the event. As such it would include incremental costs related to the settlement of the liability. This amount is calculated on a present value basis, where the time value of money is significant.

(s) Derivative financial instruments

All derivative financial instruments are carried in the balance sheet at fair value, as assets where the value is positive or as liabilities where the value is negative. Fair value is based on market prices, where a market exists. If there is no active market, fair value is calculated using present value models which incorporate assumptions based on market conditions and are consistent with accepted economic methodologies for pricing financial instruments. Changes in the fair value of derivatives are recognised in the income statement, except where such amounts are permitted to be taken to equity as part of the accounting for a cash flow hedge.

(t) Hedging

IFRS 9 paragraph 7.2.21 permits an entity to elect, as a matter of accounting policy, to continue to apply the hedge accounting requirements of IAS 39 in place of those set out in Chapter 6 of IFRS 9. The Bank has made this election and the accounting policy below has been determined in accordance with IAS 39.

For all hedges, the Bank documents the relationship between the hedging instruments and the hedged items at inception, as well as its risk management strategy and objectives for undertaking the transaction. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be 'highly effective' as defined by IAS 39.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

45. ACCOUNTING POLICIES (CONTINUED)

(t) Hedging (Continued)

For a fair value hedge, as long as the hedging relationship is deemed 'highly effective' and meets the hedging requirements of IAS 39, any gain or loss on the hedging instrument recognised in income can be offset against the fair value loss or gain arising from the hedged item for the hedged risk. For macro hedges (hedges of interest rate risk for a portfolio of loan assets or retail deposit liabilities) this fair value adjustment is disclosed in the balance sheet alongside the hedged item, for other hedges the adjustment is made to the carrying value of the hedged asset or liability. Only the net ineffectiveness of the hedge is charged or credited to income. Where a fair value hedge relationship is terminated, or deemed ineffective, the fair value adjustment is amortised over the remaining term of the underlying item.

(u) Taxation

The charge for taxation represents the expected UK corporation tax (including the Bank Corporation Tax surcharge where applicable) and other income taxes arising from the Bank's profit for the year. This consists of the current tax which will be shown in tax returns for the year and tax deferred because of temporary differences. This in general, represents the tax impact of items recorded in the current year but which will impact tax returns for periods other than the one in which they are included in the financial statements.

The Bank holds a provision for uncertain tax positions at the balance sheet date based on a global assessment of the expected amount that will ultimately be payable.

Tax relating to items taken directly to equity is also taken directly to equity.

(v) Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. As required by IAS 12 – 'Income Taxes', deferred tax assets and liabilities are not discounted to take account of the expected timing of realisation.

(w) Revenue

The revenue of the Bank comprises interest receivable and similar charges and other income. The accounting policy for the recognition of each element of revenue is described separately within these accounting policies.

(x) Other income

Other operating income, which is accounted for in accordance with IFRS 15, includes:

- Event-based administration fees charged to borrowers (other than the initial fees included in amortised cost), which are credited when the related service is performed
- Dividend income from subsidiary companies is recognised in the period it is received
- Deferred sale consideration is recognised in the period in which it is received

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

45. ACCOUNTING POLICIES (CONTINUED)

(y) Dividends

In accordance with IAS 10 – 'Events after the balance sheet date', dividends payable on ordinary shares are recognised in equity once they are appropriately authorised and are no longer at the discretion of the Bank. Dividends declared after the balance sheet date, but before the authorisation of the financial statements remain within shareholders' funds.

However, such dividends are deducted from regulatory capital from the point at which they are announced, and capital disclosures are prepared on this basis.

(z) Foreign currency

Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 – 'The Effects of Changes in Foreign Exchange Rates'. The functional currency of the Company and all of the other entities in the Bank is the pound sterling. Transactions which are not denominated in sterling are translated into sterling at the spot rate of exchange on the date of transaction. Monetary assets and liabilities which are not denominated in sterling are translated at the closing rate on the balance sheet date.

46. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the directors have made in the application of the accounting policies set out in note 45 relate to:

(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 a 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 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 17.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

46. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)

(b) Definition of default

In applying the impairment provisions of IFRS 9 and the directors have used models to derive the probabilities of default. In order to derive and apply such models, it is required to define ‘default’ for this purpose. The Bank’s definition of default is aligned to its internal operational procedures. IFRS 9 provides a rebuttable presumption of default when an account is 90 days overdue and this was used as the starting point for this exercise. Other factors include account management activities such as appointment of a receiver or enforcement procedures.

A combination of qualitative and quantitative measures was considered in developing the definition of default. If a different definition of default had been adopted the expected loss amounts derived might differ from those shown in the accounts.

More information on the Bank’s definition of default adopted is given in note 17.

(c) Classification of financial assets

The classification of financial assets under IFRS 9 is based on two factors:

- The company’s ‘business model’ – how it intends to generate cash and profit from the assets
- The nature of the contractual cash flows inherent in the assets

Financial assets are classified as held at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss.

For an asset to be held at amortised cost, the cash flows received from it must comprise solely payments of principal and interest (‘SPPI’). In effect, this restricts this classification to ‘normal’ lending activities, excluding arrangements where the lender may have a contingent return or profit share from the activities funded. The Bank has considered its products and concluded that, as standard lending products, they fall within the SPPI criteria.

This is because all of the Bank’s lending arrangements involve the advancing of amounts to customers, either as loans or finance lease products and the receipt of repayments of principal and charges, where those charges are calculated based on the amount loaned. There are no ‘success fee’ or other compensation arrangements not linked to the loan principal.

The use of amortised cost accounting is also restricted to assets which a company holds within a business model whose object is to collect cash flows arising from them, rather than seek to profit by disposing of them (a ‘Held to Collect’ model). The Bank’s strategy is to hold loan assets until they are repaid or written off. Loan disposals are rare, and the Bank does not manage its assets in order to generate profits on sale. On this basis, it has categorised its business model as Held to Collect.

Therefore, the Bank has classified its customer loan assets as carried at amortised cost. There were no significant changes in the nature of the Group’s products, nor in the business models in which they are held, during the year.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

46. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)

(c) Classification of financial assets (continued)

The Bank's policy is to hold the FRN's acquired and included in 'investment in structured entities', for liquidity purposes and has no intentions to sell them at any point, as such, has categorised the business model for these assets as Held to Collect. The FRNs provide cash returns in the form of Sonia linked interest and principal at nominal value. These cash flows are considered as SPPI and the Bank carries its investments in structured entities at amortised cost.

The Bank's policy is to hold the Gilts' purchased and included in 'investment securities', for liquidity purposes and has no intentions to sell them at any point, as such, has categorised the business model for these assets as Held to Collect. The Gilts provide cash returns in the form of fixed interest at nominal value. These cash flows are considered as SPPI and the Bank carries its investments in structured entities at amortised cost.

47. CRITICAL ACCOUNTING ESTIMATES

Certain balances reported in the financial statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most important of these, those which could, if revised significantly in the next financial year, have a material impact on the carrying amounts of assets or liabilities are:

(a) Impairment losses on loans to customers

Impairment losses on 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.

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.

47. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

(a) Impairment losses on loans to customers (continued)

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 therefore 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 model 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. 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 17.

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 house price index

The economic variables will also inform assumptions about the Bank's approach to account management given a particular scenario.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

47. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

(a) Impairment losses on loans to customers (continued)

In addition to uncertainty created by the economic scenarios, the Group recognises that the present situation lies outside the range of situations considered when it originally derived its IFRS 9 approach to impairment. It is considered that the current forecast scenarios, which include higher rates of interest and inflation than in the historically observed data, represent situations where its models may not be able to fully allow for potential economic impacts on its loan portfolios. It therefore assessed, for each class of asset, whether any adjustment to the normal approach was required to ensure sufficient provision was created and 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 17.

The position after considering all these matters is set out in note 17, together with further information on the Group's approach. The economic scenarios described above and their impact on the overall provision are also set out in that note.

(b) 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 hence the cash flows relating thereto, including those relating to early redemption charges. For purchased loan accounts this will involve estimating the likely future credit performance of the accounts at the time of acquisition. These estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and that predicted, which in turn would depend directly or indirectly (in the case of borrowings) on customer behaviour.

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. This exercise indicated that:

- A reduction of the assumed average lives of loans secured on residential property by three months would reduce balance sheet assets by £4.7m (2024: £7.1m)
- An increase of the assumed average lives of loans secured on residential property by three months would increase balance sheet assets by £4.7m (2024: £6.9m)
- 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, generating additional early redemption charges would increase balance sheet assets by £8.9m (2024: £8.1m)

As any of these changes would, in reality, be accompanied by movements in other factors, actual outcomes may differ from these estimates.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

47. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

(c) Impairment of balances with structured entities

The Bank's loans and investments to structured entities are included in 'investments in structured entities' and 'balances due from group companies'. The repayment of these amounts is determined by the terms on which the particular structured entity was set up, which govern the application of any cash generated within the SPV.

The recoverable amount of the Bank's balances is therefore a function of the performance of the SPV assets and the rules under the which the SPV operates. If the expected amount of cash to be generated is less than required to satisfy all outstanding balances an impairment provision will be required, and a provision will be recorded based on the expected cash flows.

However, expectations for these cash flows may vary from time to time, based on the performance of the SPV asset and more general expectations about future loan performance and broader economic factors, generating variations in provision levels.

(d) Investments in subsidiaries

The carrying value of the Bank's investments in shares in subsidiary entities is based on the original cost of investment less any provision for impairment. This impairment test is initially based on the net asset values of those entities and their subsidiaries, if any, adjusted, for acquired entities by the amount of the related goodwill, net of impairment, calculated at group level. This amount is verified based on the projected cash flows of the business, as derived from management forecasts and other assumptions including a discount factor.

The accuracy of this impairment calculation would therefore be compromised by any differences between these forecasts and the levels of business activity that the acquired business is able to achieve in practice. As the forecast levels of business are based on the Bank's central economic scenario, any variance from this will potentially impact on the valuation. This test will also be affected by the accuracy of the discount factor used.

Of the £664.1m of investments in shares in group entities £501.6m is directly supported by tangible net assets of subsidiaries with £162.5m relying in part on the goodwill of the subsidiary.

Detailed disclosures for the recoverability of this goodwill under reasonable plausible scenarios has been disclosed in PBG's financial statements.

48. GOING CONCERN

Accounting standards require the directors to assess the Bank's ability 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.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

48. GOING CONCERN (CONTINUED)

Particular focus is given to financial forecasts to ensure the adequacy of resources available for the Bank to meet its 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.

The Bank 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 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 Bank's principal risks.

The key stresses modelled in detail to evaluate the Bank's forecasting addressed: increased buy-to-let volumes; higher funding costs; higher buy to let redemptions; and a high impairment stress based on the severe scenario set out in note 17, but with no reduction in lending volumes. This impairment stress is derived from but more severe than the stress testing scenario published by the Bank of England in September 2025. These stresses did not take account of management actions which might mitigate the impact of the adverse assumptions used.

Under all these scenarios, the Bank had the ability to meet its obligations over the forecast horizon and maintain a surplus over its regulatory requirements for both capital and liquidity through normal balance sheet management activities.

The Bank begins the forecast period with a strong capital and liquidity position, enabling the management of any significant outflows of deposits and / or reduced inflows from customer receipts. Overall, the forecasts, even under reasonable further levels of stress show the Bank retaining sufficient equity, capital, cash and liquidity throughout the forecast period to satisfy its regulatory and operational requirements.

The availability of funding and liquidity is a key consideration, including retail deposit, wholesale funding, central bank and other contingent liquidity options.

The Bank's retail deposits of £16,265.7 million (note 22) are repayable within five years, with 90.8% of this balance (£14,765.3 million) payable within twelve months of the balance sheet date. The liquidity exposure represented by these deposits is closely monitored; a process supervised by the Asset and Liability Committee. The Bank is required to hold liquid assets to mitigate this liquidity risk. At 30 September 2025 the Bank held £2,736.7 million of balance sheet assets for liquidity purposes, in the form of central bank deposits (note 12) and investment securities (note 13). A further £150.0 million of liquidity was provided by an off balance sheet swap arrangement (note 26), bringing the total to £2,886.6 million.

The 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 ILAAP. 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 drawings of £4,168.3 million. 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 Bank had £1,614.2 million of such notes available for use, of which £1,353.2 million were rated AAA. The available AAA notes would give access to £1,055.5 million if used to support drawings on Bank of England facilities.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

48. GOING CONCERN (CONTINUED)

During the year, the Bank 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 Bank's cash analysis, continues to show a strong cash position, even after allowing scope for significant discretionary payments.

As described in note 38 the Bank'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.

In order to assess the appropriateness of the going concern basis the directors considered the Bank's financial position, the cash flow requirements laid out in its 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 contingent liabilities described in note 28 were considered.

After performing this assessment, the directors concluded that there was no material uncertainty as to whether the Bank 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 Bank.

49. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank'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 Bank had no financial assets or liabilities in the year ended 30 September 2025 or the year ended 30 September 2024 carried at fair value and valued using level 3 measurements.

The Bank has not reclassified any of its measurements during the year.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

49. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

The methods by which fair value is established for each class of financial assets and liabilities are set out below.

a) Assets and liabilities carried at fair value

The following table summarised the Bank's financial assets and liabilities which are carried at fair value.

	Note	2025 £m	2024 £m
Financial assets			
Derivative financial assets	19	241.1	319.1
		241.1	319.1
Financial liabilities			
Derivative financial liabilities	19	65.3	98.9
		65.3	98.9

All of 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 Bank 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 risk adjusted interest rate.

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 are given in note 19.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

49. 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	2025 Fair value	2024 Carrying amount (restated*)	2024 Fair value (restated*)
		£m	£m	£m	£m
Financial assets					
Cash	12	2,231.9	2,231.9	2,378.4	2,378.4
Investment securities	13	626.2	611.6	427.4	422.0
Loans to customers	14	12,439.5	12,461.1	11,714.7	11,775.6
Investment in structured entities	18	1,959.3	1,959.3	2,154.9	2,154.9
Loans to group companies	20	91.3	91.3	71.6	71.6
Sundry financial assets	20	24.1	24.1	24.8	24.8
		17,372.3	17,379.3	16,771.8	16,827.3
Financial liabilities					
Retail deposits	22	16,265.7	16,260.0	16,298.0	16,334.2
Amounts owed to group companies	27	400.4	400.4	452.6	452.6
Covered bond	23	499.2	501.3	-	-
Sale and repurchase agreements	25	100.0	100.0	100.0	100.0
Other financial liabilities	27	371.0	371.0	332.8	332.8
		17,636.3	17,632.7	17,183.4	17,219.6

* Restated – note 44

The fair values of retail deposits shown above will include amounts for the related accrued interest.

b) Assets and liabilities carried at amortised cost (continued)

Cash, sale and repurchase agreements and investment in structured entities

The fair values of cash and cash equivalents, sale and repurchase agreements and investments in structured entities 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 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.

While the Group's asset backed loan notes are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it.

As these valuation exercises are not wholly market based, they are considered to be level 2 measurements.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

49. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

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.

Loans to customers

To assess the likely fair value of the Bank's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Bank'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 Bank's covered bond is 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 Bank'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 other financial 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.

50. ULTIMATE PARENT COMPANY

The smallest and largest group into which the Bank is consolidated, and the Bank's immediate and ultimate parent company and ultimate controlling party is Paragon Banking Group PLC, a company registered in England and Wales.

Copies of the consolidated financial statements of Paragon Banking Group PLC are available from that company's registered office at 51 Homer Road, Solihull, West Midlands, B91 3QJ.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

51. DETAILS OF SUBSIDIARY UNDERTAKINGS UPDATE NOTE

Subsidiary undertakings of the Bank at 30 September 2025, where the share capital is held directly by the Bank or by its subsidiaries are shown below:

Company	Holding	Principal Activity
Direct subsidiaries of Paragon Bank PLC		
Paragon Finance Plc	100%	Residential mortgage and asset administrator
Mortgage Trust Limited	100%	Residential mortgages
Paragon Mortgages (2010) Limited	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Paragon Asset Finance Limited	100%	Holding company and portfolio administration
Paragon Development Finance Limited	100%	Development Finance
PBAF Acquisitions Limited	100%	Residential mortgages and asset investment
Direct and indirect subsidiaries of Paragon Asset Finance Limited		
Paragon Commercial Finance Limited	100%	Asset finance
Paragon Business Finance PLC	100%	Asset finance
Paragon Technology Finance Limited	100%	Asset finance
Premier Asset Finance Limited	100%	Asset finance broker
Specialist Fleet Services Limited	100%	Asset finance and contract hire
Collett Transport Services Limited	100%	Non-trading
Homer Management Limited	100%	Non-trading
Lease Portfolio Management Limited	100%	Non-trading
Direct subsidiaries of Paragon Mortgages Limited		
Paragon Options PLC	100%	Non-trading
Direct subsidiaries of Mortgage Trust Limited		
Mortgage Trust Services PLC	100%	Residential mortgages and asset administration
Direct subsidiaries of Paragon Development Finance Limited		
Paragon Development Finance Services Limited	100%	Portfolio administration

Paragon Covered Bonds LLP is a limited liability partnership registered in England and Wales, in which the Bank is a member and where the Bank is entitled to the majority of the risks and rewards of ownership. It is therefore considered to be a subsidiary of the Bank. This entity operates in the UK.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
For the year ended 30 September 2025

51. DETAILS OF SUBSIDIARY UNDERTAKINGS (CONTINUED)

Companies in liquidation

The following legal indirect subsidiaries of the Bank were in liquidation at 30 September 2025.

Company	Holding	Principal activity
Direct and Indirect subsidiaries of Paragon Bank PLC		
Paragon Second Funding Limited	100%	Non-trading

The financial year end of all of the Bank's subsidiary companies is 30 September. They are all registered in England and Wales and they all operate in the UK.

The registered office of each of the entities listed in this note is the same as that of the Bank (note 1).

The Bank has no interest in the shares of its indirect subsidiaries.

E. Useful Information

Information which may be helpful to shareholders and other users of the Annual Report and Accounts

This section includes

E1 GLOSSARY

ACS	Annual Cyclical Scenario published by the Bank of England
AI	Artificial Intelligence
ALCO	Asset and Liability Committee
BBR	Bank Base Rate
BCBS	Basel Committee on Banking Supervision
BEVs	Battery-powered Electric Vehicles
BGS	Balance Guarantee Swaps
B4NZ	Bankers For Net Zero
CCC	Customer and Conduct Committee
CCoB	Capital Conservation Buffers
CCyB	Counter-Cyclical Buffers
CEO	Chief Executive Officer
CET1	Core Equity Tier 1
CFO	Chief Financial Officer
CPI	Consumer Price Index
CRDs	Cash Ratio Deposits
CRR	Capital Requirements Regulation – EU Regulation 575/2013
CSA	Credit Support Annex
ECL	Expected Credit Loss
EDI	Equality, diversity and inclusion
EIR	Effective Interest Rate
EPC	Energy Performance Certificate
ERC	Estimated Remaining Collections
EU	European Union
ExCo	Executive Committee
FCA	Financial Conduct Authority
FLA	Finance and Leasing Association
FOS	Financial Ombudsman Service
FPC	Financial Policy Committee (of the Bank of England)
FRC	Financial Reporting Council
FRN	Floating Rate Note
FSCS	Financial Services Compensation Scheme
FVTPL	Fair Value Through Profit and Loss
GDP	Gross Domestic Product
GHG	Greenhouse Gases

E1 GLOSSARY (Continued)

Gilts	UK Government securities
HMRC	His Majesty's Revenue and Customs
HPI	House Price Index
IAS	International Accounting Standard(s)
IASB	International Accounting Standard(s) Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard(s)
IIP	Investors In People
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
ILTR	Indexed Long Term Repo Scheme
IRB	Internal Ratings Based
IRRBB	Interest Rate Risk in the Banking Book
ISA	Individual Savings Account
KPMG	KPMG LLP, the Bank's auditor
LCR	Liquidity Coverage Ratio
LCV	Light Commercial Vehicles
LGD	Loss Given Default
LTV	Loan to Value
MRC	Model Risk Committee
MRT	Material Risk Taker
NIM	Net Interest Margin
NPS	Net Promoter Score
NSFR	Net Stable Funding Ratio
OBR	Office of Budget Responsibility
OLAR	Overall Liquidity Adequacy Requirement
ORC	Operational Risk Committee
PBG	Paragon Banking Group PLC
PD	Probability of Default
PLC	Public Limited Company
PM26	Paragon Mortgages (No.26) PLC
PM27	Paragon Mortgages (No.27) PLC
PM28	Paragon Mortgages (No.28) PLC
PM29	Paragon Mortgages (No 29) PLC
POCI	Purchased or Originated Credit Impaired (assets)

E1 GLOSSARY (Continued)

PRA	Prudential Regulatory Authority
PSP	Performance Share Plan
RMBS	Residential Mortgage Backed Securities
RoR	Receiver of Rent
RWA	Risk Weighted Assets
SA-CCR	Standardised Approach for Counterparty Credit Risk
Schedule 7	Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008
SDDT	Small Domestic Deposit Taker
SICR	Significant Increase in Credit Risk
SMCR	Senior Managers and Certification Regime
SME	Small and / or Medium-sized Enterprise(s)
SONIA	Sterling Overnight Interbank Average Rate
SPPI	Solely Payments of Principal and Interest
SPV	Special Purpose Vehicle company
STR	Short-Term Repo (scheme)
TCR	Total Capital Requirement
TFSME	Term Funding Scheme for SMEs
The Code	UK Corporate Governance Code (2018 version)
The Bank	Paragon Bank PLC
The Group	PBG and all of its subsidiary and parent undertakings
TRC	Total Regulatory Capital
TRE	Total Risk Exposure
UK	United Kingdom
UKF	UK Finance

Registered and head office

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(2025)	(2026)
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