PARAGON BANKING GROUP PLC

Half Year Financial Report

For the six months ended 31 March 2025

Strong first half performance and delivery of key digital initiatives

Paragon Banking Group PLC ('We', 'Paragon' or the 'Group'), the specialist banking group, today announces its half-year results for the six months ended 31 March 2025.

Nigel Terrington, Chief Executive of Paragon said:

"We delivered another strong financial and operational performance in the first half of 2025, reflecting our disciplined approach and consistent track record of execution. Underlying EPS increased 9.6%, supported by strong loan growth and a 25.1% increase in new mortgage lending. Our digital technology programme is enhancing customer experience and productivity, and helping drive down our market-leading cost:income ratio even further. Our robust capital position has enabled us to increase our share buy-back programme to up to £100.0 million for the full year.

This period also saw major milestones in our digital transformation. We completed the roll-out of our market-leading buy-to-let lending platform and April saw the public launch of Spring, an innovative savings app, helping UK consumers use Open Banking to link directly to their current accounts and earn more on their money. These developments represent significant steps forward as we continue to diversify our offering and expand our digital reach.

With strong momentum and a resilient business model, we are well placed to navigate the evolving external environment and remain optimistic about the remainder of the financial year and beyond."

Financial highlights:

- Underlying profit increased 2.1% to £149.4 million (2024 H1: £146.3 million)*
- Statutory profit before tax up 26.7% at £140.1 million (2024 H1: £110.6 million)
- Half-year NIM of 3.13% (2024 H1: 3.19%; 2024 H2: 3.14%)
- Cost:income ratio further reduced to 35.2% (2024 H1: 36.5%)
- Motor commission provision of £6.5 million made, excluded from underlying results
- Underlying EPS increased 9.6% to 54.7 pence (2024 H1: 49.9 pence)*, while statutory EPS rose 30.5% to 50.1 pence (2024 H1: 38.4 pence)
- Capital base remains strong – CET1 ratio of 14.2% (30 September 2024: 14.2%; 31 March 2024: 14.7%)
- Underlying RoTE 17.8% (2024 H1: 17.4%)*

- Interim dividend up 3.0% at 13.6 pence (2024 H1: 13.2 pence), in line with policy
- Share buy-back programme extended by £50.0 million. Now up to £100.0 million for the financial year
- Accelerated repayment of £0.5 billion of TFSME funding, reduced drawings to £0.25 billion (30 September 2024: £0.75 billion)

** For underlying basis, see Appendix A*

Operational highlights:

- Digital delivery continues apace with limited capitalisation of expenditure (Only £8.8 million of software assets carried)
    - New app-based digital savings brand “Spring” successfully launched following period end
    - New digital buy-to-let origination system rolled out to full introducer network
- Net loan book grew 4.9%, year-on-year in line with long-term average; 2025 new business guidance maintained
- New Mortgage Lending up 25.1% at £0.81 billion (2024 H1: £0.65 billion)
- Buy-to-let pipeline stood at £0.66 billion (31 March 2024: £0.87 billion; 30 September 2024: £0.88 billion). New origination system provides enhanced filtering on entry, so pipeline comparisons not like-for-like
- New Commercial Lending down 3.7% to £0.57 billion (2024 H1: £0.59 billion), with growth in SME lending and development finance offset by net repayments in structured lending reflecting timing differences on the utilisation of new facilities
- Development finance pipeline ended the period 20.7% higher, year-on-year, at £0.81 billion (2024 H1: £0.67 billion)
- Continued strong customer retention, with annualised buy-to-let redemptions at 7.1% (2024 H1: 6.0%)
- Impairment charge increased by £5.0 million to an annualised rate of 19 basis points (2024 H1: 14 basis points) with charges focused on our development finance portfolio
- Deposit balances managed lower in the period to £15.8 billion but remained 6.8% higher year-on-year (31 March 2024: £14.8 billion)
- Inaugural £500.0 million, AAA-rated, Covered Bond issued, significantly oversubscribed
- Engagement continues with the PRA over our IRB accreditation. Group accepted into the Interim Capital Regime

Guidance summary:

2025 FY metric	Original guidance	Updated guidance
Mortgage Lending advances	£1.6 billion – £1.8 billion	Unchanged
Commercial Lending advances	£1.2 billion – £1.4 billion	Unchanged
NIM	Circa 3.0%	Over 3.0%
Operating expenses	Circa £185 million	Below £185 million
RoTE	15% – 20%	Unchanged
Share buy-backs	Up to £50 million	Up to £100 million

For further information, please contact:

Paragon Banking Group PLC
Nigel Terrington, Chief Executive
Richard Woodman, Chief Financial Officer
Tel: 0121 712 2505

Headland Consultancy
Lucy Legh / Charlie Twigg
Email: paragon@headlandconsultancy.com
Tel: 020 3805 4822

We will be holding a results presentation on Wednesday 4 June 2025 at 9:30am at UBS, 5 Broadgate, London EC2M 2QS.

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

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

Cautionary statement

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

Interim Management Report

1 OVERVIEW

Continued application of our disciplined corporate strategy resulted in underlying profit before tax rising 2.1% from its 2024 H1 level, with the loan book growing by 4.9% year-on-year.

Net interest margin ('NIM') was 313 basis points in H1, down just 1 basis point from 2024 H2 and above the 'around 300 basis points' guided to for the full year. Margins are expected to tighten a little in H2, but less than originally anticipated, therefore our NIM guidance for the full year is upgraded to 'over 300 basis points'.

Strong margins, tight cost control and an increased loan book were the main drivers of underlying profit growth and, when combined with the favourable effects of our share buy-back programme, generated a 9.6% increase in underlying basic earnings per share ('EPS') from its 2024 H1 level to 54.7 pence per share for the period (Appendix A).

Underlying return on tangible equity ('RoTE') rose to 17.8% in the first half (2024 H1: 17.4%).

Significant progress has been made with our digitalisation programme in the financial year so far. The roll-out of our new proprietary buy-to-let introducer system to all our brokers was completed in March, while Spring, our first digital savings app, was made ready for its launch after the period end.

Spring, launched on 30 April 2025, is our new digital brand and banking operation, complementing our Paragon-branded deposit gathering capabilities. Operating as a separate brand, but fully integrated into Paragon Bank, Spring uses advanced digital components and open banking interfaces to interact with a customer's current account as seamlessly as possible. Spring can therefore provide customers with access to higher savings rates than those typically available from their high street bank, without the need to disrupt their wider banking arrangements.

Strategically, Spring diversifies our access to the retail savings market and, importantly, introduces new technologies that can be leveraged across our businesses, providing future digitalisation development opportunities. Developed internally, with the help of strategic partners, the majority of Spring's build costs have been expensed, with the total amount of software carried on the balance sheet in intangible assets across all our businesses only £8.8 million.

Lending activity

New buy-to-let mortgage advances, at £812.2 million, were 25.1% higher than those reported in the first half of 2024 (2024 H1: £649.3 million). Together with strong customer retention, these new advances led to the net loan book in the Mortgage Lending division growing by 4.5%, year-on-year, to £13.7 billion at 31 March 2025 (31 March 2024: £13.1 billion).

The new front-end mortgage system has enabled us to provide quicker responses to intermediaries and customers, as well as improving operational efficiency. As a result we have been able to decline inappropriate cases earlier in the process, reducing the size of the new lending pipeline at any given time. This means that the reported pipeline under the new system is not comparable with data published historically as an indicator of future business levels. The buy-to-let pipeline at 31 March 2025 stood at £662.2 million.

1 OVERVIEW

Commercial Lending new business volumes reduced slightly from their 2024 level to £568.0 million (2024 H1: £589.8 million) with growth in SME and development finance offset by lower flows in the structured lending operation. The overall Commercial Lending book grew by 7.3% year-on-year, to £2.3 billion (31 March 2024: £2.2 billion), with increased balances across all principal business lines.

Guidance for the full year's new lending in both divisions is unchanged.

Credit and costs

The elevated level of UK interest rates in recent periods has resulted in certain of our customers continuing to experience higher rates than they anticipated when they originally applied for their loan and consequently, in some cases, coming under affordability pressures.

Buy-to-let arrears levels increased from 38 basis points at 30 September 2024 to 51 basis points, but were lower, year-on-year (31 March 2024: 68 basis points), remaining well below market average levels. The impairment charge in our Mortgage Lending business also fell in 2025 H1, to £5.1 million (2024 H1: £8.7 million).

Impairments in the Commercial Lending book continue to be impacted by the cohort of development finance loans agreed prior to the escalation of costs and interest rates in 2022, as these cases continue to move through the processes of collection and enforcement. Although elevated compared to 2024 H1, the £10.2 million charge in the period was lower than the £17.3 million seen in 2024 H2 (2024 H1: £1.6 million). However, the proportion of the development finance portfolio represented by this cohort declined substantially in the period and credit performance elsewhere in the division held up strongly.

The general outlook for loan impairment remains little changed from that at September 2024 and weightings applied to the economic scenarios used in our impairment provisioning have been maintained, recognising the potential headwinds which might impact the UK economy. The level of judgmental adjustments has reduced to £5.0 million (2024 H1: £6.5 million), largely as a result of the seasoning of the cohort of development finance loans described above. The overall impairment coverage ratio, at 47 basis points, remains similar to that reported at the previous year end (30 September 2024: 48 basis points).

Operating expenses fell by 0.8% from their 2024 H1 level to £89.3 million, despite the continued inflationary environment and the continuing investment in our digitalisation programme. As a result, the cost:income ratio reduced to 35.2% from the 36.5% reported for 2024 H1. Our underlying cost guidance for the full financial year has been slightly adjusted from "around £185.0 million" to "below £185.0 million" reflecting the tight control evidenced in the year to date.

The legal and regulatory position on potential liabilities in respect of historical motor finance commission payments remains uncertain, pending the decisions by the Supreme Court on commission disclosure (expected later this year), other cases in progress and the ongoing FCA review of historical discretionary commission arrangements ('DCA's). Comments from the FCA and a focus on operational readiness in its industry interactions suggest that a market-wide redress scheme in this area is more likely than not.

Interim Management Report (Continued)

1 OVERVIEW

While motor finance is a small part of our business, we have made a £6.5 million provision for potential redress costs arising from these processes in the accounts for the half year. This is based on scenario modelling, with little specific guidance to rely on, and therefore any final redress liability may be higher or lower than this level. This provision charge has been excluded from underlying performance metrics.

Operations

The launch of Spring and the roll-out of our new mortgage system constitute major step-changes in our ability to serve customers and support our business partners. They would not have been possible without the efforts of our people in determining system requirements, supporting system testing, providing feedback, specifying procedures and providing and undergoing training as new functionality has been made available. We are pleased with the way employees rose to these challenges and congratulate them on their efforts.

These changes in the business coincided with our triennial assessment under the Investors in People programme, which provides an external evaluation of our performance as an employer. 71% of employees were involved in this process, and we were pleased to have our platinum employer status affirmed, the highest possible grading. The assessors noted particularly our strong corporate culture, and the way it was shaped by our values.

Capital and distributions

The impacts of balance sheet growth and strong distributions in the period counterbalanced the effect of capital generation over the six months, leaving our CET1 ratio at 31 March 2025 at 14.2% (30 September 2024: 14.2%; 31 March 2024: 14.7%). The total capital ratio at 31 March 2025 stood at 16.0% (30 September 2024: 16.0%; 31 March 2024: 16.6%).

In March 2025 we launched our first Covered Bond, raising £500.0 million. The programme under which the bond was issued allows for future issuance, as required, on a timely and cost-efficient basis, adding significantly to our range of funding options. Further repayments of TFSME were made in the period, with the remaining balance of £250.0 million being due for repayment in October 2025, although more extensive use was made of Bank of England repo facilities.

An interim dividend for 2025 of 13.6 pence per share has been declared, representing half of the 2024 final dividend per share, in line with policy.

Having completed the £50.0 million share buy-back announced in December 2024, the Board has announced a further buy-back of up to £50.0 million to take place in the second half of the financial year.

Interim Management Report (Continued)

1 OVERVIEW

Conclusion

Our disciplined approach to margins and operating costs continues to deliver benefits, growing our balance sheet, earnings and returns. The delivery of the Spring savings platform and the new front-end mortgage system mark key milestones in our multi-year digitalisation strategy, supporting the developing needs of our customers and business introducers, at the same time as strengthening our financial delivery and operational resilience.

With a CET1 ratio of 14.2%, our capital position supports further growth and the £50 million extension to the 2025 share buy-back programme will enhance earnings and returns, as our disciplined approach releases capital surpluses to our shareholders. The underlying strength in our businesses, together with our continuing focus on customer experience, mean that we can look forward to the rest of the financial year, and our longer-term prospects, with optimism.

Interim Management Report (Continued)

2 BUSINESS REVIEW

We report our results analysed between two principal segments, Mortgage Lending and Commercial Lending, based on customer type, products and our internal management structure. These segments are the same as those reported on at the previous year end. New business advances in the period, and period end loan balances for those segments are summarised below:

	Advances in the period			Loans to customers at the period end		
	Six months ended 31 March 2025	Six months ended 31 March 2024	Year ended 30 September 2024	Six months ended 31 March 2025	Six months ended 31 March 2024	Year ended 30 September 2024
	£m	£m	£m	£m	£m	£m
Mortgage Lending	812.2	649.3	1,493.2	13,681.9	13,094.7	13,415.7
Commercial Lending	568.0	589.8	1,236.8	2,310.6	2,154.3	2,289.8
	1,380.2	1,239.1	2,730.0	15,992.5	15,249.0	15,705.5

Our loan book increased by 1.8% in the six-month period, despite a generally pessimistic economic outlook for the UK in the period, while the year-on-year growth was 4.9%. Total new loans advanced increased by 11.4%, with customer retention remaining strong across our portfolios.

2.1 MORTGAGE LENDING

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

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

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

Interim Management Report (Continued)

2 BUSINESS REVIEW

Housing and mortgage market

While the UK economic outlook in the period was mixed, with interest rates falling only slowly and wage increases not yet eradicating the inflationary impacts of recent years, a level of stability returned to the UK housing market. According to HMRC, the number of transactions over the six months ended 31 March 2025 was 655,000, representing a return to transaction levels which had been normal in the pre-Covid period, although some of this volume may be a response to stamp duty changes which took effect in April 2025. This growth represents an increase of 33.5% in the number of transactions compared to the same period twelve months earlier and of 17.3% compared to the second half of our last financial year (2024 H1: 491,000; 2024 H2: 559,000).

Despite predictions to the contrary, UK house prices remained resilient in the period, with the Nationwide House Price Index ending the six months up 2.0% over the period, and up 3.9% year-on-year, with Nationwide suggesting evidence of a gradual recovery in the market, at least in the medium term, potentially following some short-term softening. This sentiment was echoed by RICS in its March 2025 UK Residential Market Survey, where it predicts an improving market for house sales in the longer term, but a potential period of stagnation or lower prices in the short term, in what RICS refers to as its least optimistic survey in 16 months.

UK house prices have now been on a clear but gradual upward trajectory for the eighteen months ended in March 2025, and closed the period only 0.9% below their August 2022 peak. A higher average house price has been recorded at only three previous month ends, meaning that the number of mortgage loans where the security value is less now than it was at the point of advance should be relatively low.

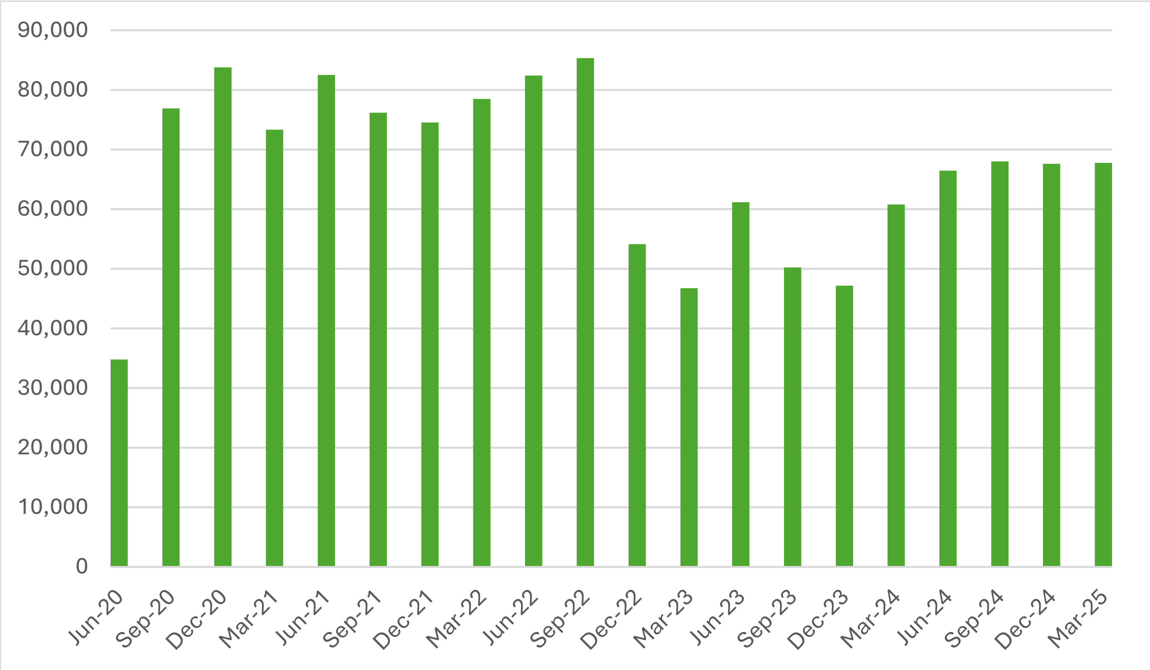
UK mortgage approvals reported by the Bank of England remain significantly lower than the immediate post-Covid period, but have been reasonably stable over the last twelve months. The £135.4 billion of new mortgages which were approved in the six-month period represented an increase of 25.4% from the £107.9 billion recorded a year earlier, mirroring the increase in activity levels. It was, however, broadly similar to the £134.5 billion recorded in the six months ended 30 September 2024. The proportion of the total represented by remortgages, at 31% remained broadly similar to the comparable period last year, although this was a higher level than seen in the second half of that financial year. The number of mortgages refinanced with their original lender declined by 2.9% compared to six months earlier, as borrowers anticipated more favourable interest rates becoming available if they delayed refinancing.

2 BUSINESS REVIEW

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

Quarterly mortgage approvals (£m)

Five years ended 31 March 2025



Credit performance metrics in the sector as a whole continued to be mixed. The UK Finance ('UKF') Arrears and Possessions Report for the quarter ended March 2025 showed arrears moving marginally downwards, with the number of arrears cases reducing by around 3.7% over the six months since September 2024, although the most serious arrears band did see a 1.5% increase in cases. Mortgage possessions in the period were trending higher than those seen in the September quarter, with the March 2025 quarter recording the highest levels seen since 2019.

The Private Rented Sector ('PRS') and the buy-to-let mortgage market

Our target customers in the buy-to-let sector are specialist landlords active in the PRS. Such landlords will typically let out four or more properties, or operate with more complex property types. Most own their properties through limited company structures and run their portfolio as a business. They will have both a strong understanding of their local lettings market and a high level of personal day-to-day involvement. We are amongst a number of mostly small, specialist lenders addressing this part of the PRS, which has been underserved by many of the larger banks over some years.

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

2 BUSINESS REVIEW

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

The development of the regulatory and statutory landscape for the PRS has been dominated for some time by the Renters' Rights Bill, introduced by the present UK Government in place of the Renters (Reform) Bill proposed by the previous administration, which failed to become law before the dissolution of Parliament in May 2024.

The new bill is largely based on the original proposals, on which a significant amount of work had already been done by organisations representing lenders, tenants and landlords since the publication of the original White Paper in 2022. The Bill is currently before the House of Lords, and we hope that care will be taken, as it completes its final parliamentary stages, to ensure the measures in the final Act are practical and fully resourced, and that they balance the needs of both tenants and landlords, recognising the important role which responsible landlords play in satisfying the UK's housing needs, and in the economy more generally. We believe, if properly implemented, the new legislation is unlikely to have a significant impact on our business model.

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

The 2023-2024 English Housing Survey, published by the Department for Levelling Up, Housing and Communities in November 2024, shows that the PRS continues to represent around 19% of English households, as it has consistently done for some time.

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

The residential rental market in the UK remains strong, with the March 2025 RICS UK Residential Market Survey reporting strengthening tenant demand, after seeing demand soften for most of the period. However, upward pressure on rents remained. Supply remains restricted, with RICS members anticipating fewer new instructions from landlords, which is likely to maintain rental growth.

In its most recent data, published in March 2025, Zoopla reported a slowing of the rate of increase of rents on new lets to 3.0% in the year to December 2024, and although it noted that this was the lowest growth rate reported for three and a half years, and commented that there were still, on average twelve potential renters chasing each new rental property, maintaining upward pressure on rental yields. This is supported by research from Propertymark in its March 2025 Housing Insight Report, which reported tenant demand increasing in 2025 and average rents up 8.7% year-on-year. Propertymark also reported that the number of available rental properties and the level of rental arrears had been relatively stable over the six months.

2 BUSINESS REVIEW

Activity in the buy-to-let mortgage market in the period was significantly more positive than the trend of the general mortgage market. New advances reported by UKF were £20.2 billion for the six months ended 31 March 2025, 47.0% higher than for the same period the previous year (2024 H1: £13.8 billion) and 15.5% higher than in the second half of the 2024 financial year. Activity in both the new house purchase market and the remortgage market increased by similarly large amounts, although the growth in purchases was the greater.

The proportion of borrowers transferring to new products offered by their existing lender, which are not recorded as new cases in the data, continued to represent the most substantial share of refinancings, with around 63% of landlords adopting this form of refinancing in the period, a decrease from around 72% a year earlier, with the absolute number of refinancings remaining stable over the period.

In research carried out amongst landlords in the PRS for the second quarter of the financial year, around 70% of respondents reported strong or very strong tenant demand, although this had declined year-on-year. The proportion of landlords reporting that their business was profitable in the long term has remained remarkably stable, despite economic headwinds, over the last five years, with the vast majority (around 70%) reporting rent increases in the last twelve months, and the number expecting to raise rents in the next year only slightly smaller than this. Rental arrears and average yields were also reported as remaining broadly stable. Despite this, landlords' confidence levels for their own businesses had declined in the period, and an increased level of pessimism for the PRS, and particularly for the future of the UK economy overall were reported.

The March 2025 UKF Arrears and Possession data also reported an improvement in arrears in the buy-to-let market, somewhat stronger than that seen in the wider mortgage market, with the number of cases in arrears by over 2.5% of their balance falling by 9% in the six months to March 2025. However, the population of more serious cases had continued to increase since September 2024, growing by around 17%. The number of buy-to-let possessions increased significantly from the level seen in the September 2024 quarter, reaching the highest quarterly level in ten years. Overall these results suggest that while some landlords are working their way through recent issues, the position for a limited number is worsening.

While the overall picture from this data remains mixed, it would seem to indicate a basic level of underlying strength in the PRS, despite ongoing economic uncertainties. This should support both cash flows and affordability for landlord customers, particularly those on fixed rate loans who have the ability to manage their assets over time to mitigate potential payment shocks.

2 BUSINESS REVIEW

Mortgage Lending activity

The total amounts of the division's lending in the six-month period are set out below. Almost all mortgage lending in the period was to the specialist landlord customers who form our core target market.

	Six months ended 31 March 2025	Six months ended 31 March 2024	Year ended 30 September 2024
	£m	£m	£m
Specialist buy-to-let	800.9	643.4	1,477.9
Non-specialist buy-to-let	11.3	5.9	15.3
Total buy-to-let	812.2	649.3	1,493.2

Lending in the segment grew by 25.1%, year-on-year, driven by the economic conditions in the period and the level of the opening new business pipeline (the amount of loans passing through the underwriting process), which was 48.2% higher than a year earlier. While the pipeline at 31 March 2025 was £662.2 million, less than the amount reported in previous periods, part of this reduction was 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 (30 September 2024: £881.4 million; 31 March 2024: £874.0 million).

We have well-established, digitally-enabled retention procedures in place to support customers as their fixed rates expire. Track-to-fixed products remain available as an alternative to fixed-rate loans, allowing customers to delay fixing their interest rates, where appropriate, and our fixed rate product range remains competitive for both existing and new customers. Over 80% of the specialist landlord customers whose products matured in the past year remained with us at the period end.

Specialist intermediaries are the principal source of buy-to-let applications, and the Mortgage Lending business continues its strategic focus on ensuring that the service offered to them is excellent. Our regular intermediary insight surveys in the period showed 93% were satisfied with the ease of obtaining a response (2024 FY: 95%; 2024 H1: 97%), delivering a net promoter score ('NPS') at offer stage of +54 (2024 FY: +55; 2024 H1: +61). The benefits of the new origination platform are expected to be felt across the whole intermediary population during the second half of the financial year.

71% of intermediaries dealing with us rated our service 'as good as' or 'better than' that provided by other lenders (2024 FY: 78%; 2024 H1: 84%). Paragon Mortgages was also named 'Buy-to-Let Lender of the Year' at the Mortgage Introducer Awards 2024.

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

2 BUSINESS REVIEW

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

The new platform has been extremely well received so far, both externally and internally, with a 50% reduction in the time from application to offer being particularly appealing to intermediaries. Alongside the system roll-out, the feedback received from the initial cohorts of brokers to use the platform has been used to refine the system over the last six months. Now availability has been extended to all our mortgage brokers, the greater efficiency of the system gives us the capacity to expand our network of relationships, expanding our presence amongst mortgage clubs and broker networks, and giving access to more opportunities in the future. We have also enhanced our processes for customers wishing to take out a further advance.

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

Overall, despite competitive pressures in the market, our buy-to-let franchise remains strong, with the new origination system delivering a step-change in its capabilities, providing a more effective and responsive service to landlords and brokers. While the PRS is currently subject to regulatory headwinds, there have rarely been times when this has not been so, and it remains fundamental to meeting the nation’s housing needs. This means that the viability of our landlord customers’ operations will continue, and their ongoing requirement for finance to support housing needs will underpin our business going forward.

2 BUSINESS REVIEW

Environmental impacts

We understand the potential for climate change to impact our mortgage lending business and seek to mitigate that risk, both through the application of scenario analysis to the development of our underwriting procedures and criteria, and through the careful consideration of the specific risks relating to the properties which we are offered as security. We also continue to develop systems and refine data to allow our overall position to be measured and the behaviour of the security portfolio under climate-related stresses to be better understood.

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

We have followed the consultation on the proposed MEES amendments carefully. While we appreciate the objectives of the proposals, we agree with the National Rental Landlords Association and many other industry groups that the 2028 and 2030 target dates are impractical, and the scope of properties covered needs more detailed consideration. We await developments with interest.

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

Our new buy-to-let lending volumes on energy-efficient properties, which have increased by 12.0% year-on-year, and represent around half of all mortgage lending, are set out below.

	2025 H1	2024 H1	2024 FY
	£m	£m	£m
New lending on properties with:			
EPC rated A or B	89.5	91.9	189.1
EPC rated C	315.1	269.3	606.2
Total rated A to C	404.6	361.2	795.3
Percentage of total lending rated A to C	**49.9%**	**55.8%**	**53.3%**
Percentage with available data	*99.8%*	*99.8%*	*99.8%*

Interim Management Report (Continued)

2 BUSINESS REVIEW

Our latest analysis identified EPC grades for 95.7% by value of our mortgage book at 31 March 2025 (30 September 2024: 95.4%; 31 March 2024: 94.9%). Of these 99.3% were graded E or higher (30 September 2024: 99.4%; 31 March 2024: 99.3%) with 46.0% rated A, B or C (30 September 2024: 45.4%; 31 March 2024: 42.8%). The year-on-year movements principally result from the balance of new business, with around half of the advances in the current period continuing to be graded C or better.

While we monitor EPC ratings as a key metric for downstream climate impacts, we are also conscious of the need to avoid unintended consequences by focussing lending solely on this. Although upgrading existing properties is beneficial to overall emissions, the demolition and replacement of properties may be less so.

Potential physical risks to security values arising from climate change are also monitored. This includes assessing a property's flood risk as part of the underwriting process. In addition, the exposure relating to the current mortgage book is monitored using specialist bureau data. This addresses the risk of flooding from rivers, seas or surface water. The latest data, at 31 March 2025, showed that approximately 3.0% of properties securing buy-to-let mortgages, where data was available, were at 'higher' risk (30 September 2024: 3.1%; 31 March 2024: 3.0%).

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

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

2 BUSINESS REVIEW

Performance

The outstanding first and second charge mortgage balances in the segment at 31 March 2025 are set out below, analysed by business line.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Post-2010 assets			
First charge buy-to-let	11,083.8	10,078.8	10,620.9
First charge owner-occupied	15.1	19.1	16.2
Second charge	47.9	66.2	56.7
	11,146.8	10,164.1	10,693.8
Legacy and acquired assets			
First charge buy-to-let	2,481.1	2,857.8	2,658.4
First charge owner-occupied	3.2	4.5	4.1
Second charge	50.8	68.3	59.4
	13,681.9	13,094.7	13,415.7

Balances within the mortgage portfolio have continued to increase, reflecting new business levels in the period coupled with the success of the business in retaining existing customers. At 31 March 2025, loan balances in the division were 4.5% higher than a year earlier.

Buy-to-let loans represent the overwhelming majority of this balance, and the proportion of our mortgage book representing post-2010 originated assets surpassed 80% for the first time, with such assets representing 81.5% of the total at the end of the period (30 September 2024: 79.2%; 31 March 2024: 77.6%).

The annualised redemption rate on buy-to-let mortgage assets in the six months to 31 March 2025, at 7.1%, remained at a relatively low level (2024 H1: 6.0%; 2024 FY: 6.7%). This low rate reflects the business's 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 higher rates on customers whose interest charges are linked to reference rates, and the increasing numbers of customers now reaching the end of their fixed-rate periods.

Arrears in the buy-to-let mortgage portfolio increased in the period in response to the economic environment. However, at 0.51% of the loan book at 31 March 2025, they remain modest in absolute terms, and less than the figure recorded a year earlier (30 September 2024: 0.38%; 31 March 2024: 0.68%). Arrears on post-2010 lending were even lower, at 0.15% (30 September 2024: 0.11%; 31 March 2024: 0.09%). Our buy-to-let arrears remain very low compared to the performance of the buy-to-let market overall. UKF reported arrears of 0.85% for the buy-to-let sector at 31 March 2025 (30 September 2024: 0.86%; 31 March 2024: 0.84%), broadly stable across the period and still significantly less than for the mortgage market in general.

Interim Management Report (Continued)

2 BUSINESS REVIEW

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

The loan-to-value coverage in the buy-to-let book, at 62.8%, is unchanged from that seen at the previous year end, with the impact of the upward trend of house prices in the period on the opening loan book offsetting the impact of new lending (30 September 2024: 62.8%; 31 March 2024: 63.5%). This provides significant security, while levels of interest cover and affordability also remain good, even on a stressed basis, leaving customers well placed to develop their businesses going forward. On a simple weighted average basis, our landlord customers now have around £9.6 billion of equity in their mortgaged properties.

For accounting purposes, 5.7% of the segment's gross balances were considered as having a significant increase in credit risk ('SICR') at the period end (30 September 2024: 5.8%; 31 March 2024: 7.7%), including 1.3% which were credit impaired (30 September 2024: 1.4%; 31 March 2024: 1.6%). This position is broadly similar to that reported at the previous year end, as might be expected from the reasonably settled, if not positive, economic situation over the period.

Provision coverage also remained relatively stable, at 27 basis points for the portfolio as a whole (30 September 2024: 26 basis points; 31 March 2024: 35 basis points), and 3 basis points on fully performing accounts (30 September 2024: 3 basis points; 31 March 2024: 4 basis points).

Our receiver of rent process for buy-to-let assets helps to reduce the level of loss by giving us direct access to rental flows from the underlying properties, while allowing tenants to stay in their homes. At 31 March 2025, 629 properties were managed by a receiver on the customer's behalf, a decrease of 2.2% in the half year (30 September 2024: 643 properties; 31 March 2024: 741 properties). This return to the long-term decreasing trend in this portfolio was driven by the continuing resolution of long-standing cases, while newer appointments have tended to be of shorter duration.

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

2 BUSINESS REVIEW

2.2 COMMERCIAL LENDING

The Commercial Lending division includes four distinct specialist business streams lending to, or through, commercial organisations, mostly on a secured basis. This division provides a major driver of the growth and diversification in lending operations, which are key to our strategic vision.

The four business lines address:

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

Each of these businesses is led by a specialist management team with a strong understanding of their market. The principal competitors for each are small banks and non-bank lenders. We operate principally in market segments where the largest lenders have little presence, creating both a credit availability issue for customers and significant opportunities for our businesses.

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

Commercial Lending activity

New lending in our Commercial Lending businesses decreased by 3.7%, compared to the same period in 2024, against a somewhat subdued economic backdrop. However, the development finance and SME lending businesses both saw increased activity, while business levels in motor finance remained stable. The reduction in the reported measure was primarily the result of negative net drawings in the structured lending business, although the total amount of outstanding agreed facilities in that operation increased significantly. Excluding structured lending, new loans in the division increased 6.3% year-on-year.

Interim Management Report (Continued)

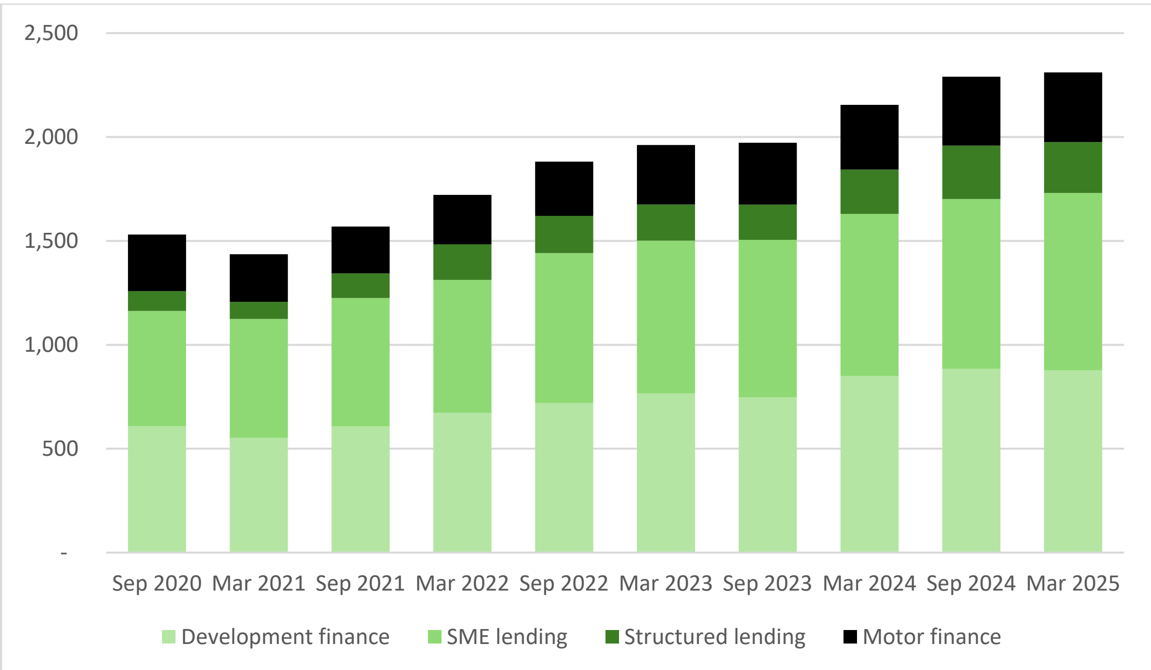
2 BUSINESS REVIEW

The segment's new lending activity during the period is set out below, analysed by principal business line. As the structured lending portfolio comprises revolving credit facilities, the amount shown below for this business is the net movement in the period (which can be negative, as in the current period).

	Six months ended 31 March 2025	Six months ended 31 March 2024	Year ended 30 September 2024
	£m	£m	£m
Development finance	262.0	243.8	511.9
SME lending	247.0	230.2	480.7
Structured lending (net drawings)	(12.0)	44.2	87.8
Motor finance	71.0	71.6	156.4
	568.0	589.8	1,236.8

These advances increased the Commercial Lending loan book by 0.9% in the six months, to a total of £2,310.6 million, its highest level to date (31 March 2024: £2,154.3 million; 30 September 2024: £2,289.8 million). The increase in the portfolio over the most recent five financial years is illustrated by the chart below.

Commercial Lending segment
Outstanding loan balances (£m)



2 BUSINESS REVIEW

Development finance

Growth in the volume of new development finance advances continued to be impacted by the levels of economic uncertainty in the UK, with nervousness over potential inflationary pressures from both the October 2024 budget announcements, particularly their effect on labour costs, and the more recent issues around international trade. This is despite the UK Government's positive statements on planning and house building, including initiatives to streamline the planning process in England and Wales. The level of drawings in the six months increased by 7.5% year-on-year to £262.0 million (2024 H1: £243.8 million), despite the potential headwinds, a similar level to the second half of the 2024 financial year, although much of that business will relate to projects already in progress at the start of the period.

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

Undrawn balances on projects in progress at 31 March 2025 had increased by 8.1% since the year end, to £537.8 million (31 March 2024: £481.5 million; 30 September 2024: £497.7 million), while the new business pipeline had recovered to £268.4 million, 44.0% higher than its level a year earlier and significantly increased over the six month period (31 March 2024: £186.4 million; 30 September 2024: £202.1 million). A significant proportion of these balances, particularly those related to projects which have already started, would be expected to be drawn in the second half of the financial year, providing a stronger base for lending in this period.

However, looking to the longer term, there is some evidence that the uncertainty over the future direction of costs and government policy may be dampening appetites for new projects, resulting in a level of enquiries in the period which was 17.9% lower than that seen in the comparable period a year earlier, although there was an increased level of conversions. The commitment value of new facilities which made their first drawing in the period was, however, similar to that in the first half of the last financial year, at £294.0 million, although a 15.8% increase on the immediately preceding six months (2024 H1: £304.4 million; 2024 FY: £558.2 million).

The business supports the development of the most energy-efficient properties, those with an EPC rating of A, through its Green Homes Initiative. This £300.0 million scheme provides beneficial terms for projects focussing on the development of EPC A graded properties, and by 31 March 2025, £232.6 million of new lending commitments had been agreed (30 September 2024: £186.0 million), with drawings in the period of £49.4 million (2024 H1: £26.0 million; 2024 FY: £65.5 million) and several major projects completed. This initiative rewards energy-efficiency, improving the environment and reducing fuel bills for the ultimate residents, while providing financial benefits to our customers.

Interim Management Report (Continued)

2 BUSINESS REVIEW

With the volume of pipeline business sharply increasing into the second half of the year, together with the downward trend of interest rates, more stable inflation levels, and the fundamental long-term soundness of our development finance proposition, prospects appear positive, particularly if the UK Government adopts the kinds of pro-development policies it has promised. The business continues to develop, extending the types of opportunity it can address.

The under-provision of new homes in the UK, based on the requirements set out in government forecasts, which have demanded house building at a rate of 300,000 units per year for many years now, has historically been, and will remain, a challenge for whatever administration is in office. Any serious attempt to meet this objective will offer significant expansion opportunities for smaller developers and for lenders such as our development finance operation who are well placed to support them.

SME lending

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

This has created a challenging operating environment for the business and its customers, and there has been some pressure around pricing across the market, with the business remaining focussed on protecting its margins. However, despite these external pressures, new lending in the SME lending business overall grew by 7.3% compared to the first six months of the 2024 financial year.

The major upgrade to the business’s front-end IT systems implemented two years ago as part of our digitalisation strategy continues to further benefit operational effectiveness, as incremental development continues, and more external business partners are given the ability to input cases directly. More business introducers are making use of the portal, with almost 60% of applications input directly, compared to just under 50% in the previous financial year. The system, which now handles almost 90% of new SME lending business, makes effective use of a variety of system-based tools to support decision making, with one in three cases on the platform eligible for auto decisioning, enabling our specialist underwriters to focus on more complex cases. This combination provides customers and brokers with a faster response to proposals.

These changes have facilitated the reduction in our processing time from application to approval by 60%, year-on-year, while also boosting conversion rates. These faster response times make our proposition far more attractive to brokers who might have previously prioritised other lenders based on the speed of their decision making. Far more accounts are now turned around on a same day basis, and average times from application to payout have almost halved. This technology has been transformative for the business, and we hope to see further benefits from the project launched in the period to replace the SME lending loan administration system, supported by Alfa Systems, enhancing our capability to manage customer relationships through the life of their lease or loan.

2 BUSINESS REVIEW

For asset leasing, which comprises the greatest part of the division's business, volumes for the six months, excluding government-backed loans, increased by 11.1% to £169.9 million compared to the same period twelve months earlier (2024 H1: £152.9 million; 2024 FY: £330.7 million). In contrast, total asset finance lending for the six months, excluding cars and high value items, reported by the Finance and Leasing Association ('FLA') increased by only 6.4% in the same period, with new leasing business with SMEs increasing by a lesser amount, growing by only 4.6%. Our investment in new operating leases has also continued, with £5.9 million of assets being acquired for leasing (2024 H1: £4.7 million; 2024 FY: £13.1 million).

During the period, the first significant volumes of lending under the UK Government Growth Guarantee Scheme ('GGS') were completed, with £18.3 million of mostly unsecured lending provided to SME customers, backed by a 70% guarantee provided by the British Business Bank ('BBB'). The scheme is intended to provide access to credit to SMEs which might otherwise struggle to locate affordable funding.

Short-term lending to professional services firms outside the government-supported schemes totalled £54.1 million in the period, which was 23.2% less than the comparable period in 2024 (2024 H1: £70.5 million; 2024 FY: £135.2 million). These loans are often used to spread the impact of tax payments, and the level of take-up will be influenced by both the confidence and the profitability levels of the underlying customer base, both of which can be subject to significant fluctuations and are likely to have been adversely affected by the economic climate. At the same time, this market has been highly competitive, and we have prioritised managing return, particularly in view of the very short-term nature of this lending.

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

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

The most recent outlook survey conducted by the FLA, for the quarter ended 31 March 2025, showed weakening confidence through the last six months amongst asset finance lenders, with concerns about business appetite for investment and the overwhelming majority of respondents expecting little or no change in conditions. This led to a reduction in the number of lenders expecting to increase volumes over the next year, compared to September 2024, although the results in the first quarter of 2025 were more positive than the final quarter of the 2024 calendar year, and the total remained near 70%. An increased number of respondents expected arrears to increase, but in most cases, significant increases were not anticipated.

2 BUSINESS REVIEW

Overall sentiment in the SME market, however, remains mixed, with published surveys showing a cautious optimism persisting into 2025, although on a downward trend through the last six months. SMEs report concerns about the potential impact of the October 2024 budget on their businesses, with some delaying investment decisions until the impact of these changes becomes clearer.

The SME loan market remains challenging, with pressure on both volumes and pricing, despite the apparent downward trend in interest rates. However, the business has so far navigated this environment steadily, increasing volumes in a largely static market, while maintaining its focus on margins and preserving credit quality. The digital capabilities introduced over the last few years also enhance its competitive position, by both improving operational cost-effectiveness and supporting an excellent standard of service to customers.

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

Structured lending

Our structured lending business performed positively in the half year, extending the customer base and maintaining its outstanding credit quality. While the total amount of drawn facilities, at £245.1 million, was less than at 30 September 2024 (30 September 2024: £256.9 million; 31 March 2024: £212.8 million), the total available facilities in place had increased by 12.9% over the six months to £372.7 million (30 September 2024: £330.0 million; 31 March 2024: £275.0 million).

These facilities generally fund non-bank lenders of various kinds, providing us with increased product diversification. The facilities, which are revolving in nature, are constructed to provide a buffer in the event of default in the ultimate customer population. The experienced management team in the business receive regular reporting on the performance of the security assets, and maintain a high level of contact with clients to safeguard our position. To date we have recorded no losses on structured lending facilities.

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

2 BUSINESS REVIEW

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

Motor finance

Our motor finance business is a focussed operation targeting propositions not addressed by mass-market lenders, including specialist makes and vehicle types, such as light commercial vehicles ('LCV's), motorhomes and leisure vehicles, including caravans, static caravans, and campervans. New business is largely sourced through specialist brokers, however there is a small flow generated through motor dealerships.

During the six months ended 31 March 2025, volumes were constrained by market conditions, which continued to be impacted by the elevated level of interest rates, with new lending broadly stable compared to the same period in 2024 at £71.0 million (2024 FY: £156.4 million; 2024 H1: £71.6 million). This result was achieved in an environment of tighter pricing in the market, where we focussed on margins, rather than chasing volumes in this business. Applications however, remained strong, and the period closed with some year-on-year growth in the new business pipeline.

While new car finance volumes recovered markedly compared to the corresponding period in 2024, with the FLA reporting volumes for the six months ended 31 March 2025 up 13.2%, finance volumes for used cars, which represent a significant amount of our lending, increased by only 0.4% over the same period.

Our lending to finance battery-powered electric vehicles ('BEVs'), including LCVs, continued in the period. These vehicles continue to contribute to reductions in the UK's carbon footprint, with the Society of Motor Manufacturers and Traders ('SMMT') reporting that in March 2025 such vehicles comprised 19% of all new car registrations, increased from 15% in March 2024, and 8% of all new LCV registrations, increased from 6% in March 2024.

Loans to fund BEVs represented £4.3 million of our new motor finance advances in the period, a little less than the value recorded in the same period in the previous year, but slightly higher than the total for the second six months of the 2024 financial year (2024 FY: £9.1 million; 2024 H1: £4.9 million). Together with lending on hybrid vehicles, this meant that our total lending on electric vehicles grew by 2.3% in the period, to £9.3 million (2024 FY: £17.9 million; 2024 H1: £9.1 million).

This initiative continues to support the net-zero aspirations of our customers, as electric vehicles become a more widely viable and popular option and increasing numbers enter the used car market, with over 13% of our new motor finance business related to these products.

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

2 BUSINESS REVIEW

Performance

The size of the Commercial Lending book remained broadly stable across the period, despite the growth in new business in key areas compared to the position six months earlier. However, performance across the four business lines varied, with strong growth in the SME lending book, a relatively stable position in the motor finance and development finance businesses, and a reduction in drawings in the structured lending portfolio, although the total available facilities agreed by that business had significantly increased.

The development of these businesses has been a focus for some years, as part of our diversification strategy, and therefore further growth in the long term can be expected. The outstanding loans within the Commercial Lending division, analysed by product type, are set out below.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Asset leasing	698.5	615.0	664.4
Professions finance	46.4	57.8	53.0
CBILS, BBLS, RLS and GGS	47.9	54.8	41.5
Invoice finance	34.9	29.7	32.7
Unsecured business lending	25.4	22.7	25.9
Total SME lending	853.1	780.0	817.5
Development finance	877.5	849.9	884.0
Structured lending	245.1	212.8	256.9
Motor finance	334.9	311.6	331.4
	2,310.6	2,154.3	2,289.8

At the previous year end we noted the economic pressures which had generated issues on a number of development projects, particularly those originated in 2022 and earlier. Since the point at which these projects had been evaluated by the customer and by us, they had been subject to sharp increases in build costs and interest rates, well in excess of the stressed position considered at the point of underwriting. This type of issue is typical of the development finance product in a stressed environment, and our experience is not dissimilar to that of other lenders in the field.

In the six months ended 31 March 2025 we have continued to monitor these cases, with a number requiring additional provision in the period, as the process of realisation and repayment has progressed, and some additional cases, principally from the same lending cohort, being defaulted. The majority of the additional default cases were already identified as Stage 2 for IFRS 9 impairment purposes at the beginning of the period.

We regularly monitor all development finance accounts internally and grade them on a case-by-case basis. At 31 March 2025, 25 accounts were identified as at risk of loss, and therefore attributed to IFRS 9 Stage 3 for impairment purposes (30 September 2024: 19; 31 March 2024: 14). The long-standing legacy case which had been outstanding at 30 September 2024 was resolved in the period (30 September 2024: one; 31 March 2024: one).

2 BUSINESS REVIEW

The position and performance of each of these defaulted accounts has been carefully examined, and up-to-date cash flow projections have been stressed for IFRS 9 provisioning purposes, generating an additional impairment charge for the period. The additional provision which had been made at 30 September 2024 to allow for any further such cases has now been released, as the majority of lending in this cohort has either moved to IFRS 9 Stage 2 or 3, been repaid, or progressed to a stage of completion where full repayment can be more reliably predicted.

Despite these issues, security across the development finance portfolio more generally remains strong. The average loan to gross development value for the portfolio at the period end, was 62.9% (30 September 2024: 63.0%; 31 March 2024: 62.7%), which provides a significant credit buffer if projects encounter issues.

Credit performance in the SME lending and motor finance leasing businesses was stronger than might have been anticipated, despite the continuing economic pressures on UK consumers and businesses. Arrears on asset leasing business at 31 March 2025 remained very low at 0.16% (30 September 2024: 0.14%; 31 March 2024: 0.13%), with motor finance arrears remaining stable at 1.06% (30 September 2024: 1.06%; 31 March 2024: 1.08%). Despite the positive trends so far, we continue to monitor performance of these asset classes carefully, and processes are in place to ensure any customers encountering problems achieve good outcomes.

In response to a well-publicised FCA review and ongoing legal challenges to lenders in respect of commission payment practices in the motor finance sector, the business changed its motor finance loan origination process in October 2024 to require customers’ explicit consent to the payment of commissions to brokers or dealers. This replaced a process where customers were informed of such arrangements relating to their loan, in accordance with FCA requirements.

Until the regulatory and court processes have been concluded, it remains unclear which of our historical motor finance customers might qualify for redress, or what the amount of any liability might be. However, following regulatory comments in the period about the likeliness of a redress programme, sector-wide enquiries by the regulator regarding operational readiness for such a scheme and emerging practice in the market, we have concluded that it is appropriate for us to make a provision at this stage. We have conducted an analysis addressing a wide range of potential outcomes, and a cost of £6.5 million has been expensed in the half year results. However, the lack of definitive information available at present means that any ultimate liability could differ materially from this amount, although from our analysis it seems unlikely that the overall impact on our business would be significant. Further information on these matters is given in note 23 to the financial information.

Whilst some lenders have reported significant issues with their BBB-guaranteed lending (particularly BBLS exposures) related to either credit quality or fraud, we have yet to see any significant impacts, possibly due to the focus of our lending in this area having been to existing customers. Our total claims made up to 31 March 2025 under the guarantee were £4.7 million, only 3.0% of the £154.3 million which we have advanced since the schemes began, with £4.5 million of these claims already recovered at the period end.

2 BUSINESS REVIEW

The BBB-guaranteed portfolio at 31 March 2025 contained only £1.0 million of Stage 2 accounts at gross carrying value and only £0.9 million of credit impaired cases, while the overall exposure on such loans at the period end was £47.9 million (30 September 2024: £41.5 million; 31 March 2024: £54.8 million), with only £1.7 million of BBLS exposure remaining.

For structured lending facilities, we carefully monitor the performance of the underlying asset pool for each loan on a monthly basis, to ensure that the security inherent in the structure of the facilities remains adequate. We rely on our data monitoring and verification processes to ensure that these reviews are able to detect any credit issues. No significant performance issues have been identified on any current facility (30 September 2024: one Stage 2 case; 31 March 2024: one Stage 2 case). No loss was incurred on any facility closed in the period.

In terms of our IFRS 9 impairment procedures, 13.2% of the segment's gross balances were considered as having an SICR, a little higher than seen in previous periods, (30 September 2024: 12.7%; 31 March 2024: 2.8%). This included 7.4% which were credit impaired (30 September 2024: 5.1 %; 31 March 2024: 3.3%), with the movement primarily attributable to a number of development finance cases where an SICR had been identified at September becoming credit impaired during the period.

Provision coverage remained around the levels seen at the previous the year end, at 169 basis points (30 September 2024: 177 basis points, 31 March 2024: 146 basis points) with coverage on fully performing accounts at 61 basis points (30 September 2024: 62 basis points; 31 March 2024: 73 basis points).

Interim Management Report (Continued)

3 FUNDING REVIEW

Since the launch of Paragon Bank in 2014 our retail deposit franchise has been central to our funding strategy, with our Paragon-branded offering having grown steadily over time. April 2025 saw this strategy enhanced by our new Spring savings app, offering a further route to market, enhancing resilience and providing attractive new options for customers.

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

Our parent company enjoys investment grade credit ratings, enabling us to access cost-effective funding, as well as enhancing options for raising finance for strategic initiatives on a timely basis. Fitch confirmed their BBB+ rating in February 2025 with Moody's commencing their coverage with a Baa3 rating in the period.

During the six-month period, our funding requirement decreased a little, as expiring facilities, including Bank of England TFSME amounts were repaid, reducing the need to hold excess liquidity, with this reduction offsetting the growth in the loan book. Our retail deposit portfolio was, in consequence, managed slightly downwards, facilitating the management of margins.

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

The Group's funding at 31 March 2025 is summarised below.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Retail deposit balances	15,768.0	14,768.5	16,298.0
Securitised and warehouse funding	-	17.1	-
Central bank facilities	700.0	1,850.0	755.0
Covered bonds	499.1	-	-
Tier-2 and retail bonds	149.6	261.1	149.9
Sale and repurchase agreements	100.8	100.0	100.0
Total on balance sheet funding	17,217.5	16,996.7	17,302.9
Other off balance sheet liquidity facilities	150.0	150.0	150.0
	17,367.5	17,146.7	17,452.9

The division of our funding balance between wholesale and retail elements remained relatively stable in the period, with the wholesale element around the 10% level. At the end of the period, retail deposits were 91.6% of all on balance sheet funding (30 September 2024: 94.2%; 31 March 2024: 86.9%).

Interim Management Report (Continued)

3 FUNDING REVIEW

At 31 March 2025, the proportion of easy access deposits, which are repayable on demand, was 45.7% of total on-balance sheet funding, broadly in line with the position at the start of the period (30 September 2024: 44.6%; 31 March 2024: 35.2%), with the average tenor of wholesale borrowings also having shortened over time.

Excess liquidity has been reduced during the period, with short-term requirements for cash to be held against upcoming debt repayments reducing as those payments, on bonds, Bank of England borrowings and securitisation borrowings were made. The amount of cash and investments available for liquidity and other purposes had been reduced to £2,413.0 million by 31 March 2025 (30 September 2024: £2,844.8 million; 31 March 2024: £2,922.7 million).

This reduction is part of our ongoing process of monitoring and managing cash and investments in accordance with our capital and liquidity strategy. This continues to be based on our conservative view of the economic outlook, allowing for the developing needs of the business.

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

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

3.1 RETAIL FUNDING

April 2025 saw the launch of Spring Savings (‘Spring’), the most significant development in our deposit taking business since its launch 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 proposition, diversifying our funding base still further and adding resilience and agility to our operations.

The launch of Spring represents the culmination of a major programme of customer research and systems development, including extensive testing of the app in ‘real-life’ conditions across our whole workforce and their families and friends. This has created an attractive offering based on advanced digital technology, providing a new approach to savings for customers.

Over the decade since the launch of Paragon Bank the UK savings market has proved 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.

3 FUNDING REVIEW

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 a presence on third-party wealth management platforms and savings marketplaces. These, too, largely address different types of customers to the Paragon-branded offering.

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. The 2025 ISA season, which is concentrated in March / April has begun strongly, with good take-up of both fixed and variable rate products. However, we continue to monitor the possibility of regulatory intervention in this area carefully, and are engaged in the consultation process.

FSCS protection both incentivises larger savers to divide their deposits between several institutions and reduces the risk perceived by customers in using institutions which may be less familiar to them, supporting our propositions, and we welcome the proposal by the PRA to increase the upper limit of FSCS coverage for each customer from £85,000 per institution to £110,000. At 31 March 2025, FSCS protection covered over 95% of our deposit balances.

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

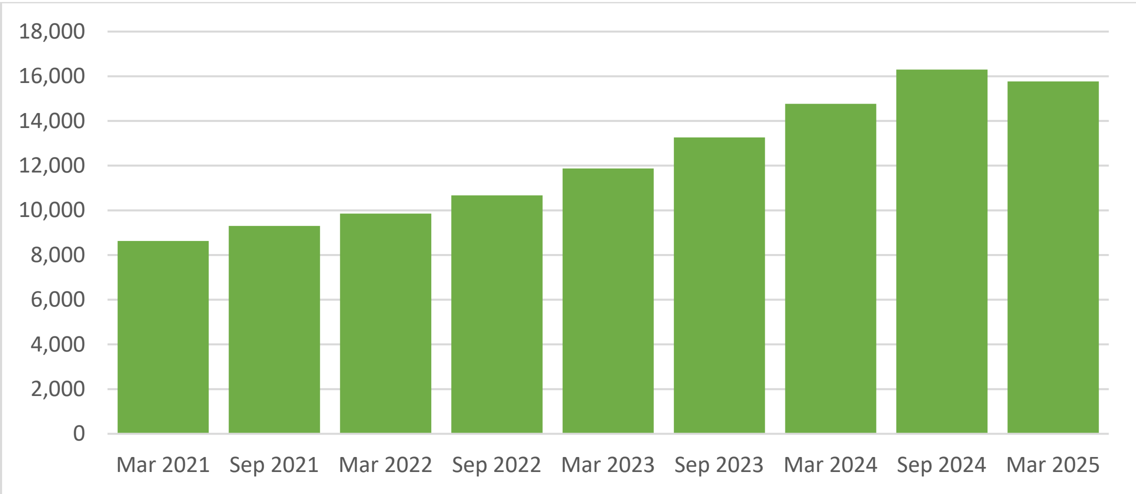
Interim Management Report (Continued)

3 FUNDING REVIEW

The six-monthly movement in our total retail funding over recent years is set out below.

Retail deposits (£m)

2021 – 2025



During the six months, UK household savings balances reported by the Bank of England remained broadly stable, reflecting the pressure on household budgets from the cost-of-living crisis. Balances at 31 March 2025 reached £1.80 trillion, an increase of 2.8% in the period and an increase of 5.1% year-on-year (30 September 2024: £1.75 trillion; 31 March 2024: £1.71 trillion). This growth exceeds the 1.9% growth in the consumer prices index ('CPI') for the six months, implying that UK consumers are maintaining a broadly static level of savings, despite the recent pressures on household incomes.

Within the savings market, cash ISAs, a product where our offering has historically been strong, saw significant increases, with the Bank of England reporting total balances increasing by 5.1% in the six-month period and 15.2% year-on-year, reaching a record level of £399 billion. Conversely the strong move towards non-ISA fixed term and notice deposits seen during the last financial year was reversed, with a 2.3% (£5.6 billion) decrease in such deposits from individuals over the half year. Some of this reduction will relate to a shift to other savings products, including cash ISAs and National Savings ('NS&I') deposits. NS&I deposits by individuals, which fulfil a similar function to term deposits, increased by 2.5% in the period and representing £240 billion of individual savings at 31 March 2025.

Over the same period 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 by 3.3% over the period to £15,768.0 million, this was in response to a reduced strategic funding requirement (30 September 2024: £16,298.0 million; 31 March 2024: £14,768.5 million) Within the book, the movement towards variable rate products seen in the second half of 2024 continued, as new fixed rates on offer continued to fall.

Interim Management Report (Continued)

3 FUNDING REVIEW

Our savings balances at the period end are analysed below.

	Average interest rate		Proportion of deposits	
	31 March 2025	30 September 2024	31 March 2025	30 September 2024
	%	%	%	%
Fixed rate deposits	4.60	4.77	47.8	50.7
Variable rate deposits	3.87	4.19	52.2	49.3
All balances	4.22	4.49	100.0	100.0

Average interest rates for savings products have reduced slowly during the period, as falls in the bank base rate in the 2024 financial year worked their way through the system. The Bank of England reported average interest rates for easy access accounts decreasing by 25 basis points, from 2.60% to 2.35% over the six months ended 31 March 2025, whereas the rate for new two-year deposits fell more slowly, from 4.00% to 3.93%, with similar decreases for other product types. The falls reflect market expectations for base rates, with expectations for further rate reductions moderating in the period, although the position as the period closed was more uncertain.

These market savings rates remain at below benchmark levels, although the difference has continued to reduce in the period, with SONIA decreasing 49 basis points, from 4.95% at 30 September 2024 to 4.46% at 31 March 2025, compared to the 25 basis point decrease in easy access rates noted above.

However, the level of tightening in our book over the period has been rather less then seen in the market generally, with the average variable rate being paid at the period year end representing a 59 basis point discount to SONIA, a reduction of 17 basis points over the half year (30 September 2024: 76 basis points). This was an expected effect of the more stable interest rate environment nationally and of careful margin management, combined with a reduced requirement to expand the portfolio.

The average initial term of our fixed rate deposits at 31 March 2025 remained stable at 22 months (30 September 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 more variable rate balances were sought.

Significant optionality is provided by our presence on third party investment platforms and digital banks' savings marketplaces. These channels account for almost 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.

We currently have nine such relationships (30 September 2024: nine), representing 23% of the total deposit base (30 September 2024: 23%; 31 March 2024: 23%), and 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.

3 FUNDING REVIEW

Our strategy in the savings market relies on providing a high-quality customer offering and we conduct insight surveys throughout the customer journey. Results for the six months are set out below.

Survey timing		Six months to 31 March 2025	Year to 30 September 2024	Six months to 31 March 2024
At account opening	Would 'probably' or 'definitely' take a second product	90%	89%	88%
	NPS	+68	+66	+63
At maturity	Would 'probably' or 'definitely' take a second product	87%	89%	90%
	NPS	+63	+63	+63

The results of this research maintained the strongly positive position previously reported, despite the ongoing downward trend of interest rates through the period, demonstrating that our systems, people and processes mean we are well-positioned to retain customers and deposits in this active and competitive market.

Our level of customer retention also remained strong, providing further evidence of this. Despite the short-term nature of products in this market, and the increasing ease with which customers can change provider, 38.3% of our Paragon-branded deposit balance at 31 March 2025 related to customers who had been with us for five years or more (30 September 2024: 42.4%), with repeat ISA business in the period particularly pleasing.

Spring is not only important to Paragon, but we 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 better savings 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 proposed increase in the FSCS limit 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 our systems, processes and people to ensure we are able to address the increasingly sophisticated needs of savers.

3 FUNDING REVIEW

3.2 WHOLESALE FUNDING

Our potential sources of wholesale institutional borrowing include securitisation funding, sale and repurchase ('repo') agreements and bond issuance, including covered bonds and senior and subordinated corporate bonds, each of which we have accessed from time to time as appropriate.

The Long-Term Issuer Default Rating of the parent company, Paragon Banking Group ('PBG'), a measure of its strength as an issuer, was confirmed at BBB+ by Fitch in February 2025, with a stable outlook, with Paragon Bank, its principal operating subsidiary, retaining its own BBB+ rating.

In November 2024, Moody's published its first public ratings on our business, with PBG assigned an investment-grade Long-Term Issuer rating of Baa3 and Paragon Bank rated Baa2. These additional ratings will allow more flexibility in funding options in future, while potentially helping to manage funding costs.

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

The principal amount of the covered bonds issued was £500.0 million, they have a three-year term and bear interest at 0.6% above compounded daily SONIA. Security is provided by a pool of buy-to-let mortgage assets, 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.

While the covered bond cost is currently dilutive to NIM, we see this as a strategic development that increases optionality for the future. The programme diversifies our potential funding sources, enabling us to issue bonds, potentially of amounts and durations which differ from the first issue, with a relatively short preparation and lead time, when market conditions are acceptable. We would expect to issue further covered bonds under the programme in the medium term, in response to our developing funding strategy.

Paragon Mortgages has been one of the principal issuers of UK residential mortgage-backed securities ('RMBS'), although our reliance on RMBS as a regular source of funding has been significantly reduced over recent years. All our most recent issuance has been held internally, providing access to contingent funding, rather than placed in the market, and no external indebtedness is currently in place. Our funding strategy includes further such arrangements, from time to time, as they provide a particularly appropriate funding solution for some asset classes, and the potential for external issuance is reviewed with each new issue.

3 FUNDING REVIEW

For shorter-term requirements we also access the repo market, with £100.8 million of short-term sale and repurchase transactions with financial institutions in place at the period end (30 September 2024: £100.0 million; 31 March 2024: £100.0 million). Over the six months we have continued our policy of broadening the range of counterparties which have been used for such transactions, increasing optionality in our liquidity management.

The wholesale funding position currently satisfies only a small part of our overall requirement, although this has expanded since the last year end with the launch of the covered bond programme. Our strategy remains to use wholesale funding on a tactical basis, when interest rates and conditions are attractive, and to provide contingent funding and support liquidity.

While capital markets in the UK were relatively stable for most of the period, with demand for wholesale debt strong and spreads tightening, the closing weeks saw much greater volatility. This was largely driven by uncertainty over US economic and trade policy, and their potential impact on the global economy. Markets remained open, though spreads widened as investors waited for the position to become clearer. However, we still see the wholesale markets as a useful funding source and keep a range of potential funding solutions under review.

3.3 CENTRAL BANK

During the period we have continued to make appropriate use of funding facilities provided to the UK banking sector by the Bank of England, leveraging the security represented by internally held RMBS issuance and mortgage loan assets.

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 31 March 2025 having reduced to £250.0 million (31 March 2024: £1,850.0 million; 30 September 2024: £750.0 million).

We have access to other Bank of England funding channels, including the Indexed Long-Term Repo (‘ILTR’) and Short-Term Repo (‘STR’) schemes, providing shorter-term funding for liquidity purposes, with outstanding ILTR drawings at the period end, at £450.0 million, now forming the largest part of our central bank exposures (31 March 2024: £nil; 30 September 2024: £5.0 million).

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

3 FUNDING REVIEW

We will continue to make use of central bank facilities from time-to-time, in accordance with their objectives, where using them 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 drawings. This provides access to potential liquidity or funding at 31 March 2025 of up to £4,208.1 million (30 September 2024: £4,445.9 million; 31 March 2024: £2,672.2 million).

3.4 DERIVATIVES AND HEDGING

Derivative assets and liabilities continue to be used to hedge interest rate risk arising from fixed rate loans and deposits. A proportion of our lending pipeline is pre-hedged, resulting in derivative positions being established before the related loans are completed.

While this strategy has not materially changed over recent financial periods, movements in interest rate expectations have resulted in large derivative asset balances being carried on the balance sheet at fair value, although the 31 March 2025 position was reduced from the previous financial year end, as positions unwound, while swap rates moved a little lower.

The size of these balances and the volatility in rates has also led to significant profit and loss account impacts in recent periods. However, any such gains or losses, which tend to zero over time, are ancillary to our lending and deposit-taking activities and we undertake no trading in derivatives.

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

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

In order to mitigate this risk, an amount of fixed rate mortgage lending has been attributed to provide natural equity hedging, forming a net free reserve ('NFR') hedge. At 31 March 2025, £1,200 million had been attributed in this way (30 September 2024: £1,200.0 million; 31 March 2024: £1,200.0 million). The hedge at 31 March 2025 represents the Group's target hedging level, covering the majority of the equity balance, which has also remained relatively stable over the period. This form of hedging, however, has no direct accounting impact.

4 CAPITAL AND LIQUIDITY REVIEW

Our strong capital position is key to the execution of our strategy, the resilience of our business and our ability to deliver value to stakeholders. Building and maintaining a strong level of core capital through the economic cycle is a key strategic priority and we manage our balance sheet to maintain capital strength, ensuring our regulatory capital and liquidity positions are sufficient to safeguard depositors and provide capacity to address our strategic objectives and other opportunities as they may arise.

In the six months ended 31 March 2025, the UK economic environment has been fairly stable, with economic metrics giving a sometimes contradictory picture of the longer-term direction of travel. Moreover, there is a sense of a pause in economic momentum as, while the UK Government elected in July 2024 has made its policy priorities clear, the consequent changes are mostly yet to be introduced, and their impact cannot yet be predicted with any level of certainty.

One particularly relevant example of this is the Basel 3.1 process to reform the international regulatory capital regime. Near-final proposals for the UK were published on 12 September 2024, but a delay to their implementation was announced in January 2025 to allow the regulator to review some aspects of the package. Whether this reconsideration will have any impact on the final Basel 3.1 outcome for the UK is yet unclear.

In the face of these potential uncertainties, we have retained our focus on ensuring that our capital base remains strong enough to withstand potential pressures and address future changes in requirements. At the same time, we have been able to continue our stated distribution policy, extending our share buy-back programme by up to £50.0 million and announcing an interim dividend for the half year in line with policy.

Our regulatory capital comprises shareholders' equity and a tier-2 bond. We have no outstanding Additional Tier 1 ('AT1') issuance, but have the capacity to issue such securities, if considered appropriate, under an authority renewed by shareholders at the Annual General Meeting held in March 2025.

4.1 REGULATORY CAPITAL

During the half year, our regulatory capital ratios remained strong, with capital balances being carefully managed in line with our risk appetite. Our business is subject to supervision by the Prudential Regulation Authority ('PRA') and as part of this supervision the regulator sets a Total Capital Requirement ('TCR'), the minimum amount of regulatory capital which the Group must hold. The TCR is defined under the international Basel 3 rules, which are implemented in the UK through the PRA Rulebook.

The TCR is held to safeguard depositors in the event of the business incurring severe losses and includes elements determined on the basis of our Total Risk Exposure ('TRE'), together with fixed elements. The TCR is specific to our business and is set on the basis of periodic supervisory reviews carried out by the regulator, the most recent of which took place in 2024, with the results received in the period.

4 CAPITAL AND LIQUIDITY REVIEW

Our TCR at 31 March 2025 now represents 8.1% of TRE, with the reduction in this level in the period the result of a positive outcome to the regulator's most recent review of our TCR (30 September 2024: 8.7%; 31 March 2024: 8.8%). This is only marginally greater than the minimum TCR allowed under the Basel 3.1 framework of 8.0%, giving us advantages in capital management and reflecting the regulator's assessment of our risk strategy and their view of the appropriateness of our systems for the management of capital and risk.

The transitional relief granted to us, together with most other UK banks, on the introduction of IFRS 9 impairment, and extended as a response to Covid, was phased out on 1 October 2024. Therefore, capital measures on the regulatory basis and the fully loaded basis (excluding the impact of reliefs) now align.

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

	Regulatory basis			Fully loaded basis		
	31 March 2025	31 March 2024	30 September 2024	31 March 2025	31 March 2024	30 September 2024
	£m	£m	£m	£m	£m	£m
Capital						
CET1 capital	1,193.2	1,174.9	1,177.9	1,193.2	1,171.6	1,175.2
TRC	1,343.2	1,324.9	1,327.9	1,343.2	1,321.6	1,325.2
Exposure						
TRE	8,385.0	7,974.7	8,278.7	8,385.0	7,971.4	8,276.0
Requirement						
TCR	681.5	698.8	724.1	681.5	698.5	723.8
Capital buffers	377.3	358.9	372.5	377.3	358.7	372.4

CET1 capital comprises equity shareholders' funds, adjusted as required by the Regulatory Capital Rules of the PRA (note 33), and can be used for all capital purposes. TRC, in addition, includes tier 2 capital in the form of our Tier-2 Bond. This tier 2 capital can be used to meet up to 25% of TCR. Capital levels on both measures in the period have remained broadly stable, with positive operational performance continuing to support the capital position, even after allowing for paid and proposed distributions.

The increases in TRE shown above relate principally to the growth in the loan asset base over the period, mitigated by a reduction in derivative exposures. However, the impact of the TRE increase over the six months was more than offset by the positive result of the PRA's regular supervisory review, leading to a reduced TCR, in monetary terms, at 31 March 2025.

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

Interim Management Report (Continued)

4 CAPITAL AND LIQUIDITY REVIEW

During the period, the CCoB rate remained at 2.5%, its long-term rate (30 September 2024: 2.5%; 31 March 2024: 2.5%), while the UK CCyB rate was 2.0% throughout the period (30 September 2024: 2.0%; 31 March 2024: 2.0%). The Financial Policy Committee of the Bank of England has announced that it expects the UK CCyB rate in a standard risk environment to be 2.0%. Further buffers may be set by the PRA on a firm-by-firm basis, but may not be disclosed.

Our capital ratios, after allowing for proposed dividends and any irrevocably committed elements of share buy-back programmes, are set out below.

	Regulatory basis			Fully loaded basis		
	31 March 2025	31 March 2024	30 September 2024	31 March 2025	31 March 2024	30 September 2024
CET1 ratio	14.2%	14.7%	14.2%	14.2%	14.7%	14.2%
Total capital ratio	16.0%	16.6%	16.0%	16.0%	16.6%	16.0%
Leverage ratio	6.9%	7.3%	7.0%	6.9%	7.3%	7.0%

The capital ratios remained stable across the six months, with the small downward move year-on-year mostly a function of the unwind of fair value gains which had temporarily inflated CET1 prior to 2024. With the phase-out of IFRS 9 reliefs, the measures on the fully loaded basis have converged with those calculated on the regulatory basis.

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

These changes would affect both firms applying Internal Ratings Based ('IRB') approaches to capital and those using the Standardised Approach, and would be phased in over a five-year period, originally intended to commence on 1 January 2026. In January 2025 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 yet to give any indication as to whether it intends to proceed with its Basel 3.1 reforms as presently drafted, or whether it intends to make further changes.

The PRA proposals, as currently drafted, principally impact on our buy-to-let and SME lending, and have been evaluated as part of our capital planning. We estimate that the changes would reduce our CET1 ratio by 117 basis points, based on the 31 March 2025 position. However, our forecasts indicate that sufficient capital is being held to meet the proposed scenario.

4 CAPITAL AND LIQUIDITY REVIEW

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.

To reduce disruption over the period when both the SDDT and Basel 3.1 are being introduced, the PRA has also introduced an Interim Capital Regime ('ICR'). Firms can join the ICR subject to meeting the SDDT eligibility criteria, and then transition to either the SDDT or full Basel 3.1 capital basis on the implementation of SDDT.

We currently meet the criteria to qualify as an SDDT and our application to adopt the ICR was accepted in the period. Longer-term, our goal remains to move to 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 our development finance assets, which represents the next stage of our IRB roadmap.

4.2 LIQUIDITY

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

The major part of our liquidity holdings comprises deposits at the Bank of England. However, over recent periods we have diversified our position, with an increasing proportion of liquidity represented by highly rated UK gilts and AAA-rated covered bonds issued by UK financial institutions.

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

The LCR measures short-term resilience comparing available highly-liquid assets to forecast short-term outflows, calculated according to a regulatory formula, with a 30-day horizon. The rolling twelve-month average of the Bank's LCR at 31 March 2025 was 183.2% compared to 218.2% at 31 March 2024, and 211.5% for the 2024 financial year.

4 CAPITAL AND LIQUIDITY REVIEW

These movements reflect the strategic management downward of the liquidity balance over time, releasing excess amounts. This follows the repayments of TFSME borrowings over the last eighteen months and the retail bond repayment in August 2024. The LCR level is also impacted by cash held in respect of swap collateral, which was £152.7 million at 31 March 2025 (30 September 2024: £103.6 million; 31 March 2024: £215.0 million).

The NSFR is a longer-term measure of liquidity with a one-year horizon, supporting the management of balance sheet maturities. At 31 March 2025, the Bank's NSFR stood at 142.0%, broadly similar to its 30 September 2024 level (30 September 2024: 139.5%; 31 March 2024: 132.9%).

4.3 DIVIDENDS AND DISTRIBUTION POLICY

A principal objective of our capital strategy is the provision of strong returns to shareholders, while maintaining a robust capital base. The positive operating result in the period, coupled with our capital forecasts, supports the ongoing return of capital to investors, both in the form of dividends and through our share buy-back programme.

Our long-standing dividend policy is to distribute approximately 40% of each year's underlying earnings to shareholders, split between the interim and final dividends, with the interim dividend, in normal circumstances, being equal to 50% of the preceding final dividend. We also use market buy-backs of shares to manage overall capital levels, where these enhance shareholder value and excess capital is available, enabling us to address the expectations and requirements of different types of investor and potential investor.

Following its half-yearly review of the capital position and forecasts, the Board determined that an interim dividend in line with policy was appropriate for the current year. In reaching this conclusion they also considered the distributable reserves and cash position of the parent company.

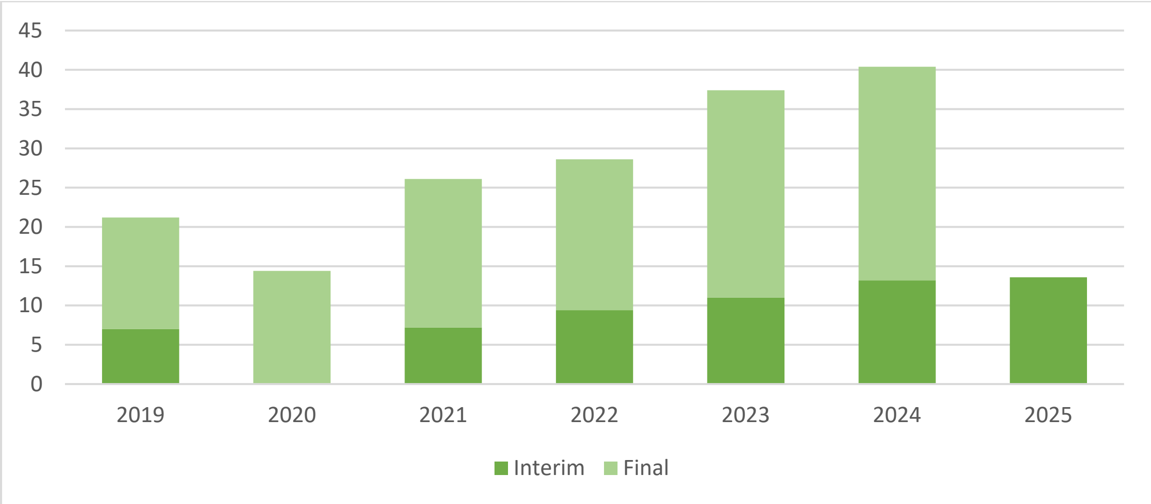
It therefore declared an interim dividend for the year ending 30 September 2025 of 13.6 pence per share (2024 H1: 13.2 pence). This dividend will absorb £26.8 million of capital and will be paid on 25 July 2025 to shareholders on the register on 4 July 2025.

4 CAPITAL AND LIQUIDITY REVIEW

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

Dividend for the year (pence)

In respect of the financial years 2019 –2025



Before the beginning of the period an irrevocable instruction to purchase shares in the current period was given to our brokers as part of our 2024 share buy-back programme. £16.3 million of shares were purchased under that authority in the period, leaving £7.5 million of the originally approved programme outstanding.

At the time of publication of our 2024 full year results we announced that the Board had authorised a further share buy-back of up to £50.0 million of shares. In addition, we announced that the remainder of the 2024 share buy-back programme would also be completed.

During the six-months ended 31 March 2025, £59.7 million (including costs) was expended on the acquisition of our own equity, acquiring 7.8 million shares. Shortly before the end of the period, an irrevocable instruction was given to our brokers for the completion of the share buy-back programme, and the remaining balance, £14.6 million, was accrued at the period end and deducted from equity at 31 March 2025. These share buy-backs were completed by 15 May 2025.

Given the strength of the capital position at 31 March 2025 and the robust trading performance, the Board has authorised an extension to the programme of up to £50.0 million, as part of its half-year review of capital. These purchases are expected to start immediately after the announcement of these 2025 half-year results.

The authority to make such purchases was given under a resolution approved by shareholders at the Annual General Meeting in March 2024 and renewed in March 2025. All purchases made under this programme will be announced through the Regulatory News Service ('RNS') of the London Stock Exchange on the day of the transaction. All shares purchased are initially to be held in treasury.

In the May half-yearly review of capital, the Board also endorsed the dividend policy on an ongoing basis subject to an assessment of prevailing conditions at the time, including future operational and regulatory capital requirements, business strategy and external economic risks.

Interim Management Report (Continued)

5 FINANCIAL REVIEW

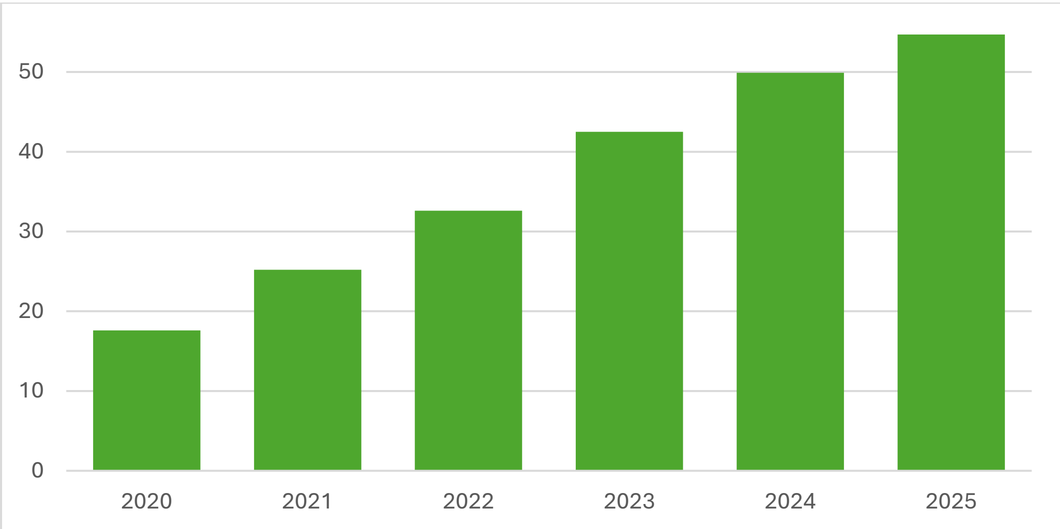
The financial performance for the six months ended 31 March 2025 demonstrates the results of our strategic focus on businesses where our deep understanding and disciplined processes can deliver value to stakeholders in a competitive market environment, despite continuing economic uncertainties impacting on our customers.

Margins remained strong, but tightened a little. Coupled with continuing loan book growth and careful control of costs, this meant that operating profit on the underlying basis (excluding provisions and fair value movements related to hedging) increased by 2.1% to £149.4 million (2024 H1: £146.3 million) (Appendix A). This generated an increase in underlying EPS of 9.6% to 54.7 pence per share, also supported by the ongoing share buy-back programme (2024 H1: 49.9 pence) (Appendix A).

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

Underlying earnings per share (pence)

Six months ended 31 March 2020-2025



In response to developments in currently ongoing legal and regulatory processes relating to historical motor finance commissions, we have chosen to make a provision for potential costs of £6.5 million (2024 H1: £nil). As this charge does not relate to current trading activities, we have excluded it from our underlying results.

Our statutory results continue to be impacted by the accounting treatment required for pipeline hedging. Historically we have hedged a substantial part of our lending pipeline with interest rate derivatives, and the treatment required for such derivatives can lead to substantial fair value gains being recorded in a rapidly changing interest rate environment.

The actual cash flows from hedging will impact on net margin through the fixed rate period of the hedged loan, which can be up to five years, and the fair value gains will unwind at the same time, although the overall impact in the period was significantly less than that in the comparable period in 2024.

5 FINANCIAL REVIEW

These fair value items have been excluded from underlying results as the timing of their recognition does not reflect that of their economic impact on the business.

Including fair value and provision items, profit before tax on the statutory basis increased to £140.1 million (2024 H1: £110.6 million), with earnings per share on the same basis 30.5% higher at 50.1 pence per share (2024 H1: 38.4 pence per share).

5.1 CONSOLIDATED RESULTS

CONSOLIDATED RESULTS
For the six months ended 31 March 2025

	2025 H1 £m	2024 H1 £m
Interest receivable	633.6	641.8
Interest payable and similar charges	(385.7)	(401.9)
Net interest income	247.9	239.9
Other operating income	6.1	6.7
Total operating income	254.0	246.6
Operating expenses	(89.3)	(90.0)
Provisions for credit losses	(15.3)	(10.3)
Provisions for liabilities	(6.5)	-
	142.9	146.3
Fair value net (losses)	(2.8)	(35.7)
Operating profit being profit on ordinary activities before taxation	140.1	110.6
Tax charge on profit on ordinary activities	(39.3)	(28.7)
Profit on ordinary activities after taxation	100.8	81.9

	2025 H1	2024 H1
Basic earnings per share	50.1p	38.4p
Diluted earnings per share	48.2p	36.9p
Dividend – rate per share for the period	13.6p	13.2p

5 FINANCIAL REVIEW

Income

Total operating income increased by 3.0% year-on-year, to £254.0 million (2024 H1: £246.6 million), with net interest income from customer loans and other financial assets continuing to form the largest part of the balance.

While UK interest rates have eased a little in the period, they remain high by the standards of recent history and, with activity still rather subdued, competitive pressures have led to some tightening of margins across our markets, driven by the reducing differential between market retail deposit rates and benchmarks (Section 3.1). Net interest margin ('NIM'), however, decreased by only 6 basis points to 313 basis points (Appendix B) compared to the first half of 2024, and only by 1 basis point compared to the second half, with our businesses carefully managing their pricing to maintain yields broadly in line with expectations. This pressure on margins was felt across all our lending operations, with both divisions of the business seeing reduced NIM.

Despite this, our average loan book grew by 5.2% year-on-year to £15,849.0 million (2024 H1: £15,061.7 million), which, coupled with the positive NIM outcome, increased net interest income by 3.3% to £247.9 million compared to the first half of 2024 (2024 H1: £239.9 million).

The progression of our annualised NIM over the first half of each of the past five years is set out below.

	Total
	Basis points
Six months ended 31 March	
2025	313
2024	319
2023	295
2022	257
2021	232

The long-term management of NIM is fundamental to our business model and we use careful pricing, a prudent hedging strategy and alternative funding options to deliver improvements in our cost of funds to drive long-term improvements. This is supported by the careful strategic allocation of our capital and management of our lending risk appetites to optimise overall returns.

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

5 FINANCIAL REVIEW

Other operating income, which is a combination of operating lease profit and other sundry income reduced to £6.1 million for the six-month period (2024 H1: £6.7 million) The decrease arose principally as a result of a decline in loan account fee income, with fewer fee charging incidents arising as a result of the generally positive account performance across most of the portfolio.

Costs

Despite continuing inflationary pressures, operating expenses, at £89.3 million, were broadly comparable to those in the same period the previous year (2024 H1: £90.0 million). Employment related costs continued to form the largest part of our overhead expenses, representing 62.8% of total operating costs (2024 H1: 64.0%).

Average headcount in the six months was 1,400, 4.2% fewer than in the comparable period in 2024 (2024 H1: 1,462). However, after the effect of the market-based pay increases which most employees received at the beginning of the period is factored in, employment-related costs, at £56.2 million were only reduced by 2.4% overall (2024 H1: £57.6 million). These included £5.1 million of people costs in our systems and technology functions, an increase of 4.1%, in contrast to the wider cost base (2024 H1: £4.9 million)

These costs will be impacted in the second half of the year by the increases in employers' national insurance ('NI') costs taking effect from April 2025, which will impact across our whole workforce, as well as indirectly impacting on service-related costs in the wider cost base, such as IT and professional consultancy, cleaning and other outsourced services.

The remainder of the cost base has increased by 7.8% to £33.1 million (2024 H1: £30.7 million), as the inflationary pressures seen in recent years continue to work their way through contract renewals. Spend on our digitalisation programme continues to have a significant impact on reported costs, with non-employment related IT costs increasing by 4.9%, to £8.6 million (2024 H1: £8.2 million).

Total spend on technology increased 4.6% to £13.7 million (2024 H1: £13.1 million), as a number of projects, including Spring, entered their final stages and new initiatives were launched. In addition, £1.4 million of software costs were capitalised in the period (2024 H1: £2.1 million).

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

	%
Six months ended 31 March	
2025	35.2
2024	36.5
2023	38.1
2022	41.2
2021	42.5

5 FINANCIAL REVIEW

Our cost:income ratio has continued the gradual improvement seen over recent periods, despite inflationary pressures and the ongoing levels of spend in our digitalisation initiative, with careful margin management supporting these movements.

Cost control remains a strategic priority. However, the cost base is managed in the short term with a focus on delivering business priorities and meeting regulatory expectations as efficiently as possible. A sustainably lower cost:income ratio remains our long-term aspiration, but is not a short-term priority. The enhancement of operational capabilities remains fundamental to the delivery of our strategy, while external factors such as NI increases, potential further inflationary pressures in the UK and competitive markets for specialist people and services continue to generate potential headwinds.

Despite these potential downsides, on the basis of performance in the year to date we are able to marginally upgrade our cost guidance for the full year to ‘below £185.0 million’ from ‘around £185.0 million’.

Impairment provisions

The impairment charge for the six months ended 31 March 2025 was £15.3 million, an increase of £5.0 million (2024 H1: £10.3 million). This increase was largely centred on the development finance business, where recovery issues on some facilities agreed in 2022 and earlier continued to present themselves, as reported at the 30 September 2024 year end.

The half year has seen UK bank base rates remaining high, although moving slowly down. Inflation has continued to move in an overall downward direction, though headline metrics have been prone to fluctuate, as have other principal measures of the UK’s economic situation such as GDP. This situation might be expected to be putting credit quality under pressure, as customers have now had to deal with costs and interest rates at far higher levels than when they took their loans out, for some time. However, outside the cohort of development finance lending already mentioned, this has not been particularly apparent in account performance to date.

Recognition of credit losses is governed by the accounting standard IFRS 9, which requires us to take a view on the future performance of 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.

5 FINANCIAL REVIEW

The progress of the impairment charge and annualised cost-of-risk (Appendix B) in the first six months of each of the last five years is set out below.

	Charge	Cost-of-risk
	£m	%
Six months ended 31 March		
2025	15.3	0.19
2024	10.3	0.14
2023	7.5	0.10
2022	1.3	0.02
2021	6.0	0.09

The charges above reflect the progression of the UK economy over recent years. The low 2022 charge was a result of the recalibration of provision as the threat to customers from the Covid-19 pandemic receded, with charges increasing after that point as the costs of living and doing business in the UK rose, and interest rates increased. These increases were also driven by progressively more negative economic forecasts, with the 2025 charge additionally being impacted by the development finance issues described above.

Multiple economic scenarios and impacts

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

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

At 31 March 2025, there was generally more consensus on the UK's short-term economic outlook than at the previous year end. However, the dominant theme of these forecasts is generally mildly pessimistic, with a significant potential for interest rates to remain close to current levels for some time, inflation to decline from current levels only slowly, or potentially rise, house prices to remain subdued and growth to remain minimal. This high interest, low growth scenario is relatively unusual in recent times in the UK.

Interim Management Report (Continued)

5 FINANCIAL REVIEW

Longer-term prospects remain an area of disagreement, even amongst experts, with a potentially higher degree of uncertainty than at the previous year end. Geopolitical instability shows little sign of diminishing, with continuing conflicts in Eastern Europe and the Middle East, and with international trade becoming a further area of concern, following radical changes in US policy towards the end of the period. While these geopolitical factors are unlikely to impact on our customers directly, their effects on the UK macroeconomic outlook overall are potentially significant. The UK Government's October budget and other policy announcements, while designed to promote growth, are yet to come into force, and may have inflationary impacts, adding complexity to the Bank of England's management of interest rates. All these factors make the effect of future economic pressures on customers harder to evaluate.

To reflect the potential range of economic outcomes, four scenarios have been constructed for use in our forecasting and ECL modelling. These are based on a number of forecasts from public and private bodies, synthesised to produce internally coherent sets of data. The central scenario is largely aligned with the current Bank of England forecast, published in February 2025. It assumes minimal growth in the UK, in line with performance in the early part of the financial year, restrained consumer spending, unemployment and inflation gradually rising, and bank rates only reducing slowly. This is marginally more pessimistic than the central scenario adopted in September 2024.

The upside and downside scenarios have been derived from the central scenario, with the upside scenario assuming that inflation remains lower than in the central scenario, enabling base rates to fall faster, while the downside scenario represents base rates being held at current levels for longer, leading to lower growth and falling house prices.

The severe downside scenario continues to be based on the most recent Bank of England stress testing scenario, with the supply shock scenario from the July 2024 Annual Cyclical Scenario forming the basis for our projection. This includes persistently high interest rates, a pronounced recession and a slump in house prices.

Given the continuing divergence of opinion on the direction of the economy, and the potential for significant impact from UK and worldwide geopolitical factors described above, we have retained the weightings applied to each scenario at 30 September 2024, including the 15% weighting for the severe stress scenario, to represent the potential for plausible severe outturns for the UK. These weightings are, however, more positive than those adopted at 31 March 2024, which included a 20% weighting for the severe scenario.

The forecast economic assumptions within each scenario and the weightings applied are set out in more detail in note 15.

5 FINANCIAL REVIEW

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

	31 March 2025		30 September 2024		31 March 2024	
	Unadjusted Provision £m	Cover ratio	Unadjusted Provision £m	Cover ratio	Unadjusted Provision £m	Cover ratio
Weighted average	71.1	0.44%	70.0	0.45%	71.6	0.47%
Central scenario	61.7	0.38%	64.8	0.41%	62.5	0.41%
Severe scenario	97.6	0.61%	93.9	0.59%	100.2	0.65%

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

The distribution of gross balances in the loan portfolio by IFRS 9 stage (defined in note 13) at the three most recent six-month period ends is set out below.

	31 March 2025	30 September 2024	31 March 2024
Stage 1	93.2%	93.2%	91.8%
Stage 2	4.5%	4.9%	6.3%
Stage 3	2.2%	1.8%	1.8%
POCI	0.1%	0.1%	0.1%
Total	**100.0%**	**100.0%**	**100.0%**

The period has seen the proportion of fully performing (Stage 1) cases remain broadly stable, while seeing some movement of Stage 2 cases into Stage 3, mostly driven by the development finance performance. Across the book more widely, the incidence of new higher-stage cases has remained modest.

Some of the reduction in Stage 2 is a result of a decrease in the number of accounts moving from Stage 1, which is unsurprising. The future economic scenarios are largely focussed on stable or slowly declining interest rates and inflation, which, coupled with the current relatively low level of arrears tends to reduce calculated probability of default and hence the number of accounts identified as Stage 2. This effect also reduces the calculated provision, with management having to assess whether the result is appropriate, given the economic outlook and market conditions, or whether adjustments over and above our normal provisioning approach are required.

5 FINANCIAL REVIEW

Judgemental adjustments

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

Examples of such circumstances include the period of the Covid pandemic and its aftermath, and the recent period of rapid growth in interest rates and inflation. Whilst the economic outlook at 31 March 2025 appears more stable than was seen in those periods, the cumulative effects of a longer period of elevated interest rates are also potentially challenging for the effectiveness of the provisioning models, and there may be issues affecting particular markets which are not fully allowed for.

Having reviewed these potential additional impacts, we have:

- Maintained the adjustment in our buy-to-let mortgage book at £3.0 million, to allow for the types of idiosyncratic impacts which we have seen affect legacy portfolios, particularly, and which might not be handled well by the approach in the model (30 September 2024: £3.0 million; 31 March 2024: £3.0m)

- Maintained the £1.0 million adjustment in our motor finance book while the ability of our new motor finance model, which was introduced towards the end of the previous year, to respond well to the current economic situation, particularly the growing volume of voluntary terminations driven by lower second-hand car values, is assessed (30 September 2024: £1.0 million; 31 March 2024: £1.0 million)

- Maintained the £1.0 million adjustment to the modelled SME lending outputs (30 September 2024: £1.0 million; 31 March 2024: £2.5 million). While performance in the period has been relatively stable and the performance of the updated model introduced in 2023 has been satisfactory, the potential for idiosyncratic impacts from particular industries or customer concentrations is considered to justify a higher level of provision than that calculated

- Removed the temporary uplift to provision floors in the non-modelled development finance book which had been applied at 30 September 2024. This change is based on the performance of the portfolio since that date, and particularly that of those loans written in 2022 and earlier, which were at the greatest risk of impact from the significant increases in construction costs and interest rates in the period since the projects concerned had been evaluated. This had increased the impairment provision by £1.5 million at 30 September 2024 (31 March 2024: £nil)

5 FINANCIAL REVIEW

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

	31 March 2025	30 September 2024	31 March 2024	30 September 2023
	£m	£m	£m	£m
Mortgage Lending	3.0	3.0	3.0	3.0
Commercial Lending	2.0	3.5	3.5	3.5
	5.0	6.5	6.5	6.5

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

Ratios and trends

The results of our ECL modelling and other impairment provisioning, including the impact of the economic scenarios described above, together with the adjustments adopted to address uncertainties over the future performance of accounts, have resulted in the following overall provision amounts and coverage ratios:

	31 March 2025	30 September 2024	31 March 2024	30 September 2023
	£m	£m	£m	£m
Calculated provision	71.1	70.0	71.6	67.1
Judgemental adjustments	5.0	6.5	6.5	6.5
Total	**76.1**	**76.5**	**78.1**	**73.6**
Cover ratio				
Mortgage Lending	0.22%	0.26%	0.35%	0.33%
Commercial Lending	1.69%	1.77%	1.46%	1.56%
Total	**0.47%**	**0.48%**	**0.51%**	**0.49%**

Following the application of judgemental adjustments, the coverage levels at 31 March 2025 remain broadly similar to those seen at 30 September 2024, with the movement in judgemental adjustments rolling into calculated provision being utilised, and no material change in modelled outputs generated by changes in our economic scenarios.

These levels remain higher than the 0.34% coverage ratio seen at 30 September 2019, before the outbreak of the Covid-19 pandemic, in a much lower interest rate environment. Further, that level was recorded when there was less security cover in the buy-to-let book, with an average loan-to-value of 67.4% at that time compared to the 62.8% recorded at 31 March 2025 (30 September 2024: 62.8%; 31 March 2024: 63.5%).

5 FINANCIAL REVIEW

Future coverage levels will depend on future performance of the UK economy and its impact on our business, our customers and the markets in which they operate.

Provisions for liabilities

Since January 2024, historical practices in the motor finance industry for the payment of commissions to business introducers have been subject to a process of heightened legal and regulatory scrutiny, including actions by the FCA and the FOS and customer litigation and judicial review processes before the English courts. These actions are discussed in more detail in Section 2.2 above and in note 23 to the accounts.

While we have not been directly involved in any significant legal or regulatory actions to date, we have been active in this market, principally since 2014, and did have DCA arrangements in place. While we consider that our lending policies complied with regulatory requirements and best practice at the relevant time, it is nevertheless possible that some element of our historical lending may be captured by any requirement for redress set by the courts and / or the regulator.

The Court of Appeal ruling in the cases of Johnson, Wrench and Hopcraft, which has been appealed to the Supreme Court, related to loans made where a car dealer introduced their customer to a finance house as part of a vehicle sale, acting as intermediary (a 'broker-dealer'), and the Court clearly distinguished such cases from other types of car finance arrangements. Broker-dealer cases have formed a relatively small part of our total business volumes historically; however, it is possible that the scope for any redress may ultimately be wider (or narrower) than that element of the customer population.

We evaluated our exposure at 31 March 2025 by calculating a large number of different scenarios, allowing for differing levels of redress and different scopes of application within our historical motor finance portfolio. These were synthesised to generate an overall best estimate of our potential exposure. While this result is immaterial, we have decided to make a provision in the accounts in the current half year, based on our assessment of statements made in the period by the FCA and others, and of further litigation in the sector completed or progressed in the last six months, which indicate that the adoption of some form of redress scheme is now more likely than it was at the last year end. A provision for liabilities of £6.5 million has been made in the period (2024 H1: £nil; 2024 FY: £nil). This has been excluded from underlying profit, in line with the practice adopted by a number of other listed entities in the sector, as it overwhelmingly relates to historical, rather than current trading.

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

We would expect to be able to update stakeholders further on this matter in the year end accounts, when a number of the legal and regulatory processes currently in progress are expected to have progressed further.

5 FINANCIAL REVIEW

Fair value movements

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

Our approach to interest rate risk remains cautious and we believe our exposures to be appropriately economically hedged. No speculative derivative trading is undertaken, and all fair value movements relate to banking book exposures.

The accounting entries included in the fair value line are primarily non-cash items and will reverse over the life of the hedging arrangement. We consider these movements to be essentially the anticipation of gains or losses belonging economically to later accounting periods, and their subsequent unwinding. They are therefore excluded from underlying results.

During the 2022 financial year, particularly in the second half, there was a significant level of volatility in UK benchmark interest rate expectations which resulted in a gain of £191.9 million for that year being recorded. The impact of market volatility was amplified by the approach taken to pipeline hedging at the time and the retention strategy applied to five-year fixed loans maturing in that period, which meant that the pipeline was larger and of longer duration (and hence more exposed to movements in interest rates) than at most other times.

In the six months ended 31 March 2025 the unwinding of this large gain, which began in 2023, continued to impact the fair value line, albeit to a far lesser extent than in previous periods. Coupled with the accounting hedge ineffectiveness in the period, the impact of new pipeline hedges and a level of market volatility seen in March 2025, this resulted in a loss on fair value items of £2.8 million (2024 H1: loss of £38.9 million) being recorded in the period.

The element of the net derivative position at 31 March 2025 which is unmatched for hedge accounting was £42.8 million (at notional value) (30 September 2024: £126.6 million; 31 March 2024: £9.1 million), although these instruments form part of the economic hedging position. Accounting standards require that we carry these derivatives at a fair value based on expected cash flows over their contractual lives. As a substantial proportion of this balance has a lifetime of two to five years, volatility in the interest rate markets can generate substantial month-to-month fluctuations in this valuation which have to be included in profit.

5 FINANCIAL REVIEW

Tax charge

We only operate in the UK and materially all profit falls within the scope of UK taxation. The standard rate of UK corporation tax applicable in the period was 25.0% (2024 H1: 25.0%), with the surcharge applicable to Paragon Bank profits at 3.0% (2024 H1: 3.0%) (note 8). These are the same rates which were applicable in the preceding financial year. As the surcharge only applies to the profits of Paragon Bank over a threshold level, its impact on the effective tax rate is non-linear.

The effective tax rate of the Group in the period on the statutory basis was 28.1%, with the increase from the rate in the comparable period in the previous year (2024 FY: 26.7%; 2024 H1: 25.9%) principally a result of the impact of the deferred tax treatment of fair value items and of the extent by which the Paragon Bank profit exceeded the surcharge threshold.

As the bulk of the fair value movements arose in Paragon Bank, the surcharge meant that these were subject to a higher rate of tax than the overall effective rate for the Group. This meant that the effective tax rate on underlying profit was 26.4% (2024 FY: 27.4%; 2024 H1: 27.3%), broadly similar to the rate in the previous year (Appendix A).

Result

Profit before tax on the statutory basis for the six-month period was £140.1 million (2024 H1: £110.6 million) an increase of 26.7%, principally resulting from a reduction in the impact of derivative fair values, year-on-year. Profit after tax increased by 23.1% to £100.8 million (2024 H1: £81.9 million). In addition, other comprehensive expense of £1.7 million was recorded (2024 H1: income of £2.1 million) related to valuation movements on the defined benefit pension plan (the 'Plan').

Total consolidated accounting equity at the period end, after accounting for dividends and share buy-backs, was £1,408.8 million (31 March 2024: £1,382.0 million) and consolidated tangible equity £1,236.6 million (31 March 2024: £1,212.4 million), representing a tangible net asset value ('NAV') of £6.27 per share (31 March 2024: £5.80 per share) and a NAV on the statutory basis of £7.14 per share (31 March 2024: £6.62 per share) (Appendix D).

The information on related party transactions required by DTR 4.2.8(1) of the Disclosure Guidance and Transparency Rules is given in note 32.

Interim Management Report (Continued)

5 FINANCIAL REVIEW

5.2 ASSETS AND LIABILITIES

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

Our total loans to customers increased by 4.9% year-on-year, with increases in both the Mortgage Lending and Commercial Lending divisions. These movements are discussed in more detail in the business review (Section 2 above).

Our assets and liabilities at the period end are summarised in the balance sheet below.

SUMMARY BALANCE SHEET
31 March 2025

	31 March 2025	31 March 2024	30 September 2024
	£m	£m	£m
Loans to customers			
Mortgage Lending	13,681.9	13,094.7	13,415.7
Commercial Lending	2,310.6	2,154.3	2,289.8
	15,992.5	15,249.0	15,705.5
Hedging adjustment	(74.7)	(196.5)	(75.2)
Derivative financial assets	373.1	511.7	391.8
Cash and investment securities	2,584.8	3,137.1	2,952.8
Pension surplus	21.5	16.6	22.2
Intangible assets	172.2	169.6	171.5
Other assets	96.2	93.3	101.4
Total assets	19,165.6	18,980.8	19,270.0
Equity	1,408.8	1,382.0	1,419.5
Retail deposits	15,768.0	14,768.5	16,298.0
Hedging adjustment	7.9	(1.4)	16.7
Other borrowings	1,450.1	2,229.4	1,005.3
Derivative financial liabilities	66.1	95.1	99.7
Provisions for liabilities	6.5	-	-
Other liabilities	458.2	507.2	430.8
Total equity and liabilities	19,165.6	18,980.8	19,270.0

5 FINANCIAL REVIEW

Funding structure and cash resources

Overall, retail and wholesale debt funding increased by 1.3% year-on-year, a lower rate than loan book growth as surplus liquidity continued to be managed down through the period. This also drove a reduction in cash and investment balances, which reduced by 17.6% over the last twelve months. As well as Bank of England deposits, the period end liquidity buffer included £453.8 million of investments in UK Government securities and covered bonds issued by UK financial institutions (30 September 2024: £427.4 million; 31 March 2023: £98.1 million), continuing our strategy of diversifying our liquidity buffer away from solely Bank of England deposits.

The balance of funding remained broadly consistent between wholesale and retail funding, with around 90% of our funding requirement met through the retail deposit market. At 31 March 2025 savings balances represented 91.6% (30 September 2024: 94.2%; 31 March 2024: 86.9%). These movements are discussed in more detail in Section 3 above.

Derivatives

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

During the six-month period, interest rate expectations began to turn downwards, to some extent, with asset swap valuations falling back, and in some cases turning negative, although there was some level of instability in the markets, especially towards the end of the period.

The asset position of £373.1 million at 31 March 2025 had reduced by £18.7 million in the period as a result of these factors (30 September 2024: £391.8 million; 31 March 2024: £511.7 million), with derivative liabilities, which decreased by £33.6 million to £66.1 million, also impacted (30 September 2024: £99.7 million; 31 March 2024: £95.1 million).

While these movements do contribute to the fair value accounting adjustments, they are offset, to a large extent, by movements in the hedging adjustments to loan assets and deposit liabilities, with the adjustment in assets reducing by £0.5 million in the six months and that in liabilities reducing by £8.8 million.

5 FINANCIAL REVIEW

Pension obligations

The IAS 19 valuation surplus on our defined benefit pension scheme decreased slightly to £21.5 million at 31 March 2025 (30 September 2024: £22.2 million; 31 March 2024: £16.6 million). The assumptions for this valuation are based on market-derived interest and bond rates and can be subject to fluctuations where different market measures do not move in parallel.

The principal inputs to the valuation were largely similar to those used at 30 September 2024. The discount rate used in evaluating scheme liabilities, which is based on long-term corporate bond yields, increased by 80 basis points, from 5.10% to 5.90%, while the assumed rate of RPI inflation, based on gilt yields, remained stable at 3.05%. These movements reduced the gross scheme liability, although this was broadly offset by a reduction in the value of the scheme's assets, leading to a pre-tax valuation loss of £2.1 million being recognised in other comprehensive income (2024 H1: gain of £2.8 million; 2024 FY: gain of £7.2 million).

Other assets and liabilities

Other assets were £96.2 million (30 September 2024: £101.4 million; 31 March 2024: £93.3 million), broadly similar to the position at previous period ends.

Other liabilities increased over the half year to £458.2 million (30 September 2024: £430.8 million; 31 March 2024: £507.2 million). The principal movement in the period was an increase of £49.7 million in the value of collateral deposits received against swap assets, reflecting changes in derivative positions and the distribution of those positions between counterparties.

The provision for liabilities related to historical motor finance commissions is disclosed separately.

5 FINANCIAL REVIEW

5.3 SEGMENTAL RESULTS

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

	Six months to 31 March 2025	Six months to 31 March 2024	Year to 30 September 2024
	£m	£m	£m
Segmental profit			
Mortgage Lending	127.3	128.1	257.7
Commercial Lending	46.5	50.7	88.3
	173.8	178.8	346.0
Unallocated central costs	(24.4)	(32.5)	(53.3)
Underlying operating profit	149.4	146.3	292.7

Central administration and funding costs, principally the costs of service areas, establishment costs and bond interest payable have not been allocated, nor has the interest income from excess liquidity and bonds.

Mortgage Lending

Despite a competitive mortgage market, average product yields in our Mortgage Lending operation improved in the period, when compared to benchmark rates. However, this was offset, to some extent, by a narrowing of the gap between deposit costs and benchmark rates in the savings market. Segmental NIM reduced year-on-year as a result, to 208 basis points, a decrease of 18 basis points from the first half of 2024 (Appendix B), but a marginal strengthening from the 205 basis points recorded for the second half of the 2024 financial year. Combined with a 4.2% increase in the segment's average mortgage book to £13,548.8 million (31 March 2024: £12,998.5 million) this generated £140.9 million of net interest for the segment, a 4.0% reduction from 2024 (2024 H1: £146.7 million).

Overall credit performance in the book was stronger in the period, with the arrears position better than a year earlier. Only 1.3% of the gross loan book by value at the period end was considered to be credit impaired, a reduction over the six months (31 March 2024: 1.6%; 30 September 2024: 1.4%).

The impairment charge for the six months was £5.1 million, with the reduction driven by the improved performance of the book and continuing house price growth (2024 H1: £8.7 million). The resulting cost-of-risk for the period was 8 basis points (2024 H1: 13 basis points).

Overall, the contribution made by the segment to underlying profit was broadly similar to the comparable period twelve months earlier, at £127.3 million (2024 H1: £128.1 million).

5 FINANCIAL REVIEW

Commercial Lending

Net interest for the Commercial Lending portfolio increased to £65.9 million, an increase of 8.6% compared to the first half of 2024 (2024 H1: £60.7 million). This was driven by an 11.5% year-on-year increase in the average loan book to £2,300.2 million (31 March 2024: £2,063.2 million). This offset a decline in NIM, which fell by 15 basis points between the two periods to 573 basis points (Appendix B). While average product margins improved year-on-year compared to benchmark SONIA rates, this was more than offset by the reduction in the discount between SONIA and market funding rates. However, NIM for the period was still similar to the 577 basis points recorded in the second half of 2024.

Operating profit before impairment charges for the six months was £56.7 million, an increase of 8.4%, in line with the growth in income (2024 H1: £52.3 million).

Impairment charges for the period, at £10.2 million (2024 H1: £1.6 million), were substantially increased compared to the first half of 2024, but reduced from the £17.3 million reported for the second half. These charges were concentrated in the development finance business, with provisions required for a limited number of cases originated in 2022 and earlier, which continue to progress through the realisation process.

In the division’s other businesses credit remained strong, with low arrears and few defaulted cases, although the position in motor finance worsened slightly. However, we continue to maintain a cautious attitude towards credit prospects for the sector.

At 31 March 2025, 7.4% by gross value of cases in the segment’s portfolio were considered to be credit impaired, a higher value than the 5.1% recorded at the previous year end (31 March 2024: 3.5%). However, a substantial amount of this balance relates to development finance projects, where security cover is generally relatively high, and where provision requirements have been considered on a case-by-case basis for credit impaired cases.

As a result, segmental profit in the Commercial Lending division decreased to £46.5 million, a reduction of 8.3% compared to the first half of 2024, although significantly more than the £37.6 million recorded in the second half of that year (2024 H1: £50.7 million).

6 OPERATIONAL REVIEW

Sector knowledge, specialist systems and the careful management of risk across all our operations are the foundations of our strategy. Delivery of our purpose, to support the ambitions of the people and businesses of the UK by delivering specialist financial services, rests on our strategic pillars which include maintaining a customer-focussed culture and a dedicated team. Our recognition of the importance of an experienced, skilled and engaged workforce facilitated by effective systems, detailed use of analytics and focussed use of digitalisation to achieving this is fundamental to how we run our businesses.

This operations review addresses how our business has been conducted over the last six months, and its anticipated development going forward, under the following headings:

- 6.1 Operations (systems, infrastructure and conduct)
- 6.2 Governance
- 6.3 People
- 6.4 Sustainability (including environmental impacts)
- 6.5 Risk (including risk profile and risk management)
- 6.6 Regulatory change

During the half year our long-term programme to enhance processes and technology has continued, with the delivery of Spring and the completion of the roll-out of our new mortgage system forming significant milestones in this journey. In parallel, we have continued to invest in our people and processes to ensure the effectiveness of our operations going forward, and we were pleased to retain platinum Investors in People status in our recent reassessment, recognising our focus on this area.

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

6 OPERATIONAL REVIEW

6.1 OPERATIONS

Systems

Digitalisation remains at the heart of our strategy, with significant investment over recent years in our 'IT Roadmap' to ensure effective service delivery to our customers, enhance the resilience of the business and support our people's capabilities. This has included migration of processing to the cloud and the provision of new systems and functionality in various business areas, and the half year ended 31 March 2025 saw some very significant milestones achieved.

The preparation of the infrastructure to support April's launch of the Spring savings app was a major achievement. This delivered the functionality for in-house savings administration for the first time since the launch of Paragon Bank in 2014, making use of significant software tools not previously used in our infrastructure. The Spring system, which is our first mobile app-based solution, includes our first chatbot and has a significant reliance on types of API technology not previously used in our IT environment, with over twenty different API connections to support the customer experience. The app also includes machine-learning AI features, which as well as supporting the chatbot, are used to enhance cyber security and anti-fraud protection and to reduce operational burdens.

Several of the fundamental building blocks in the Spring infrastructure are shared with our other principal IT Roadmap applications, in line with one of the principal objectives of our digitisation strategy. This means that the learnings from each project can be fed back to inform future developments across all our businesses, that technical skills are more interchangeable and that the IT environment as a whole is more resilient.

The half year also saw the roll-out of our new mortgage front-end system, launched in the latter part of the 2024 financial year, to our whole mortgage broker community. As of 31 March 2025, all our brokers had access to the new system, and were using it to submit cases. This means that the IT Roadmap has now delivered new origination systems for our buy-to-let mortgage, development finance and SME lending businesses, covering the majority of our new business flows.

One of the largest remaining projects on the IT Roadmap was also launched in the period. We appointed Alfa Systems to support our new post-completion system in SME lending. This will replace a number of legacy systems, streamlining processing, providing enhanced flexibility and improving the experience for customers and intermediaries.

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

The second half of the year will see further progress on the IT Roadmap as the remaining projects are progressed, user learnings fed back to enhance both the Spring and mortgage systems, and general enhancements to the tools used to support our people continue to be made.

6 OPERATIONAL REVIEW

Facilities

We continue to use a hybrid working model, with the majority of our people working in one of our offices two or three days in each week. There are no current plans to change this approach, despite the move back to office-based working seen elsewhere in the sector. Our focus on specialism, which is fundamental to our strategy, means that a single preferred approach is never likely to be appropriate, and our business areas adopt the most appropriate working methods to suit the needs of their customers, people and operations, supported by our digital technology.

Office occupancy has remained at similar daily levels to previous periods, and we continue to develop our premises in line with the requirements of this model of working. The first stages of the modernisation of our Homer Road, Solihull, headquarters premises began in the period, with the objective of both providing facilities more suitable for the hybrid approach to working, and improving its carbon footprint. An EPC level of A for the building is being targeted, with the refurbishment being one of our key operational sustainability objectives.

Of the principal office locations used by the business, Homer Road, completed in the early 1990s is both the largest and the least up to date, with our London and Southampton premises relatively modern in comparison, and far more sustainable. This programme of refurbishment will, therefore, bring our estate, as a whole, more in line with the current expectations of stakeholders, employees and potential employees.

Operational resilience has been a significant area of focus over recent years, with regulators codifying their expectations. March 2025 was set as the date by which firms had to be able to demonstrate the appropriateness and robustness of their planning, and we were pleased with the positive results of our self-assessment at that point, which was further reviewed by our Internal Audit function.

6 OPERATIONAL REVIEW

Customers

High-quality customer service has remained a priority throughout the period. Regular surveys are conducted with customers and business introducers to monitor satisfaction, and have remained positive in the period. The FCA Consumer Duty is now fundamentally embedded in our processes, and has informed all new developments, including the launch of Spring.

We monitor FOS complaints data as a high-level conduct risk metric for our FOS-eligible lending, and incident levels, outside those related to motor finance commissions, remained low throughout the period. Consolidated information for the two group companies that are required to report complaints to FOS is set out below for the four most recent FOS reporting periods. In the most recent period only one of these companies met the threshold for the publication of its data by FOS, as was the case in the preceding period.

	Six months ended			
	31 December 2024	**30 June 2024**	**31 December 2023**	**30 June 2023**
Cases reported	54	79	48	57
Uphold rate	43.0%	16.0%	26.1%	36.2%

The number of cases reported is broadly in line with our long-term average. The uphold rate in the three submission periods up to June 2024 was positive when compared with industry averages. However, the latest data has seen an increase in the uphold rate, which we continue to monitor carefully.

The overall uphold rate across all companies for the six months ended 31 December 2024 reported by FOS was 33%, compared to 35% in the preceding six months. FOS data across the financial services industry is published on the ombudsman's website at www.financial-ombudsman.org.uk.

We continue to monitor the progress of the FCA's review of discretionary commission arrangements in the motor finance sector and other legal and regulatory developments in this area. While we offered products that might fall within the scope of these initiatives, principally between 2014 and 2020, we consider that all our lending was in accordance with regulatory requirements at the time and that customers received outcomes in line with their expectations.

In accordance with the FCA's instructions, we have paused complaint handling for motor finance commissions cases, where applicable. In each of these cases we have followed the FCA rules for processing such complaints, with all complaints being acknowledged. Our total number of paused complaints at 31 March 2025 was around 6,000, and we have plans in place to ensure that these can be progressed in a timely fashion once the pause comes to an end, currently expected to be in December 2025.

6 OPERATIONAL REVIEW

6.2 GOVERNANCE

We believe that high standards of corporate governance are fundamental to the effective execution of our strategy. There have been no significant changes in our governance framework during the period, and the procedures described in Section B of the Annual Report and Accounts for the year ended 30 September 2024 remain in place. For the current year, the Group is subject to the 2018 UK Corporate Governance Code (the 'Code'), and we have continued to comply with the Code's principles and provisions throughout the period.

The current edition of the Code is being replaced with one published in 2024, with most of the required changes applying to us from our next financial year, the year ending 30 September 2026. However, the changes with the most impact, those relating to financial control, are only applicable from our 2027 financial year. Work is currently ongoing to ensure that we are able to comply with the new principles, provisions and guidance, with some changes already in place. This work will continue during the second half of the year.

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

Board of directors and senior management

All board members were re-elected at our AGM in March 2025. The Board therefore continues to comprise two executive directors, six independent non-executive directors, one non-independent non-executive director and the Chair, who was considered independent on appointment.

At 31 March 2025, the Board included four female directors, comprising 40% of its membership, with one of the senior roles designated by the FCA held by a woman, Alison Morris, the Senior Independent Director. In addition, half of the Board's principal committees were chaired by female directors.

On 1 October 2024, Sarah Mayne, the Chief Internal Auditor, became a member of the Executive Performance Committee and Executive Risk Committee, having attended the committees as an observer since her appointment in 2016. This increases the membership of both committees to thirteen, of which 30.8% are female.

6 OPERATIONAL REVIEW

Remuneration policy

In accordance with UK law, we intend to present our directors' remuneration policy, last approved in March 2023, for approval at our next AGM in March 2026. The Remuneration Committee will consider market trends, regulatory changes (including new Code guidance), and changes in stakeholder expectations since 2023 when evaluating any proposed amendments to the current policy.

The proposed policy will be published with this year's Annual Report and Accounts, but before that time we will be conducting an exercise to ascertain the views of shareholders and other stakeholder groups. We would urge those invited to participate to engage positively, and would welcome submissions from other interested groups, which can be made to the Chair of the Remuneration Committee through the offices of the Company Secretary.

6.3 PEOPLE

At 31 March 2025, 1,395 people were employed across our businesses (30 September 2024: 1,411), maintaining a broadly stable workforce over the past six months. We continue to focus on making sure we have the right skills, resources and operating model to deliver our strategic objectives and our technology roadmap, whilst ensuring we are resourced appropriately to deliver good outcomes for our customers.

For many of our people the half year has seen new challenges and the introduction of significant technology upgrades, particularly with preparations for the launch of our Spring savings brand and the continuing roll-out of the new mortgage system. For many of our people this involved participating in user testing and in supporting system development, alongside carrying out their normal duties. There were also significant training requirements as people familiarised themselves with radically changed systems and processes. We are pleased with the way that they have risen to these challenges.

Conditions and culture

We continue to promote a healthy work life balance with flexibility in how and where our people work wherever possible. We recognise the value of flexible working in retaining skills and experience and its role in fostering a diverse and engaged workforce.

All our employees are based in the UK, and we are committed to staying up to date with the latest changes in UK employment legislation. This has been a particular area of focus in the period, with the new UK Government's Employment Rights Bill currently before Parliament. By proactively monitoring and adapting to updates, we ensure compliance with current regulations and reflect best practice. We have considered the changes currently being proposed and concluded that they will not have a major impact on the way we do business.

6 OPERATIONAL REVIEW

Following the FCA's publication in October 2024 of the findings from its survey on non-financial misconduct, we have conducted a thorough gap analysis to assess our compliance with regulatory expectations. While no significant issues were identified, we plan to further strengthen management information in this area and reinforce employee responsibilities through communications and training programmes.

In March 2025 we were reaccredited as an Investors in People ('IIP') employer, with platinum status. This is the highest level available, currently held by only 8% of IIP accredited employers. The IIP re-accreditation process, which takes place every three years, involved an all-employee survey where 71% of employees provided feedback on their experiences working at Paragon (2022: 73% of employees responded). Additionally, over 5% of employees participated in one-to-one interviews with the IIP assessors. The performance indicators highlighted strong results, particularly in measuring and assessing performance, setting objectives, and enabling collaborative working, and our strong culture shaped by our values was commended.

We continue to maintain our accreditation from the UK Living Wage Foundation and minimum hourly pay continues to meet the 'Real Living Wage' levels set by the Foundation, last updated in October 2024. We ensure that all employees, including apprentices, are paid in line with the Foundation's hourly rate, currently £12.60 per hour outside London, with London-based employees receiving a higher rate.

In response to the Chancellor of the Exchequer's announcement increasing the rate of National Insurance contributions payable by employers, effective from April 2025, we are committed to ensuring that the additional costs will not be passed onto our employees. The additional monthly cost has been allowed for in the costs guidance provided with this announcement.

Our profit related pay ('PRP') scheme continues to provide employees with a benefit linked to our financial performance. In December 2024, 87% of employees were eligible to receive PRP in respect of the 2024 financial year. This provided an additional £2,641 per person on a full-time equivalent basis.

Holiday entitlement for most employees remains at a maximum of 31 days and a minimum of 26 days. In addition, two additional company closure days are given over the Christmas period as well as all UK public holidays. This means that most full-time employees will enjoy at least 36 days of paid holiday each year.

Our annual voluntary attrition rate at 31 March 2025 remains low, at 8.75%, and is running below the level seen in the preceding year (31 March 2024: 10.5%). The ability to leverage the knowledge and experience of long-serving employees has been key to the development of our businesses, with 36% of the workforce at 31 March 2025 having achieved ten years' service, including the 13% of employees who have been with us for over twenty years.

6 OPERATIONAL REVIEW

The People Forum continues as one of the main channels for employee opinions to be fed back to the Board and executive committees. The chairs of the audit and remuneration committees, Alison Morris and Tanvi Davda, both non-executive directors, met with the People Forum in November 2024. Discussions included communication, culture and engagement, and remuneration arrangements. Meetings between the People Forum and various executive and non-executive directors continue on a regular basis.

The People Forum collaborated with the Human Resources team to develop enhancements to our parental leave policy which were introduced from 1 March 2025. Paternity pay is now available for six weeks rather than two weeks and length of service requirement to qualify for enhanced maternity, paternity or other similar payments has been reduced from two years to one year. These changes are in addition to the fertility policy introduced last year.

Supporting the wellbeing of employees is central to our people strategy, and the Wellbeing Team remains the cornerstone of this approach. Sponsored by the Chief People Officer, the Wellbeing Team comprises of employees from across the business who are trained as mental health first aiders, supporting employees with their emotional, social, financial, and physical wellbeing. As well as supporting individual employees the network also supports business continuity planning to ensure our workforce remains resilient.

Equality and diversity

Despite the potential for changes to the legislative and regulatory framework surrounding Equality, Diversity, and Inclusion ('EDI') in the UK, we remain committed to advancing our EDI initiatives in pursuit of the EDI strategy approved by the Board during 2024.

This strategy includes the use of targets for female representation and has increased awareness and understanding of EDI matters through the activities of our employee-led EDI Network. Additionally, we have continued to make progress in capturing data on the composition of our workforce, with 82.5% of employees having completed diversity monitoring profiles by 31 March 2025 (30 September 2024: 80.9%). The creation of new diversity monitoring dashboards, being rolled out in the second half of the year, will further highlight areas for improvement.

Our strategy focuses on three key threads, supporting our commitment to enhance equality, diversity, and inclusion at all levels.

1. **Diverse Talent**: To attract, develop, and retain talent from varied backgrounds, emphasising gender, ethnicity and socio-economic diversity
2. **Inclusive Workplace**: Ensuring we remain a welcoming and inclusive environment for all employees
3. **Data and Monitoring**: To improve data collection and analysis measuring workforce diversity and employee experiences

Together, these activities are intended to foster an ever more equitable and inclusive workplace.

6 OPERATIONAL REVIEW

The EDI Network continues to play an integral part in advancing the EDI Strategy. This includes raising awareness, through organising and participating in virtual events, employee listening circles, podcasts and communication campaigns. These initiatives will continue throughout the second half of the year to drive support for the EDI strategy across the business at all levels.

We remain committed to supporting employees from under-represented groups through various development initiatives including 'Ignite' an internal development programme. We also participate in the cross-company mentoring programmes 'Mission Include' and 'Mission Gender Equity', run by Moving Ahead in conjunction with the 30% Club, where a sixth cohort of employees is making good progress.

We continue to promote socio-economic diversity in the financial sector as a founding member of 'Progress Together', with Anne Barnett, our Chief People Officer, joining the Progress Together board in the period as a non-executive director. This appointment underscores our dedication to fostering inclusive growth and representation in the industry.

In March 2025, we published our latest Gender Pay Gap report with a mean pay gap at 5 April 2024 of 35.8% (2023: 35.0%) and a median gap of 31.0% (2023: 33.5%). Whilst our 2024 median pay gap has improved since 2023, and our mean gender pay gap remains at a similar level, both measures remain larger than senior management would like. This disparity is primarily due to the gender distribution across pay quartiles, influenced by the seniority and types of roles held by men and women within our organisation.

We remain committed to HM Treasury's Women in Finance Charter, which now has around 450 signatories. We have set a target of achieving 40% female representation in senior management roles (executive committee members and their direct reports), prior to the deadline of December 2025. This target is aligned to both the Treasury's stated expectations, and the target set by the FTSE Women Leaders initiative. At 31 March 2025, 38.6% of senior management roles were held by women, a similar level to that a year earlier (30 September 2024: 37.9%; 31 March 2024: 38.2%).

In line with the expectations of the Parker Review, we have committed to achieve 5% ethnic minority representation in senior management roles, defined in the same way as above, by December 2027. At 31 March 2025, representation was 3.5% (30 September 2024: 1.7%).

6 OPERATIONAL REVIEW

Learning and development

The introduction of our new mortgage lending system and the preparations for the launch of Spring have introduced significant changes in the workloads of many of our people. As part of these processes there was a significant focus on ensuring that all those affected had the training and support required to address these developments successfully.

During the six-month period, in partnership with Progress Together, and in collaboration with Nationwide Building Society, Coventry Building Society, and Yorkshire Building Society, we have participated in a pilot of the Accelerated Progress Programme (‘APP’). This unique cross-company initiative is designed to develop, empower, and unlock the potential of high-performing middle managers from low socio-economic backgrounds. Our involvement supports our EDI Strategy to attract, increase, and retain diverse representation in our workforce.

We continue to access the UK Government’s Apprenticeship Levy scheme, with three employees completing their apprenticeships so far during the current financial year. At 31 March 2025, 17 apprentices and paid interns were working in various areas of the business, focussing on specialist development aligned with their roles. Over the past twelve months, we utilised 29.7% of our available levy pot (31 March 2024: 23.7%). Additionally, we continue to donate 10% of the levy pot to support apprenticeships in SMEs.

To enhance the support we can provide to our customers, we have launched a ‘Coaching for Success’ programme, to enhance the skills of our coaches in operational areas. These highly practical sessions include observations, feedback and practical skills development.

During the six-month period, the digital training team supported 93 senior individuals with the effective use of Microsoft Copilot following its introduction to the business. The training has significantly driven the adoption of this AI tool, resulting in notable increases in average Copilot actions per user.

We are currently funding 48 employees undertaking professional qualifications (31 March 2024: 73). Most of these people are pursuing the London Institute of Banking and Finance CeMap mortgage qualification, with a large number of the remainder undertaking accounting qualifications.

6 OPERATIONAL REVIEW

6.4 SUSTAINABILITY

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

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

Sustainability governance

Our overall response to climate change and other sustainability issues is coordinated by the Sustainability Committee, which is chaired by the External Relations Director, and reports to the Executive Performance Committee. This ensures that information on initiatives within any of our operational areas is shared across all our businesses and facilitates the development of a coordinated and proactive approach.

Since its formation in 2021 the committee has increased the profile of sustainability-related risks and opportunities and driven improved reporting and understanding of these matters. This, in turn, has enhanced the approach to identifying and managing any further risks or opportunities in these areas.

During the six months ended 31 March 2025 the Sustainability Committee has:

- Reviewed and recommended the climate change principal risk policy for submission to the board-level Risk and Compliance Committee following its annual update
- Measured and assessed progress across key sustainability focus areas
- Approved the methodology for reporting the financed emissions for the full balance sheet
- Considered our approaches to supply chain emissions and emissions related to employees, including those related to working from home and commuting
- Approved a new approach to sustainability training which will be rolled out across the whole business

We publish an annual sustainability report, the Responsible Business Report, each December. This provides more detailed information on sustainability initiatives across our businesses and demonstrates how sustainability is embedded. It is available on our corporate website at www.paragonbankinggroup.co.uk, alongside other information and documentation relevant to ESG issues.

The UK Government elected in 2024 has signalled its intentions to increase non-financial reporting requirements, both for climate-related issues, and more broadly, and we continue to monitor developments in this area.

6 OPERATIONAL REVIEW

Climate change

We have made a commitment to achieve net zero by 2050 in line with, and in support of, UK Government commitments. In doing so we recognise that net zero cannot be achieved by any entity in isolation and that this commitment is therefore dependent on appropriate support and action from government and the industry more generally.

As members of Bankers for Net Zero ('B4NZ') we provide input into the wider efforts of the financial services industry to facilitate a clear pathway for the decarbonisation of the UK economy.

Climate change has been designated as a principal risk within our Enterprise Risk Management Framework ('ERMF'). As a result, our response to climate change is considered within the Board's overall strategy. These risks fall into two main groups:

- Physical risks (which arise from weather-related events)
- Transitional risks (which come from the adoption of a low-carbon economy)

Information and measures on climate-related risks and opportunities are considered at board level, with information and metrics on sustainability included in the CEO's monthly board report. Developments in sustainable products and climate-related exposures are considered for each business line as part of strategy deep dives which feed into the annual board strategy event and form the basis of our corporate planning.

During the six months ended 31 March 2025, we have responded to the ongoing consultation on the reform of EPCs. This seeks to update the way in which EPCs on UK properties are measured and the frequency with which they are updated, in order that they can form a better basis for sustainability evaluations. We are also fully engaged with the UK Government's consultation on legislation to introduce a Minimum Energy Efficiency Standard ('MEES') for the Private Rental Sector, which was launched in February 2025.

The analysis of climate-related risks relevant to our business which was undertaken in 2024 is still considered fit for purpose, given that there have been no material changes in the business, or the regulations and policies impacting on it since that time. The potential impacts of the proposals in the MEES consultation, as currently drafted, fall within the scenarios considered in this exercise, therefore do not propose any significant additional risks.

Highlights of climate-related initiatives across our businesses over the last six months include:

- Launching a project with a third-party provider of EPC and retrofit data, to both enhance our reporting of mortgage financed emissions and support the development of our retrofit product
- Further lending through the Green Homes Initiative in the development finance operation, with £232.6 million of new lending commitments having been agreed under this initiative to date
- Embedding 'Green Champions' across the SME lending operation to proactively seek sustainable lending opportunities and proposition development
- Launching the Growth Guarantee Scheme in SME lending, with a focus on sustainable assets

6 OPERATIONAL REVIEW

- Increasing levels of new business on energy efficient EPC A to C properties within the buy-to-let mortgage operation. Over the last six months around half of our new buy-to-let mortgage business, where data was available, had an EPC rating of A to C
- Continuing the expansion of motor finance lending related to battery electric vehicles ('BEV's) and hybrid vehicles with £27.3 million of BEV lending since the 2022 financial year

Additional information on these initiatives is included in the business reviews in Section 2 of this report.

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

In support of our net zero operational footprint target, we purchased certified carbon offsets equivalent to our operational footprint for the 2024 financial year during the period. We intend to repeat that exercise for the current financial year and for each year going forward. However, we acknowledge that, ideally, reducing impacts is preferable to offsetting.

Our initiatives to reduce operational environmental impacts during the last six months include:

- Commencing the project to decarbonise and refurbish our Solihull Head Office building
- Expanding the roll-out of our ESG supplier survey to cover all newly on-boarded suppliers whose impacts were assessed as critical or high
- Continuing the adoption of BEVs and plug-in hybrid electric vehicles across the company car fleet, with such vehicles now representing around a third of the fleet

We are required by the UK Listing Rules to report on climate change related risks and exposures using the Taskforce on Climate-Related Financial Disclosure ('TCFD') framework. The 2024 Annual Report and Accounts contains disclosures which are consistent with the recommendations of the TCFD, and the expectations set out in the Listing Rules. These disclosures set out our approach to the management of climate risk in greater detail than this Half-Year Report and are available on our corporate website at www.paragonbankinggroup.co.uk.

While the TCFD itself has been disbanded, these disclosures will continue to develop in light of emerging market practice, international initiatives, the UK legislative framework and regulatory expectations. We will carefully monitor developments in these areas, including the UK Government-sponsored consultation on reporting, being carried out through UK Sustainability Disclosure Technical Advisory Committee ('TAC'). The TAC is considering the potential adoption in the UK of sustainability reporting standards published by the International Sustainability Standards Board. This forms part of the UK Government's wider agenda on non-financial reporting requirements.

6 OPERATIONAL REVIEW

Social engagement

Our charity for the 2025 financial year, chosen by employees, is Guide Dogs UK, which helps people with sight loss live the life they choose. At the half-way point of the year the amount raised through events organised by our employee-led Charity Committee had reached £22,000 against a target of £35,000 with further fundraising events planned for the remainder of the year.

Employees are also entitled to an annual paid volunteering day. So far this year, employees have already contributed 155 sessions, supporting projects in the community, with a focus on those which provide education, help those experiencing poverty or which benefit the local environment. We are targeting 450 volunteer sessions for 2025 with a large number of events planned for the second half of the financial year.

We have continued our work with Future First, the social mobility and education charity. This involved partnering with King Edward VI Sheldon Heath Academy in Birmingham to deliver an insight career day and networking event, developing their volunteer and alumni network, supporting a virtual mentoring campaign and signing their 'Future First Pledge'.

6.5 RISK MANAGEMENT

The effective management of risk remains crucial to the achievement of our strategic objectives. We operate a risk governance framework designed around a formal three lines of defence model (business areas, Risk and Compliance function and Internal Audit), supervised at board level.

Risk environment

During the last six months the risk landscape has continued to evolve, providing new and, in certain cases, unprecedented challenges, the implications of which are still unfolding. The geopolitical environment, which was already dealing with international military conflicts and their consequences, has now been further complicated by the emergence of instability in the international trading system. This now threatens to disrupt the global economy and trading relationships, and has the potential to result in a global economic downturn. As a consequence, the first few months of 2025 have seen extreme volatility in global financial markets, together with concerns around the broader supply of goods and services across international borders.

At 31 March 2025, the risk agenda remains largely focussed on the consequences of events driven by the economic impacts of the recent announcements by the USA of fundamental changes in its approach to international trade policy. This situation is evolving rapidly and there is still considerable speculation and uncertainty as to its ultimate global economic consequences and, in turn, the possible outcomes for the UK economy and for consumers and businesses operating within it.

6 OPERATIONAL REVIEW

There is a strong consensus in the UK that the economic shocks driven by these US announcements will impact confidence in the domestic economy and potentially exert deflationary pressures. However, this might accelerate further interest base rate cuts, which might enhance affordability for some of our customers, and provide a stimulus to the UK property market, potentially offsetting negative influences on our core businesses. We continue to monitor the range of outcomes on an ongoing basis, considering how these may impact the risk profile of each of our principal risks.

While the impact of the US Government's economic policies potentially poses a significant threat to the stability of the world and UK economy, there are also specific domestic challenges which we continue to monitor and respond to. As noted above, we are closely monitoring the developing legal and regulatory situation in respect of historical motor finance commissions, with the Supreme Court's ruling in the Hopcraft case, and the Court of Appeal ruling on the Clydesdale judicial review, both due later this year, and the FCA's conclusions on redress, which these rulings will heavily influence, expected to follow shortly afterwards. The regulator's findings are expected to determine lenders' liability in respect of any redress scheme, and the actions which firms are expected to take in response.

Given the comparatively small size of our motor finance portfolio, our potential exposure remains low, in terms of overall financial impact. However, the full extent of any liability cannot be accurately assessed until the relevant legal cases have been determined and the FCA's proposed approach to any potential remediation requirement is known. While we await the final verdicts of the courts and the regulator, we have conducted, and continue to conduct, detailed analysis to ascertain the financial and operational impacts of potential outcomes, ensuring we can mobilise effectively to meet legal and / or regulatory requirements as necessary.

We also remain close to the progress of the proposed reforms in the PRS being introduced through the 'Renters' Rights Bill', which include ending 'no fault' Section 21 evictions and introducing a 'Decent Homes Standard' for rental homes. The draft legislation has now reached the committee stage in the House of Lords, and we continue to engage with the UK Government, both directly and in conjunction with trade bodies, on how these changes can be practically implemented in a way which supports its aspirations for the provision of housing in the UK. At the same time, we have maintained a detailed focus on how these proposals may impact the risk profile of our buy-to-let portfolio and the viability of our landlord customers.

Despite the significant challenges these developments collectively bring to our overall operating environment, our businesses have continued to perform positively throughout the six-month period. As these situations evolve, they continue to demand ongoing vigilance, given the current degree of uncertainty involved, but we consider that we are well placed to manage these and other risks through our established risk management structures and processes.

- Interest rates are expected to continue to move downwards, following the two base rate reductions in the period and the further cut in April 2025. While the timing of any further cuts is still unclear, this overall trend provides us with an increasingly stable lending environment with a more predictable loan affordability outlook. That stability, however, is tempered by the generally higher costs that landlords, property developers and SMEs are still being required to manage. We remain vigilant to the potential impacts of inflationary movements in light of the ongoing geopolitical uncertainties

6 OPERATIONAL REVIEW

- We continue to focus on high-quality lending, applying prudent credit policies. Actual and projected arrears trends are assessed in setting lending criteria and an extensive suite of customer profiling and performance metrics used to inform those decisions
- Whilst the current risk profile of loans across our portfolios does not indicate any noticeable signs of significantly increased financial stress, we continue to take a forward-looking, as well as current, view of affordability, and will adjust credit policy in a timely manner to ensure loan repayments are sustainable for customers as appropriate
- We take our responsibilities in respect of customers with reducing financial resilience, and those in vulnerable circumstances, extremely seriously. We continue to ensure that where forbearance solutions are appropriate, they are tailored to individual customer circumstances and aligned to regulatory guidance. Significant emphasis is placed on ensuring that procedures, controls and training provisions meet regulatory and industry expectations

Risk management systems

Our embedded and comprehensive group-wide Enterprise Risk Management Framework ('ERMF') remains core to the effective identification, assessment and mitigation of risks and the level of maturity around risk understanding across our businesses continues to deepen and improve.

Against the backdrop of the risk environment describe above, the ERMF provides assurance that new and developing risks are promptly identified, assessed and managed, with appropriate escalation and oversight provided. As the risk landscape continues to evolve, the role of the ERMF remains critical, both in the early identification of risk issues, and in providing a mechanism to manage them. We remain confident that the ERMF continues to be effective in allowing us to address the current uncertainties in a way that allows us to make considered risk-based decisions.

We delivered our self-assessment of operational resilience as at 31 March 2025, thereby confirming that we are compliant with the regulatory deadlines. Whilst this is a critical milestone, it is recognised that ensuring that our business remains operationally resilient going forward will necessitate a strategy of continuous improvement. Efforts to meet the ever-changing threats to our operating environment mean operational resilience will continue to be an important area of focus, with ongoing refinement of critical business services and tolerances, ensuring these considerations are embedded as both part of day-to-day operations, and as a core principle within our digital strategy and technology roadmap.

6 OPERATIONAL REVIEW

The April 2025 launch of our new savings proposition, Spring, introduces new technologies, provides increased diversification of our operations and allows us to explore additional funding options, enhancing our financial and operational resilience. However, we are mindful that this also brings with it incremental risks around cyber security, data protection and reliance on third party servicers that need to be managed in line with our risk appetite and in accordance with regulatory expectations. Spring has been subject to rigorous testing and oversight throughout its development, and its post-launch phases are being rolled out in a controlled manner. We are fundamentally committed to ensuring that our customers are protected at all times, and receive good outcomes across all our products and services.

Continuing efforts to combat financial crime are core to all our operations and are firmly embedded in the control environment developed to support Spring. We are determined to prioritise activity in respect of anti-money laundering, and the wider financial crime control environment, with both an ongoing programme of continuous improvement in technology and investment in skilled resources to align with regulatory expectations.

Our commitment to ensuring robust cyber security is fundamental to our digitalisation strategy. We focus on ensuring effective cyber-security controls and a robust data protection approach are in place across our businesses, particularly with the evolving and increasingly sophisticated nature of cyber threats.

We continue to explore the use of artificial intelligence ('AI') in a controlled and ethical manner through the development of formalised oversight and governance. We are mindful of ensuring that cyber defences are not compromised whilst embracing the possibilities that AI offers.

Prioritising focus on climate change, given the associated risks, remains an ever-present challenge. The UK Government has confirmed its goal of net zero carbon by 2050, albeit further clarity is still needed on the policy and regulations that will facilitate this transition. Against the backdrop of evolving global and domestic strategies, we are committed to ensuring the impacts of climate change are considered and measured both in terms of our operational footprint and our lending activities, ensuring we are well positioned to respond to any wider changes in policy or legislation.

Significant and emerging risks

The principal significant and emerging risk areas arising from the matters discussed above and expected to impact our businesses during the remainder of the year ending 30 September 2025 and beyond include:

- **Interest rates** – Continuing uncertainty over the speed and timing of any potential future reductions in interest rates remains critical to long-term business planning
- **Costs of living and doing business** – Increased costs have already impacted, and will continue to impact, on the finances of individuals and corporates in the UK, including our customers

6 OPERATIONAL REVIEW

- **Motor finance commissions** – The ultimate outcomes of the FCA's review in relation to historical motor finance commissions, and other legal and regulatory developments in that area remain uncertain

- **Spring implementation** – While the new systems were thoroughly tested before their April 2025 launch, and the roll-out of the new offering is being carefully managed, any large-scale implementation bears an execution risk

- **Compliance expectations** – Regulatory compliance expectations continue to increase across our businesses. Our priority is to ensure that good outcomes and a culture of continuous improvement remain at the forefront of all customer interactions and that developing expectations are met

- **Climate** – As global and UK strategies are further refined and more detailed expectations developed, we seek to ensure that we are well placed to adapt and advance our businesses

We fully expect these issues to dominate the risk agenda for the remainder of the financial year, but it is unclear how some of them might impact the UK financial services sector and, in particular, those areas of it in which we operate. This degree of uncertainty is challenging and requires us to remain agile and dynamic in our response to the circumstances currently faced. We are confident, however, that the investment to date in our ERMF, and the planning and analysis we continue to undertake will enable us to respond effectively as we gain further clarity on the economic, legislative and regulatory challenges anticipated in the coming months.

Principal risks and uncertainties

A summary of the principal risks and uncertainties faced by the Group, required by DTR 4.2.7(2) of the Disclosure and Transparency Rules, is set out on pages 196 to 197. These risks have not changed significantly since those disclosed at the 2024 financial year end.

6.6 REGULATORY CHANGES

Paragon Bank is authorised by the PRA and regulated by the PRA and the FCA. The business as a whole is subject to consolidated supervision by the PRA and a number of entities within the Group are authorised and regulated by the FCA. As a result, current and projected regulatory changes continue to pose a significant risk for our business. All potential regulatory changes impacting on our operations are closely monitored through the comprehensive governance and control structures in place. These mechanisms include regular reporting on key regulatory developments received at both executive and board risk committees, assessing their potential implications for our businesses, the impact on their risk profiles and any necessary actions. This ensures that we are well placed to respond to any changes in a timely and appropriate manner.

6 OPERATIONAL REVIEW

Given the nature of our operations and the different sectors in which we operate, we are affected by a broad range of prudential and conduct regulations. We engage in regular dialogue with regulators and respond to all their requests promptly. The volume of requests for information from the FCA has continued to remain high, as expected, with a particular continuing focus on information to support its ongoing investigations into historical motor finance commission arrangements. All such requests are responded to in a timely fashion and robust controls maintained to support the delivery of good outcomes for customers.

The following recent and current regulatory developments have the greatest potential impact on our businesses:

- **Motor finance commissions** – We continue to monitor all developments in respect of the motor finance market and historical discretionary commission arrangements. However, until the decisions of the Supreme Court hearing in the cases of Johnson, Wrench and Hopcraft and other legal processes currently in progress are handed down, and the FCA concludes on its proposed approach to any redress requirement following this, the full impact cannot be accurately assessed. Our monitoring is intended to ensure we are well positioned to respond to the FCA's requirements when finalised, and to implement any remediation or redress this may entail

- **Basel 3.1** – In January the PRA, in consultation with HM Treasury, announced its intention to delay the implementation of Basel 3.1 in the UK by one year until 1 January 2027 to enable further consideration of its plans. As a consequence, the data collection exercise to inform the PRA's off-cycle review of firm specific Pillar 2 capital requirements, which is an important step in the implementation path, has been paused until further notice. Likewise, the window for firms to join the Interim Capital Regime ('ICR'), which is part of the Small Domestic Deposit Takers ('SDDT') regime has also been moved back. Our application to participate in the ICR has been approved by the PRA, and we await further details of any changes to the regime which may be proposed and will respond once these are published

- **Changes to the Sterling Monetary Framework** – In December, the Bank of England published a discussion paper 'Transitioning to a Repo-led Operating Framework' where the Bank set out its plans to move to a demand-driven framework in the second half of 2025. A key part of this is the expectation that ILTR and STR facilities provided by the Bank will play a greater role in ongoing liquidity management at firms than before

- **Solvent exit planning** – In the early part of 2024, the PRA published a final policy on solvent exit plans for non-systemic banks and building societies (PS5/24), which would include the Group. It requires firms to undertake a Solvent Exit Analysis and, when the circumstances require it, develop a Solvent Exit Execution Plan. We are fully aware of the requirements, which will complement existing work undertaken on recovery planning, and we are working towards compliance by the regulatory deadline of 1 October 2025

6 OPERATIONAL REVIEW

- **MREL** – We are not currently subject to Minimum Requirements for Own Funds and Eligible Liabilities ('MREL') requirements, however, given our potential for growth, we may be required to issue MREL eligible instruments at some point in the future. In October 2024, the Bank of England proposed several amendments to its approach to setting MREL requirements. Some of these might become relevant to us in the future, and we were an active participant in the consultation process alongside other mid-tier and specialist banks. We await the final policy outcome from the Bank of England

- **Enhancing the Special Resolution Regime** – In July 2024, following a consultation, HM Treasury published the Bank Resolution (Recapitalisation) Bill, which extends certain powers already available to the Bank of England for the resolution of large banks under the Special Resolution Regime (for example the use of partial sale, transfer, or a bridge bank) to the resolution of small firms. The Bill received royal assent in May 2025, becoming law, and the PRA and FCA are expected to consult on consequent changes to their rulebooks

  The proposals also include a greater role for the FSCS in the provision of funds to support recapitalisation. Once fully implemented, this Bill will provide an important additional tool to the Bank of England in the management of bank resolutions and enhance the overall resilience of the banking sector. We would expect to be captured by these new rules, and continue to monitor developments and respond appropriately

- **Supporting customers and their financial resilience** – Following the FCA's new measures to strengthen protection for consumer credit and mortgage customers in financial difficulties, the regulator's recently issued five-year strategy reinforced the need for continued focus in this area. During 2024, we conducted an exercise to ensure our businesses were well positioned to provide support to customers struggling with their financial resilience, and this will remain a key area of focus across our operations

- **Increase in the FSCS covered deposits level** – The PRA has proposed to increase the level of FSCS covered deposits for each customer from £85,000 to £110,000, to take account of inflation since the limit was last changed. In addition, there are also plans to increase the limit applicable to temporary high balance claims. This is currently subject to a consultation process, but the PRA has stated its intention to implement the new limit from 1 December 2025. We continue to monitor developments in this area, particularly given the launch of Spring which is within the scope of the scheme

- **Operational resilience** – A key priority for over recent years has been to ensure that resilience capability is embedded across all of our operations, thereby enabling us to meet all requirements of the final rules and guidance on 'Building Operational Resilience in Financial Services' published in 2021 by the FCA, the PRA and the Bank of England. Our 2025 self-assessment was successfully completed, which confirms our compliance with the 2025 regulatory deadline. By this time, all relevant organisations were required to be able to demonstrate their ability to stay consistently within impact tolerances and complete work to identify known vulnerabilities at this point

6 OPERATIONAL REVIEW

- **Climate change** – Work towards embedding our approach to managing climate-related risks, including evolving regulatory and legislative requirements, continues. In April 2025, the PRA published a consultation paper on 'Enhancing Banks' and Insurers' Approach to Managing Climate-related Risks', proposing updates to the existing Supervisory Statement, SS3 / 19. We will embed any final requirements and expectations alongside the continuing development of our climate risk management processes. The Sustainability Committee, alongside the executive level risk committees, ensures comprehensive consideration of such risks across all aspects of the business, leaving us well positioned to address emerging challenges

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

Whilst the specific regulatory developments detailed above are expected to have direct and specific impacts on our operations, there are wider regulatory, legal and political developments which are subject to ongoing monitoring and assessment, although any specific implications for our businesses have yet to be identified.

Specific aspects of the regulatory policies of the UK Government elected in 2024 continue to emerge. These include the practical effects of its focus on growth, which it has linked to the role of regulation. The Chancellor has stated a view that in some areas the approach to financial regulation adopted following the global financial crisis of 2008 is not necessarily commensurate with this strategy. In consequence she published "remit" letters to the PRA and FCA emphasising that growth is the defining mission of the Government. Responses from both the PRA and FCA have highlighted a range of actions the regulators are currently taking to meet this challenge.

The UK Government plans to publish its financial services growth and competitiveness strategy later this year. In addition, HM Treasury has recently published its Regulatory Action Plan which includes specific proposals for the financial services sector. The implications of these interventions on the regulatory landscape may be significant and we, together with others in the sector, continue to monitor any changes which might impact our businesses. We also continue to participate in consultations as the opportunity arises.

In other areas of government policy, increased regulation is proposed, which may impact on our businesses or on our customers. Policy may also be impacted by the need to respond to the geopolitical events already described, and the way in which these responses will interact with the Government's growth imperative is, as yet, unclear.

Our governance and risk management framework is a crucial mechanism in ensuring that the impacts of all new regulatory requirements are clearly understood and mitigated as far as possible, and we believe that, overall, we continue to be well placed to address all regulatory changes that may impact any aspect of our activities.

Statement of Directors' Responsibilities

The directors confirm that, to the best of their knowledge:

- The condensed financial statements have been prepared in accordance with International Accounting Standard 34 – 'Interim Financial Reporting', issued by the IASB and as contained in UK-adopted IFRS
- The Interim Management Report includes a fair review of the information required by Section 4.2.7R of the Disclosure Guidance and Transparency Rules, issued by the Financial Conduct Authority (that being an indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year)
- The Interim Management Report includes a fair review of the information required by Section 4.2.8R of the Disclosure Guidance and Transparency Rules, issued by the Financial Conduct Authority (that being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so)

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

MARIUS VAN NIEKERK

Company Secretary

4 June 2025

Board of Directors

R D East	H R Tudor
(Chair of the Board and Chair of the Nomination Committee)	*(Non-executive director)*
B A Ridpath	G H Yorston
(Non-executive director)	*(Non-executive director)*
A C M Morris	P A Hill
(Non-executive director, Chair of the Audit Committee and Senior Independent Director)	*(Non-executive director and Chair of the Risk and Compliance Committee)*
T P Davda (*Non-executive director and Chair of the Remuneration Committee*)	Z L Howorth *(Non-executive director)*
N S Terrington	R J Woodman
(Chief Executive Officer)	*(Chief Financial Officer)*

Independent Review Report to Paragon Banking Group PLC

Conclusion

We have been engaged by Paragon Banking Group PLC ('the Company') to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2025 which comprises the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of movements in equity and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2025 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ('ISRE (UK) 2410') issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

Independent Review Report to Paragon Banking Group PLC

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 35, the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the Group'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 the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

MICHAEL McGARRY

for and on behalf of KPMG LLP
Chartered Accountants

15 Canada Square
London
E14 5GL

4 June 2025

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 31 March 2025 (Unaudited)

	Note	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Interest receivable	3	633.6	641.8	1,314.7
Interest payable and similar charges	4	(385.7)	(401.9)	(831.5)
Net interest income		247.9	239.9	483.2
Other leasing income		10.0	14.9	30.4
Related costs		(7.3)	(12.2)	(24.2)
Net operating lease income		2.7	2.7	6.2
Other income	5	3.4	4.0	7.0
Other operating income		6.1	6.7	13.2
Total operating income		254.0	246.6	496.4
Operating expenses		(89.3)	(90.0)	(179.2)
Provisions for credit losses	6	(15.3)	(10.3)	(24.5)
Provisions for liabilities	23	(6.5)	-	-
Operating profit before fair value items		142.9	146.3	292.7
Fair value net (losses)	7	(2.8)	(35.7)	(38.9)
Operating profit being profit on ordinary activities before taxation		140.1	110.6	253.8
Tax charge on profit on ordinary activities	8	(39.3)	(28.7)	(67.8)
Profit on ordinary activities after taxation		100.8	81.9	186.0

	Note	Six months to 31 March 2025	Six months to 31 March 2024	Year to 30 September 2024
Basic earnings per share	9	50.1p	38.4p	88.5p
Diluted earnings per share	9	48.2p	36.9p	85.2p
Dividend – rate per share for the period	28	13.6p	13.2p	40.4p

The results for the periods shown above relate entirely to continuing operations.

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 March 2025 (Unaudited)

	Note	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Profit for the period		100.8	81.9	186.0
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Actuarial (loss) / gain on pension scheme	24	(2.1)	2.8	7.2
Tax thereon		0.4	(0.7)	(1.8)
Other comprehensive (expense) / income for the period net of tax		(1.7)	2.1	5.4
Total comprehensive income for the period		99.1	84.0	191.4

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET
31 March 2025 (Unaudited)

	Note	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Assets					
Cash – central banks	10	1,839.0	2,739.5	2,315.5	2,783.3
Cash – retail banks	10	292.0	299.5	209.9	211.0
Investment securities		453.8	98.1	427.4	-
Loans to customers	11	15,917.8	15,052.5	15,630.3	14,495.0
Derivative financial assets	17	373.1	511.7	391.8	615.4
Sundry assets	18	23.6	16.2	20.7	51.0
Current tax assets		1.8	6.5	9.7	8.9
Retirement benefit obligations	24	21.5	16.6	22.2	12.7
Property, plant and equipment		70.8	70.6	71.0	74.7
Intangible assets	19	172.2	169.6	171.5	168.2
Total assets		19,165.6	18,980.8	19,270.0	18,420.2
Liabilities					
Short-term bank borrowings		0.6	1.2	0.4	0.2
Retail deposits	20	15,775.9	14,767.1	16,314.7	13,234.4
Derivative financial liabilities	17	66.1	95.1	99.7	39.9
Asset-backed loan notes	21	-	17.1	-	28.0
Covered bonds	21	499.1	-	-	-
Retail bond issuance	21	-	112.5	-	112.4
Corporate bond issuance	21	149.6	148.6	149.9	145.8
Central bank facilities	21	700.0	1,850.0	755.0	2,750.0
Sale and repurchase agreements	21	100.8	100.0	100.0	50.0
Sundry liabilities	22	442.8	499.1	417.4	631.2
Provisions	23	6.5	-	-	-
Deferred tax liabilities		15.4	8.1	13.4	17.7
Total liabilities		17,756.8	17,598.8	17,850.5	17,009.6
Called-up share capital	25	204.4	216.6	210.6	228.7
Reserves	26	1,270.9	1,224.3	1,274.3	1,257.5
Own shares	27	(66.5)	(58.9)	(65.4)	(75.6)
Total equity		1,408.8	1,382.0	1,419.5	1,410.6
Total liabilities and equity		19,165.6	18,980.8	19,270.0	18,420.2

The condensed financial statements for the half year were approved by the Board of Directors on 5 June 2025.

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 31 March 2025 (Unaudited)

	Note	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Net cash flow (utilised) / generated by operating activities	29	(655.2)	1,115.6	2,216.4
Net cash (utilised) by investing activities	30	(59.8)	(100.5)	(424.7)
Net cash generated / (utilised) by financing activities	31	320.4	(971.4)	(2,260.8)
Net (decrease) / increase in cash and cash equivalents		(394.6)	43.7	(469.1)
Opening cash and cash equivalents		2,525.0	2,994.1	2,994.1
Closing cash and cash equivalents		2,130.4	3,037.8	2,525.0
Represented by balances within				
Cash	10	2,131.0	3,039.0	2,525.4
Short-term bank borrowings		(0.6)	(1.2)	(0.4)
		2,130.4	3,037.8	2,525.0

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
For the six months ended 31 March 2025 (Unaudited)

Six months ended 31 March 2025

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Transactions arising from							
Profit for the period	-	-	-	-	100.8	-	100.8
Other comprehensive income	-	-	-	-	(1.7)	-	(1.7)
Total comprehensive income	-	-	-	-	99.1	-	99.1
Transactions with owners							
Dividends paid (note 28)	-	-	-	-	(54.5)	-	(54.5)
Shares cancelled	(6.2)	-	6.2	-	(47.1)	47.1	-
Own shares purchased	-	-	-	-	-	(67.4)	(67.4)
Irrevocable instruction accrual	-	-	-	-	-	9.2	9.2
Exercise of share awards	-	-	-	-	(11.1)	10.0	(1.1)
Charge for share-based remuneration	-	-	-	-	3.6	-	3.6
Tax on share-based remuneration	-	-	-	-	0.4	-	0.4
Net movement in equity in the period	(6.2)	-	6.2	-	(9.6)	(1.1)	(10.7)
Opening equity	210.6	71.4	31.0	(70.2)	1,242.1	(65.4)	1,419.5
Closing equity	204.4	71.4	37.2	(70.2)	1,232.5	(66.5)	1,408.8

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
For the six months ended 31 March 2025 (Unaudited) (Continued)

Six months ended 31 March 2024

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Transactions arising from							
Profit for the period	-	-	-	-	81.9	-	81.9
Other comprehensive income	-	-	-	-	2.1	-	2.1
Total comprehensive income	-	-	-	-	84.0	-	84.0
Transactions with owners							
Dividends paid (note 28)	-	-	-	-	(56.1)	-	(56.1)
Shares cancelled	(12.1)	-	12.1	-	(68.5)	68.5	-
Own shares purchased	-	-	-	-	-	(52.8)	(52.8)
Irrevocable instruction accrual	-	-	-	-	-	(10.4)	(10.4)
Exercise of share awards	-	-	-	-	(11.5)	11.4	(0.1)
Charge for share-based remuneration	-	-	-	-	4.5	-	4.5
Tax on share-based remuneration	-	-	-	-	2.3	-	2.3
Net movement in equity in the period	(12.1)	-	12.1	-	(45.3)	16.7	(28.6)
Opening equity	228.7	71.4	12.9	(70.2)	1,243.4	(75.6)	1,410.6
Closing equity	216.6	71.4	25.0	(70.2)	1,198.1	(58.9)	1,382.0

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
For the six months ended 31 March 2025 (Unaudited) (Continued)

Year ended 30 September 2024

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Transactions arising from							
Profit for the year	-	-	-	-	186.0	-	186.0
Other comprehensive income	-	-	-	-	5.4	-	5.4
Total comprehensive income	-	-	-	-	191.4	-	191.4
Transactions with owners							
Dividends paid (note 28)	-	-	-	-	(83.5)	-	(83.5)
Shares cancelled	(18.1)	-	18.1	-	(110.0)	110.0	-
Own shares purchased	-	-	-	-	-	(89.5)	(89.5)
Irrevocable instruction accrual	-	-	-	-	-	(23.8)	(23.8)
Exercise of share awards	-	-	-	-	(12.8)	13.5	0.7
Charge for share-based remuneration	-	-	-	-	9.2	-	9.2
Tax on share-based remuneration	-	-	-	-	4.4	-	4.4
Net movement in equity in the year	(18.1)	-	18.1	-	(1.3)	10.2	8.9
Opening equity	228.7	71.4	12.9	(70.2)	1,243.4	(75.6)	1,410.6
Closing equity	210.6	71.4	31.0	(70.2)	1,242.1	(65.4)	1,419.5

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS

For the six months ended 31 March 2025 (Unaudited)

1. GENERAL INFORMATION

The condensed financial statements are prepared for Paragon Banking Group PLC ('the Company') and its subsidiary companies (together 'the Group') on a consolidated basis.

The condensed financial statements for the six months ended 31 March 2025 and for the six months ended 31 March 2024 have not been audited, as defined in section 434 of the Companies Act 2006.

The figures shown above for the year ended 30 September 2024 and the year ended 30 September 2023 are not statutory accounts. A copy of the statutory accounts for each year has been delivered to the Registrar of Companies. The auditors reported on those statutory accounts and their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain an adverse statement under sections 498 (2) or 498 (3) of the Companies Act 2006.

This half-yearly financial report is also available on the Group's corporate website at www.paragonbankinggroup.co.uk. As previously advised, the half-yearly financial report is available online only, to help to reduce the environmental impact of shareholder communication.

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 – providing information on the Group's management of operational and regulatory capital and its principal financial risks
- Basis of preparation – providing details of the Group's accounting policies and of how they have been applied in the preparation of the condensed financial statements

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

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

2. SEGMENTAL INFORMATION

The Group analyses its operations, both for internal management information and external financial reporting, on the basis of the markets from which its assets are generated.

The segments used at 31 March 2025 are described below:

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

These segments are the same as those used at 30 September 2024 and at 31 March 2024.

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

Costs of retail deposit funding are allocated to the segments based on the usage of those deposits.

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

Other assets are not allocated between segments.

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

2. SEGMENTAL INFORMATION (Continued)

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

Six months ended 31 March 2025

	Mortgage Lending £m	Commercial Lending £m	Unallocated items £m	Total £m
Interest receivable	445.7	122.5	65.4	633.6
Interest payable	(304.8)	(56.6)	(24.3)	(385.7)
Net interest income	140.9	65.9	41.1	247.9
Other leasing income	-	9.8	0.2	10.0
Related costs	-	(7.2)	(0.1)	(7.3)
Net operating lease income	-	2.6	0.1	2.7
Other income	1.9	1.5	-	3.4
Other operating income	1.9	4.1	0.1	6.1
Total operating income	142.8	70.0	41.2	254.0
Operating expenses	(10.4)	(13.3)	(65.6)	(89.3)
Provisions for losses	(5.1)	(10.2)	-	(15.3)
	127.3	46.5	(24.4)	149.4

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

2. SEGMENTAL INFORMATION (Continued)

Six months ended 31 March 2024

	Mortgage Lending £m	Commercial Lending £m	Unallocated items £m	Total £m
Interest receivable	453.8	113.0	75.0	641.8
Interest payable	(307.1)	(52.3)	(42.5)	(401.9)
Net interest income	146.7	60.7	32.5	239.9
Other leasing income	-	14.8	0.1	14.9
Related costs	-	(12.1)	(0.1)	(12.2)
Net operating lease income	-	2.7	-	2.7
Other income	1.7	2.3	-	4.0
Other operating income	1.7	5.0	-	6.7
Total operating income	148.4	65.7	32.5	246.6
Operating expenses	(11.6)	(13.4)	(65.0)	(90.0)
Provisions for losses	(8.7)	(1.6)	-	(10.3)
	128.1	50.7	(32.5)	146.3

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

2. SEGMENTAL INFORMATION (Continued)

Year ended 30 September 2024

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

2. SEGMENTAL INFORMATION (Continued)

The segmental profits disclosed above reconcile to the consolidated results as set out below.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Results shown above	149.4	146.3	292.7
Provisions for liabilities	(6.5)	-	-
Fair value items	(2.8)	(35.7)	(38.9)
Operating profit	140.1	110.6	253.8

The assets of the segments were:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Mortgage Lending	13,853.5	13,210.9	13,523.6	12,988.4
Commercial Lending	2,354.3	2,195.6	2,333.7	2,016.3
Total segment assets	16,207.8	15,406.5	15,857.3	15,004.7
Unallocated assets	2,957.8	3,574.3	3,412.7	3,415.5
Total assets	19,165.6	18,980.8	19,270.0	18,420.2

An analysis of the Group's loan assets by type and segment is shown in note 11.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

3. INTEREST RECEIVABLE

Interest receivable is analysed as follows:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Interest receivable in respect of			
Loans and receivables	435.1	395.9	819.8
Finance leases	41.6	35.1	73.4
Factoring income	2.7	2.8	5.8
Interest on loans to customers	479.4	433.8	899.0
Effect of fair value hedging of loan assets	85.9	130.8	245.8
Interest on loans to customers after hedging	565.3	564.6	1,144.8
Pension scheme surplus (note 24)	0.6	0.4	0.8
Investment securities	10.1	0.5	8.0
Effect of fair value hedging of securities	1.9	-	2.4
Other interest receivable	55.7	76.3	158.7
Total interest on financial assets	633.6	641.8	1,314.7

The above interest arises from:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Financial assets held at amortised cost	503.6	475.5	992.3
Finance leases	41.6	35.1	73.4
Pension scheme surplus	0.6	0.4	0.8
Derivative instruments held at fair value	87.8	130.8	248.2
	633.6	641.8	1,314.7

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

4. INTEREST PAYABLE AND SIMILAR CHARGES

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
On financial liabilities			
Retail deposits	349.4	299.8	667.0
Effect of fair value hedging of deposits	2.6	21.5	33.6
Interest on retail deposits after hedging	352.0	321.3	700.6
Asset-backed loan notes	-	1.5	2.6
Bank loans and overdrafts	4.3	8.3	14.1
Corporate bonds	3.4	3.3	6.6
Effect of fair value hedging of bonds	0.6	1.0	1.8
Retail bonds	-	3.1	5.7
Covered bonds	1.5	-	-
Central bank facilities	20.4	61.9	95.2
Sale and repurchase agreements	2.9	1.1	4.0
Total interest on financial liabilities	385.1	401.5	830.6
Discounting on lease liabilities	0.1	0.1	0.3
Other finance costs	0.5	0.3	0.6
	385.7	401.9	831.5

The above amounts relate to:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Financial liabilities held at amortised cost	381.9	379.0	795.2
Derivative financial instruments held at fair value	3.2	22.5	35.4
Other items	0.6	0.4	0.9
	385.7	401.9	831.5

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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

5. OTHER INCOME

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Loan account fee income	2.3	2.7	4.5
Broker commissions	0.7	0.8	1.6
Other income	0.4	0.5	0.9
	3.4	4.0	7.0

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

6. LOAN IMPAIRMENT PROVISIONS CHARGED TO INCOME

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

	Mortgage Lending £m	Commercial Lending £m	Total £m
Six months ended 31 March 2025			
Provided in period (note 14)	5.2	10.8	16.0
Recovery of written off amounts	(0.1)	(0.6)	(0.7)
	5.1	10.2	15.3
Six months ended 31 March 2024			
Provided in period (note 14)	9.0	2.1	11.1
Recovery of written off amounts	(0.3)	(0.5)	(0.8)
	8.7	1.6	10.3
Year ended 30 September 2024			
Provided in period (note 14)	6.0	20.4	26.4
Recovery of written off amounts	(0.4)	(1.5)	(1.9)
	5.6	18.9	24.5

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

7. FAIR VALUE NET (LOSSES)

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Ineffectiveness of fair value hedges			
Portfolio hedges of interest rate risk			
Deposit hedge	0.8	5.3	7.3
Loan hedge	4.9	0.9	(3.1)
	5.7	6.2	4.2
Individual hedges of interest rate risk	-	-	-
	5.7	6.2	4.2
Other hedging movements	(14.5)	(23.9)	(26.2)
Net gains / (losses) on other derivatives	6.0	(18.0)	(16.9)
	(2.8)	(35.7)	(38.9)

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

The impact of hedging arrangements on the Group's balance sheet is summarised in note 17 and a full description of the Group's use of derivative financial instruments for hedging purposes is set out in note 26 to the financial statements for the year ended 30 September 2024.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

The Group's income tax charge for the six months ended 31 March 2025 represents an effective rate of 28.1% (six months ended 31 March 2024: 25.9%; year ended 30 September 2024: 26.7%). This is based on the Group's best estimate of the annual effective rate of income tax expected for the full year ending 30 September 2025, derived from UK statutory rates, applied to the pre-tax income of the period.

The standard rate of corporation tax in the UK applicable to the Group in the period was 25.0% (six months ended 31 March 2024: 25.0%; year ended 30 September 2024: 25.0%), based on currently enacted legislation.

The Bank Corporation Tax Surcharge subjects any taxable profits arising in the Group's banking subsidiary, Paragon Bank PLC (and no other group entity) to an additional rate of tax applied to any amounts of taxable profit in excess of a threshold.

The surcharge applying to Paragon Bank in the current financial year is 3.0% (six months ended 31 March 2024: 3.0%; year ended 30 September 2024: 3.0%) on earnings over £100.0m (six months ended 31 March 2024: £100.0m; year ended 30 September 2024: £100.0m). The combination of the standard rate of tax and the surcharge results in taxable profits in excess of the annual threshold arising in Paragon Bank being taxed at 28.0% in the current period (six months ended 31 March 2024: 28.0%; year ended 30 September 2024: 28.0%).

9. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	31 March 2025	31 March 2024	30 September 2024
Profit for the period (£m)	100.8	81.9	186.0
Basic weighted average number of ordinary shares ranking for dividend during the period (m)	201.1	213.2	210.1
Dilutive effect of the weighted average number of share options and incentive plans in issue during the period (m)	8.0	8.7	8.3
Diluted weighted average number of ordinary shares ranking for dividend during the period (m)	209.1	221.9	218.4
Earnings per ordinary share - basic	50.1p	38.4p	88.5p
- diluted	48.2p	36.9p	85.2p

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

10. CASH BALANCES

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Balances with central banks	1,839.0	2,739.5	2,315.5	2,783.3
Balances with other banks	292.0	299.5	209.9	211.0
	2,131.0	3,039.0	2,525.4	2,994.3

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

Cash held by the Trustees of the Paragon Employee Share Ownership Plan ('ESOP') may only be used to invest in the shares of the Company, pursuant to the aims of that plan. This is shown as 'ESOP cash' below.

The total cash balance may be analysed as shown below.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Available cash	1,959.2	2,922.7	2,417.4	2,907.7
Securitisation cash	171.6	116.2	107.9	86.1
ESOP cash	0.2	0.1	0.1	0.5
	2,131.0	3,039.0	2,525.4	2,994.3

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

11. LOANS TO CUSTOMERS

The Group's loans to customers at 31 March 2025, analysed between the segments described in note 2 are as follows:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
First mortgages	13,583.2	12,960.2	13,299.6	12,747.8
Second charge mortgages	98.7	134.5	116.1	154.5
Total Mortgage Lending	13,681.9	13,094.7	13,415.7	12,902.3
Motor finance	334.9	311.6	331.4	297.7
Asset finance	687.9	626.4	664.2	609.6
Finance lease receivables	1,022.8	938.0	995.6	907.3
Development finance	877.5	849.9	884.0	747.8
Other secured commercial lending	313.9	272.2	320.8	227.6
Other commercial loans	96.4	94.2	89.4	89.3
Total Commercial Lending	2,310.6	2,154.3	2,289.8	1,972.0
Loans to customers	15,992.5	15,249.0	15,705.5	14,874.3
Fair value adjustments from hedge accounting (note 17)	(74.7)	(196.5)	(75.2)	(379.3)
	15,917.8	15,052.5	15,630.3	14,495.0

12. LOAN IMPAIRMENT - BASIS OF PROVISION

Provisioning approach

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

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

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

There have been no significant changes in overall approach since the 2024 year end. At that time, as discussed in the 2024 annual accounts, it was necessary for the Group to make various judgemental adjustments to model-generated provisions to allow for factors related to the uncertain economic outlook for the UK at that time, which had not been reflected in the Group's models. While the position during the half year ended 31 March 2025 has been relatively stable, the continuing economic and political uncertainties in the UK, and the economic risks to the UK inherent in the wider geopolitical situation, where levels of perceived uncertainty grew towards the end of the period, mean that the Group has taken a broadly similar approach in determining provision at 31 March 2025 to that used at the year end.

The methodologies used to derive the Group's ECL provisions at 31 March 2025 are analysed below.

	Gross £m	Impairment £m	Net £m
31 March 2025			
Modelled portfolios	14,710.5	(42.8)	14,667.7
Judgemental adjustments thereon	-	(5.0)	(5.0)
	14,710.5	(47.8)	14,662.7
Non-modelled portfolios	1,358.1	(28.3)	1,329.8
Total	16,068.6	(76.1)	15,992.5
31 March 2024			
Modelled portfolios	14,059.5	(51.6)	14,007.9
Judgemental adjustments thereon	-	(6.5)	(6.5)
	14,059.5	(58.1)	14,001.4
Non-modelled portfolios	1,267.6	(20.0)	1,247.6
Total	15,327.1	(78.1)	15,249.0
30 September 2024			
Modelled portfolios	14,418.7	(41.2)	14,377.5
Judgemental adjustments thereon	-	(5.0)	(5.0)
	14,418.7	(46.2)	14,372.5
Non-modelled portfolios	1,363.3	(30.3)	1,333.0
Total	15,782.0	(76.5)	15,705.5

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

In addition to the judgemental adjustments to model outputs shown above, at 30 September 2024 a £1.5m uplift was applied to provision floors in the development finance operation, reflecting specific economic risks to that business (31 March 2024: £nil). The monitoring of the portfolio in the period has indicated that this uplift was no longer appropriate at 31 March 2025.

Total uplifts across the Group's total loan book were therefore £5.0m (30 September 2024: £6.5m; 31 March 2024: £6.5m). The derivation of these adjustments is discussed further below.

Significant Increase in Credit Risk ('SICR')

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

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

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

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

As part of its determination of whether model outputs form a reliable basis for impairment provisioning, the Group considered if it had any evidence of groups of accounts which demonstrated factors indicating that they had a higher level of credit risk than other accounts in the same portfolio, either from operational experience or its regular credit risk monitoring activities. No such evidence was noted at 31 March 2025, 31 March 2024 or 30 September 2024, and hence no additional accounts were identified as having an SICR, outside those identified by standard, portfolio-wide, procedures.

Model development

The models used by the Group are updated from time-to-time to allow for changes in the business, developments in best practice and the availability of additional data with the passing of time. During the period ended 31 March 2025 a major update to the Second Charge Mortgage PD model took place, meaning that all of the Group's four principal PD models have been updated since IFRS 9 was first implemented in the 2019 financial year.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

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

The impact of the adoption of the new model in the period ended 31 March 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.

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

Judgemental Adjustments

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

In the six months ended 31 March 2025 the most significant factors in these considerations were the extent to which the Group'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. These issues have particularly impacted the Group's development finance business where some projects priced in 2022 in an environment of lower costs and interest rates remained under stress.

While the economic outlook has not changed greatly in the six months, 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 carefully consider the requirement for the mechanically generated provision to be adjusted.

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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

The Group's approach to impairment modelling is based on the analysis of historical credit data. In normal circumstances the Group's objective is to develop its models 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 rates 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 behaviour 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 Group's first generation of IFRS 9 impairment models. Evidence considered by management in order to assess the size of adjustments required included internal performance data, customer and broker feedback, insight surveys, industry intelligence, evidence on the wider economy, and quantitative and qualitative data and statements from industry, government and regulatory bodies. These were combined with the expert knowledge within the business to form a broad estimate of the level of provision required across the Group.

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

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

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

	31 March 2025		31 March 2024		30 September 2024	
	£m	£m	£m	£m	£m	£m
Mortgage Lending – modelled		3.0		3.0		3.0
Commercial Lending – modelled	2.0		3.5		2.0	
Commercial Lending – non-modelled	-		-		1.5	
		2.0		3.5		3.5
		5.0		6.5		6.5

The position at 31 March 2025 in the modelled books is broadly similar to 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 adjustments remain in place. 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. The requirement for additional overlay in non-modelled books has reduced as the cohort of accounts giving rise to the most concern has become more seasoned.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

The limited movements seen in the 2024 financial year related to movements on individual books, with the solid performance of the SME asset finance book in the year reducing the need for overlay, while the conditions faced by developers in the then current economic situation generated a need for additional overlay.

The adjustment in the Mortgage Lending book at 30 September 2024 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. While there has been some upward movement in arrears metrics, both for the Group and the buy-to-let market more generally, future expectations remain broadly in line with those six months earlier. In response to these factors, management decided that it was appropriate to maintain the level of overlay at 31 March 2025.

The Group's SME lending portfolio performed generally strongly in the period, with a consequent impact on the calculated provision. However, a level of caution remains as to the broader outlook for UK SMEs in the current general economic climate, and there remain concerns as to the effectiveness of the Group's provisioning model in a high interest rate environment. On this basis the £1.0m judgemental adjustment from 30 September 2024 has been retained (31 March 2024: £2.5m; 30 September 2024: £1.0m).

For the motor finance portfolio, the £1.0m overlay to the modelled provision has been maintained (31 March 2024: £1.0m; 30 September 2024: £1.0m). While indications to date show the second generation motor finance PD model to be more effective at identifying credit risk cases, the data it is built on still includes little information corresponding to a period of falling inflation rapidly following a period of sharp price rises, in a higher interest rate environment than seen for some time. Additionally, values in the second-hand car market in the period have been lower than for some time, with a consequential increase in the levels of voluntary terminations. Considering these factors, together with other portfolio data, it was decided to retain the overlay to ensure provision in that book remains reasonable overall.

The Group's analysis found no evidence of particular concentrations of credit risk below portfolio level. Given this, and the high-level nature of the exercise undertaken, the judgemental adjustments have been apportioned across the respective portfolios to individual Stage 1 cases. As such they are included in the credit risk disclosures required by IFRS 7.

While there was some further deterioration within the development finance book in the period, the cases involved shared similarities with those identified at 30 September 2024. The majority of such cases had been originally evaluated in 2022 and before, and had been impacted by increased materials and labour costs and higher interest rates, since the point at which they were agreed. As the cases with identified issues have been considered for provisioning individually at 31 March 2025, and few other cases of this vintage remain, the Group determined that the uplift to minimum provision for all cases applied at 30 September 2024 was no longer necessary. The impact at 31 March 2025 therefore reduced to £nil (31 March 2024: £nil; 30 September 2024: £1.5m).

The Group will continue to monitor the requirement for these adjustments as the economic situation develops and its impacts are further 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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

Climate change

As part of the Group's consideration of the requirement for judgemental adjustments, described above, the potential for climate related issues to impact on customer business models or security values over the timescales for ECL calculation required by IFRS 9 was evaluated. This was based on the ongoing internal monitoring of climate change risk exposures and the scenario analysis carried out as part of the Group's ICAAP. Focussing on the Group's mortgage lending and motor finance operations, this analysis leveraged the Bank of England Climate Biennial Exploratory Scenario ('CBES'), material published by the Network for Greening the Financial System ('NGFS'), and proposed UK Government policy. Further detail of this analysis is set out in section A6.4 (b) of the Group's 2024 Annual Report and Accounts.

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

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION

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

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

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

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

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

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (Continued)

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

	Stage 1 £m	Stage 2 * £m	Stage 3 * £m	POCI £m	Total £m
31 March 2025					
Gross loan book					
Mortgage Lending	12,936.7	596.9	175.7	9.0	13,718.3
Commercial Lending	2,039.7	136.0	174.6	-	2,350.3
Total	14,976.4	732.9	350.3	9.0	16,068.6
Impairment provision					
Mortgage Lending	(3.3)	(2.3)	(30.8)	-	(36.4)
Commercial Lending	(12.5)	(4.1)	(23.1)	-	(39.7)
Total	(15.8)	(6.4)	(53.9)	-	(76.1)
Net loan book					
Mortgage Lending	12,933.4	594.6	144.9	9.0	13,681.9
Commercial Lending	2,027.2	131.9	151.5	-	2,310.6
Total	14,960.6	726.5	296.4	9.0	15,992.5
Coverage ratio					
Mortgage Lending	0.03%	0.39%	17.53%	-	0.27%
Commercial Lending	0.61%	3.01%	13.23%	-	1.69%
Total	0.11%	0.87%	15.39%	-	0.47%

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	Stage 1 £m	Stage 2 * £m	Stage 3 * £m	POCI £m	Total £m
31 March 2024					
Gross loan book					
Mortgage Lending	12,126.6	797.5	204.8	11.9	13,140.8
Commercial Lending	1,938.2	175.9	65.9	6.3	2,186.3
Total	14,064.8	973.4	270.7	18.2	15,327.1
Impairment provision					
Mortgage Lending	(5.2)	(3.6)	(37.3)	-	(46.1)
Commercial Lending	(14.1)	(4.0)	(9.3)	(4.6)	(32.0)
Total	(19.3)	(7.6)	(46.6)	(4.6)	(78.1)
Net loan book					
Mortgage Lending	12,121.4	793.9	167.5	11.9	13,094.7
Commercial Lending	1,924.1	171.9	56.6	1.7	2,154.3
Total	14,045.5	965.8	224.1	13.6	15,249.0
Coverage ratio					
Mortgage Lending	0.04%	0.45%	18.21%	-	0.35%
Commercial Lending	0.73%	2.27%	14.11%	73.02%	1.46%
Total	0.14%	0.78%	17.21%	25.27%	0.51%

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

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

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

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

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

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

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

Analysis of Stage 2 loans

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

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

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

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

The value of Stage 2 loans in the mortgage segment is broadly similar to the position six months earlier, although the proportion represented by actual and recent arrears cases has increased in the period. However, cases identified through an increased PD continue to form an overwhelming majority of Stage 2 cases in the segment.

Both provision coverage levels for Stage 2 Mortgage Lending cases, and the absolute level of provision have remained broadly stable in the period.

For Commercial Lending cases, values of Stage 2 accounts have reduced, with the greatest part of that reduction concentrated in the development finance portfolio, with a substantial part of the 30 September 2024 Stage 2 balance in that book either settled or transferred to Stage 3.

Stage 2 coverage has increased slightly in the Commercial Lending segment, mostly as result of the change in the mix of cases, with a lower proportion of development finance accounts, which generally have higher security values.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
31 March 2025				
Gross loan book				
Mortgage Lending	493.6	25.6	77.7	596.9
Commercial Lending	130.4	2.2	3.4	136.0
Total	624.0	27.8	81.1	732.9
Impairment provision				
Mortgage Lending	(1.4)	(0.1)	(0.8)	(2.3)
Commercial Lending	(3.5)	(0.1)	(0.5)	(4.1)
Total	(4.9)	(0.2)	(1.3)	(6.4)
Net loan book				
Mortgage Lending	492.2	25.5	76.9	594.6
Commercial Lending	126.9	2.1	2.9	131.9
Total	619.1	27.6	79.8	726.5
Coverage ratio				
Mortgage Lending	0.28%	0.39%	1.03%	0.39%
Commercial Lending	2.68%	4.55%	14.71%	3.01%
Total	0.79%	0.72%	1.60%	0.87%

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
31 March 2024				
Gross loan book				
Mortgage Lending	729.8	16.4	51.3	797.5
Commercial Lending	170.3	1.6	4.0	175.9
Total	900.1	18.0	55.3	973.4
Impairment provision				
Mortgage Lending	(2.9)	(0.1)	(0.6)	(3.6)
Commercial Lending	(3.4)	(0.1)	(0.5)	(4.0)
Total	(6.3)	(0.2)	(1.1)	(7.6)
Net loan book				
Mortgage Lending	726.9	16.3	50.7	793.9
Commercial Lending	166.9	1.5	3.5	171.9
Total	893.8	17.8	54.2	965.8
Coverage ratio				
Mortgage Lending	0.40%	0.61%	1.17%	0.45%
Commercial Lending	2.00%	6.25%	12.50%	2.27%
Total	0.70%	1.11%	1.99%	0.78%

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

Analysis of Stage 3 loans

The tables below analyse the accounts in Stage 3 between those:

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

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

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

The value of Stage 3 cases in the Mortgage Lending segment has increased slightly in the period, with the receiver of rent portfolio continuing to decrease and the value of current arrears increasing in response to the economic environment.

Stage 3 coverage levels in the Mortgage Lending segment are broadly similar to those at 30 September 2024, with a slight increase in the absolute level of Stage 3 provision in the segment, mostly as a result of the increased balance.

The growth in Stage 3 cases in the Commercial Lending division is largely attributable to the increased number of defaulted cases in the development finance portfolio, although the majority of the additional cases were amongst those included in Stage 2 at 30 September 2024. This has also driven a growth in provision in the segment in the period, though not an increase in coverage, as the average security for development finance cases is greater than that for other asset classes in the division.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOANS IMPAIRMENTS BY STAGE AND DIVISION (Continued)

	Probation £m	> 3 month arrears £m	RoR managed £m	Realisations £m	Total £m
31 March 2025					
Gross loan book					
Mortgage Lending	8.8	55.2	40.4	71.3	175.7
Commercial Lending	0.6	147.6	-	26.4	174.6
Total	9.4	202.8	40.4	97.7	350.3
Impairment provision					
Mortgage Lending	-	(0.6)	(10.6)	(19.6)	(30.8)
Commercial Lending	(0.1)	(18.2)	-	(4.8)	(23.1)
Total	(0.1)	(18.8)	(10.6)	(24.4)	(53.9)
Net loan book					
Mortgage Lending	8.8	54.6	29.8	51.7	144.9
Commercial Lending	0.5	129.4	-	21.6	151.5
Total	9.3	184.0	29.8	73.3	296.4
Coverage ratio					
Mortgage Lending	-	1.09%	26.24%	27.49%	17.53%
Commercial Lending	16.67%	12.33%	-	18.18%	13.23%
Total	1.06%	9.27%	26.24%	24.97%	15.39%

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£m
31 March 2024					
Gross loan book					
Mortgage Lending	20.6	49.0	80.0	55.2	204.8
Commercial Lending	0.7	58.7	-	6.5	65.9
Total	21.3	107.7	80.0	61.7	270.7
Impairment provision					
Mortgage Lending	-	(2.2)	(20.5)	(14.6)	(37.3)
Commercial Lending	(0.3)	(6.0)	-	(3.0)	(9.3)
Total	(0.3)	(8.2)	(20.5)	(17.6)	(46.6)
Net loan book					
Mortgage Lending	20.6	46.8	59.5	40.6	167.5
Commercial Lending	0.4	52.7	-	3.5	56.6
Total	21.0	99.5	59.5	44.1	224.1
Coverage ratio					
Mortgage Lending	-	4.49%	25.63%	26.45%	18.21%
Commercial Lending	42.86%	10.22%	-	46.15%	14.11%
Total	1.41%	7.61%	25.63%	28.53%	17.21%

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

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

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

	31 March 2025	31 March 2024	30 September 2024
	£m	£m	£m
First mortgages	125.5	141.5	119.1
Second mortgages	7.2	9.4	8.0
Asset finance	2.6	1.1	1.9
Motor finance	1.3	2.9	1.2
	136.6	154.9	130.2

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (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 Group's RoR arrangements are described in more detail below.

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

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

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

While legacy cases continued to be resolved in the period, new receiver of rent appointments continued to be made, including on some larger portfolio cases. These overwhelmingly relate to legacy cases advanced before 2009 and will therefore have a long rental history, with tenants in place in many cases. Overall, the receiver of rent portfolio has reduced, although the proportion in the process of sale is relatively high.

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.

	31 March 2025		31 March 2024		30 September 2024	
	Number	£m	Number	£m	Number	£m
Managed accounts						
Appointment date						
2010 and earlier	80	12.8	110	16.9	94	14.6
2011 to 2015	13	1.8	25	3.6	16	2.2
2016 to 2020	2	0.3	11	1.5	6	0.8
2021 and later	137	25.5	338	58.0	167	27.6
Total managed accounts	232	40.4	484	80.0	283	45.2
Accounts in the process of realisation	397	69.4	254	41.9	356	57.6
	629	109.8	738	121.9	639	102.8

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

Receiver of rent accounts in the process of realisation at the period end are included under that heading in the Stage 3 tables above. In addition to the cases analysed above there were three other receiver of rent cases in acquired mortgage books classified as POCI (31 March 2024: three; 30 September 2024: four), meaning that the Group's total number of receiver of rent cases at 31 March 2025 was 632 (31 March 2024: 741; 30 September 2024: 643).

14. LOAN IMPAIRMENTS - PROVISION MOVEMENTS IN THE PERIOD

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

	Mortgage Lending £m	Commercial Lending £m	Total £m
At 30 September 2024	35.3	41.2	76.5
Provided in period (note 6)	5.2	10.8	16.0
Amounts written off	(4.1)	(12.3)	(16.4)
At 31 March 2025 (note 13)	36.4	39.7	76.1
At 30 September 2023	42.3	31.3	73.6
Provided in period (note 6)	9.0	2.1	11.1
Amounts written off	(5.2)	(1.4)	(6.6)
At 31 March 2024 (note 13)	46.1	32.0	78.1
At 30 September 2023	42.3	31.3	73.6
Provided in period (note 6)	6.0	20.4	26.4
Amounts written off	(13.0)	(10.5)	(23.5)
At 30 September 2024 (note 13)	35.3	41.2	76.5

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

More detailed analyses of these movements by IFRS 9 stage on a consolidated basis for the six months ended 31 March 2025, the six months ended 31 March 2024, and the year ended 30 September 2024 are 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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

14. LOAN IMPAIRMENTS - PROVISION MOVEMENTS IN THE PERIOD (CONTINUED)

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.

Changes in models introduced during the period did not create significant movements in balances.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Loss allowance at 30 September 2024	16.0	7.2	50.8	2.5	76.5
New assets originated or purchased	4.2	-	-	-	4.2
Changes in loss allowance					
Transfer to Stage 1	0.9	(0.8)	(0.1)	-	-
Transfer to Stage 2	(1.0)	1.4	(0.4)	-	-
Transfer to Stage 3	-	(1.9)	1.9	-	-
Changes on stage transfer	(0.7)	1.4	7.5	-	8.2
Changes due to credit risk	(3.6)	(0.9)	7.5	0.6	3.6
Write offs	-	-	(13.3)	(3.1)	(16.4)
Loss allowance at 31 March 2025	15.8	6.4	53.9	-	76.1

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Loss allowance at 30 September 2023	19.6	9.4	39.8	4.8	73.6
New assets originated or purchased	4.5	-	-	-	4.5
Changes in loss allowance					
Transfer to Stage 1	1.1	(0.9)	(0.2)	-	-
Transfer to Stage 2	(1.1)	1.8	(0.7)	-	-
Transfer to Stage 3	(0.1)	(3.9)	4.0	-	-
Changes on stage transfer	(0.9)	1.6	10.6	-	11.3
Changes due to credit risk	(3.8)	(0.4)	(0.3)	(0.2)	(4.7)
Write offs	-	-	(6.6)	-	(6.6)
Loss allowance at 31 March 2024	19.3	7.6	46.6	4.6	78.1

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

14. LOAN IMPAIRMENTS - PROVISION MOVEMENTS IN THE PERIOD (CONTINUED)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Loss allowance at 30 September 2023	19.6	9.4	39.8	4.8	73.6
New assets originated or purchased	6.5	-	-	-	6.5
Changes in loss allowance					
Transfer to Stage 1	2.0	(1.8)	(0.2)	-	-
Transfer to Stage 2	(2.2)	3.0	(0.8)	-	-
Transfer to Stage 3	(0.2)	(4.5)	4.7	-	-
Changes on stage transfer	(1.6)	2.4	26.4	-	27.2
Changes due to credit risk	(8.1)	(1.3)	4.4	(2.3)	(7.3)
Write offs	-	-	(23.5)	-	(23.5)
Loss allowance at 30 September 2024	16.0	7.2	50.8	2.5	76.5

During the six months ended 31 March 2025 provision levels decreased marginally, with the general stability a reflection of the largely unchanged level of economic confidence in the UK, coupled with the non-emergence of further significant arrears issues across the portfolios.

The increase in provision was concentrated in Stage 3, although much of this was an effect of Stage 2 cases migrating and provision increasing, particularly in the development finance portfolio. This also led to a reduction in the level of Stage 2 provision. The level of provision on Stage 1 cases at 31 March 2025 was broadly similar to that six months earlier.

Write-offs in the period were particularly high, although this was principally a result of a limited number of development finance cases classified as Stage 3 or POCI at 30 September 2024, where the loss per case was particularly large.

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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

14. LOAN IMPAIRMENTS - PROVISION MOVEMENTS IN THE PERIOD (CONTINUED)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Balance at 30 September 2024	14,705.2	776.1	283.6	17.1	15,782.0
New assets originated or purchased	1,427.9	-	-	-	1,427.9
Changes in staging					
Transfer to Stage 1	194.2	(193.4)	(0.8)	-	-
Transfer to Stage 2	(298.6)	311.8	(13.2)	-	-
Transfer to Stage 3	(12.7)	(118.2)	130.9	-	-
Redemptions and repayments	(1,464.7)	(66.9)	(50.7)	(7.8)	(1,590.1)
Write offs	-	-	(13.3)	(3.1)	(16.4)
Other changes	425.1	23.5	13.8	2.8	465.2
Balance at 31 March 2025	14,976.4	732.9	350.3	9.0	16,068.6
Loss allowance	(15.8)	(6.4)	(53.9)	-	(76.1)
Carrying value	14,960.6	726.5	296.4	9.0	15,992.5

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Balance at 30 September 2023	13,972.3	744.8	206.0	24.8	14,947.9
New assets originated or purchased	1,868.7	-	-	-	1,868.7
Changes in staging					
Transfer to Stage 1	140.9	(139.2)	(1.7)	-	-
Transfer to Stage 2	(498.3)	516.5	(18.2)	-	-
Transfer to Stage 3	(21.5)	(102.4)	123.9	-	-
Redemptions and repayments	(1,774.5)	(75.0)	(40.5)	(6.5)	(1,896.5)
Write offs	-	-	(6.6)	-	(6.6)
Other changes	377.2	28.7	7.8	(0.1)	413.6
Balance at 31 March 2024	14,064.8	973.4	270.7	18.2	15,327.1
Loss allowance	(19.3)	(7.6)	(46.6)	(4.6)	(78.1)
Carrying value	14,045.5	965.8	224.1	13.6	15,249.0

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

14. LOAN IMPAIRMENTS - PROVISION MOVEMENTS IN THE PERIOD (CONTINUED)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Balance at 30 September 2023	13,972.3	744.8	206.0	24.8	14,947.9
New assets originated or purchased	2,757.4	-	-	-	2,757.4
Changes in staging					
Transfer to Stage 1	329.3	(325.9)	(3.4)	-	-
Transfer to Stage 2	(566.5)	585.2	(18.7)	-	-
Transfer to Stage 3	(38.1)	(137.6)	175.7	-	-
Redemptions and repayments	(2,558.0)	(137.2)	(76.0)	(11.0)	(2,782.2)
Write offs	-	-	(23.5)	-	(23.5)
Other changes	808.8	46.8	23.5	3.3	882.4
Balance at 30 September 2024	14,705.2	776.1	283.6	17.1	15,782.0
Loss allowance	(16.0)	(7.2)	(50.8)	(2.5)	(76.5)
Carrying value	14,689.2	768.9	232.8	14.6	15,705.5

Other changes includes interest and similar charges.

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS

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

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

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)

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

The general trend of the Group's central forecast follows that published by the Bank of England in February 2025, where the Bank noted increased inflationary pressures from government policy and the global economic climate. In the central scenario, UK GDP growth remains soft, in line with experience in the first half of the year, and levels of consumer spending continue to be restrained. Unemployment and inflation are forecast to move gently upwards, with bank base rates falling slowly.

Compared with the central forecast adopted at 30 September 2024, this is marginally more pessimistic, with CPI significantly higher and unemployment and GDP depressed in the short term, but with the long-term forecasts at a similar level. UK interest rates are still projected to reduce, but more slowly than in the previous forecast. The scenario begins from the actual March 2025 position, so that variances against the September scenarios in the six-month period are reflected, with house prices and CPI at 31 March 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 in the central scenario, driving GDP and employment levels higher, and enabling the Bank of England to cut the base faster than in the base case, with house prices recovering more strongly. Conversely, the downside case is driven by bank base rates remaining at their current level for longer, leading to depressed GDP, elevated unemployment figures and a fall in house prices.

The severe scenario was derived from the most recent available Annual Cyclical Scenario ('ACS') published by the Bank of England, as in recent periods. The supply shock scenario included in the ACS published in July 2024 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.

Subsequent to the compilation of the Group's scenarios, the Bank of England published details of its 2025 stress tests. These were slightly more optimistic than the severe scenario adopted, but not significantly different. Therefore the severe scenario was not updated.

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 maintain the scenario weightings used at 30 September 2024. With the consensus view for the UK economic outlook little changed from that at 30 September 2024, the potential for significant downside impacts from geopolitical factors, including international trade issues and conflicts in Eastern Europe and the Middle East, remains. The impact of the fiscal changes announced in the new UK Government's October 2024 budget is yet to be felt, and the long-term impact of its broader economic, regulatory and other policies is not yet clear. This supports the maintenance of the September 2024 weightings.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)

Sensitivities comparing the effect of these weightings with those adopted at 31 March 2024 and those which might be seen in a more normal economic environment are set out in note 16.

The weightings attached to each scenario are set out below

	31 March 2025	30 September 2024	31 March 2024
Central Scenario	45%	45%	40%
Upside Scenario	10%	10%	10%
Downside Scenario	30%	30%	30%
Severe Scenario	15%	15%	20%
	100%	100%	100%

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

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

The projected average values of each of these variables in each of the first five years of the forecast period are set out below. Values are shown for the twelve months ending on 31 March or 30 September in each year as appropriate.

31 March 2025

GDP (year-on-year change)

	2026 %	2027 %	2028 %	2029 %	2030 %
Central scenario	1.0	1.4	1.5	1.8	1.6
Upside scenario	2.0	2.7	1.8	1.8	1.6
Downside scenario	(0.1)	0.5	1.5	1.6	1.6
Severe scenario	(2.6)	(2.6)	0.9	1.9	1.8

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)

HPI (year-on-year change)

	2026 %	2027 %	2028 %	2029 %	2030 %
Central scenario	1.3	3.8	4.0	2.6	2.4
Upside scenario	3.0	5.0	4.9	3.9	2.8
Downside scenario	(2.7)	(3.3)	2.3	1.5	2.2
Severe scenario	(3.5)	(12.8)	(12.9)	3.7	6.5

BBR (rate)

	2026 %	2027 %	2028 %	2029 %	2030 %
Central scenario	3.9	3.5	3.5	3.5	3.5
Upside scenario	3.9	3.1	2.6	2.5	2.5
Downside scenario	4.5	3.9	3.5	3.5	3.5
Severe scenario	7.3	7.6	4.9	3.2	3.0

CPI (rate)

	2026 %	2027 %	2028 %	2029 %	2030 %
Central scenario	3.4	2.5	2.1	2.0	2.0
Upside scenario	3.1	2.2	1.8	1.9	2.0
Downside scenario	3.7	2.9	2.1	1.9	2.0
Severe scenario	6.9	10.5	3.5	2.1	2.0

Unemployment (rate)

	2026 %	2027 %	2028 %	2029 %	2030 %
Central scenario	4.5	4.7	4.8	4.7	4.2
Upside scenario	4.3	4.3	4.4	4.3	3.8
Downside scenario	4.9	5.3	5.5	5.0	4.3
Severe scenario	5.5	8.0	8.3	7.6	6.9

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)

Secured lending (annual change)

	2026 %	2027 %	2028 %	2029 %	2030 %
Central scenario	1.5	2.0	2.4	3.0	3.0
Upside scenario	2.8	3.3	3.6	4.3	4.3
Downside scenario	0.0	0.5	0.9	1.5	1.5
Severe scenario	(0.5)	0.0	0.4	1.0	1.0

Consumer credit (annual change)

	2026 %	2027 %	2028 %	2029 %	2030 %
Central scenario	6.1	5.5	4.9	4.4	4.0
Upside scenario	7.1	6.5	5.9	5.4	5.0
Downside scenario	4.1	3.5	2.9	2.4	2.0
Severe scenario	0.9	(2.5)	(1.5)	1.1	1.3

31 March 2024

GDP (year-on-year change)

	2025 %	2026 %	2027 %	2028 %	2029 %
Central scenario	0.7	0.8	1.3	1.6	1.6
Upside scenario	1.7	2.5	2.4	1.9	1.6
Downside scenario	(0.4)	0.7	1.3	1.6	1.6
Severe scenario	(3.6)	(0.2)	1.2	1.2	1.2

HPI (year-on-year change)

	2025 %	2026 %	2027 %	2028 %	2029 %
Central scenario	(4.4)	2.2	4.4	4.0	2.6
Upside scenario	2.4	7.0	5.6	4.9	4.0
Downside scenario	(9.2)	1.7	4.0	3.7	1.5
Severe scenario	(13.1)	(15.1)	-	7.0	5.6

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)

BBR (rate)

	2025 %	2026 %	2027 %	2028 %	2029 %
Central scenario	4.8	4.1	3.6	3.5	3.5
Upside scenario	4.1	3.2	3.0	3.0	3.0
Downside scenario	5.6	5.0	4.1	3.5	3.5
Severe scenario	6.0	5.8	5.1	4.3	3.6

CPI (rate)

	2025 %	2026 %	2027 %	2028 %	2029 %
Central scenario	2.4	2.6	2.1	2.0	2.0
Upside scenario	2.0	2.0	1.9	2.0	2.0
Downside scenario	3.7	3.1	2.3	1.8	2.0
Severe scenario	4.6	4.5	2.4	1.7	2.0

Unemployment (rate)

	2025 %	2026 %	2027 %	2028 %	2029 %
Central scenario	4.6	4.9	5.0	4.4	3.7
Upside scenario	4.1	4.4	4.5	4.1	3.7
Downside scenario	5.1	6.1	6.5	5.3	4.2
Severe scenario	6.9	8.4	7.8	7.2	6.6

Secured lending (annual change)

	2025 %	2026 %	2027 %	2028 %	2029 %
Central scenario	0.3	0.9	2.6	3.0	3.0
Upside scenario	1.0	1.6	3.2	3.0	3.0
Downside scenario	(0.5)	0.1	2.1	3.0	3.0
Severe scenario	(1.8)	(1.1)	1.1	3.0	3.0

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)

Consumer credit (annual change)

	2025 %	2026 %	2027 %	2028 %	2029 %
Central scenario	2.3	3.1	4.6	5.0	5.0
Upside scenario	3.0	3.8	5.1	5.0	5.0
Downside scenario	1.5	2.3	4.0	5.0	5.0
Severe scenario	0.3	1.1	3.1	5.0	5.0

30 September 2024

GDP (year-on-year change)

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

HPI (year-on-year change)

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

BBR (rate)

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)

CPI (rate)

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

Unemployment (rate)

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

Secured lending (annual change)

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

Consumer credit (annual change)

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

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)

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

31 March 2025

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	1.8	0.5	3.1	0.8	1.6	(0.2)	1.9	(3.7)
HPI	4.4	0.5	5.1	1.8	2.9	(5.2)	6.9	(15.9)
BBR	4.3	3.5	4.3	2.5	4.5	3.5	8.3	3.0
CPI	3.7	1.8	3.3	1.7	3.9	1.7	12.3	1.9
Unemployment	4.8	4.0	4.4	3.6	5.5	4.1	8.5	4.7
Secured lending	3.0	1.5	4.3	2.8	1.5	-	1.0	(0.5)
Consumer credit	6.5	4.0	7.5	5.0	4.5	2.0	2.5	(4.0)

31 March 2024

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	1.6	0.1	2.7	0.4	1.6	(0.7)	1.2	(5.0)
HPI	4.4	(5.2)	7.4	(0.8)	4.1	(10.7)	7.2	(16.4)
BBR	5.3	3.5	4.8	3.0	5.8	3.5	6.0	3.5
CPI	2.8	1.9	2.2	1.8	4.0	1.5	5.0	1.5
Unemployment	5.0	3.6	4.5	3.6	6.6	4.1	8.5	5.2
Secured lending	3.0	-	3.8	0.8	3.0	(0.8)	3.0	(2.0)
Consumer credit	5.0	2.0	5.5	2.8	5.0	1.3	5.0	-

30 September 2024

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (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.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Provision using central scenario 100% weighted			
Mortgage Lending	32.1	39.0	31.6
Commercial Lending	37.6	30.0	39.7
	69.7	69.0	71.3
Calculated impairment provision	76.1	78.1	76.5
Effect of multiple economic scenarios	6.4	9.1	5.2

16. IMPAIRMENT PROVISION – SENSITIVITY ANALYSIS

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

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

Economic conditions

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

	31 March 2025		30 September 2024	
Scenarios	**Provision £m**	**Difference £m**	**Provision £m**	**Difference £m**
Central	69.7	(6.4)	71.3	(5.2)
Upside	67.1	(9.0)	68.0	(8.5)
Downside	76.5	0.4	76.8	0.3
Severe downside	102.6	26.5	100.4	23.9

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

16. IMPAIRMENT PROVISION – SENSITIVITY ANALYSIS (CONTINUED)

Scenario weightings

In order to illustrate the impact of scenario weightings on the outcomes, the impairment provision requirements were sensitised using alternative weightings. Sensitivity A is based on the weightings used at IFRS 9 transition on 1 October 2018. The use of the 2018 weighting is intended to represent a more settled outlook than has been evident at any of the most recent period ends. Sensitivity B is based on the weightings used at 31 March 2024, to demonstrate the impact of the adoption of new weightings at 30 September 2024. Judgemental adjustments are assumed to remain constant.

The weightings used, and the results of applying this sensitivity to the 31 March 2025 scenarios are set out below.

	Weighting				Impairment	Difference
	Central	Upside	Downside	Severe	£m	£m
As reported	45%	10%	30%	15%	76.1	-
Sensitivity A	40%	30%	25%	5%	72.3	(3.8)
Sensitivity B	40%	10%	30%	20%	77.8	1.7

Significant increase in credit risk

The most significant driver of SICR is relative PD. If all PDs across the Group's principal buy-to-let mortgage book were increased by 10%, loans with a gross value of £19.6m would transfer from Stage 1 to Stage 2 (30 September 2024: £44.4m), and the total provision would increase by £0.4m from the combined effects of higher PDs on expected losses and the impact of providing for expected lifetime losses, rather than 12-month losses on the additional Stage 2 cases (30 September 2024: £0.3m).

Value of security

The principal assumptions impacting the LGD are the estimated security values. If the rate of growth in house prices assumed by the model after the forecast minimum were halved, ignoring any PD effects, then the provision for the Group's first and second mortgage assets under the central scenario would increase by £0.7m (30 September 2024: £0.5m).

Receiver of rent

The majority of receiver of rent cases, which are included in Stage 3, are managed long-term and therefore their assumed realisation date has an important impact on the provision calculation. If the assumed rate of realisation was increased by 20%, the impairment provision in the central scenario would increase by £0.4m (30 September 2024: £0.4m).

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Derivative financial assets	373.1	511.7	391.8	615.4
Derivative financial liabilities	(66.1)	(95.1)	(99.7)	(39.9)
	307.0	416.6	292.1	575.5
Of which:				
Interest rate swaps in hedging relationships	301.3	417.8	291.5	559.4
Other interest rate swaps	5.7	(1.2)	0.6	16.1
Currency futures	-	-	-	-
	307.0	416.6	292.1	575.5

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

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

	Note	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Derivative financial instruments					
Assets		373.1	511.7	391.8	615.4
Liabilities		(66.1)	(95.1)	(99.7)	(39.9)
		307.0	416.6	292.1	575.5
Fair value hedging adjustments					
On loans to customers	11	(74.7)	(196.5)	(75.2)	(379.3)
On investment securities		(23.9)	1.8	7.7	-
On retail deposits	20	(7.9)	1.4	(16.7)	30.9
On borrowings		0.1	0.9	(0.3)	3.7
		(106.4)	(192.4)	(84.5)	(344.7)
Net balance sheet position		200.6	224.2	207.6	230.8
Collateral balances					
Posted (in sundry assets)	18	-	-	-	-
Received (in sundry liabilities)	22	(152.7)	(215.0)	(103.6)	(383.4)
		(152.7)	(215.0)	(103.6)	(383.4)

18. SUNDRY ASSETS

	Note	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Current assets				
Accrued interest income		10.5	5.9	11.1
CSA assets	17	-	-	-
Other sundry assets		13.1	10.3	9.6
		23.6	16.2	20.7

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

19. INTANGIBLE ASSETS

Intangible assets at net book value comprise:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Goodwill	162.8	162.8	162.8	162.8
Computer software	8.8	6.0	8.0	4.4
Other intangibles	0.6	0.8	0.7	1.0
Total assets	172.2	169.6	171.5	168.2

The balance for goodwill at 31 March 2025 shown above includes £113.0m in respect of the SME Lending Cash Generating Unit (‘CGU’) and £49.8m in respect of the Development Finance CGU.

IAS 36 requires that such balances are tested annually for impairment, or more frequently if there is reason to suggest that an impairment has occurred. The Group last carried out a full impairment review in accordance with IAS 36 at 30 September 2024.

The results of the testing carried out at 30 September 2024, including sensitivity analyses relating to that testing, are set out in note 31 to the 2024 Group Accounts. The analysis for each CGU shows movements in the key input assumptions used in testing which would be sufficient to eliminate any headroom. These movements, while not expected by management at the time, were nonetheless considered ‘reasonably possible’ for the purposes of IAS 36.

In preparing the financial information at 31 March 2025 the Group has considered whether a further impairment test might be required. The trading performances of the CGUs were compared to those projected in the 30 September 2024 testing and the potential impact of the Group’s April 2025 reforecasting exercise on these forecasts was also considered. As a result of this exercise it was concluded that there was no indication of impairment, and no further impairment testing was carried out.

The same exercise carried out at 31 March 2024 produced a similar result.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

20. RETAIL DEPOSITS

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

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Fixed rate	7,533.3	8,449.0	8,257.2	8,690.2
Variable rates	8,234.7	6,319.5	8,040.8	4,575.1
	15,768.0	14,768.5	16,298.0	13,265.3

The weighted average interest rate on retail deposits at 31 March 2025, analysed by charging method, is set out below.

	31 March 2025 %	31 March 2024 %	30 September 2024 %	30 September 2023 %
Fixed rate	4.60	4.70	4.77	4.07
Variable rates	3.87	4.25	4.19	3.74
All deposits	4.22	4.51	4.49	3.95

The contractual maturity of these deposits is analysed below.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Amounts repayable				
In less than three months	1,884.4	1,375.0	1,621.4	1,589.4
In more than three months but not more than one year	4,513.3	5,063.3	4,847.1	5,193.7
In more than one year, but not more than two years	939.4	1,699.7	1,502.6	1,643.0
In more than two years, but not more than five years	564.6	650.9	615.0	631.8
Total term deposits	7,901.7	8,788.9	8,586.1	9,057.9
Repayable on demand	7,866.3	5,979.6	7,711.9	4,207.4
	15,768.0	14,768.5	16,298.0	13,265.3
Fair value adjustments for portfolio hedging (note 17)	7.9	(1.4)	16.7	(30.9)
	15,775.9	14,767.1	16,314.7	13,234.4

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

21. BORROWINGS

On 6 February 2025, Fitch Ratings affirmed the Group's Long-Term Issuer Default Rating at BBB+, with a stable outlook. It also affirmed the senior unsecured debt rating at BBB and the rating of the Group's Tier-2 bond at BBB-, with this security therefore enjoying an investment-grade rating.

At the same time Fitch Ratings affirmed its BBB+ Long-term Issuer Default Rating for Paragon Bank PLC, the Group's principal operating subsidiary.

On 29 November 2024, Moody's Investors Service commenced coverage of the Group, assigning an issuer rating of Baa3 to the Group and a long-term deposit rating of Baa2 to Paragon Bank.

All borrowings described in the Group Accounts for the year ended 30 September 2024 remained in place throughout the period.

Central bank borrowings include £250.0m of drawings under the Term Funding Scheme with additional incentives for SMEs ('TFSME') (30 September 2024: £750.0m; 31 March 2024: £1,850.0m) and £450.0m of Indexed Long-Term Repo ('ILTR') drawings (30 September 2024: £5.0m; 31 March 2024: £nil). ILTR drawings are payable within twelve months of the balance sheet date.

On 24 February 2025, Paragon Bank PLC established a covered bond programme, regulated and approved by the Financial Conduct Authority ('FCA'). Under this programme Paragon Bank will have the ability to issue a total of up to £5,000.0m of bonds, secured on a pool of mortgage assets, when market conditions are acceptable, with a relative short preparation and lead time.

On 11 March 2025, Paragon Bank made its first issue of bonds under the programme. The principal amount of bonds issued was £500.0m, and the bonds have a due date of 20 March 2028 and bear interest at a rate of 0.6% over compounded daily SONIA. They have been assigned a credit rating of Aaa by Moody's and AAA by Fitch.

The amount outstanding respect of these covered bonds at 31 March 2025 was £499.1m and the amount of the cover pool was £937.3m.

Repayments made in respect of the Group's borrowings are shown in note 31.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

22. SUNDRY LIABILITIES

Sundry liabilities include:

	Note	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Amounts falling due within one year				
Lease liabilities		2.9	2.7	2.9
Accrued interest		188.3	179.5	191.7
CSA liabilities	17	152.7	215.0	103.6
Purchase of own shares	27	14.6	10.4	23.8
Other sundry liabilities		46.2	41.3	50.1
		404.7	448.9	372.1
Amounts falling due after more than one year				
Lease liabilities		4.7	5.5	5.0
Accrued interest		28.4	40.8	35.0
Other sundry liabilities		5.0	3.9	5.3
		38.1	50.2	45.3
Total				
Lease liabilities		7.6	8.2	7.9
Other sundry liabilities		435.2	490.9	409.5
		442.8	499.1	417.4

23. PROVISONS 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 significant liability to arise, this is disclosed as a contingent liability.

The provisions carried in the Group’s accounts at 31 March 2025 are set out below.

	Conduct £m	Total £m
At 30 September 2024	-	-
Provided in the period	6.5	6.5
Utilised in the period	-	-
At 31 March 2025	6.5	6.5

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

23. PROVISONS FOR LIABILITIES (CONTINUED)

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

Conduct

The Group, as a regulated participant in the financial services industry, is exposed to a high level of regulatory supervision, which could in the event of conduct failures expose it to additional liabilities. The objective of the Group's compliance and conduct framework, which is supervised by the second line compliance function, is to provide a strong mitigant to this risk, although it is impossible to eliminate it entirely.

As described below, there is significant uncertainty with regard to legal and regulatory interventions around commissions paid in the motor finance market. These processes are far from complete, and therefore the scope and extent of any exposure is unclear. It is also possible that the principles articulated in relation to the motor finance market may turn out to have a broader application.

The broader regulatory environment continues to develop, through regulatory policies, legislative rules and court rulings, and the Group's assessment of potential liabilities for issues relating to motor finance commission or other conduct issues, is based on our current interpretation of requirements and hence further liabilities may arise as these develop over time.

Motor finance commissions

During the year ended 30 September 2024 and subsequently, a number of issues were raised surrounding historical practices for the payment of commissions by lenders in the motor finance market. These claims have been pursued through various regulatory and legal routes, and these approaches are not mutually exclusive.

While the Group has not knowingly breached relevant regulations, and does not believe that it has disadvantaged customers, the extent of any potential exposure will not become clear until the issues raised in these claims are clarified.

On 25 October 2024, the Court of Appeal handed down judgment in the cases of Hopcraft, Wrench and Johnson (the 'Hopcraft case'). This provided a ruling on claims relating to motor finance loans involving 'secret' or 'half secret' commissions paid to the motor dealer who arranged the finance (a 'broker-dealer') by the lender. In these cases, the disclosure of commission was deemed to be either: (a) either absent or insufficient to negate secrecy (and thus the commission was 'secret'); or (b) insufficient to obtain the customer's fully informed consent (and therefore the commission was 'half-secret'). The lenders were deemed to have primary or accessory liability due to the commission paid to the broker-dealer and the claimants were awarded damages against the lenders.

The Court of Appeal's common law principle goes over and above the current regulatory requirements and guidance concerning disclosure of commission (including the FCA's CONC rules).

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

23. PROVISONS FOR LIABILITIES (CONTINUED)

In December 2024 the Supreme Court granted leave to appeal in the Hopcraft case. The Court heard evidence for three days in April 2025 and is expected to hand down its judgement in July 2025, at the earliest.

Earlier, 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 form of commission structure has not been permitted by the regulator since 2021, and thus the review covers a potentially narrower time period than addressed by the ruling on disclosures in the Hopcraft case.

At the same time the FCA imposed a pause on the handling of such complaints. The regulator's original intention was to publish its policy on the treatment of such matters before 30 September 2024, but in July 2024 it announced that it required more time to address these issues and extended its pause on complaint handling until December 2025, to allow for the development of any redress scheme that might be required. In March 2025, the FCA stated that it was not planning any further announcements until after the Supreme Court published its decision in the Hopcraft case. It also extended its pause on complaint handling to cover all complaints related to motor finance commissions.

The approach taken by the FOS to such cases was also challenged in the High Court by Clydesdale Financial Services (trading as Barclays Partner Finance), through judicial review proceedings (the 'Clydesdale case'). While the High Court held in favour of the FOS, leave to appeal was given, with the Court of Appeal scheduled to hear the case in July 2025. The findings of the Courts in this case are expected to inform the final results of the FCA review, and any potential redress scheme which may be devised.

In March 2025, the FCA announced that it is likely to consult on an industry-wide redress scheme in respect of the use of DCA models if it concludes that motor finance customers have lost out from widespread failings by firms. It also stated that its approach to non-DCA complaints would be informed by the Supreme Court decision in the Hopcraft case.

The FCA's conclusions are due to be communicated to the industry within six weeks of the Supreme Court's handing down of its decisions in the Hopcraft case. This timescale may, however, be adjusted to allow the regulator to take account of the result of the appeal in the Clydesdale case.

While the judgement in the Hopcraft case currently represents decided law, that ruling is specific to the facts considered by the Court in that particular case. It is not, therefore, necessarily indicative of broader liabilities in respect of commission cases with a different fact pattern, from the results of the FCA review, or from other ongoing legal and regulatory processes which address different issues related to motor finance commissions.

The scope of the FCA's DCA review 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, re-entering in 2014, on the foundation on Paragon Bank. Between 2007 and 31 October 2024, the Group had paid out £51.0m of commissions to support the origination of motor finance loans.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

23. PROVISONS FOR LIABILITIES (CONTINUED)

Included in this amount was £9.6m of commission paid to broker-dealers, comprising 18.8% of all motor commissions paid, with the remainder being paid to finance brokers and a variety of other different forms of introducers, independent of the vehicle retailer, reflecting differing customer journeys. Until 2021, these amounts included commissions paid on a DCA basis.

The Group has reviewed its own lending practices for motor finance and whereas commissions were already referred to within customer agreement documentation, from late October 2024 customers have been required to sign a commission consent document, addressing the legal disclosure requirements set out in the judgement in the Hopcraft case.

Given the FCA's comments regarding the likelihood of a consultation regarding an industry-wide redress scheme in respect of motor finance commissions later in 2025, and the focus on the operational readiness of firms active within the sector to execute such a scheme, the Group considers that some form of redress is more likely than not, and has decided to make a provision at 31 March 2025. The determination of this provision was informed by a range of possible scenarios considering the Group's various exposures at that date, and the differing customer journeys and fact patterns underlying them, together with both the potential value of any remediation or settlement which might be required and any interest payable thereon. Factors such as the level of claims received and the rate at which any interest might be payable were also considered in this exercise.

These scenarios addressed various differing scopes for required redress within the historic motor finance portfolio, but the exercise, as a whole, was weighted more heavily towards scenarios focussed on broker-dealer accounts, where the facts were potentially similar to those in the Hopcraft case. These scenarios were then used to generate an overall best estimate of the potential provision requirement. While the amount of the estimate is not considered material in the context of the Group's accounts, the directors concluded it was appropriate to provide for it, and a provision of £6.5m has been recognised in the period (30 September 2024: £nil; 31 March 2024: £nil). The size and appropriateness of this provision will be kept under review as case law develops and regulatory requirements and expectations are clarified.

It should be noted that the ultimate total liability, if any, will be dependent on the resolution of various legal and regulatory processes currently in progress, including, but not limited to, the FCA review, any further regulatory action, and the Supreme Court's decision in the Hopcraft case. These will determine the types of products and lending dates to be considered and thus the size of the customer population impacted, together with the potential exposure in respect of those customers. However, at this stage the potential total liability remains uncertain, and may be materially more than the amount provided for. Any additional amount which might be payable in respect of loans outside the population addressed by the provision recognised is considered to be a contingent liability for disclosure purposes.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

24. RETIREMENT BENEFIT OBLIGATIONS

The defined benefit obligation at 31 March 2025 has been calculated on a year-to-date basis. Since the last IAS 19 actuarial valuation at 30 September 2024, there have been movements in financial conditions, requiring an adjustment to the actuarial assumptions underlying the calculation of the defined benefit obligation. In particular, over the period since the 30 September 2024 actuarial valuation, the discount rate has increased by 80 basis points per annum, while expectations of long-term inflation have remained stable.

The net effect of these changes, together with the Group's contributions and the performance of the plan assets, has resulted in the value of the net defined benefit surplus at 31 March 2025 decreasing from the position at 30 September 2024. The impact of allowing for the changes in actuarial assumptions has been recognised as an actuarial gain in other comprehensive income.

The Group has recognised the surplus as an asset at the balance sheet date as it anticipates being able to access economic benefits at least as great as the carrying value. However such assets are eliminated from capital for regulatory purposes (note 33).

The movements in the amount recognised in respect of the defined benefit plan during the six-month period ended 31 March 2025 are summarised below.

	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Opening pension surplus	22.2	12.7	12.7
Employer contributions	1.3	1.5	2.8
Amounts posted to profit and loss			
Current service cost	(0.2)	(0.2)	(0.4)
Net funding income (note 3)	0.6	0.4	0.8
Administrative expenses	(0.3)	(0.6)	(0.9)
Amounts posted to other comprehensive income			
Return on plan assets not included in interest	(11.7)	7.9	7.0
Experience gain / (loss) on liabilities	0.1	(0.1)	1.5
Actuarial gain / (loss) from changes in financial assumptions	9.5	(7.5)	(3.7)
Actuarial gain from changes in demographic assumptions	-	2.5	2.4
Closing pension surplus	21.5	16.6	22.2

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

25. CALLED-UP SHARE CAPITAL

Movements in the issued share capital in the period were:

	Six months to 31 March 2025 Number	Six months to 31 March 2024 Number	Year to 30 September 2024 Number
Ordinary shares of £1 each			
Opening share capital	210,604,960	228,700,413	228,700,413
Shares issued	-	-	-
Shares cancelled	(6,200,000)	(12,095,453)	(18,095,453)
Closing share capital	204,404,960	216,604,960	210,604,960

During the period, the Company issued no shares (six months ended 31 March 2024: none; year ended 30 September 2024: none).

On 19 March 2025, 6,200,000 of the shares held in treasury at that date were cancelled.

On 23 February 2024, 12,095,433 of the shares held in treasury at that date were cancelled, with 6,000,000 further shares cancelled on 30 August 2024.

26. RESERVES

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Share premium account	71.4	71.4	71.4	71.4
Capital redemption reserve	37.2	25.0	31.0	12.9
Merger reserve	(70.2)	(70.2)	(70.2)	(70.2)
Profit and loss account	1,232.5	1,198.1	1,242.1	1,243.4
	1,270.9	1,224.3	1,274.3	1,257.5

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

27. OWN SHARES

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Treasury shares			
Opening balance	16.3	54.0	54.0
Shares purchased	59.7	39.9	76.6
Options exercised	(0.8)	(2.7)	(4.3)
Shares cancelled	(47.1)	(68.5)	(110.0)
Closing balance	28.1	22.7	16.3
ESOP shares			
Opening balance	25.3	21.6	21.6
Shares purchased	7.7	12.9	12.9
Options exercised	(9.2)	(8.7)	(9.2)
Closing balance	23.8	25.8	25.3
Irrevocable authority to purchase			
Opening balance	23.8	-	-
Given in period	14.6	10.4	23.8
Expiring / utilised in the period	(23.8)	-	-
Closing balance (note 22)	14.6	10.4	23.8
Total closing balance	66.5	58.9	65.4
Total opening balance	65.4	75.6	75.6
Number of shares held			
Treasury	3,667,142	3,411,017	2,124,162
ESOP	3,526,211	4,277,272	4,182,232
Total own shares	7,193,353	7,688,289	6,306,394

At 31 March 2025 an irrevocable instruction for the purchase of a further £14.6m of shares was in place (note 22).

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

28. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Final dividend for the year ended 30 September 2024 of 27.2p per share	54.5	-	-
Final dividend for the year ended 30 September 2023 of 26.4p per share	-	56.1	56.1
Interim dividend for the year ended 30 September 2024 of 13.2p per share	-	-	27.4
	54.5	56.1	83.5

An interim dividend of 13.6p per share is proposed for the period (2024: 13.2p per share), for the reasons set out in note 33(c). This will be paid on 25 July 2025 with a record date of 4 July 2025. The amount expected to be absorbed by this dividend, based on the number of shares in issue at the balance sheet date is £26.8m (31 March 2024: £27.6m). The interim dividend will be recognised in the accounts when it is paid.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

29. NET CASH FLOW FROM OPERATING ACTIVITIES

	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Profit before tax	140.1	110.6	253.8
Non-cash items included in profit, and other adjustments			
Depreciation of property, plant and equipment	1.9	2.0	5.4
(Profit) on disposal of property, plant and equipment	(0.2)	(0.1)	(0.1)
Amortisation of intangible assets	0.6	0.6	1.2
Non-cash movements on investment securities	31.6	-	(7.8)
Non-cash movements on borrowings	(0.2)	3.1	4.5
Impairment losses on loans to customers	15.3	10.3	24.5
Charge for share-based remuneration	3.6	4.5	9.2
Net (increase) / decrease in operating assets			
Assets held for leasing	0.3	3.2	0.7
Loans to customers	(302.3)	(385.0)	(855.7)
Derivative financial instruments	18.7	(182.8)	223.6
Fair value of portfolio hedges	(0.5)	103.7	(304.1)
Other receivables	(4.3)	33.7	28.0
Net increase / (decrease) in operating liabilities			
Retail deposits	(530.0)	1,503.2	3,032.7
Derivative financial instruments	(33.7)	55.2	59.8
Fair value of portfolio hedges	(8.8)	29.5	47.6
Other liabilities	41.3	(141.8)	(236.6)
Cash (utilised) / generated by operations	(626.6)	1,149.9	2,286.7
Income taxes (paid)	(28.6)	(34.3)	(70.3)
Net cash flow (utilised) / generated by operating activities	(655.2)	1,115.6	2,216.4

Cash flows relating to plant and equipment held for leasing under operating leases are classified as operating cash flows.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

30. NET CASH FLOW USED IN INVESTING ACTIVITIES

	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Investment in securities	(58.0)	(98.1)	(419.6)
Proceeds from sales of operating property, plant and equipment	0.1	0.1	0.3
Purchases of operating property, plant and equipment	(0.6)	(0.5)	(0.9)
Purchases of intangible assets	(1.3)	(2.0)	(4.5)
Net cash (utilised) by investing activities	(59.8)	(100.5)	(424.7)

31. NET CASH FLOW FROM FINANCING ACTIVITIES

	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Dividends paid (note 28)	(54.5)	(56.1)	(83.5)
Repayment of asset-backed floating rate notes	-	(11.1)	(28.3)
Issue of covered bonds	499.1	-	-
Repayment of retail bond	-	-	(112.5)
Repayment of long-term central bank facilities	(500.0)	(900.0)	(2,000.0)
Movement on short-term central bank facilities	445.0	-	5.0
Movement on sale and repurchase agreements	0.8	50.0	50.0
Capital element of lease payments	(1.4)	(1.3)	(2.7)
Purchase of own shares (note 27)	(67.4)	(52.8)	(89.5)
Exercise of share awards	(1.2)	(0.1)	0.7
Net cash generated / (utilised) by financing activities	320.4	(971.4)	(2,260.8)

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2025 (Unaudited)

32. RELATED PARTY TRANSACTIONS

In the six months ended 31 March 2025, the Group has continued the related party relationships described in note 55 on page 277 of the Group's 2024 Annual Report and Accounts. Related party transactions in the period comprise the compensation of the Group's key management personnel, the acceptance of retail deposits from certain directors and other key management personnel, and transactions with the Group Pension Plan.

There have been no changes in these relationships which could have a material effect on the financial position or performance of the Group in the period.

Retail deposits of £855,000 by directors were outstanding at the period end (31 March 2024: £740,000; 30 September 2024: £850,000) and the maximum outstanding in the period was £1,285,000 (six months ended 31 March 2024: £796,000; year ended 30 September 2024: £939,000).

For other members of the Group's executive committees, the total amount of retail deposits outstanding at the period end was £554,000 (30 September 2024: £149,000) and the maximum amount outstanding in the period was £654,000.

Except for the transactions referred to above, there have been no related party transactions in the six months ended 31 March 2025.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

The notes below describe the processes and measurements which the Group uses to manage its capital position and its exposure to credit risk. It should be noted that certain capital measures, which are presented to illustrate the Group's position, are not covered by the Independent Review Report. Where this is the case, the relevant disclosures are marked as such.

33. CAPITAL MANAGEMENT

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and strategic objectives
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk
- To ensure that sufficient regulatory capital is available to meet any externally imposed requirements

The protection of the Group's capital base and its long-term viability are key strategic priorities.

The Group sets its target amount of capital in proportion to risk, availability and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as retail or corporate bonds, or sell assets to reduce debt.

The Group is subject to regulatory capital rules imposed by the PRA on a consolidated basis as a group containing an authorised bank. This is discussed further below.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

33. CAPITAL MANAGEMENT (Continued)

(a) Regulatory Capital

The Group is subject to supervision by the PRA on a consolidated basis, as a group containing an authorised bank. For regulatory purposes the Company is designated as a CRR consolidation entity as defined by the PRA Rulebook. As part of this supervision the regulator will issue a Total Capital Requirement ('TCR') setting an amount of regulatory capital, relative to its Total Risk Exposure ('TRE'), which the Group is required to hold at all times, in order to safeguard depositors from loss through the business cycle. This is set in accordance with international Basel 3 rules, issued by the Basel Committee on Banking Supervision ('BCBS') which are implemented in the UK through the PRA Rulebook.

The Group's regulatory capital is monitored by the Board of Directors, its Risk and Compliance Committee and by the Executive Risk Committee ('ERC') and the Asset and Liability Committee, which ensure that appropriate action is taken to ensure compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

The Group took advantage of the transitional reliefs allowing the capital impacts of IFRS 9 transition and Covid-related loan impairment provisions to be phased in over the financial years up to 30 September 2024. Where such reliefs are taken, firms are also required to disclose their capital positions calculated as if the reliefs were not available (the 'fully loaded' basis).

The tables below demonstrate that at 31 March 2025 the Group's total regulatory capital of £1,343.2m (31 March 2024: £1,324.9m; 30 September 2024: £1,327.9m) was comfortably in excess of the amounts required by the regulator, including £681.5m in respect of its Total Capital Requirement ('TCR') (31 March 2024: £698.8m; 30 September 2024: £724.1m), which is comprised of fixed and variable elements (none of these amounts are covered by the independent review report).

At 31 March 2025 the Group's TCR represented 8.1% of Total Risk Exposure ('TRE') (31 March 2024: 8.8%; 30 September 2024: 8.7%), with the reduction principally a result of the most recent review of the Group's risk profile and exposures by the regulator, which was completed in the period.

The CRR also requires firms to hold additional capital buffers, including a Capital Conservation Buffer ('CCoB') of 2.5% of TRE (at 31 March 2025) and a Counter Cyclical Capital Buffer ('CCyB'), currently 2.0% of TRE (31 March 2024: 2.0%; 30 September 2024: 2.0%), which is expected to be its long-term rate in a standard risk environment. Firm specific buffers may also be required.

The Group's regulatory capital differs from its equity as certain adjustments are required by the PRA Rulebook or the regulator. A reconciliation of the Group's equity to its regulatory capital determined in accordance with the PRA Rulebook at 31 March 2025 is set out below.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

33. CAPITAL MANAGEMENT (Continued)

	Note	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Total equity	§	1,408.8	1,382.0	1,419.5	1,410.6
Deductions					
Proposed dividend	28	(26.8)	(27.6)	(55.6)	(56.7)
IFRS 9 transitional relief	*	-	3.3	2.7	13.5
Intangible assets	19	(172.2)	(169.6)	(171.5)	(168.2)
Pension surplus net of deferred tax	24	(16.1)	(12.5)	(16.7)	(9.6)
Prudent valuation adjustments	β	(0.5)	(0.7)	(0.5)	(0.6)
Insufficient coverage	ψ	-	-	-	(0.1)
Common Equity Tier 1 ('CET1') capital		1,193.2	1,174.9	1,177.9	1,188.9
Other tier 1 capital		-	-	-	-
Total Tier 1 capital		1,193.2	1,174.9	1,177.9	1,188.9
Corporate bond		150.0	150.0	150.0	150.0
Eligibility cap	ϕ	-	-	-	-
Total Tier 2 capital		150.0	150.0	150.0	150.0
Total regulatory capital ('TRC')		1,343.2	1,324.9	1,327.9	1,338.9

§ Including results for the six months ended 31 March 2025 which have been verified by the Group's external auditor for regulatory purposes.

* Firms were permitted to phase in the impact of IFRS 9 transition and the impact of Covid-related IFRS 9 impairment provisions over a five-year period, concluding in the Group's financial year ended 30 September 2024. This is explained more fully in note 61 (a) to the 2024 Group Accounts.

β For capital purposes, assets and liabilities held at fair value, such as the Group's derivatives, are required to be valued on a more conservative basis than the market value basis set out in IFRS 13. This difference is represented by the prudent valuation adjustment above, calculated using the 'Simplified Approach' set out in the PRA Rulebook.

ψ Regulatory deduction where there is insufficient coverage for non-performing exposures required under Article 47(c) of the CRR. This remained in force in the UK under the Brexit arrangements but was removed by the PRA with effect from 14 November 2023.

ϕ The PRA Rulebook restricts the amount of tier 2 capital which is eligible for regulatory purposes to 25% of TCR.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

33. CAPITAL MANAGEMENT (Continued)

The TRE amount calculated under the PRA Rulebook framework against which this capital is held, and the proportion of these assets it represents, are calculated as shown below.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Credit risk				
Balance sheet assets	7,397.2	7,097.6	7,303.0	6,784.2
Off balance sheet	111.9	95.8	95.8	87.2
IFRS 9 transitional relief	-	3.3	2.7	13.5
Total credit risk	7,509.1	7,196.7	7,401.5	6,884.9
Operational risk	848.0	740.2	848.0	740.2
Market risk	-	-	-	-
Other	28.1	37.8	29.2	43.6
Total risk exposure ('TRE')	8,385.2	7,974.7	8,278.7	7,668.7
Solvency ratios	**%**	**%**	**%**	**%**
CET1	14.2	14.7	14.2	15.5
TRC	16.0	16.6	16.0	17.5

This table is not covered by the Independent Review Report

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

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

33. CAPITAL MANAGEMENT (Continued)

The fully loaded basis excludes the effects of IFRS 9 transitional relief, which expired at the beginning of the current financial year. For the current year, therefore, measures derived on the fully loaded basis are equal to those derived under the regulatory basis. On the fully loaded basis the Group's capital ratios would be:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
CET1 Capital	1,193.2	1,174.9	1,177.9	1,188.9
Add back: IFRS 9 relief	-	(3.3)	(2.7)	(13.5)
Fully loaded CET1 Capital	1,193.2	1,171.6	1,175.2	1,175.4
TRC	1,343.2	1,324.9	1,327.9	1,338.9
Add back: IFRS 9 relief	-	(3.3)	(2.7)	(13.5)
Fully loaded TRC	1,343.2	1,321.6	1,325.2	1,325.4
Total risk exposure	8,385.2	7,974.7	8,278.7	7,668.7
Add back: IFRS 9 relief	-	(3.3)	(2.7)	(13.5)
Fully loaded TRE	8,385.2	7,971.4	8,276.0	7,655.2
Fully loaded solvency ratios	%	%	%	%
CET1	14.2	14.7	14.2	15.4
TRC	16.0	16.6	16.0	17.3

This table is not covered by the Independent Review Report

The TRC at 31 March 2025 on the fully loaded basis of £1,343.2m (31 March 2024: £1,321.6m; 30 September 2024: £1,325.2) was in excess of the TCR of £681.5m (31 March 2024: £698.5m; 30 September 2024: £723.8m) on the same basis (amounts not covered by the Independent Review Report).

Leverage ratio

The table below shows the calculation of the Group's leverage ratio as defined in the PRA Rulebook. This rule is based on consolidated balance sheet assets adjusted as shown. The PRA has set a minimum leverage ratio of 3.25% for UK firms with retail deposits of over £50.0 billion, or over £10.0 billion of non-UK assets. In addition, in October 2021 the PRA stated its expectation that all other UK firms, such as the Group, should manage their leverage risk so that this ratio does not ordinarily fall below 3.25%.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

33. CAPITAL MANAGEMENT (Continued)

	Note	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Total balance sheet assets		19,165.6	18,980.8	19,270.0	18,420.2
Add Credit fair value adjustments on loans to customers	11	74.7	196.5	75.2	379.3
Debit fair value adjustments on retail deposits	20	-	1.4	-	30.9
Adjusted balance sheet assets		19,240.3	19,178.7	19,345.2	18,830.4
Less: Derivative assets	17	(373.1)	(511.7)	(391.8)	(615.4)
Central bank deposits	10	(1,839.0)	(2,739.5)	(2,315.5)	(2,783.3)
Cash Ratio Deposits		-	-	-	(38.0)
Accrued interest on sovereign exposures		(3.2)	(4.2)	(3.8)	(4.2)
On-balance sheet items		17,025.0	15,923.3	16,634.1	15,389.5
Less: Intangible assets	19	(172.2)	(169.6)	(171.5)	(168.2)
Pension surplus	24	(21.5)	(16.6)	(22.2)	(12.7)
Total on balance sheet exposures		16,831.3	15,737.1	16,440.4	15,208.6
Regulatory exposure for derivatives		131.6	183.8	154.7	179.6
Total derivative exposures		131.6	183.8	154.7	179.6
Post offer pipeline at gross notional amount		1,267.5	1,167.6	1,210.2	993.3
Adjustment to convert to credit equivalent amounts		(1,038.6)	(962.2)	(1,000.1)	(815.7)
Off balance sheet items		228.9	205.4	210.1	177.6
Tier 1 capital		1,193.2	1,174.9	1,177.9	1,188.9
Total leverage exposure before IFRS 9 relief		17,191.8	16,126.3	16,805.2	15,565.8
IFRS 9 relief		-	3.3	2.7	13.5
Total leverage exposure		17,191.8	16,129.6	16,807.9	15,579.3
UK leverage ratio		6.9%	7.3%	7.0%	7.6%

This table is not covered by the Independent Review Report

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

33. CAPITAL MANAGEMENT (Continued)

The fully loaded leverage ratio is calculated as follows:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Fully loaded tier 1 capital	1,193.2	1,171.6	1,175.2	1,175.4
Total leverage exposure before IFRS 9 relief	17,191.8	16,126.3	16,805.2	15,565.8
Fully loaded UK leverage exposure	6.9%	7.3%	7.0%	7.6%

This table is not covered by the Independent Review Report

The Group calculates regulatory exposure on derivatives using the Standardised Approach for Counterparty Credit Risk ('SA-CCR'), which includes elements based on the market value of derivative assets adjusted for collateral, amongst other things, and based on potential future exposure in respect of all derivatives held.

This leverage ratio is prescribed by the PRA and differs from that defined by the Basel regime due to the exclusion of central bank deposits from exposures.

Capital requirements in subsidiary entities

The regulatory capital disclosures in these condensed financial statements relate only to the consolidated position for the Group. Individual entities within the Group are also subject to supervision on a standalone basis. All such entities complied with the requirements to which they were subject during the period.

(b) Return on tangible equity ('RoTE')

RoTE is a measure of an entity's profitability used by investors. It is defined by the Group by comparing the profit after tax for the period, adjusted for amortisation charged on intangible assets, to the average of the opening and closing equity positions, excluding intangible assets and goodwill.

It effectively reflects a return on equity as if all intangible assets are eliminated immediately against reserves. As this is similar to the approach used for the capital of financial institutions it is widely used in the sector.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

33. CAPITAL MANAGEMENT (Continued)

The Group's consolidated annualised RoTE for the six months ended 31 March 2025 is derived as follows:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
Profit for the period	100.8	81.9	186.0	153.9
Amortisation of intangible assets	0.6	0.6	1.2	3.6
Adjusted profit	101.4	82.5	187.2	157.5
Divided by				
Opening equity	1,419.5	1,410.6	1,410.6	1,417.3
Opening intangible assets	(171.5)	(168.2)	(168.2)	(170.2)
Opening tangible equity	1,248.0	1,242.4	1,242.4	1,247.1
Closing equity	1,408.8	1,382.0	1,419.5	1,410.6
Closing intangible assets	(172.2)	(169.6)	(171.5)	(168.2)
Closing tangible equity	1,236.6	1,212.4	1,248.0	1,242.4
Average tangible equity	1,242.3	1,227.4	1,245.2	1,244.7
Return on tangible equity	16.3%	13.4%	15.0%	12.7%

This table is not covered by the Independent Review Report

(c) Dividend policy

The Company is committed to a long-term sustainable dividend policy. Ordinarily, dividends will increase in line with earnings, subject to the requirements of the business and the availability of cash resources. The Board reviews the policy at least twice a year in advance of announcing its results, taking into account the Group's strategy, capital requirements, principal risks and the objective of enhancing shareholder value.

In determining the level of dividend for any year, the Board expects to follow the dividend policy, but will also take into account the level of available retained earnings in the Company, its cash resources and the cash and capital requirements inherent in its business plans. In addition to the payment of dividends, the Board may also consider whether it is appropriate to apply excess capital in the market purchase of the Group's shares.

The distributable reserves of the Company comprise its profit and loss account balance and, other than the requirement for Paragon Bank PLC to retain an appropriate level of regulatory capital, there are no restrictions preventing profits elsewhere in the Group from being distributed to the parent.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

33. CAPITAL MANAGEMENT (Continued)

Since the year ended 30 September 2018, the Company has adopted a policy of paying out approximately 40% of its basic earnings per share as dividend (a dividend cover ratio of around 2.5 times), in the absence of any idiosyncratic factors which might make such a dividend inappropriate. This policy is reviewed by the Board at least annually. The Company considers it has access to sufficient cash resources to pay dividends at this level and that its distributable reserves are abundant for this purpose.

To provide greater transparency, the Company has also indicated that its interim dividend per share will normally be 50% of the previous final dividend, in the absence of any indicators which might make such a level of payment inappropriate.

To determine whether the application of this policy in the current year was appropriate the Board considered the Group’s capital position and forecast capital requirements based on its strategic outlook, supported by the half-yearly reforecasting exercise.

This included considering the capital impacts of stress testing carried out as part of both the forecasting and ICAAP processes, and the potential impact of ongoing developments in the regulatory regime for capital, including the introduction in the UK of Basel 3.1. Based on these considerations the Board concluded that a payment in line with policy was appropriate and declared an interim dividend for the period of 13.6p per share (2024 H1: 13.2p per share) (note 28). It also confirmed that the approach of paying an interim dividend of 50% of the preceding year’s final dividend would continue to apply in future years.

In the preceding financial year, ended 30 September 2024, a share buy-back programme of up to £100.0m had been authorised. At the end of that period £76.6m had been expended, with the remainder completed in the current financial year.

A buy-back programme for the current financial year, for up to £50.0m of ordinary shares, was announced at the time of the Group’s 2024 results announcement. The amount expended in this programme during the period was £35.7m. Shortly before the period end the Group gave its brokers an irrevocable instruction to complete the programme, and the full £50.0 million was utilised by 15 May 2025. The remaining amount of the announced funds was accrued for at the period end.

The total amount expended in the six months under these programmes was £59.7m (2024 H1: £39.9m) (note 27).

As part of its half-year consideration of capital, the Board of Directors authorised an extension of the current year’s buy-back programme of up to £50.0m. All shares acquired in buy-back programmes are initially held in treasury.

The directors have considered the distributable reserves of the Company and concluded that these distributions are appropriate.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK

The Group's credit risk is primarily attributable to its loans to customers and its business objectives rely on maintaining a high-quality customer base and place strong emphasis on good credit management, both at the time of underwriting a new loan, where robust lending criteria are applied, and throughout the loan's life.

The Group's loan assets at 31 March 2025, 31 March 2024 and 30 September 2024 are analysed below.

	31 March 2025		**31 March 2024**		**30 September 2024**	
	£m	**%**	**£m**	**%**	**£m**	**%**
Buy-to-let mortgages	13,564.9	84.8%	12,936.6	84.8%	13,279.3	84.6%
Owner-occupied mortgages	18.3	0.1%	23.6	0.2%	20.3	0.1%
Total first charge residential mortgages	13,583.2	84.9%	12,960.2	85.0%	13,299.6	84.7%
Second charge mortgage loans	98.7	0.6%	134.5	0.9%	116.1	0.7%
Loans secured on residential property	13,681.9	85.5%	13,094.7	85.9%	13,415.7	85.4%
Development finance	877.5	5.5%	849.9	5.5%	884.0	5.6%
Loans secured on property	14,559.4	91.0%	13,944.6	91.4%	14,299.7	91.0%
Asset finance loans	664.6	4.2%	585.3	3.8%	633.2	4.1%
Motor finance loans	334.9	2.1%	311.6	2.1%	331.4	2.1%
Aircraft mortgages	33.9	0.2%	29.7	0.2%	31.2	0.2%
Secured BBB schemes	23.3	0.1%	41.1	0.3%	31.0	0.2%
Structured lending	245.1	1.5%	212.8	1.4%	256.9	1.6%
Invoice finance	34.9	0.2%	29.7	0.2%	32.7	0.2%
Total secured loans	15,896.1	99.3%	15,154.8	99.4%	15,616.1	99.4%
Professions finance	46.4	0.3%	57.8	0.4%	53.0	0.3%
Unsecured BBB schemes	24.6	0.2%	13.7	0.1%	10.5	0.1%
Other unsecured commercial loans	25.4	0.2%	22.7	0.1%	25.9	0.2%
Total loans to customers	15,992.5	100.0%	15,249.0	100.0%	15,705.5	100.0%

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

First and second charge mortgages are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities.

Development finance loans are secured by a first charge (or similar Scottish security) over the development property and various charges over the build.

Asset finance loans and motor finance loans are effectively secured by the financed asset, while aircraft mortgages are secured by a charge on the aircraft funded.

Structured lending and invoice finance balances are effectively secured over the assets of the customer, with security enhanced by maintaining balances at a level less than the total amount of the security (the advance percentage).

Professions finance accounts are generally short-term unsecured loans made to firms of lawyers and accountants for working capital purposes.

Loans made under British Business Bank ('BBB') supported schemes have the benefit of a guarantee underwritten by the UK Government.

There are no significant concentrations of credit risk to individual counterparties due to the large number of customers included in the portfolios. All lending is to customers within the UK. The total gross carrying value of the Group's Loans to Customers due from customers with total portfolio exposures over £10.0m is analysed below by product type.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Buy-to-let mortgages	161.9	149.8	162.0
Development finance	403.7	485.3	497.9
Structured lending	238.2	198.3	239.3
Asset finance	11.1	14.5	11.5
	814.9	847.9	910.7

The threshold of £10.0m is used internally for monitoring large exposures.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

Credit grading

An analysis of the Group's loans to customers by absolute level of credit risk at 31 March 2025 is set out below. The analysed amount represents gross carrying amount.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
31 March 2025					
Very low risk	12,258.5	69.3	0.8	2.9	12,331.5
Low risk	2,267.5	369.8	58.2	0.5	2,696.0
Moderate risk	115.5	156.4	17.5	1.2	290.6
High risk	126.3	67.9	44.9	2.1	241.2
Very high risk	55.0	67.0	226.2	1.9	350.1
Not graded	153.6	2.5	2.7	0.4	159.2
Total gross carrying amount	14,976.4	732.9	350.3	9.0	16,068.6
Impairment	(15.8)	(6.4)	(53.9)	-	(76.1)
Total loans to customers	14,960.6	726.5	296.4	9.0	15,992.5
31 March 2024					
Very low risk	11,511.7	174.8	1.8	3.5	11,691.8
Low risk	2,119.9	478.7	39.3	0.7	2,638.6
Moderate risk	169.1	151.5	11.1	1.8	333.5
High risk	106.2	123.0	12.1	2.3	243.6
Very high risk	32.2	43.0	203.4	8.8	287.4
Not graded	125.7	2.4	3.0	1.1	132.2
Total gross carrying amount	14,064.8	973.4	270.7	18.2	15,327.1
Impairment	(19.3)	(7.6)	(46.6)	(4.6)	(78.1)
Total loans to customers	14,045.5	965.8	224.1	13.6	15,249.0
30 September 2024					
Very low risk	12,028.0	75.6	1.1	3.3	12,108.0
Low risk	2,194.7	343.9	44.9	0.7	2,584.2
Moderate risk	182.1	199.5	16.4	1.4	399.4
High risk	127.6	78.1	12.4	3.0	221.1
Very high risk	37.0	76.3	205.2	8.2	326.7
Not graded	135.8	2.7	3.6	0.5	142.6
Total gross carrying amount	14,705.2	776.1	283.6	17.1	15,782.0
Impairment	(16.0)	(7.2)	(50.8)	(2.5)	(76.5)
Total loans to customers	14,689.2	768.9	232.8	14.6	15,705.5

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

Gradings above are based on credit scorecards or internally assigned risk ratings as appropriate for the individual asset class. These measures are calibrated across product types and used internally to monitor the Group's overall credit risk profile against its risk appetite.

These gradings represent current credit quality on an absolute basis and this may result in assets in higher IFRS 9 stages with low risk grades, especially where a case qualifies through breaching, for example, an arrears threshold but is making regular payments. This will apply especially to Stage 3 cases reported in note 13, other than those shown as 'realisations'.

Examples of lower risk cases in higher IFRS 9 stages include fully up-to-date receiver of rent cases; accounts where the customer is in arrears on their account with the Group but up to date on accounts with other lenders creating an overall positive rating; and accounts where the default on the Group's loan has yet to impact on external credit scoring.

A small proportion of the loan book (1.0%) is classed as 'not graded' above. This rating relates to loans that have been fully underwritten at origination but where the customer falls outside the automated assessment techniques used post-completion. This is a similar level to the 0.9% classified as ungraded at 30 September 2024.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

Credit characteristic by portfolio

Loans secured on residential property

An analysis of the indexed loan-to-value ('LTV') ratio for those loan accounts secured on residential property by value at 31 March 2025 is set out below. LTVs for second charge mortgages are calculated allowing for the interest of the first charge holder, based on the most recent first charge amount held by the Group, while for acquired accounts the effect of any discount on purchase is allowed for.

	31 March 2025		31 March 2024		30 September 2024	
	First Mortgages	Second Charge Mortgages	First Mortgages	Second Charge Mortgages	First Mortgages	Second Charge Mortgages
	%	%	%	%	%	%
LTV ratio						
Less than 70%	71.3	96.4	70.2	94.8	71.5	96.1
70% to 80%	26.9	1.9	25.4	3.3	25.9	2.3
80% to 90%	0.9	0.7	3.3	0.9	1.7	0.8
90% to 100%	0.2	0.4	0.3	0.2	0.2	0.2
Over 100%	0.7	0.6	0.8	0.8	0.7	0.6
	100.0	100.0	100.0	100.0	100.0	100.0
Average LTV ratio	62.7	49.6	63.4	51.9	62.8	50.3
Buy-to-let	62.8		63.5		62.8	
Owner-occupied	38.9		38.8		38.9	

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 increase of 2.0% during the six months ended 31 March 2025 and an annual increase of 3.9% in the year ended 31 March 2025 compared to an increase of 3.2% in the year ended 30 September 2024.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

The geographical distribution of the Group's residential mortgage assets by gross carrying value is set out below.

	First Charge			Second Charge		
	31 March 2025	31 March 2024	30 September 2024	31 March 2025	31 March 2024	30 September 2024
	%	%	%	%	%	%
East Anglia	3.3	3.3	3.3	3.2	3.4	3.3
East Midlands	6.0	5.9	6.0	6.3	6.2	6.3
Greater London	17.9	18.2	18.0	7.2	7.7	7.5
North	3.5	3.5	3.4	4.4	4.3	4.4
North West	10.0	10.2	10.1	7.5	7.4	7.4
South East	30.8	30.9	31.0	38.2	37.6	37.8
South West	9.2	8.9	9.1	7.8	8.4	8.0
West Midlands	6.4	6.2	6.3	7.2	7.2	7.2
Yorkshire and Humberside	7.1	7.2	7.1	6.1	6.1	6.0
Total England	94.2	94.3	94.3	87.9	88.3	87.9
Northern Ireland	-	-	-	3.7	2.4	2.5
Scotland	2.7	2.6	2.6	5.7	5.6	5.8
Wales	3.1	3.1	3.1	2.7	3.7	3.8
	100.0	100.0	100.0	100.0	100.0	100.0

Development finance

Development finance loans generally do not require customers to make payments during the life of the loan, therefore arrears and past due measures cannot be used to monitor credit risk. Instead, cases are monitored on an individual basis by management and Credit Risk. The average loan to gross development value ('LTGDV') ratio for the portfolio at the period end, a measure of security cover, is analysed below.

	31 March 2025		31 March 2024		30 September 2024	
	By value	By number	By value	By number	By value	By number
	%	%	%	%	%	%
LTGDV						
50% or less	12.8	9.7	6.2	7.8	12.4	8.9
50% to 60%	11.2	16.7	19.8	20.5	13.4	20.1
60% to 65%	23.8	27.9	33.5	31.2	27.5	27.3
65% to 70%	26.0	29.1	30.4	30.3	24.1	30.1
70% to 75%	11.3	10.4	4.5	5.3	8.1	7.2
Over 75%	14.9	6.2	5.6	4.9	14.5	6.4
	100.0	100.0	100.0	100.0	100.0	100.0

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

The average LTGDV cover at the period end was 62.9% (31 March 2024: 62.7%, 30 September 2024: 63.0%).

LTGDV is calculated by comparing the current expected end of term exposure with the latest estimate of the value of the completed development based on surveyors' reports.

An analysis of the number of cases in the Group's development finance portfolio by IFRS 9 impairment stage is set our below.

	31 March 2025	31 March 2024	30 September 2024
Stage 1	209	210	214
Stage 2	22	20	17
Stage 3	25	12	19
POCI	-	1	1
Total	256	243	251

The POCI loan was recognised on the acquisition of part of the development finance business and an allowance for losses made in the IFRS 3 fair value calculation.

The geographical distribution of the Group's development finance loans by gross carrying value is set out below.

	31 March 2025 %	31 March 2024 %	30 September 2024 %
East Anglia	5.2	4.4	4.6
East Midlands	6.7	11.4	11.2
Greater London	11.7	13.4	11.0
North	0.2	0.7	0.6
North West	1.2	0.5	0.7
South East	35.0	36.0	33.9
South West	19.5	18.8	19.7
West Midlands	9.7	5.2	7.9
Yorkshire and Humberside	6.5	6.3	6.1
Total England	95.7	96.7	95.7
Northern Ireland	-	-	-
Scotland	3.3	3.1	3.8
Wales	1.0	0.2	0.5
	100.0	100.0	100.0

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

Asset finance and motor finance

Asset finance customers are generally small or medium sized businesses. The nature of the assets underlying the Group's asset finance lending, including loans financed through BBB sponsored schemes, by gross carrying value is set out below.

	31 March 2025 %	31 March 2024 %	30 September 2024 %
Commercial vehicles	46.4	43.8	45.3
Construction plant	27.3	30.3	29.4
Manufacturing	6.9	5.8	5.3
Technology	4.2	4.7	4.2
Refuse disposal vehicles	4.8	3.1	4.2
Other vehicles	3.9	4.6	4.4
Agriculture	1.4	1.9	1.6
Print and paper	0.9	1.3	1.1
Other	4.2	4.5	4.5
	100.0	100.0	100.0

Motor finance loans are secured over cars, leisure vehicles (motorhomes, caravans and campervans) and light commercial vehicles and represent exposure to consumers and small businesses.

Structured lending

The Group's structured lending division provides revolving loan facilities to support non-bank lending businesses. Loans are made to a Special Purpose Vehicle ('SPV') company controlled by the customer and effectively secured on the loans made by the SPV. Exposure is limited to a percentage of the underlying assets, providing a buffer against credit loss.

Summary details of the structured lending portfolio are set out below.

	31 March 2025	31 March 2024	30 September 2024	30 September 2023
Number of transactions	11	10	11	9
Total facilities (£m)	372.7	275.0	330.0	235.7
Carrying value (£m)	245.1	212.8	256.9	169.0

The maximum advance under these facilities is generally 80% of the underlying assets, except where loans secured by residential property form the security for the facility, where 90% is permissible.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

Customers are charged interest on their drawn balance at a rate linked to SONIA, and a commitment fee on the undrawn amount of their facility. However, there is generally no requirement to make regular payments of specific amounts, with the facilities operating on a revolving basis, able to be paid down and redrawn over their term.

The performance of each loan is monitored monthly on a case-by-case basis by the Group's Credit Risk function, assessing compliance with covenants relating to both the customer and the performance and composition of the asset pool. These assessments, which are reported to Credit Committee, are used to inform the assessment of expected credit loss under IFRS 9.

At 31 March 2025 all eleven facilities were identified as Stage 1 (31 March 2024: nine; 30 September 2024: ten). Additionally at each of 31 March 2024 and 30 September 2024 there was one identified as Stage 2.

BBB supported schemes

These schemes are managed by the British Business Bank ('BBB') and loans made under them have the benefit of guarantees underwritten by the UK Government. They were originally launched as a response to the impact of Covid on UK SMEs, but remain in place.

The Coronavirus Business Interruption Loan Scheme ('CBILS') and the Bounce Back Loan Scheme ('BBLS') were launched in 2020 and remained open for new applications until March 2021. The Recovery Loan Scheme ('RLS') was launched in April 2021 as a successor scheme and has subsequently been extended twice. It was available for new lending until June 2024 at which point it was rebranded as the Growth Guarantee Scheme ('GGS'), on broadly similar terms.

The Group offered term loans and asset finance loans under the CBIL scheme. Interest and fees were paid by the UK Government for the first twelve months and the government guarantee covers up to 80% of the lender's principal loss after the application of any proceeds from the asset financed (if applicable).

Loans under the BBL scheme are six year term loans at a standard 2.5% per annum interest rate. The UK Government paid the interest on the loan for the first twelve months and provides lenders with a guarantee covering the whole outstanding balance.

The Group offers term loans and asset finance loans under the RLS / GGS. Interest and fees are payable by the customer from inception. The government guarantee covers up to 80% of the lender's principal loss, after the application of any proceeds from the asset financed (if applicable), on applications received before 1 January 2022 and up to 70% for applications received thereafter under the RLS or under the successor GGS.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

The Group's outstanding RLS / GGS, CBILS and BBLS loans at 31 March 2025 were:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
RLS / GGS			
Term loans	17.5	0.9	0.6
Asset finance	18.6	30.1	23.4
Total RLS / GGS	36.1	31.0	24.0
CBILS			
Term loans	5.4	10.2	7.7
Asset finance	4.7	11.0	7.6
Total CBILS	10.1	21.2	15.3
BBLS	1.7	2.6	2.2
Total	47.9	54.8	41.5
Total term loans	24.6	13.7	10.5
Total asset finance	23.3	41.1	31.0
	47.9	54.8	41.5

At 31 March 2025, £0.5m of this balance was considered to be non-performing (31 March 2024: £0.9m; 30 September 2024: £0.5m).

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

Arrears performance

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 31 March 2025, 31 March 2024 and 30 September 2024, compared to the industry averages at those dates published by UK Finance ('UKF') and the Finance and Leasing Association ('FLA'), was:

	31 March 2025 %	31 March 2024 %	30 September 2024 %
First mortgages			
Accounts more than three months in arrears			
Buy-to-let accounts including receiver of rent cases	0.51	0.68	0.38
Buy-to-let accounts excluding receiver of rent cases	0.32	0.28	0.19
Owner-occupied accounts	5.16	3.41	6.59
UKF data for mortgage accounts more than three months in arrears			
Buy-to-let accounts including receiver of rent cases	0.85	0.84	0.86
Buy-to-let accounts excluding receiver of rent cases	0.71	0.76	0.76
Owner-occupied accounts	0.93	0.98	0.97
All mortgages	0.89	0.94	0.93
Second charge mortgage loans			
Accounts more than 2 months in arrears			
All accounts	25.05	24.61	24.63
Post-2010 originations	3.60	3.21	2.92
Legacy cases	26.74	27.47	26.88
Purchased assets	31.83	31.21	31.47
FLA data for second mortgages	6.10	6.60	6.50
Motor finance loans			
Accounts more than 2 months in arrears			
All accounts	1.06	1.08	1.06
Originated cases	1.06	1.09	1.06
Purchased assets	-	-	1.13
FLA data for consumer point of sale hire purchase	3.90	4.30	4.10
Asset finance loans			
Accounts more than 2 months in arrears	0.16	0.13	0.14
FLA data for business lease/hire purchase loans	0.70	0.70	0.70

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 31 March 2024 or 30 September 2024 has been published by the FLA or UKF, the comparative industry figures above have been amended.

Arrears information is not given for development finance, structured lending or invoice finance activities as the structure of the products means that such a measure is not appropriate.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2025 (Unaudited)

34. CREDIT RISK (Continued)

The Group calculates its headline arrears measure for buy-to-let mortgages, shown above, based on the numbers of accounts three months or more in arrears, including purchased assets, but excluding those cases in possession and receiver of rent cases designated for sale. This is consistent with the methodology used by UKF in compiling its statistics for the buy-to-let mortgage market as a whole.

The number of accounts in arrears will naturally be higher for legacy books, such as the Group's legacy second charge mortgages and residential first mortgages, as performing accounts pay off their balances, leaving arrears accounts representing a greater proportion of the total.

The figures shown above for second charge mortgage loans incorporate purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price. However, this will lead to higher than average reported arrears.

Acquired assets

In the debt purchase industry, Estimated Remaining Collections ('ERCs') is commonly used as a measure of the value of a portfolio. This is defined as the sum of the undiscounted cash flows expected to be received over a specified future period. In the Group's view, this measure may be suitable for heavily discounted, unsecured, distressed portfolios (which will be treated as POCI under IFRS 9) but is less applicable for some types of portfolio in which the Group has invested, where cash flows are higher on acquisition, loans may be secured on property and customers may not be in default. In such cases, the IFRS 9 amortised cost balance, at which these assets are carried in the Group balance sheet, provides a better indication of value.

However, to aid comparability, the 84 and 120 month ERCs value for the Group's purchased consumer assets are set out below. These are derived from the same models and assumptions used in the effective interest rate calculations. ERCs are set out both for all purchased consumer portfolios and for those classified as POCI under IFRS 9.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m	30 September 2023 £m
All purchased consumer assets				
Carrying value	34.7	41.9	41.1	58.6
84 month ERCs	40.6	56.8	48.6	68.9
120 month ERCs	44.4	62.1	52.9	73.4
POCI assets only				
Carrying value	9.0	11.9	10.6	17.7
84 month ERCs	13.0	18.1	15.6	24.5
120 month ERCs	15.6	21.7	18.7	27.8

Amounts shown above are disclosed as loans to customers (note 11). They include first mortgages and second charge mortgage loans.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

The notes set out below describe the accounting basis on which the Group prepares its accounts, the particular accounting policies adopted by the Group and the principal judgements and estimates which were required in the preparation of the condensed financial information.

They also include other information describing how the condensed financial information has been prepared required by legislation and accounting standards.

35. ACCOUNTING POLICIES

The condensed financial statements are presented in accordance with the requirements of International Accounting Standard 34 – 'Interim Financial Reporting'.

The condensed financial statements are required to be prepared on the basis of the accounting policies expected to be used in the production of the financial statements for the year.

The Group is required, by the Companies Act 2006 and the Listing Rules of the FCA, to prepare its financial statements for the year ending 30 September 2025 in accordance with UK-adopted international accounting standards. In the financial years reported on this also means, in the Group's circumstances, that the financial statements also accord with IFRS as approved by the International Accounting Standards Board.

The requirements of UK-adopted IFRS have not changed for the current year and therefore the accounting policies adopted in the current year are the same as those set out in the 2024 Annual Report and Accounts of the Group.

The Group's covered bonds, issued in the period, are accounted for in some way as its other corporate borrowings, with interest recognised on the effective interest rate ('EIR') basis.

The Group has historically chosen to present an additional comparative balance sheet.

IFRS 18

On 9 April 2024 the IASB issued IFRS 18 – 'Presentation and Disclosure in Financial Statements'. This is expected to impact the way in which information is disclosed in financial statements without impacting materially on the underlying accounting.

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

New and revised reporting standards

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

Other than IFRS 18, described above, there are no new reporting standards and interpretations in issue, but not effective which address matters relevant to the Group's accounting and reporting.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

35. ACCOUNTING POLICIES (Continued)

No new or revised reporting standards significantly affecting the Group's accounting have been issued since the approval of the Group's financial statements for the year ended 30 September 2024.

On 25 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 37 with effect from the Group's financial year ended 30 September 2026. This is not expected to have a significant impact on the Group's reporting.

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The critical accounting estimates and judgements affecting the condensed financial information are the same as those described in notes 68 and 69 to the accounts of the Group for the year ended 30 September 2024.

Updated commentary on the critical accounting judgements related to significant increase in credit risk, and the critical accounting estimates related to impairment losses on loans to customers and effective interest rates is set out below.

(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 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 having an SICR, impairment provisions will be overstated. Furthermore, adjustments to current PD estimates in the Group's models may also have the effect of identifying more or less accounts as having an SICR.

More information on the definition of SICR adopted is given in note 12.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Impairment losses on loans to customers

Impairment losses for the majority of loans are calculated based on statistical models, applied to the present status, performance and management strategy for the loans concerned which are used to determine each loan's PD and LGD.

Internal information used will include number of months arrears, qualitative information, such as possession by a first charge holder on a second charge mortgage or, where a buy-to-let case is under the control of a receiver of rent, the receiver's present and likely future strategy for the property (which might include keeping current tenants in place, refurbish and relet, immediate sale etc).

External information used includes customer-specific data, such as credit bureau information, as well as more general economic data.

Key internal assumptions in the models relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property or other charged assets. These cash flows will include payments received from the customer, and, for buy-to-let cases where a receiver of rent is appointed, rental receipts from tenants, after allowing for void periods and running costs. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition, the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect current and expected conditions.

In evaluating the potential impact of the economic situation at 31 March 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, having risen rapidly to that level. This level had not previously been reached 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 of 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 is also an elevated degree of uncertainty over the direction of the UK economy. The new UK Government's October 2024 budget contained significant fiscal measures which have yet to come into force, and which might plausibly impact the economy in a number of different ways. 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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

The accuracy of the impairment calculations would be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the models then the number of accounts requiring provision might be greater than suggested by the models, while falls in house prices, over and above any assumed by the models might increase the provision required in respect of accounts currently provided. Similarly, if the account management approach assumed in the modelling cannot be adopted the provision required may be different.

In order to provide forward looking economic inputs to the modelling of the ECL, the Group must derive a set of scenarios which are internally coherent. The Group addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes. These scenarios at 31 March 2025 have been derived in light of the current economic situation, modelling a variety of possible outcomes as described in note 15. However, this exercise is subject to the uncertainties inherent in any forecasting exercise in the current climate, as described above.

The variables are used for two purposes in the IFRS 9 calculations:

- They are applied as inputs in the models which generate PD values, where those found by statistical analysis to have the most predictive value are used
- They are used as part of the calculation where the variable has a direct impact on the expected loss calculation, such as the HPI

The economic variables will also inform assumptions about the Group's approach to account management given a particular scenario, and about the behaviours of unmodelled portfolios.

In addition to uncertainty created by the economic scenarios, the Group recognises that economic situations can arise which lie outside the range of potential positions considered as a basis for its IFRS 9 approach to impairment when the current models were built. The current forecast scenarios, which include higher rates of interest and inflation than in the historically observed data, represent situations where these models may not be able to fully allow for potential economic impacts on the loan portfolios. The Group therefore assessed, for each class of asset, whether any adjustment to the normal approach was required to ensure sufficient provision was created by the model. It also reviewed other available data, both from account performance and customer feedback to form a view of the underlying reasons for observed customer behaviours and of their future intentions and prospects.

As a result of this exercise additional requirements for provision were identified, to compensate for potential model weakness and to allow for economic pressures in the wider economy which cannot be quantified by a modelled approach. By their nature such adjustments are less systematic and therefore subject to a wider range of outturns. The nature and amounts of these judgemental adjustments are set out in note 12.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

The position after considering all these matters is set out in notes 12 to 14, together with further information on the Group's approach. The economic scenarios referred to above and their impact on the overall provision are set out in note 15, while sensitivity analyses on impairment provisioning are set out the note 16.

(c) Effective interest rates

In order to determine the EIR applicable to loans and borrowings an estimate must be made of the expected life of each asset or liability and the cash flows relating thereto, including those relating to early redemption charges together with any initial fees receivable from the customer or procurement fees payable to a mortgage broker or other introducer.

Where an account may have differing interest charging arrangements in different phases of its contractual life, such as the Group's buy-to-let mortgage accounts which have a fixed interest rate for a set period and then revert to a variable rate set by the Group (the 'reversionary rate'), the behavioural life and the expected level of the reversionary rate will have a significant impact on the overall EIR. For each portfolio a model is in place to ensure that income is appropriately spread.

For loan accounts such as those in the Group's mortgage portfolios where borrowers typically repay their balances before the contractual repayment date, the estimated life of the account will be dependent on customer behaviour. The customer may choose to sell their property and redeem the mortgage at any point, but may also choose to refinance their account, if a more attractive alternative is available, based on the interest rate they are being charged at that point in time, or expect to be charged in the future. The behavioural life of the loan may therefore be influenced by levels of activity in the residential property market, or by the nature and pricing of alternative funding sources, at each point in the loan's life and these are likely to vary over time.

For loans which have a fixed-rate period, the length of that period will have a significant behavioural impact, with many customers choosing to consider their positions at the point at which the fixed rate expires, influenced by the market conditions then prevailing. The forecast future choices of customers currently on fixed-rate products at this point therefore have a significant impact on the EIR modelling for these assets.

Where loans are more likely to run to contractual term, and interest rates are less likely to vary over that term, as is the case for the majority of the Group's motor finance and asset-backed SME lending, the determination of an EIR model is less judgemental, and reflects principally the spreading of known fees and commissions.

The Group models lives for each of its asset classes, based on its current expectation of future borrower behaviour, and uses these profiles, together with its expectations of future reversionary interest rates, to determine the correct EIR to be applied to each account. The underlying estimates are based on historical data, adjusted for expected changes, and reviewed regularly. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and charging rates and those predicted, which in turn would depend directly on customer behaviour and market conditions.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

The Group therefore keeps its models under review and refines its modelling in the light of any emerging deviations from expected behaviour. These are particularly likely where the current or expected economic environment differs from historic scenarios for which relevant data observations are available. This is currently the case, with market mortgage rates generally moving downwards, albeit slowly, a scenario not seen for some years. In such cases management consider carefully the impacts which any new conditions may have on customer behaviour and reversionary rates and reflect them in the model as appropriate, revisiting these assumptions regularly as observable data becomes available, with a detailed exercise to analyse any emerging themes taking place every six months as part of the half-year and year-end results processes.

The application of these estimates results in an overall decrease in the carrying value of the Group's loans to customers, including POCI accounts, at 31 March 2025 of £8.2m (30 September 2024: decrease of £4.4m).

To illustrate the potential variability of the estimate, the amortised cost values were recalculated by changing one factor in the EIR calculation and keeping all others at their current levels.

- Currently the average behavioural life used in the buy-to-let modelling for non-legacy assets, which have an average fixed period of 48 months (30 September 2024: 48 months), was 79 months (30 September 2024: 80 months).

  A reduction of the assumed average lives of all loans secured on residential property by three months would reduce balance sheet assets by £9.7m (30 September 2024: £9.3m), while an increase of the assumed asset lives of such assts by three months would increase balance sheet assets by £9.6m (30 September 2024: £9.1m). £9.2m of both the increase and decrease related to non-legacy buy-to-let assets (30 September 2024: £9.1m).

  A reduction of the assumed average lives of all loans secured on residential property by six months would reduce balance sheet assets by £19.3m (30 September 2024: £18.5m), while an increase of the assumed asset lives of such assets by six months would increase balance sheet assets by £18.6m (30 September 2024: £17.5m). £18.4m of the decrease (30 September 2024: £17.2m) and £17.9m of the increase (30 September 2024: £18.2m) related to non-legacy buy-to-let assets

- The EIR calculation is based on management estimates of the reversionary rates which would be charged to customers after the end of their fixed rate periods.

  If it was assumed that the maximum reversionary rate which could be charged in future was 6.00%, then the value of the non-legacy buy-to-let loan book would be decreased by £16.9m (30 September 2024: £12.3m).

  If it was assumed that the maximum reversionary rate which could be charged in future was 8.00%, then the value of the non-legacy buy-to-let loan book would be increased by £41.4m (30 September 2024: £26.1m)

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

- Where fixed rate buy-to-let assets redeem before the end of their fixed rate period, an early redemption charge is made, and an estimate for the impact of these charges must be included in the EIR calculation.

  An increase of 50% in the number of five-year fixed rate buy-to-let loan assets assumed to redeem before the end of the fixed-rate period would increase balance sheet assets by £9.9m (30 September 2024: £9.9m)

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

37. GOING CONCERN BASIS

The condensed financial information for the half year has been prepared on the going concern basis.

Accounting standards require the directors to assess the Group'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 applicable to half-yearly reporting.

Particular focus is given to the Group's financial forecasts for this period to ensure the adequacy of resources, including liquidity and capital, available for the Group 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 this half-yearly report.

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position and funding position, are described in the Interim Management Report on pages 5 to 83. The principal risks and uncertainties affecting the Group in the forthcoming six months are described on pages 196 to 197.

Note 61 to the 2024 Group Accounts includes an analysis of the Group's regulatory and working capital position and policies, while notes 62 to 65 include a detailed description of its funding structures, its use of financial instruments, its financial risk management objectives and policies and its exposure to credit, market and liquidity risk. Notes 68 and 69 to those accounts discuss critical accounting judgements and estimates affecting the results and financial position disclosed therein. The position and policies described in these notes remain materially unchanged to the date of this half-yearly report, subject to the changes in funding described in note 21.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

37. GOING CONCERN BASIS (Continued)

Financial forecasts

The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, including its regulatory capital position, funding requirement and cash flows. Detailed plans are produced for two-year periods with longer-term forecasts covering a five-year period, including detailed income forecasts. These plans provide information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives, both on a short-term and strategic basis.

The forecast is updated every six months, and the directors have based their going concern assessment of the reforecast for the period beginning on 1 April 2025.

The Group makes extensive use of stress testing in compiling and reviewing its forecasts. This stress testing approach was reviewed in detail as part of the annual Internal Capital Adequacy Assessment Process ('ICAAP') cycle, where testing considered the impact of a number of severe but plausible scenarios. During the planning process, sensitivity analysis was carried out on a number of the key assumptions that underpin the forecast to evaluate the impact of the Group's principal risks.

The key stresses modelled in detail to evaluate the forecast were:

- **Increase in buy-to-let volumes**. This examined the impact of higher volumes at a reduced yield on profitability, and illustrated the extent to which capital resources and liquidity would be stretched due to the higher cash and capital requirements
- **Prolonged reduction in buy-to-let volumes**. This analysis explored the effects of heightened competition in the buy-to-let market, highlighting its influence on the Group's return metrics, portfolio composition, and overall profitability
- **Higher funding costs**. Higher cost on all new savings deposits, both front book and back book throughout the forecast horizon. This scenario illustrates the impact of a significant, prolonged margin squeeze on profitability, and whether this would cause significant impacts on any capital, liquidity or encumbrance ratios
- **Increased buy-to-let redemptions**. Higher buy-to-let redemption rates for buy-to-let mortgages reaching the end of their fixed rate period. This illustrates the potential risk inherent in five-year fixed rate business
- **Reduced development finance volumes and yield**. This replicates a significant increase in competition within the sector, reducing yields and impacting market share, demonstrating how a lower mix of the Group's highest margin products impacts on contribution to costs and other profitability ratios
- **Increased economic stress on customers**. As well as modelling the impact of each of the economic scenarios set out in note 15 across the forecast horizon, the severe economic scenario was also modelled over the five-year horizon. To ensure this represented a worst-case scenario all other assumptions were held steady, although in reality adjustments to new business appetite and other factors would be made
- **Combined downside stress**. The half-year IFRS 9 downside economic scenario described in note 15 was modelled out for the plan horizon along with a plausible set of other adverse factors to the business model, creating a prolonged tail-risk

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

37. GOING CONCERN BASIS (Continued)

These stresses did not take account of management actions which might mitigate the impact of the adverse assumptions used. They were designed to demonstrate how such stresses would affect the Group's financing, capital and liquidity positions and highlight any areas which might impact the Group's going concern status. Under all these scenarios, the Group was able 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.

As part of the ICAAP process the Group also assessed the potential operational risks it could face. This was done through the analysis of the impact and cost of a series of severe but plausible scenarios. This analysis did not highlight any factors which cast doubt on the Group's ability to continue as a going concern.

The Group began 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 Group retaining sufficient equity, capital, cash and liquidity throughout the forecast period to satisfy its regulatory and operational requirements.

Availability of funding and liquidity

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

The Group's retail deposits of £15,768.0m (note 20), raised through Paragon Bank, are repayable within five years, with 90.5% (£14,264.0m) of this balance 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 Group is required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 31 March 2025, Paragon Bank held £2,292.8m of balance sheet assets for liquidity purposes, of which £1,839.0m comprised central bank deposits (note 10) and £453.8m was in the form of investment securities. A further £150.0m of liquidity was provided by the long / short repo arrangement described in the Group's 2024 Annual Report and Accounts. This brings the total available to £2,442.8m.

Paragon Bank manages its liquidity in line with the Board's risk appetite and the requirements of the PRA, which are formally documented in the Board's approved Individual Liquidity Adequacy Assessment Process ('ILAAP') updated annually. The Bank maintains a liquidity framework that includes a short to medium-term cash flow requirement analysis, a longer-term funding plan and access to the Bank of England's liquidity insurance facilities, where pre-positioned assets would support further drawings of £4,208.1m (30 September 2024: £4,445.9m). Holdings of the Group's own externally rated mortgage-backed loan notes can also be used to access the Bank of England's liquidity facilities or other funding arrangements. At 31 March 2025 the Group had £1,722.4m of such notes available for use (30 September 2024: £1,797.2m), of which £1,461.4m were rated AAA (30 September 2024: £1,536.2m). The available AAA notes would give access to £694.4m if used to support drawings on Bank of England facilities (30 September 2024: £751.9m).

The earliest maturity of any of the Group's long-term wholesale debt is the central bank facility payable in October 2025.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

37. GOING CONCERN BASIS (Continued)

The Group has regularly accessed the capital markets for warehouse funding and corporate and retail bonds over recent years and continues to be able to access these markets. The Group also has access to the short-term repo market which it accesses from time-to-time.

During the period the Group established a covered bond programme under which it can issue up to £5,000.0m of bonds from time-to-time, when market conditions are acceptable, with relatively short preparation and lead time.

The Group's access to debt is enhanced by its BBB+ corporate rating, confirmed by Fitch Ratings in February 2025, and its Baa3 corporate rating issued by Moody's Investor Services in November 2024. Its status as an issuer is evidenced by the BBB-, investment grade, rating of its £150.0m Tier-2 Bonds awarded by Fitch.

The Group's cash analysis, which includes the impact of all scheduled debt and deposit repayments, continues to show a strong free cash position, even after allowing scope for significant discretionary payments and capital distributions.

As described in note 33, the Group's capital base is subject to consolidated supervision by the PRA. Its capital at 31 March 2025 was in excess of regulatory requirements and its forecasts indicate that this will continue to be the case, even allowing for currently proposed changes in the UK's capital requirements framework.

Going concern assessment

In order to assess the appropriateness of the going concern basis the directors considered the Group'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 exposures described in note 23 were considered.

After performing this assessment, the directors concluded that there was no material uncertainty as to whether the Group would be able to maintain adequate capital and liquidity for at least twelve months following the date of approval of this half-yearly report and consequently that it was appropriate for them to continue to adopt the going concern basis in preparing the half-yearly financial information for the Group.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

38. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's financial assets and financial liabilities are valued on one of two bases, defined by IFRS 9:

- Financial assets and liabilities carried at fair value through profit and loss ('FVTPL')
- Financial assets and liabilities carried at amortised cost

IFRS 7 – 'Financial Instruments: Disclosures' requires that, where assets are measured at fair value, these measurements should be classified using a fair value hierarchy reflecting the inputs used and defines three levels.

- Level 1 measurements are unadjusted market prices
- Level 2 measurements are derived from directly or indirectly observable data, such as market prices or rates
- Level 3 measurements rely on significant inputs which are not derived from observable data

As quoted prices are not available for level 2 and 3 measurements, the valuation is derived from cash flow models based, where possible, on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used.

The Group had no financial assets or liabilities at 31 March 2025, 31 March 2024 or 30 September 2024 carried at fair value and valued using level 3 measurements.

The Group has not reclassified any of its measurements during the period.

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 summarises the Group's financial assets and liabilities which are carried at fair value.

	Note	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Financial assets				
Derivative financial assets	17	373.1	511.7	391.8
Financial liabilities				
Derivative financial liabilities	17	66.1	95.1	99.7

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

38. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Derivative financial assets and liabilities

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a market interest rate, adjusted for risk as appropriate. The principal inputs to these valuation models are SONIA sterling benchmark interest rates.

In order to determine the fair values, the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued, such as particular contractual features or the identity of the counterparty. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors. These valuations are based on market information and they are therefore classified as level 2 measurements. Details of these assets and liabilities are given in note 17.

(b) Assets and liabilities carried at amortised cost

The fair values for financial assets and liabilities held at amortised cost, determined in accordance with the methodologies set out in this note are summarised below.

	31 March 2025		31 March 2024		30 September 2024	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets						
Cash	2,131.0	2,131.0	3,039.0	3,039.0	2,525.4	2,525.4
Investment securities	453.8	477.7	98.1	97.8	427.4	422.0
Loans to customers	15,992.5	16,103.7	15,249.0	15,187.6	15,705.5	15,772.5
Sundry financial assets	18.0	18.0	9.8	9.8	15.8	15.8
	18,595.3	18,730.4	18,395.9	18,334.2	18,674.1	18,735.7
Financial liabilities						
Short-term bank borrowings	0.6	0.6	1.2	1.2	0.4	0.4
Asset-backed loan notes	-	-	17.1	17.1	-	-
Covered bonds	499.1	500.5	-	-	-	-
Retail deposits	15,768.0	15,760.7	14,768.5	14,791.3	16,298.0	16,334.2
Corporate and retail bonds	149.6	147.4	261.1	250.8	149.9	145.5
Sale and repurchase agreements	100.8	100.8	100.0	100.0	100.0	100.0
Other financial liabilities	421.9	421.9	478.7	478.7	398.1	398.1
	16,940.0	16,931.9	15,626.6	15,639.1	16,946.4	16,978.2

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

38. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Cash, sale and repurchase agreements, bank borrowings and securitisation borrowings

The fair values of cash and cash equivalents, sale and repurchase agreements, bank borrowings and asset-backed loan notes, which are carried at amortised cost, are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets, and the sale and repurchase agreements, mature within three months of the period 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.

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 Group's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers based on a mixture of market-based inputs, such as rates and pricing and non-market-based inputs such as redemption rates. Given the mixture of observable and non-observable inputs these are considered to be level 3 measurements.

Corporate debt

The Group's covered bonds and retail and corporate bonds are listed on the London Stock Exchange and there is presently a reasonably liquid market in the instruments. It is therefore appropriate to consider that the market price of these borrowings constitutes a fair value. As this valuation is based on a market price, it is considered to be a level 1 measurement.

Retail deposits

To assess the likely fair value of the Group's retail deposit liabilities, the directors have considered the estimated cash flows expected to arise based on a mixture of market-based inputs, such as rates and pricing and non-market-based inputs such as withdrawal rates. Given the mixture of observable and non-observable inputs, these are considered to be level 3 measurements.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2025 (Unaudited)

38. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Sundry assets and liabilities

Fair values of financial assets and liabilities disclosed as sundry assets and sundry liabilities are not considered to be materially different to their carrying values.

These assets and liabilities are of relatively low value and may be settled at their carrying value at the balance sheet date or shortly thereafter.

ADDITIONAL FINANCIAL INFORMATION (APPENDICIES)

For the six months ended 31 March 2025 (not covered by the Independent Review Report)

Additional financial information supporting the amounts shown in the interim management report but not forming part of the condensed financial statements.

A. UNDERLYING PROFIT

The Group reports underlying profit excluding fair value accounting adjustments arising from its hedging arrangements and certain one-off items of income and costs relating to provisions, asset sales and acquisitions.

The fair value adjustments arise principally as a result of market interest rate movements, outside the Group's control. They are profit neutral over time and are not included in operating profit for management reporting purposes. They are also disregarded by many external analysts.

The transactions relating to the provisions, asset disposals and acquisitions do not form part of the day-to-day activities of the Group and, therefore, their removal provides greater clarity on the Group's operational performance.

This definition of 'underlying' has been chosen following consideration of the needs of investors and analysts following the Group's shares, and because management feel it better represents the underlying economic performance of the Group's business.

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Profit on ordinary activities before tax	140.1	110.6	253.8
Add back: Fair value adjustments	2.8	35.7	38.9
Motor finance provisions	6.5	-	-
Underlying profit	149.4	146.3	292.7

Underlying basic earnings per share, calculated on the basis of underlying profit adjusted for tax, is derived as follows:

	31 March 2025 £m	31 March 2024 £m	30 September 2024 £m
Underlying profit	149.4	146.3	292.7
Tax on underlying result	(39.4)	(39.9)	(80.3)
Underlying earnings	110.0	106.4	212.4
Basic weighted average number of shares (note 9)	201.1	213.2	210.1
Underlying earnings per share	54.7p	49.9p	101.1p

ADDITIONAL FINANCIAL INFORMATION (APPENDICIES)

For the six months ended 31 March 2025 (not covered by the Independent Review Report)

A. UNDERLYING PROFIT (CONTINUED)

Tax on underlying profit has been calculated based on the effective rate which would result from the exclusion of the adjusting items from the corporation tax calculation. This gives an effective tax rate of 26.4% for the six months ended 31 March 2025 (31 March 2024: 27.3%; 30 September 2024: 27.4%).

Underlying return on tangible equity ('RoTE') is derived using underlying earnings calculated on the same basis as shown above. As stated in its annual report for the year ended 30 September 2024, the Group has revised its definition of underlying RoTE to increase comparability with other entities in the sector, effective from the current financial year.

The disclosure of underlying RoTE set out below is calculated on the new basis.

	Note	Six months to 31 March 2025 £m	Six months to 31 March 2024 £m	Year to 30 September 2024 £m
Underlying earnings		110.0	106.4	212.4
Amortisation of intangible assets		0.6	0.6	1.2
Adjusted underlying earnings		110.6	107.0	213.6
Average tangible equity	33	1,242.3	1,227.4	1,245.2
Annualised underlying RoTE		17.8%	17.4%	17.2%

The measure above was disclosed as 'Alternative underlying ROTE' in the 30 September 2024 annual report

ADDITIONAL FINANCIAL INFORMATION (APPENDICIES)

For the six months ended 31 March 2025 (not covered by the Independent Review Report)

B. INCOME STATEMENT RATIOS

Net interest margin ('NIM') and cost-of-risk (impairment charge as a percentage of average loan balance) for the Group and its segments are calculated as shown. Not all net interest is allocated to segments and therefore total segment net interest in these tables will not equal net interest for the Group (see note 2).

Six months to 31 March 2025

	Mortgage Lending £m	Commercial Lending £m	Total £m
Opening loans to customers (note 11)	13,415.7	2,289.8	15,705.5
Closing loans to customers (note 11)	13,681.9	2,310.6	15,992.5
Average loans to customers	13,548.8	2,300.2	15,849.0
Net interest (note 2)	140.9	65.9	247.9
NIM (annualised)	2.08%	5.73%	3.13%
Impairment provision charge (note 2)	5.1	10.2	15.3
Cost-of-risk (annualised)	0.08%	0.89%	0.19%

Six months to 31 March 2024

	Mortgage Lending £m	Commercial Lending £m	Total £m
Opening loans to customers (note 11)	12,902.3	1,972.0	14,874.3
Closing loans to customers (note 11)	13,094.7	2,154.3	15,249.0
Average loans to customers	12,998.5	2,063.2	15,061.7
Net interest (note 2)	146.7	60.7	239.9
NIM (annualised)	2.26%	5.88%	3.19%
Impairment provision charge (note 2)	8.7	1.6	10.3
Cost-of-risk (annualised)	0.13%	0.15%	0.14%

ADDITIONAL FINANCIAL INFORMATION (APPENDICIES)

For the six months ended 31 March 2025 (not covered by the Independent Review Report)

B. INCOME STATEMENT RATIOS (Continued)

Six months to 30 September 2024

	Mortgage Lending £m	Commercial Lending £m	Total £m
Opening loans to customers (note 11)	13,094.7	2,154.3	15,249.0
Closing loans to customers (note 11)	13,415.7	2,289.8	15,705.5
Average loans to customers	13,255.2	2,222.0	15,477.2
Net interest	135.6	64.1	243.3
NIM (annualised)	2.05%	5.77%	3.14%
Impairment provision (credit) / charge	(3.1)	17.3	14.2
Cost-of-risk (annualised)	(0.05)%	1.56%	0.18%

Year to 30 September 2024

	Mortgage Lending £m	Commercial Lending £m	Total £m
Opening loans to customers (note 11)	12,902.3	1,972.0	14,874.3
Closing loans to customers (note 11)	13,415.7	2,289.8	15,705.5
Average loans to customers	13,159.0	2,130.9	15,289.9
Net interest (note 2)	282.3	124.8	483.2
NIM	2.15%	5.86%	3.16%
Impairment provision charge (note 2)	5.6	18.9	24.5
Cost-of-risk	0.04%	0.89%	0.16%

ADDITIONAL FINANCIAL INFORMATION (APPENDICIES)

For the six months ended 31 March 2025 (not covered by the Independent Review Report)

C. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	31 March 2025	31 March 2024	30 September 2024
Operating expenses (£m)	89.3	90.0	179.2
Total operating income (£m)	254.0	246.6	496.4
Cost / Income	35.2%	36.5%	36.1%

D. NET ASSET VALUE

	Note	31 March 2025	31 March 2024	30 September 2024
Total equity (£m)		1,408.8	1,382.0	1,419.5
Outstanding issued shares (m)	25	204.4	216.6	210.6
Treasury shares (m)	27	(3.7)	(3.4)	(2.1)
Shares held by ESOP schemes (m)	27	(3.5)	(4.3)	(4.2)
		197.2	208.9	204.3
Net asset value per £1 ordinary share		£7.14	£6.62	£6.95
Tangible equity (£m)	33	1,236.6	1,212.4	1,248.0
Tangible net asset value per £1 ordinary share		£6.27	£5.80	£6.11

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. In the opinion of the directors, overall, these have not changed materially from those described in Section B8.5 of the Annual Report and Accounts of the Group for the year ended 30 September 2024.

The development of these risks in the six months and the risk areas of greatest concern are described in section 6.5 of this report.

The principal risks are summarised below.

- **Capital risk** – The risk that there is or will be insufficient capital for the Group to operate effectively including meeting minimum regulatory requirements, operating within board-approved risk appetite and supporting its strategic goals
- **Liquidity and funding risk** – The risk that the Group has insufficient financial resources to enable it to meet its obligations as they fall due, cannot raise or maintain sufficient funds to finance its future plans, or can only secure such resources at excessive cost, and / or encumbrance
- **Market risk** – The risk of changes in the net value of, or net income arising from, assets and liabilities in the Group's banking book from adverse movements in market prices, including the impact of changes in the interest rates at which the Group lends and those at which it can borrow
- **Credit risk** – The risk of financial loss arising from a customer or financial counterparty failing to meet their obligations to the Group when they fall due or a change in the credit quality of the third party or instrument. This includes the risk of losses arising from customers' inability to make payments on their accounts and the risk of realisations from security assets being less than anticipated
- **Model risk** – The risk that the Group may make incorrect decisions based on the output of internal financial models, due to errors in the development, implementation or use of such models resulting in a loss or misreporting within financial statements. This may relate to the design and operation of models or the selection of input assumptions
- **Reputational risk** – The risk of negative consequences arising from a failure to meet the expectations and standards of the Group's customers, investors, regulators or other counterparties whilst undertaking business activities
- **Strategic risk** – The risk that the corporate plan does not fully align to, and support, the Group's strategic priorities or is not executed effectively as a result of external factors, incorrect planning assumptions or insufficient or inadequate resources
- **Climate change risk** – The risk of climate change impacting the Group either directly or indirectly through its third-party relationships. This includes the transitional risk to its strategy and profile through moving to a low carbon operating environment and any physical risks to the business or its assets arising from physical changes to the natural environment

PRINCIPAL RISKS AND UNCERTAINTIES

- **Conduct risk** – The risk that the Group's financial products are designed, priced, sold and delivered in a way which fails to deliver good outcomes for customers, or does not demonstrate that the Group is acting with integrity in the market. This includes risks relating to communications with customers, dealing with customers who may be vulnerable, in arrears or dissatisfied, and to the Group's obligations under the FCA Consumer Duty
- **Operational risk** – The risk of financial and non-financial detriment resulting from inadequate or failed internal procedures, people and systems or from external events. This includes risks relating to the Group's IT systems, cyber security and data handling; compliance with legal and regulatory requirements; procedures for the prevention and detection of money laundering and other financial crime; and the Group's resilience planning and business continuity arrangements

The Group has considered and responded to all these risks, mitigating the exposure as far as is practicable to ensure that its risk profile remains within the Board's stated risk appetite.

CAUTIONARY STATEMENT

Sections of this Half-yearly Report, including but not limited to the Interim Management Report may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Group. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as 'anticipate', 'estimate', 'expect', 'intend', 'will', 'project', 'plan', 'believe', 'target' and other words and terms of similar meaning in connection with any discussion of future operating or financial performance but are not the exclusive means of identifying such statements. These have been made by the directors in good faith using information available up to the date on which they approved this report, and the Group undertakes no obligation to update or revise these forward-looking statements for any reason other than in accordance with its legal or regulatory obligations (including under the UK Market Abuse Regulation, UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('FCA')).

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Group and depend upon circumstances that may or may not occur in the future that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. There are also a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. As a result, you are cautioned not to place reliance on such forward-looking statements as a prediction of actual results or otherwise.

These factors include, but are not limited to: material impacts related to foreign exchange fluctuations; macro-economic activity; the impact of outbreaks, epidemics or pandemics, and the extent of their impact on overall demand for the Group's services and products; potential changes in dividend policy; changes in government policy and regulation (including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which the Group operates) and the consequences thereof; actions by the Group's competitors or counterparties; third party, fraud and reputational risks inherent in its operations; the UK's exit from the EU; unstable UK and global economic conditions and market volatility, including currency and interest rate fluctuations and inflation or deflation; the risk of a global economic downturn; social unrest; acts of terrorism and other acts of hostility or war and responses to, and consequences of, those acts; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; general changes in government policy that may significantly influence investor decisions (including, without limitation, actions taken in support of managing and mitigating climate change and in supporting the global transition to net zero carbon emissions); societal shifts in customer financing and investment needs; and other risks inherent to the industries in which the Group operates.

Nothing in this Half-year Report should be construed as a profit forecast.