

Paragon Banking Group

Half Year Financial Report

For the six months ended 31 March 2026



Loan book growth, NIM outperformance and further share buy-back of up to £50m announced

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 2026.

Nigel Terrington, Chief Executive of Paragon said:

"Paragon delivered a strong performance in the first half, reflecting our long-term, disciplined approach to managing the business. Our net loan book grew 3.8% year-on-year and net margins were ahead of expectations, supported by our increasingly diversified funding options. This, combined with continued excellent cost discipline, enabled us to deliver an underlying RoTE of 17.4%, and an underlying EPS increase of 2.9%.

Spring, our digital banking proposition, has exceeded our expectations since its launch in April last year with balances passing £1 billion at the half year. We have further new product innovations planned across the Group along with broader strategic initiatives to digitise and diversify into areas we can scale.

We completed our first AT1 issue in February, further bolstering our capital resources and we continue to deliver enhanced returns to shareholders through dividends and continued share buy-backs, with up to a further £50 million announced today. We have now returned over £1.2 billion to our shareholders over the last ten years and are committed to returning excess capital going forward.

Whilst we are mindful of the volatile external environment, our deep experience, strong capital ratios and ongoing technology improvements, mean that we remain well placed to support our customers, deliver sustainable growth and capitalise on any opportunities that may arise."

Financial highlights:

- Underlying profit before tax down 2.5% to £145.7 million (2025 H1: £149.4 million)
- Statutory profit before tax of £133.2 million (2025 H1: £140.1 million)
- Half year net interest margin ('NIM') of 3.08% (2025 H1: 3.13%), ahead of expectations
- Cost:income ratio of 35.5% (2025 H1: 35.2%)
- Underlying profit before provisions up 1.5% to £167.2 million (2025 H1: £164.7 million)
- Annualised cost of risk at 26 basis points (2025 H1: 19 basis points) reflects macro-economic outlook at 31 March 2026 and continued work-out of pre-September 2022 development finance accounts

- Underlying EPS increased 2.9% to 56.3 pence (2025 H1: 54.7 pence), while statutory EPS rose 4.0% to 52.1 pence (2025 H1: 50.1 pence)
- Capital base remains strong, boosted further by AT1 issuance in the period – CET1 ratio of 13.5% (31 March 2025: 14.2%), Tier 1 ratio of 15.2% (31 March 2025: 14.2%) and Total capital ratio of 16.9% (31 March 2025: 16.0%)
- Underlying RoTE 17.4% (2025 H1: 17.8%)
- Interim dividend up 11.0% at 15.1 pence (2025 H1: 13.6 pence), in line with policy
- Share buy-back programme extended by up to £50.0 million. Now up to £100.0 million for the financial year

For a reconciliation of underlying basis and other alternative performance measures, see appendices.

Operational highlights:

- Net loan book grew 3.8% year-on-year
- New mortgage lending down 4.7% at £0.77 billion (2025 H1: £0.81 billion), reflecting a smaller opening pipeline
- Buy-to-let pipeline up 8.6% at £0.72 billion (2025 H1: £0.66 billion)
- New Commercial Lending up 13.6% at £0.65 billion (2025 H1: £0.57 billion)
- Development finance pipeline down 23.5% at £0.62 billion (2025 H1: £0.81 billion), reflecting wider UK housebuilding trends
- Continued strong customer retention, with annualised buy-to-let redemptions at 8.0% (2025 H1: 7.1%)
- Deposit balances managed lower to £15.3 billion (31 March 2025: £15.8 billion)
- Spring balances grown to over £1 billion ahead of first anniversary of public launch
- Inaugural, £150 million, AT1 issue significantly oversubscribed
- Engagement continues with the PRA over IRB accreditation

Adjusted income statement and associated ratios

	Six months ended		Year-on-year change
	31 March 2026	31 March 2025	
	£m	£m	%
Interest income	601.3	633.6	(5.1)%
Funding costs	(347.9)	(385.7)	(9.8)%
Net interest income ('NII')	253.4	247.9	2.2%
Other income	5.8	6.1	(4.9)%
Total income	259.2	254.0	2.0%
Operating expenses	(92.0)	(89.3)	3.0%
Underlying profit before provisions	167.2	164.7	1.5%
Provisions for credit losses	(21.5)	(15.3)	40.5%
Underlying profit	145.7	149.4	(2.5)%
Fair value net (losses)	(12.5)	(2.8)	346.4%
Non-underlying costs	-	(6.5)	
Profit on ordinary activities before tax	133.2	140.1	(4.9)%

Key ratios	31 March 2026	31 March 2025
Average loan book	£16.47bn	£15.85bn
CIR – cost:income ratio	35.5%	35.2%
NIM – Net interest margin	3.08%	3.13%
CET 1 Ratio	13.5%	14.2%
Tier 1 Ratio	15.2%	14.2%
Underlying RoTE	17.4%	17.8%
Statutory RoTE	16.1%	16.3%
Underlying earnings per share	56.3p	54.7p
Statutory earnings per share	52.1p	50.1p
Interim dividend per share for the period	15.1p	13.6p

For a reconciliation of underlying basis and other alternative performance measures, see appendices.

Guidance summary:

2026 FY metric	Original guidance	Updated guidance
Mortgage Lending advances	£1.5 billion – £1.7 billion	Lower end of range
Commercial Lending advances	£1.2 billion – £1.4 billion	Unchanged
NIM	290 – 300 basis points	Around 300 basis points
Operating expenses	Below £190 million	Around £185 million
Underlying RoTE	Mid 15% – 20% range	Unchanged
Share buy-backs	Up to £50 million	Up to £100 million

For further information, please contact:**Paragon Banking Group PLC**

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We will be holding a results presentation on Tuesday 2 June 2026 at 9:30am at UBS, 5 Broadgate, London EC2M 2QS.

This will be webcast live, and interested parties can register at:

<https://stream.brrmedia.co.uk/broadcast/69bd0acc0604db00124b1aaa>

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 2:30pm.

Cautionary statement

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

Interim Management Report

1 OVERVIEW

The first half of our 2026 financial year saw a 3.8% growth in the loan book from its 31 March 2025 level and a 2.5% reduction in underlying profit (Appendix A).

Our net interest margin ('NIM') was 308 basis points for the period, compared to 313 basis points in H1 2025 and, whilst further tightening is anticipated in the second half, NIM is now expected to end the year higher than the level originally guided to, with our full year NIM guidance increased to 'around 300 basis points'. This is a result of our careful focus on margin management both in our lending and deposit-taking activity throughout the period.

Our focus on operating efficiency and tight cost control was maintained in the period, with cost:income and cost:average loan asset ratios remaining strong at 35.5% and 1.12% respectively (H1 2025: 35.2% and 1.13%). The value of capitalised software on the balance sheet has fallen year-on-year, to £8.6 million (31 March 2025: £8.8 million), reflecting the continued focus on cost transparency.

Whilst pre-provision profits were up 1.5% year-on-year, impairment charges were higher than the comparable period in 2025, although reduced by almost 20% from the six months ended 30 September 2025. These charges continued to be driven by expected losses on the portfolio of development finance loans originated before September 2022. £13.4 million of the charge related to this portfolio, and of this, £4.5 million related to discounting effects, where the expected work-out period for the portfolio has extended given the broader slow-down in the UK housing sector following the inflationary impacts arising from the US-Iranian conflict.

Returns remained strong, with our underlying earnings per share of 56.3 pence increasing by 2.9% from its H1 2025 level (H1 2025: 54.7 pence), and our underlying RoTE at 17.4% (H1 2025: 17.8%).

Our digitalisation efforts in the current year have focused on our core SME administration system, which represents the next step in our strategic digitalisation road map, having already successfully introduced an upgraded origination platform for that business. We expect this project to conclude ahead of the end of the calendar year, improving both customer experience and operational efficiency.

Interim Management Report (Continued)

1 OVERVIEW**Lending activity**

In our Mortgage Lending segment, new buy-to-let advances for the period were 4.7% lower, year-on-year, at £773.7 million (2025 H1: £812.2 million), reflecting the smaller opening pipeline which resulted, in part, from customers' nervousness about the potential impact of the November 2025 UK budget on their businesses. The closing pipeline, however, was 8.6% higher than its March 2025 level at £718.9 million and our guidance for new lending in the division for the year as a whole is towards the lower end of the previous guidance range.

In addition to strong levels of retention at product maturity, £293.0 million of new lending in the period, over one third of the total, was to customers with at least one existing account. These include further advances, new purchases and remortgages. Other landlords with a recent Paragon mortgage contributed further amounts to our new business total. Together these demonstrate the strong franchise value in our buy-to-let business. In addition, many of these landlords' portfolios extend beyond those exposures currently financed by Paragon, which can provide opportunities for us to extend and deepen our relationship. Despite the amortisation of the legacy portfolio, these factors led our net mortgage loan book to increase 2.9% year-on-year to £14.1 billion.

Loan growth was stronger in the Commercial Lending segment, with total balances increasing 9.2% year-on-year to £2.5 billion. New business completions, including net drawings on revolving credit facilities within our structured lending business, were up 13.6% year-on-year at £645.0 million for the six month period (2025 H1: £568.0 million).

Development finance drawings were down 0.8% year-on-year, with the pipeline also down 23.5% over the period, reflecting wider UK housebuilding trends. Advances in this business are therefore expected to soften further in the second half of the financial year. In contrast, the six months just ended saw growth in new business in our motor finance, SME lending and structured lending operations, with positive pipelines and, in aggregate, our 2026 guidance for the division as a whole is unchanged.

Credit and costs

The US intervention in the Middle East has affected on global and UK financial markets, where, at one point in March, the consensus outlook had moved from an expectation of two base rate cuts in 2026 to one which saw the yield curve projecting up to four base rate increases in the same period.

Against this backdrop credit performance across our loan books generally remained both strong and resilient, with buy-to-let arrears, at 50 basis points, lower than their level at either 31 March or 30 September 2025. However, the cohort of development finance loans originated in 2022 and earlier, which we have previously highlighted, has seen additional costs and valuation adjustments. These have, in conjunction with market-related extensions of our work-out timeframes and the associated discounting effects, driven additional impairment provision requirements in the period. £13.4 million of the total £21.5 million impairment charge relates to this pre-September 2022 development finance cohort, with the wider portfolio seeing a cost of risk of only 10 basis points (2025 H1: 10 basis points).

Interim Management Report (Continued)

1 OVERVIEW

The 2025 full year results included a charge for provisions for liabilities related to historical motor finance commissions that reflected the Consultation Paper ('CP 25/27') issued by the FCA in October 2025. Since then, the FCA has issued a Policy Statement setting out an industry-wide redress scheme, largely based on CP 25/27, which is currently being challenged by some motor finance providers and by customer representatives. The Policy Statement made some changes to CP 25/27 that were favourable to lenders, but also introduced some new potential additional liabilities, including, in our case, some relating to an acquired loan portfolio.

No additional provision charge has been made at the half year, as we consider our liability under the final Policy Statement remains broadly in line with our original estimate. It should be noted, however that the resolution of the challenges currently in progress might cause the required charge to rise or fall, while any delay in resolution will inevitably increase the amount of interest payable on the final redress. Charges relating to this matter have been, and will continue to be, excluded from our underlying performance metrics.

Operating costs were 3.0% higher than their 2025 H1 level at £92.0 million. Our original guidance of 'less than £190 million' of costs for 2026 has been refined to 'around £185 million', reflecting our continued efficiency focus. Over the past five years average loan balances have risen by 29.5%, whereas headcount has remained almost unchanged, demonstrating the improvements in operating leverage within our business model, supported by our ongoing digitalisation process.

Capital and distributions

Our CET1 ratio remained broadly stable during the period, despite distributions to shareholders, ending at 13.5% (30 September 2025: 13.6%). In addition to CET1 resources, we completed our inaugural AT1 issue in February 2026 at a very attractive coupon, adding to our Tier 1 resources as part of a process to optimise our overall capital position. Our Tier 1 ratio at 31 March 2026 was 15.2% (30 September 2025: 13.6%) and our total capital ratio stood at 16.9%. (30 September 2025: 15.3%).

Having completed our H1 share buy-back before the close of the period, we will commence a further buy-back of up to £50.0 million in the second half of the financial year. In addition, we will pay an increased interim dividend to shareholders of 15.1 pence per share (2025 H1: 13.6 pence per share) in line with our stated policy.

Interim Management Report (Continued)**1 OVERVIEW****Outlook and conclusion**

We delivered a robust performance over the first half of our financial year, reflecting our long-term, disciplined approach to managing the business. Our net loan book grew, with net margins ahead of expectations, supported by our increasingly diversified funding options. Combined with continued excellent cost discipline, these enabled us to deliver a strong underlying RoTE and enhanced earnings per share.

Spring continues to exceed our expectations, growing to represent over £1 billion of our funding requirement by the period end. Further product innovations are planned across our businesses and our broader strategic initiatives to digitalise operations and to diversify into areas we can scale continue to deliver results.

Our AT1 issue bolstered our capital, and we continue to deliver enhanced returns to shareholders through dividends and share buy-backs, with a further programme of up to £50.0 million announced today.

Whilst we are mindful of the volatile external environment, our deep market experience, strong capital base and ongoing delivery of digitalisation mean that we remain well placed to support our customers, deliver sustainable growth and capitalise on any opportunities that may arise.

Interim Management Report (Continued)

2 BUSINESS REVIEW

We analyse our results between two principal segments, Mortgage Lending and Commercial Lending, based on the types of customers served and products offered, and in line with our internal management structure. These segments are unchanged from 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 2026	Six months ended 31 March 2025	Year ended 30 September 2025	Six months ended 31 March 2026	Six months ended 31 March 2025	Year ended 30 September 2025
	£m	£m	£m	£m	£m	£m
Mortgage Lending	773.7	812.2	1,491.0	14,080.3	13,681.9	13,876.4
Commercial Lending	645.0	568.0	1,186.2	2,522.1	2,310.6	2,464.9
	<u>1,418.7</u>	<u>1,380.2</u>	<u>2,677.2</u>	<u>16,602.4</u>	<u>15,992.5</u>	<u>16,341.3</u>

Total loan balances increased by 1.6% in the six months ended 31 March 2026, despite a generally subdued economic environment in the period, with year-on-year growth of 3.8%. Customer retention was strong across our operations, while new lending increased by 2.8% compared to the same period in 2025, although new business performance varied across individual operations.

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 over thirty years, which gives us deep data and a detailed understanding of the market through various economic cycles. We enjoy strong relationships with business providers, landlords and trade bodies, providing 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 loans to smaller landlords, with less complex propositions, leveraging the processing efficiencies of digital capabilities launched during 2025.

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 primary focus on the specialist buy-to-let market facilitates detailed, case-by-case underwriting, supported by digital functionality, with processes tailored to the specific needs of these customers. Our focus on managing property risk, building relationships and intelligent digitalisation, 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 economy was somewhat subdued in the period, with interest rates falling only slowly and inflation remaining a factor, activity in the UK housing market increased a little from that in the second half of the previous financial year. According to HMRC, the number of transactions over the six months ended 28 February 2026 (the most recent data available) was 599,000, an increase of 9.9% compared to the second half of our last financial year (2025 H1: 656,000; 2025 H2: 545,000). There was an increase of 2.4% compared to the six months ended 28 February 2025, but transactions in the first half of our 2025 financial year had been inflated by the effect of the stamp duty changes made from April 2025.

UK house prices continued to trend broadly upwards in the period, with the Nationwide House Price Index ending the six months up 1.9%, and up 2.2% year-on-year, with Nationwide commenting that momentum in the market had been building, although this was threatened by geopolitical factors. This sentiment was echoed by RICS in its March 2026 UK Residential Market Survey, which noted that the positive sentiments for the house prices it had noted in the first part of 2026 had sharply reversed, with a fall in values expected in the very short term, but a more stable position further out.

This long-term trend has led to the Nationwide index reaching a new all-time high point at the period end, 1.3% above the previous record, set in August 2022. This means that almost all current valuations in our portfolio enjoy positive indexation, with our average buy-to-let loan-to-value ratio at 63.5% (31 March 2025: 62.7%).

In contrast to movements in housing transactions, UK mortgage approvals reported by the Bank of England fell compared with the second half of the 2025 financial year, but remained relatively strong compared with levels in recent years, particularly in the second half of the period. The £149.1 billion of new mortgages which were approved in the six months ended 31 March 2026 represented an increase of 10.3% from the £135.1 billion recorded a year earlier, but a reduction of 6.5% from the £159.5 billion recorded in the six months ended 30 September 2025.

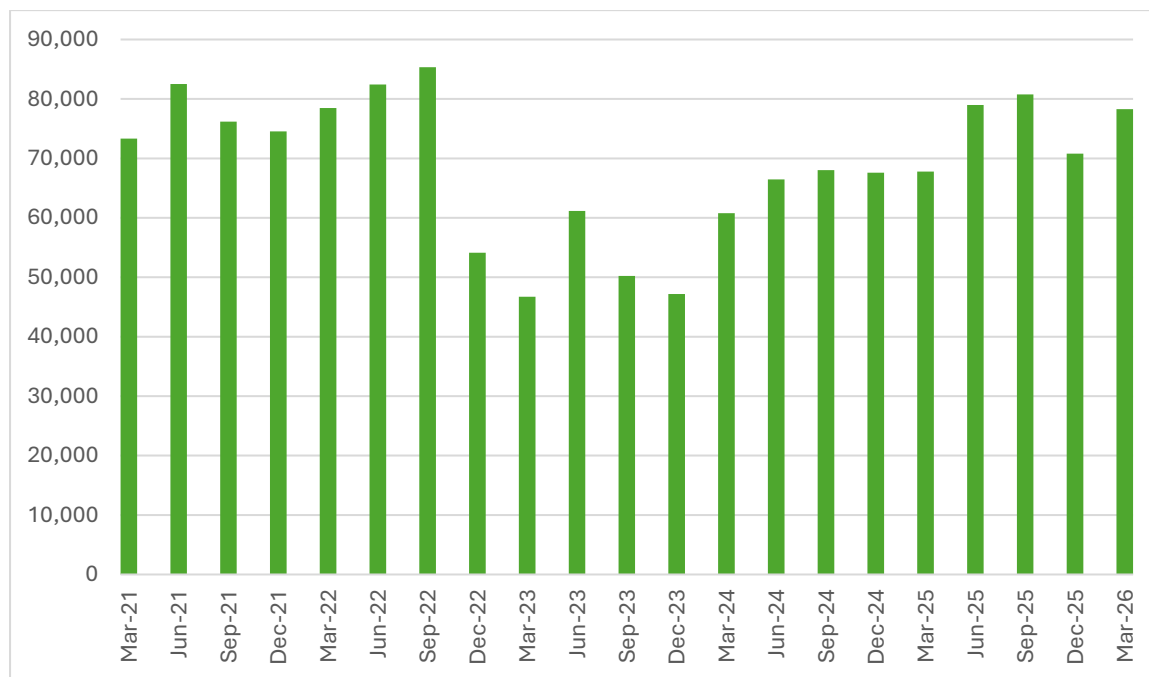
Interim Management Report (Continued)

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 2026



Credit performance metrics in the sector were largely positive in the period. The UK Finance ('UKF') Arrears and Possessions Report for the quarter ended March 2026 showed arrears moving generally downwards, with the number of arrears cases reducing by around 6% over the six months since September 2025. Mortgage possessions in the period had fallen back from the September quarter, although the level for the March 2026 quarter was still higher than almost all quarters since 2019.

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

Property rented from private sector landlords provides an effective housing solution for a wide variety of different social groups at various stages of their lives. The 2024-2025 English Housing Survey, published by the Ministry of Housing, Communities and Local Government in December 2025, showed that the PRS continues to represent around 19% of English households, as it has consistently done for some time. In contrast to popular perceptions, the survey also reported that renters in the PRS had higher satisfaction levels than those renting in the social housing sector.

Interim Management Report (Continued)

2 BUSINESS REVIEW

Our principal 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, such as homes in multiple occupation ('HMO's). 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 several mostly small, specialist lenders addressing this part of the PRS, which has historically been underserved by many of the larger banks, despite an increased level of interest by them in lending to the PRS over recent periods.

While it is clear that the changing fiscal and regulatory landscape for rental activity, especially over recent years, has caused some landlords to step away from the PRS, our experience, supported by market data, is that this reaction is concentrated amongst non-specialist landlords with small portfolios, while our more specialist customers regard these changes as part of the consequences which come with running a business and they remain committed to the sector.

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, or when having to address additional administrative or regulatory requirements.

The development of the regulatory landscape for the PRS has been dominated for some time by the legislative changes which became law in October 2025 as the Renters Rights Act 2025 ('RRA'). The provisions of the RRA began to come into force in May 2026, after the end of the period, and we hope that care will be taken to ensure that the implementation is proportionate and fully resourced. It is important that the new regulatory environment, as it develops, balances the needs of both tenants and landlords, recognising the important role which responsible landlords play in satisfying the UK's housing needs, and in the economy more generally.

Survey data in the sector suggests that over three quarters of landlords in the PRS claim to have a good awareness of the content of the RRA, with around two thirds considering that it will have a negative impact on their business and the PRS as a whole. A major concern reported was that the abolition of no-fault evictions will overburden the court system, with 90% of landlords fearing that backlogs might lead to delays in removing unsatisfactory or antisocial tenants.

Our own survey of 500 landlords, conducted in the period, suggested that three quarters of landlords felt prepared for the introduction of the RRA, with around 70% planning more stringent checks on potential tenants due to the increased complexity of terminating a tenancy once it has been agreed. The majority of respondents named either the abolition of no-fault evictions, or the potential difficulties in dealing with problematic tenants more generally as their greatest concern and most were considering rent rises to cover potential compliance costs.

Interim Management Report (Continued)

2 BUSINESS REVIEW

During the period we have worked with our customer base to help ensure that their new duties under the RRA are understood, and we believe that they are well placed to address the changes, with most of their business models likely to be relatively unaffected. It has been argued that the introduction of the RRA will advantage large portfolio landlords over those with only one or two properties, and this may result in opportunities for our customers. It is, however, likely to increase costs for all landlords, which will inevitably generate pressures on tenants' rental levels over time.

Overall, we believe that, while the RRA will impose additional burdens on our landlord customers, if properly implemented, it is unlikely to have a significant impact on our lending approach and strategy in the PRS.

Financial pressure on landlords has also been increased through tax, stamp duty and council tax changes. However, the most recent changes to the taxation of rental income, announced in the November 2025 budget, apply only to individuals and may serve to accelerate the trend amongst our customers to incorporate their businesses.

The residential rental market in the UK remains strong, with the March 2026 RICS UK Residential Market Survey reporting strengthening tenant demand with lower numbers of properties available for let, putting upward pressure on rents. RICS members, on average, expect more rent rises in the short term, with that sentiment becoming stronger over the final months of the period.

However, in its most recent data, published in March 2026, Zoopla reported a slowing of the rate of rent rises on new lets to 1.9% in the year to January 2026, with affordability pressures limiting increases and supply slowly increasing. PropertyMark, in its March 2026 Housing Insight Report, shows a similar picture across the six months with generally falling tenant demand and increasing supply, but demand still comfortably outpacing supply, with seven applicants for each property, on average. This had led to upward pressure on rents, which had increased by 3.4% year-on-year.

Activity in the buy-to-let mortgage market in the period continued to be generally strong overall, and stronger than for the mortgage market in general. New advances reported by UKF were £22.0 billion for the six months ended 31 March 2026, 13.8% higher than for the same period the previous year (2025 H1: £19.3 billion) and 15.5% higher than in the second half of the 2025 financial year. Within this, however, activity was much stronger in the remortgage market, with new mortgage activity falling, year-on-year.

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 66% of landlords adopting this form of refinancing in the period, similar to the 64% observed a year earlier, with the absolute number of refinancings (product switches and remortgages) increasing significantly year-on-year.

Interim Management Report (Continued)

2 BUSINESS REVIEW

In research carried out amongst landlords in the PRS for the second quarter of the financial year, around 60% 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 stable over the last six years, despite economic headwinds, with two thirds reporting rent increases in the last twelve months, and a similar number expecting to raise rents in the next year. 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, with respondents particularly pessimistic about the future of the UK economy overall.

The March 2026 UKF Arrears and Possession data 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 14% in the six months to March 2026, and improvements across all arrears bands. The number of buy-to-let possessions also fell from its September 2025 high point but remains significantly high by recent standards. Overall, this shows an improving picture as lenders manage any arrears issues they have encountered.

While performance data for the buy-to-let mortgage sector is generally positive, which should support cash flows and affordability for our customers, significant fiscal and regulatory headwinds are impacting adversely on landlords' confidence, especially in the somewhat subdued general economic environment. However, the PRS comprises an important part of the UK's housing provision and its strength as an investment prospect remains despite these concerns.

Mortgage Lending activity

The total amounts of new advances in our mortgage lending business in the six-month period are set out below.

	Six months ended 31 March 2026	Six months ended 31 March 2025	Year ended 30 September 2025
	£m	£m	£m
Specialist buy-to-let	752.7	800.9	1,468.8
Non-specialist buy-to-let	21.0	11.3	22.2
Total buy-to-let	<u>773.7</u>	<u>812.2</u>	<u>1,491.0</u>

The six months ended 31 March 2026 saw a somewhat subdued UK economy. Landlords, in addition, were wary of new commitments in light of impending regulatory changes, particularly ahead of the November 2025 budget. A number of changes to taxation for landlords were heavily trailed ahead of the Chancellor's speech with only some of these confirmed.

The buy-to-let lending marketplace was consequently competitive and made more so by increasing interest from new entrants. As a result, our lending in the segment fell by 4.7% year-on-year, as we focussed on careful targeting of lending and margin management.

Interim Management Report (Continued)

2 BUSINESS REVIEW

The majority of our lending continues to be to our principal target group of professional landlords with large or complex portfolios, but this period has seen an increase in simpler and non-specialist cases. This follows the launch in summer 2025 of a simplified application process for such propositions, supported by the automated functionality provided by the new mortgage origination system we launched a year ago.

Our new business pipeline for mortgage lending (the amount of loans passing through the underwriting process), at £718.9 million, had reduced from its year end level but was 8.6% higher than a year earlier (30 September 2025: £820.9 million; 31 March 2025: £662.2 million).

Our strategic aim is to build long-term relationships with customers, understanding their business needs and providing a strong service proposition throughout the life of an account. We have well-established, digitally-enabled procedures in place to support customers as their fixed rates expire, driving strong levels of customer retention.

Our fixed rate product range remains competitive for both existing and new customers and we offer base rate tracker products as an alternative to fixed-rate loans, providing customers with a cost-effective alternative to fixing their interest rates, where appropriate. We also launched a multi-property remortgage facility in the period, simplifying the process for our customers.

Specialist intermediaries are the principal source of buy-to-let applications, and the Mortgage Lending business continues its strategic focus on ensuring they receive excellent service. Our regular intermediary insight surveys in the period showed 95% were satisfied with the ease of obtaining a response (2025 FY: 94%; 2025 H1: 93%), delivering a net promoter score ('NPS') at offer stage of +62 (2025 FY: +52; 2025 H1: +54), demonstrating the impact of the system enhancements offered to brokers over the last twelve months.

83% of intermediaries dealing with us rated our service 'as good as' or 'better than' that provided by other lenders (2025 FY: 74%; 2025 H1: 71%), a significant increase over the period. Paragon Mortgages was also named 'Best Mainstream Buy-to-Let Lender' at the 2026 Mortgage Strategy awards, 'Buy-to-Let Lender of the Year' at the National Association of Commercial Finance Brokers awards ceremony in November 2025, and 'Best Professional Buy-to-Let Mortgage Lender' at the 2025-26 Your Mortgage awards.

The new mortgage origination system delivered in the previous financial year has continued to add value. In the year since it was fully rolled out, it has enabled processing efficiency, delivered an enhanced service both internally and to brokers and customers, and facilitated the launch of new product offerings. The integrated technology also facilitated the delivery of the multi-property proposition, supporting our customer service and retention strategies.

The more cost-effective processing underpins our 'swift and simple' approach to the less-specialist part of the buy-to-let market, and has enabled our growth in this area. In the period we were also able to announce a simplified application process for HMOs and multi-unit blocks, enabling smaller landlords to grow their businesses more easily in this part of the rental market, while maintaining our underwriting standards and operating within our existing risk appetite.

Interim Management Report (Continued)

2 BUSINESS REVIEW

During the period further enhancements have been rolled out, both as part of our long-term plan for the system and in response to user feedback. One of the more significant of these was the launch in January 2026 of a new portal for brokers to interface with the business. This delivers a simpler, smarter way for brokers to manage all their Paragon mortgage applications.

Enhancements already delivered under our mortgage digitalisation programme continue to demonstrate their value to our business. The redemption and retention processes underpin the division's success in this area, and self-service capabilities for landlords continue to be enhanced, with user take-up growing. Together with the results of the more recent upgrades, this gives us confidence in the benefits that the new system, together with subsequent stages of our digitalisation 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 some caution in the landlord customer base and increasing competitive pressures in the market, our buy-to-let franchise remains strong, with up-to-date digital capabilities providing an effective and responsive service. We continue to invest in our systems and our people to ensure we can continue to meet the needs of landlords and brokers as they develop over time.

While the PRS is currently subject to significant regulatory headwinds, with the impacts of the RRA still uncertain, this is only one in a long series of fiscal and regulatory challenges which have faced the sector over a period of many years. However, rental property remains fundamental to meeting the nation's housing needs, and therefore our landlord customers' operations will remain both viable and necessary, providing an ongoing requirement for finance which will underpin our business into the future.

Environmental impacts

We acknowledge that our mortgage lending business has the potential to affect, and be affected by, climate change. This understanding is fundamental to our sustainability strategy. We seek to mitigate this inherent risk, both through the careful design of our underwriting procedures and product criteria, and through focussed consideration of specific risks relating to properties offered for mortgage.

In parallel with this approach, we also continue, both internally and in conjunction with industry initiatives, to develop systems and refine data to allow our overall position to be measured and to understand the exposure of our portfolio to climate-related stresses.

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.

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.

Interim Management Report (Continued)

2 BUSINESS REVIEW

The UK Government announced in the period that an EPC C rating will be required for all buy-to-let properties by 1 October 2030 (with some exemptions) under amendments to the Minimum Energy Efficiency Standard ('MEES'), as part of its Warm Homes Plan. At the same time, it announced its intention to reform the definitions of EPC grades, which it considers not to be fit for purpose.

While we appreciate the objectives of the proposals, we agree with the National Rental Landlords Association and many other industry groups that the 2030 target dates are impractical, particularly given the desire to change the EPC definitions. It seems unlikely that sufficient appropriately qualified tradespeople would be available to deliver these improvements across the entire PRS on this timescale, even if there was certainty over the works which might be required. We are also concerned as to how the exemptions would be assessed and applied in practice.

Our new buy-to-let lending on energy-efficient properties increased by 7.7% year-on-year, despite the fall in overall volumes. Loans secured on properties with an EPC grading of A to C now represent over half of our mortgage lending, an increase on the comparable period in 2025. An analysis of this lending is set out below.

	Six months ended 31 March 2026	Six months ended 31 March 2025	Year ended 30 September 2025
	£m	£m	£m
New lending on properties with:			
EPC rated A or B	122.9	89.5	175.9
EPC rated C	312.8	315.1	606.4
Total rated A to C	435.7	404.6	782.3
Percentage of total lending rated A to C	56.4%	49.9%	52.5%
<i>Percentage with available data</i>	<i>99.5%</i>	<i>99.8%</i>	<i>99.9%</i>

Our latest analysis identified EPC grades for 97.5% by value of our mortgage book at 31 March 2026 (30 September 2025: 96.3%; 31 March 2025: 95.7%). Of these 99.5% were graded E or higher (30 September 2025: 99.5%; 31 March 2025: 99.3%) with 48.1% rated A, B or C (30 September 2025: 46.8%; 31 March 2025: 46.0%). The year-on-year increase principally results from the balance of new business, with over half of the advances in the current period 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 2026, continues to show that approximately 3.0% of properties securing buy-to-let mortgages, where data was available, were at 'higher' risk (30 September 2025: 3.0%; 31 March 2025: 3.0%).

Interim Management Report (Continued)

2 BUSINESS REVIEW

Research carried out amongst PRS landlords in the first quarter of 2026 suggested that around 60% of landlords have at least one property which does not meet the EPC C standard, with many having several. Almost all the landlords questioned said they had at least some awareness of the MEES requirements, with two thirds claiming a full understanding. Over 60% of the respondents said they planned to carry out works to upgrade their properties ahead of the potential MEES implementation, a significant increase from 50% a year ago, but many were considering selling their non-compliant properties, especially where the upgrade works were financially unviable.

It was pleasing to note that in the same survey a third of landlords were considering investing in already compliant properties to further enhance their energy efficiency, upgrading their EPC rating at the same time.

We currently offer products which can support landlords in making their properties more energy-efficient, including our 'refurb-to-let' proposition, and we are working to develop these further, enabling our customers to access the support which the UK Government has stated will be available under its Warm Homes Plan. 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.

Performance

The outstanding first and second charge mortgage balances in the segment at 31 March 2026 are set out below, analysed by business line.

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
<i>Post-2010 assets</i>			
First charge buy-to-let	11,825.6	11,083.8	11,453.1
First charge owner-occupied	12.3	15.1	13.9
Second charge	35.9	47.9	41.2
	<u>11,873.8</u>	<u>11,146.8</u>	<u>11,508.2</u>
<i>Legacy and acquired assets</i>			
First charge buy-to-let	2,166.3	2,481.1	2,321.6
First charge owner-occupied	2.2	3.2	2.5
Second charge	38.0	50.8	44.1
	<u>14,080.3</u>	<u>13,681.9</u>	<u>13,876.4</u>

During the period the Mortgage Lending segment continued to grow its loan portfolio despite the subdued economy and market pressures. At 31 March 2026 our mortgage book balances were 2.9% higher than they had been a year earlier and had grown 1.5% over the six months since the last year end, through a combination of new lending and the successful retention of existing customers.

Interim Management Report (Continued)

2 BUSINESS REVIEW

The largest part of the mortgage book is made up of buy-to-let loan assets originated after 2010. This balance grew by 3.3% over the half year and represents 84.0% of the total at the end of the period (30 September 2025: 82.5%; 31 March 2025: 81.0%). The remainder of the book comprises legacy and discontinued products which continue to run off.

Our buy-to-let proposition is built on the strength of the relationships we develop with our customers through the life cycle of their loans. This is demonstrated in the levels of customer retention we achieve, with the annualised redemption rate on buy-to-let mortgage assets, at 8.0% for the six months ended 31 March 2026 (2025 H1: 7.1%; 2025 FY: 7.0%), remaining at a relatively low level despite the general stabilisation of market interest rates for new products in the period.

This reflects our strategic priority of managing customer behaviour as fixed-rate periods end, an area on which we have placed significant operational, product and systems focus. For professional landlord customers whose fixed-rate products matured in the twelve months ended 31 March 2026, 81.5% were still customers at that date (30 September 2025: 83.7%), despite the levels of market competition over the period.

In addition to this strong retention performance, these relationships continue to drive new business as our existing customers expand their relationships with us, through further advances on their existing properties, financing portfolio expansion or refinancing loans away from other finance providers. During the six months ended 31 March 2026, 37.9% of our new lending was to landlord customers with an existing account (2025 FY: 35.9%; 2025 H1: 41.0%), a broadly stable proportion of total lending. This, combined with the significant amount of other lending to recent landlord customers, endorses our relationship-based approach.

The credit performance of our buy-to-let assets remained excellent. Three-month arrears at 31 March 2026, at 0.50%, continued to be stable, with the payment performance of our customers remaining strong (30 September 2025: 0.52%; 31 March 2025: 0.51%). Arrears on post-2010 lending remained lower than those for the book overall, at 0.18% (30 September 2025: 0.16%; 31 March 2025: 0.15%).

Our arrears remain low compared to the overall performance of the buy-to-let market, with UKF reporting arrears of 0.65% for the buy-to-let sector at 31 March 2026 (30 September 2025: 0.75%; 31 March 2025: 0.85%). This national figure has moved slightly down over recent periods and remains significantly less than UKF's arrears metrics for the wider mortgage market.

Our buy-to-let underwriting focusses on an applicant's credit quality and financial capability, underpinned by a robust assessment of their property as security. We take a detailed and thorough approach to both the valuation and suitability of the property, applying specialist in-house valuation expertise, providing significant confidence in security values, even under economic stress.

The loan-to-value coverage in the buy-to-let book, at 63.5%, is similar to that seen at the previous year end (30 September 2025: 63.2%; 31 March 2025: 62.8%) and, coupled with our robust approach to valuation, provides significant security. Levels of interest cover and affordability also remain good, even on a stressed basis, leaving our landlord customers well placed to develop their businesses going forward. On a simple weighted average basis, our customers now have around £9.5 billion of equity in properties mortgaged to us, and will generally have additional property interests, potentially financed elsewhere.

Interim Management Report (Continued)

2 BUSINESS REVIEW

For accounting purposes, 4.6% of the segment's gross balances were considered as having a significant increase in credit risk ('SICR') at the period end (30 September 2025: 5.4%; 31 March 2025: 5.6%), including 1.3% which were credit impaired (30 September 2025: 1.3%; 31 March 2025: 1.3%). This position is broadly similar to that reported at the previous year end, as might be expected from the reasonably settled and mildly positive economic situation through much of the period.

Provision coverage for the portfolio reduced a little, to 19 basis points (30 September 2025: 23 basis points; 31 March 2025: 27 basis points), and less than a basis point on fully performing accounts (30 September 2025: 1 basis point; 31 March 2025: 3 basis points). This was a result of the resolution of some problem cases (and the consequent utilisation of provision), the generally positive arrears performance over the period and the impact of house price growth on security values.

Our receiver of rent process for buy-to-let assets helps to reduce loss levels by giving us direct access to rental flows from the underlying properties, while allowing tenants to stay in their homes. A focus in this area during the period has been embedding the requirements of the RRA into our property management processes ahead of the May 2026 implementation date.

At 31 March 2026, 534 properties were managed by a receiver on the customer's behalf, a decrease of 6.6% in the half year (30 September 2025: 572 properties; 31 March 2025: 632 properties). This reduction principally relates to the resolution of long-term cases, with new receiverships generally being resolved more quickly.

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.

Interim Management Report (Continued)

2 BUSINESS REVIEW**2.2 COMMERCIAL LENDING**

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

The four business lines comprise:

<p>Development finance</p> <p>Providing funding for property development projects, mostly residential in nature</p>	<p>SME lending</p> <p>Providing leasing for business assets and unsecured cash flow lending for professional services firms, amongst other products</p>
<p>Structured lending</p> <p>Providing finance for niche non-bank lenders</p>	<p>Motor finance</p> <p>Focussed on specialist parts of the motor vehicle market, including leisure vehicles</p>

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

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

Commercial Lending activity

Overall, our new lending measure in the Commercial Lending segment increased by 13.6%, compared to the same period in 2025, against a backdrop of economic caution amongst the SMEs which form much of the division's customer base. However, much of this growth was the result of an increase in the net balances in our revolving structured lending operation, where the comparator period had seen a reduction. Excluding changes in revolving facilities, new advances increased by 2.1% year-on-year, with SME lending increasing volumes and development finance and motor finance both broadly stable.

Interim Management Report (Continued)

2 BUSINESS REVIEW

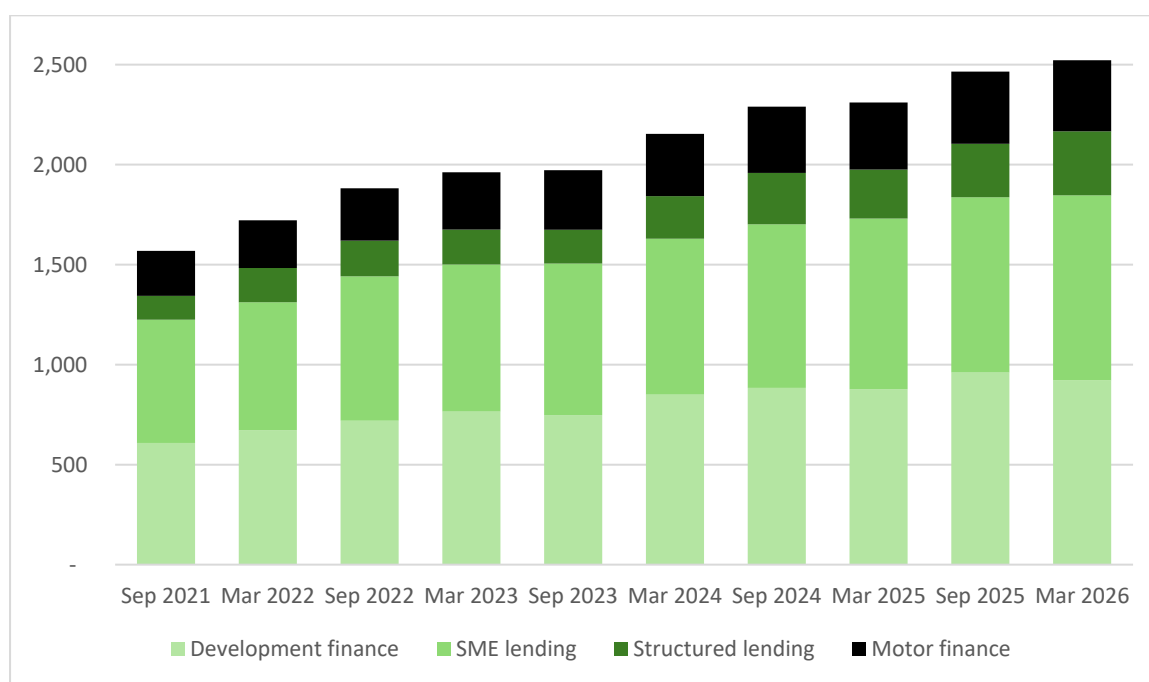
The segment's new lending activity during the period is set out below, analysed by principal business line. As the structured lending portfolio comprises revolving credit facilities, the net movement in the period (which can be negative) is shown.

	Six months ended 31 March 2026	Six months ended 31 March 2025	Year ended 30 September 2025
	£m	£m	£m
SME lending	259.5	247.0	479.6
Development finance	260.0	262.0	527.2
Motor finance	72.6	71.0	169.6
	<hr/>	<hr/>	<hr/>
	592.1	580.0	1,176.4
Structured lending (net drawings)	52.9	(12.0)	9.8
	<hr/>	<hr/>	<hr/>
	645.0	568.0	1,186.2
	<hr/>	<hr/>	<hr/>

These advances increased the Commercial Lending loan book by 9.2% year-on-year, to a total of £2,522.1 million, its highest level to date (31 March 2025: £2,310.6 million; 30 September 2025: £2,464.9 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)



Interim Management Report (Continued)

2 BUSINESS REVIEW*SME lending*

Our SME lending business has a focus on construction equipment and similar wheeled plant. It is therefore exposed to UK sentiment around capital investment. While some caution over ultimate impacts of UK Government policy, and nervousness about the persistent heightened interest rate environment remained during the period, we saw a somewhat more positive attitude to capital investment over the six months than was seen previously.

However, the operating environment remained challenging, for both the business and its customers, and there has been some pressure around pricing from lenders focussed on market share. We have retained our focus on margins, preferring to protect the long-term health of the business. Despite these external pressures, new lending in the SME lending business overall grew by 5.1% compared to the first six months of the 2025 financial year and by 11.6% compared to the second half of that year. However, much of that increase in volume was in the form of term loans guaranteed under the UK Government's Growth Guarantee Scheme ('GGs') rather than through the division's more traditional products.

Against this backdrop, underwriting activity strengthened, with new business enquiries for asset leasing outside the GGS increasing 13.5% year-on-year, and 11.6% compared with the second half of the 2025 financial year. This flowed through to offers in the period which were up 12.0% year-on-year and 33.9% compared to the previous six months, which should help to drive completions for the remainder of 2026.

The major upgrade to the business's front-end IT systems implemented in previous periods, as part of our digitalisation strategy, continues to further benefit operational effectiveness, as incremental development continues. The increases in offer and conversion rates reported previously continue to benefit the business, with around two thirds of applications progressing to offer and around half resulting in new loans and response times continued their improvement. This has enabled around 30% more applications to be processed, across all SME lending business lines, than seen in the corresponding period in 2025.

More external business partners have also been given access to our system portal, enabling them to input cases directly, and reducing the handling required within the business. This has resulted in 70% of applications for our core business finance products in the period being entered directly (2025 H1: 63%), while functionality was also expanded to our professional finance products.

These advances in technology have been transformative for the business, and we hope to see further benefits from our ongoing project 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.

For asset leasing, which comprises the greatest part of the division's business, volumes for the six months, excluding government-backed loans, decreased by 6.2% to £159.3 million compared to the same period twelve months earlier (2025 H1: £169.9 million; 2025 FY: £319.0 million). This did, however, represent a 6.8% increase on the £149.1 million of advances made in the second half of the 2025 financial year.

Interim Management Report (Continued)

2 BUSINESS REVIEW

In contrast, the Finance and Leasing Association ('FLA') reported total asset finance lending for the six months ended 31 March 2026, excluding cars and high value items, had increased by only 2.4% compared to the second half of our 2025 financial year, although the year-on-year increase for the six months was 4.0%. New leasing business with SMEs increased by a larger amount, growing by 8.9% year-on-year. Our investment in new operating leases has also continued, with £4.5 million of assets being acquired for leasing (2025 H1: £5.9 million; 2025 FY: £21.0 million).

The business continued to offer loans under the GGS, with £30.5 million of mostly unsecured lending provided to SME customers in the period, backed by a 70% guarantee provided by the British Business Bank ('BBB'). This represents an increase of 66.7% year-on-year (2025 H1: £18.3 million; 2025 FY: £47.7 million). The scheme is intended to provide access to credit to SMEs which might otherwise struggle to locate affordable funding. Our offering has been successful in helping to fund such SMEs, and the BBB extended the total amount of guarantee available to us under the scheme during the year.

Short-term lending to professional services firms outside the government-supported schemes totalled £53.2 million in the period, a similar level to that seen in the comparable period in 2025 (2025 H1: £54.1 million; 2025 FY: £96.6 million). These loans are often used to spread the impact of tax payments, and the level and timing of take-up will be influenced by both the confidence and the profitability levels of the underlying customer base. This market remains highly competitive, and we prioritise managing return on this offering, 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. Our initial 'green' offerings related to funding for alternative fuelled assets in the transport, manufacturing and construction sectors, but we have steadily increased the range of green assets and equipment we will finance and, over recent periods, we have increasingly focussed on green energy projects. These include including financing for solar panels, wind turbines, hydroelectric turbines and geothermal heat pumps.

We have a specialist business development manager for green propositions, and it is expected that these types of initiatives will 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 2026, showed significantly weakening confidence through the last six months amongst lenders, with concerns about business appetite for investment and the overwhelming majority of respondents expecting worsening economic conditions in the UK, although most expected only a slight deterioration. This led to a significant increase in the number of lenders expecting to reduce volumes over the next year, compared to September 2025, with very few expecting to increase volumes. A majority of respondents expected arrears to increase, but in most cases, significant increases were not anticipated.

Overall sentiment in the SME market, however, remains mixed, with published surveys showing the cautious optimism which had been growing through 2025 taking an adverse turn as 2026 began, with concern over costs a principal factor, and some businesses reporting that their attitude towards capital investment had also cooled.

Interim Management Report (Continued)

2 BUSINESS REVIEW

The SME loan market remains challenging, with pressure on both volumes and pricing, with the gently downward trend in interest rates having stalled in the period. However, the business has so far navigated this environment effectively, increasing overall volumes in a largely static market, while maintaining its focus on margins and preserving its exemplary 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 our 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 to fully address customer requirements in this sector going forward and continue to develop the business. While we have increased our focus on the agriculture and renewable energy sectors, we remain a small player in a substantial market, providing us with the ability to outperform on specialist propositions, even if broader trends are more negative.

Development finance

Confidence in the UK property development sector was at a generally low level during the period. While the UK Government has made positive statements on planning and house building, its initiatives have had little tangible impact up to this point. The sector has also had concerns about inflation, including the impact of the April 2025 rises in Employers' National Insurance contributions on labour costs, and the potential saleability of new properties in a negative economic environment. These factors have led to a somewhat subdued market, with developers cautious about taking on new projects and strong competition amongst lenders for those propositions which do come to market.

So far, this has had a limited effect on our new advance levels, with the level of drawings in the six months decreasing by only 0.8% year-on-year to £260.0 million (2025 H1: £262.0 million), a similar level to the second half of the 2025 financial year. This was achieved despite the potential headwinds and our strict management of yields, with our long-term relationships with developers supporting business flows in the period. The commitment value of those new facilities which made their first drawing in the period was, however, significantly lower than that in the first half of the last financial year, at £194.4 million, and a 16.9% decrease on the immediately preceding six months (2025 H1: £294.0 million; 2025 FY: £527.8 million).

Our development finance customer base comprises primarily smaller-scale, unlisted property developers whose business model relies on a continuing flow of new projects, and customers continue to bring forward proposals despite the prevailing conditions, although at a reduced rate. Projects started over the last three years have seen less credit issues to date than those started in 2022 and earlier, enhancing developers' stability and confidence.

While we finance mostly residential developments, we also fund an increasing number of more specialist projects, including purpose-built student accommodation ('PBSA'), later living and build-to-rent propositions. Our presence in the PBSA market is particularly strong, and there is evidence to suggest that there is a significant shortfall in high quality provision in some locations. We enjoy a good reputation in the industry and were named 'Development Finance Lender of the Year' at the National Association of Corporate Finance Brokers' 2025 awards night.

Interim Management Report (Continued)

2 BUSINESS REVIEW

During the period we have continued our strategic movement towards addressing larger and more complex developments. A new loan product aimed at specialist care home developers was launched in December 2025, and our light industrial property offering was launched in March 2026. Further expansions in eligible property types are also under consideration.

The caution in the market and the reduced number of new projects is demonstrated by the level of undrawn balances on projects in progress at 31 March 2026, which, at £448.2 million, were 13.0% lower than at the start of the period (31 March 2025: £537.8 million; 30 September 2025: £515.3 million), while the new business pipeline had reduced to £168.9 million, 36.0% lower than its level at the start of the period (31 March 2025: £268.4 million; 30 September 2025: £264.1 million). These balances would be expected to drive much of the lending in the second half of the financial year, and these reductions will have a significant impact on advances in the business for the 2026 financial year as a whole.

Looking to the longer term, there is evidence that this atmosphere of caution is set to continue with the level of enquiries in the period 17.6% lower than that seen in the comparable period a year earlier, with both the business and its customers focussed on the successful execution of current projects, given the prevailing economic conditions.

Our Green Homes Initiative ('GHI') incentivises the development of the most energy-efficient properties. This £400.0 million scheme provides beneficial terms for projects focussing on the development of EPC A graded properties and, by 31 March 2026, £306.3 million of new lending commitments had been agreed (30 September 2025: £279.3 million), with drawings in the period of £49.2 million (2025 H1: £46.5 million; 2025 FY: £103.9 million). This initiative rewards energy-efficiency, improving the environment and reducing fuel bills for the ultimate residents, while providing financial benefits to our customers.

The present UK Government has made a policy commitment to address the under-provision of new homes in the UK by ensuring that 1,500,000 new homes are completed over the course of the present parliament. This is based on the long-standing requirement to build new homes at the rate of 300,000 units per year which has been endorsed by administrations of varying complexions over a significant number of years without having been achieved, with ONS reporting only 170,000 dwellings completed in the UK during 2025.

Meeting this demand could, subject to the effect of any policy interventions, offer significant expansion opportunities for smaller developers and for our development finance operation to support them. However, while the development market remains subdued, our business volumes will continue to be under pressure.

Motor finance

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

Interim Management Report (Continued)

2 BUSINESS REVIEW

Market conditions in the six months ended 31 March 2026 remained constrained, with economic caution amongst potential customers and competition amongst lenders. While new car finance volumes increased significantly compared to the corresponding period in 2025, with the FLA reporting advances for the six months ended 31 March 2026 up 13.2% year-on-year, finance volumes for used cars, which represent the vast majority of our lending, increased by only 2.1% over the same period.

However, despite our focus on protecting margins, new lending volumes in our motor finance business increased by 2.2%, compared to the same period in 2025, to £72.6 million (2025 FY: £169.6 million; 2025 H1: £71.0 million), although this total is lower than the volume achieved in the second half of the 2025 financial year, which is traditionally a stronger period for motor finance. Business generation in the period was strong, with the number of applications received up 3.8% year-on-year, and an 18.5% increase in the closing pipeline compared to 31 March 2025, a positive position for the business to enter the second half of the financial year.

Our lending to finance the acquisition of battery-powered electric vehicles ('BEV's), including battery-powered LCVs, continued to be an important part of our proposition in the period. These vehicles contribute towards greenhouse gas ('GHG') reduction and are increasingly popular amongst motorists, with the Society of Motor Manufacturers and Traders ('SMMT') reporting that in March 2026 BEVs comprised 23% of all new car registrations (March 2025: 19%). However, BEVs accounted for only 7% of new LCV registrations, a reduction from the 8% reported for March 2025.

We advanced loans of £4.1 million to fund BEVs in the period, similar to the levels recorded in both halves of the previous financial year (2025 FY: £8.4 million; 2025 H1: £4.3 million). BEV lending comprised 5.6% of our total motor finance lending, with total lending on all electric vehicles, including hybrids, representing 14.7% of the total.

In the used car market, where much of our business is focussed, SMMT reported that electric vehicles comprised 9.9% of sales in 2025, with only 3.5% represented by BEVs, a much lower proportion than for new vehicles. Coupled with the slow take up of BEV LCVs, this means that the proportion of our lending for BEV purchases will lag the growth in the overall electric vehicle market, however progress continues to be made. This initiative supports the green aspirations of our customers, as electric vehicles become a more widely viable and popular option and increasing numbers enter the used car market.

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

Structured lending

Our structured lending business performed positively in the half year, with new facilities agreed and existing facilities renewed or extended, while maintaining its outstanding credit quality. The total amount of drawn facilities increased by 30.5% year-on-year, to £319.8 million (30 September 2025: £267.3 million; 31 March 2025: £245.1 million), while the amount of the total available facilities in place increased by 11.7% over the six months to £450.1 million (30 September 2025: £403.0 million; 31 March 2025: £372.7 million), including agreements with two new clients.

Interim Management Report (Continued)

2 BUSINESS REVIEW

These facilities generally fund non-bank lenders of various kinds, providing us with increased product diversification, and are constructed to provide a buffer in the event of default in the ultimate customer population, or other issues. We have also worked with the BBB, supporting clients in accessing its Enable Guarantee programme, in line with the UK Government's growth strategy.

The business has an experienced team of managers who receive regular reporting on the performance of the security assets and who maintain a high level of contact with client personnel to safeguard our position. To date we have recorded no losses on structured lending facilities over the life of the operation.

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.

Performance

The size of our Commercial Lending book continued to increase over the six months, driven by volume increases in some key product streams. However, performance across the four business lines varied, with strong growth in all areas of the SME lending book and a positive performance in structured lending, but a relatively stable position in the motor finance operation and a reduction in the development finance balance.

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

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Asset leasing	723.5	698.5	709.1
Professions finance	45.1	46.4	39.3
BBB-guaranteed loans	79.0	47.9	64.1
Invoice finance	38.6	34.9	35.4
Unsecured business lending	39.6	25.4	28.8
Total SME lending	925.8	853.1	876.7
Development finance	921.1	877.5	960.4
Motor finance	355.4	334.9	360.5
Structured lending	319.8	245.1	267.3
	2,522.1	2,310.6	2,464.9

Interim Management Report (Continued)

2 BUSINESS REVIEW

Credit performance in the division was generally satisfactory in the period, despite the economic pressures still being felt by UK SMEs on costs and interest rates and from the impacts of political and economic uncertainties on their businesses more broadly. However, the division's results continue to be impacted by credit and performance issues relating to the cohort of development finance lending originated in 2022 and earlier.

As we reported at the 2025 year end, since the point at which these development projects had been evaluated by the customer and by us, they have 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. Only a limited number of accounts within this cohort are affected, but these have continued to experience issues with construction, sales and repayment in the current period, particularly relating to the extension of project timescales.

We regularly monitor all development finance accounts internally and grade them on a case-by-case basis. At 31 March 2026, 24 accounts were identified as at risk of loss, and therefore attributed to IFRS 9 Stage 3 for impairment purposes (30 September 2025: 23; 31 March 2025: 25). Of these cases 79% were classified as Stage 3 at the opening of the period. These brought-forward cases represent 93% of the total Stage 3 provision in the business at 31 March 2026, with the ongoing issues described above generating additional provision on these accounts, and the incidence of default elsewhere remaining relatively low.

At the end of the half year a detailed exercise was carried out to review the portfolio on a line-by-line basis and verify that the provision made was appropriate. This approach has meant that the additional stress overlay applied at 30 September 2025 was no longer required, such issues being addressed in the main provisioning exercise. The exercise also confirmed the low incidence of credit issues outside the pre-2022 cohort, of which few accounts now remain in the portfolio, other than the default cases described above.

Outside this limited number of default cases, security across the development finance portfolio generally remains strong. The average loan to gross development value for the portfolio at the period end was 64.1% (30 September 2025: 63.8%; 31 March 2025: 62.9%), which should provide a significant credit buffer if projects encounter issues.

Credit performance in the SME lending and motor finance leasing businesses remained stable, despite the continuing economic pressures on UK consumers and businesses. Leasing arrears in SME lending remained very low at 0.12% (30 September 2025: 0.11%; 31 March 2025: 0.16%), with motor finance arrears remaining largely stable at 0.98% (30 September 2025: 0.91%; 31 March 2025: 1.06%). 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.

As we reported in our 2025 annual accounts, in January 2024 the FCA announced a review of historical commission arrangements across the motor finance industry, focussed primarily on discretionary commission arrangements ('DCA's). We have been active in the motor finance market, principally since 2014, with a limited amount of lending in 2007 and 2008. In common with general market practice, we offered some lending on a DCA basis through motor finance dealers, and hence an element of our historical motor finance lending was within the scope of the review.

Interim Management Report (Continued)

2 BUSINESS REVIEW

This review, and the resolution of a number of related litigation processes, led to the FCA's publication of a proposed redress scheme for consultation in October 2025. The proposed scheme would apply to all DCA lending carried out since 2007. This scope is wider than expected by many in the industry, while, conversely, the average redress is less than many, particularly consumer interests, had expected. Following the consultation period, the FCA published its final scheme in March 2026. This was largely unchanged from the October 2025 proposal, however there were some additional exclusions and new material relating to the treatment of acquired loans.

The new 'successor' rules for acquired loan books where the original lender no longer exists have a potential impact on the Group as we purchased a motor finance loan book in 2018 from the now liquidated Raphaels Bank. Some of the loans included in this portfolio may have been originated on a DCA basis. The total amount of commissions paid on purchased loans which may be within the scope of the redress scheme was less than £13 million. In addition to the introduction of the successor rules, the regulator also clarified a number of technical and administrative points and revised down its estimate of likely scheme take-up.

At 30 September 2025 we had made a provision of £25.5 million based on the potential impact of the original FCA proposals, including the costs of running a redress programme. We have now revisited that estimate on the basis of the final scheme rules, including the regulators' revised take-up forecast. Overall, whilst the final scheme rules included higher interest costs and liabilities for certain acquired portfolios, these are broadly offset by reductions in potential requirements arising from other changes from the original proposals and we have decided that there is no need to revise our provision at this time.

It should be noted that the scheme rules are currently subject to a number of legal challenges and that customers potentially covered by the scheme might seek alternative routes for redress, including through the courts. Furthermore, the FCA has stated that lenders should consider and prepare for the possibility that it might withdraw the scheme entirely. Any of these factors might result in either a greater or lesser liability, but the provision represents our current best estimate. Further information on this provision, including sensitivity analysis, can be found in note 22 to the financial information.

Operationally we have continued to progress the development of systems which will enable us to put a redress programme in place in line with the regulator's requirements and timetable, and our implementation plan was delivered to the FCA on 12 May 2026, as required by the scheme.

The BBB reported, in its May 2025 progress report, presented to the UK's national Covid-19 enquiry in January 2026, that 17% of loans under its Covid-related guarantee schemes have defaulted, with loans under the Bounce Back Loan Scheme ('BBLs') representing 91% of defaults by value. However, we have not seen significant credit issues in our BBB-guaranteed portfolios, possibly due to our primary focus being on lending to existing customers whose credit history was already well known to us, and to our limited exposure to the BBLs product.

Interim Management Report (Continued)

2 BUSINESS REVIEW

Our BBB-guaranteed portfolio at 31 March 2026 contained only £1.1 million of Stage 2 accounts (30 September 2025: £1.0 million) and only £0.3 million of credit impaired cases (30 September 2025: £0.6 million) before provision, while the overall exposure on such loans at the period end was £79.0 million (30 September 2025: £64.1 million; 31 March 2025: £47.9 million), with only £0.9 million of BBLS exposure remaining. Our total claims made up to 31 March 2026 under the BBB guarantee were £5.9 million, with only £0.5 million of this balance still outstanding at the period end.

For structured lending facilities, we conduct monitoring of the performance of the underlying asset pools, 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 can detect any credit issues. Performance in the period has been broadly in line with expectations, with generally stable metrics on all facilities and all accounts classified as Stage 1 for IFRS 9 impairment purposes at the end of the period. No loss was incurred on any facility closed in the period.

In terms of our IFRS 9 impairment procedures, 14.1% of the segment's gross balances were considered as having an SICR, broadly in line with the proportion seen in previous periods, (30 September 2025: 12.1%; 31 March 2025: 13.2%). This included 6.2% which were credit impaired (30 September 2025: 6.1%; 31 March 2025: 7.4%), similar to the amount reported six months earlier.

Provision coverage levels had increased a little from those seen at the previous year end, to 248 basis points (30 September 2025: 223 basis points, 31 March 2025: 169 basis points). This was principally driven by the increase in Stage 3 provision in development finance, with coverage on fully performing accounts broadly stable at 50 basis points (30 September 2025: 48 basis points; 31 March 2025: 61 basis points), reflecting the strong credit performance of the portfolio more generally.

Interim Management Report (Continued)

3 FUNDING REVIEW

The strength of our retail deposit offerings has been key to our strategy since Paragon received a banking licence in 2014. Our Paragon-branded offering has built a solid franchise over that period and has been supplemented by additional routes to market, first through third party platforms and most recently with last year's launch of our Spring-branded digitally-enabled proposition.

Our deposit portfolios are supplemented by central bank and wholesale funding, including repurchase agreements, creating an adaptable and sustainable funding model which can respond to developments in our business, its operating environment and the wider economic landscape. We have a significant history of issuance in the wholesale funding markets and our covered bond programme gives us the ability to raise funding at short notice, if needed.

Additional funding was generated in the period through the issue of AT1 securities. However, these are considered to form part of the capital base, rather than funding liabilities.

Paragon Banking Group PLC, our parent company, enjoys investment grade credit ratings, supporting the AAA rating of our covered bond and enabling us to access cost-effective funding, as well as enhancing options for raising finance for strategic initiatives on a timely basis. Fitch confirmed their BBB+ rating in February 2026 with Moody's upgrading their rating to Baa2 in the period.

During the six-month period, our funding requirement decreased a little, as funds raised in advance of payments on expiring facilities, including Bank of England TFSME liabilities were utilised, reducing the need to hold excess liquidity.

The Group's funding at 31 March 2026 is summarised below.

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Retail deposit balances	15,262.6	15,768.0	16,265.7
Central bank facilities	1,780.2	700.0	950.0
Covered bonds	499.3	499.1	499.2
Tier-2 ('T2') bonds	149.9	149.6	150.1
Sale and repurchase agreements	100.0	100.8	100.0
Total on balance sheet funding	17,792.0	17,217.5	17,965.0
Other off balance sheet liquidity facilities	150.0	150.0	150.0
	17,942.0	17,367.5	18,115.0

During the period market interest rates made retail funding relatively less attractive compared with short-term wholesale funding. In consequence, our deposit portfolio was managed slightly downwards, while additional drawings were made on short-term Bank of England facilities and substantial repayments made on TFSME facilities.

Interim Management Report (Continued)

3 FUNDING REVIEW

While the longer-term analysis of our funding balance between wholesale and retail elements has been relatively stable, the increased focus on wholesale borrowings as we optimised our funding mix in the period resulted in retail deposit balances at the end of the period comprising 85.8% of all on balance sheet funding (30 September 2025: 90.5%; 31 March 2025: 91.6%). However, this is not necessarily indicative of future funding policy.

At 31 March 2026, the proportion of easy access deposits, those which are repayable on demand, was 40.8% of total on-balance sheet funding (30 September 2025: 45.9%; 31 March 2025: 45.7%). The average tenor of wholesale borrowings also remained broadly stable, with the T2 bond and covered bond the only significant long-term borrowings for most of the period.

At the end of the period, £2,712.5 million of cash and investments were available for liquidity and other purposes (30 September 2025: £2,895.9 million; 31 March 2025: £2,413.0 million). Within this total the diversification of our liquidity portfolio continued, with the purchase of further UK government securities and covered bonds issued by UK banks and building societies in the period.

The level of liquid resources over the six months was largely driven by the TFSME repayment in October 2025, coupled with the liquidity management policies already described. The appropriate level of cash reserves is monitored on an ongoing basis as part of our capital and liquidity strategy, which continues to be based on a conservative view of the economic outlook, while allowing for the developing needs of the business.

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.

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, especially towards the end of the period.

Interim Management Report (Continued)**3 FUNDING REVIEW****3.1 RETAIL FUNDING**

Our savings proposition includes three distinct, complementary routes to market, focussing on differing customer groups and offering significant optionality.

- Spring, the digital operation which we launched in April 2025, offers an attractive app-based proposition using advanced technology, to provide a new approach to savings for customers whose savings may not be generating appropriate returns, offering competitive rates and deploying open banking technology
- Our Paragon-branded operation, established in 2014, offers a streamlined online presence and support for telephone and postal options, supported by an outsourced administration function
- Our presence on a number of third-party wealth management platforms and savings marketplaces, provides us with access to customer profiles not addressed by our other offerings. These customer groups also demonstrate differing levels of price sensitivity, reflecting their different needs and objectives

Our franchises offer a mix of competitive interest rates, attractive and innovative products and high-quality customer service, focussing on the needs of distinct groups of savers 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').

Overall, this approach provides us with diversification across our funding base and offers resilience and agility to our operations, providing enhanced opportunities to manage cash inflows and outflows in accordance with business needs.

The UK savings market provides a reliable, liquid, scalable and cost-effective source of funding, addressing the needs of many different types of depositors. Our focus continues to be on offering sterling deposit products to UK households with the growth of Spring complementing, rather than replacing, our other well-established offerings.

The protection provided to investors by the FSCS both incentivises larger savers to divide their deposits between several institutions and reduces the perceived risk which could discourage potential customers from investing with less familiar brands, supporting the appeal of our proposition. This was further enhanced in the period by the increase of the upper limit of FSCS coverage from £85,000 per institution to £120,000. As a result, at 31 March 2026, FSCS protection covered over 98% of our deposit balances.

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 – 2026



During the six months, UK household savings balances reported by the Bank of England showed a marginal real terms growth. Balances at 31 March 2026 reached £1.87 trillion, an increase of 2.0% in the period and an increase of 3.9% year-on-year (30 September 2025: £1.83 trillion; 31 March 2025: £1.80 trillion). This growth exceeds the 1.2% growth in the consumer prices index ('CPI') for the six months, implying that UK consumers are maintaining a broadly static level of savings, despite continuing 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 4.9% in the six-month period and 14.5% year-on-year, reaching a record level of £456 billion. Conversely the strong move towards non-ISA fixed term and notice deposits seen during the last financial year was reversed, with a 2.4% (£5.8 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 3.2% in the period and represented £252 billion of individual savings at 31 March 2026.

Over the same six month period our retail deposit franchise continued to deliver our funding requirements at an appropriate cost, compared to other alternatives. While the overall balance reduced by 3.2% over the period to £15,262.6 million, this was in response to a reduced strategic funding requirement (30 September 2025: £16,265.7 million; 31 March 2025: £15,768.0 million). Within the book, the movement towards variable rate products seen in the second half of 2025 was reversed as a result of this strategy.

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 2026	30 September 2025	31 March 2026	30 September 2025
	%	%	%	%
Fixed rate deposits	4.16	4.32	49.7	46.9
Variable rate deposits	3.39	3.61	50.3	53.1
All balances	<u>3.77</u>	<u>3.95</u>	<u>100.0</u>	<u>100.0</u>

Average interest rates for our savings products have reduced slowly during the period, as we managed rates in the downward trending bank base rate environment. This movement could also be seen in market rates, with the Bank of England reporting average interest rates for easy access accounts decreasing by 14 basis points, from 2.26% to 2.12% over the six months ended 31 March 2026, whilst the rate for new two-year deposits fell a little more rapidly, from 3.76% to 3.55%. Other product types saw similar decreases. The falls in fixed rates also reflect market expectations for base rates, with the prospects of further rate reductions moderating in the period and the outlook as the period closed becoming more uncertain still.

These market savings rates remain at below benchmark levels, although the difference has continued to reduce in the period. SONIA decreased 24 basis points in the period, from 3.97% at 30 September 2025 to 3.73% at 31 March 2026, compared to the 14 basis point decrease in easy access rates noted above.

The reduction in margins against benchmarks in our book over the period has been less than that for the market more generally, with the average variable rate being paid at the period end representing a 34 basis point discount to SONIA, a reduction of only 2 basis points over the half year (30 September 2025: 36 basis point discount; 31 March 2025: 59 basis point discount). This was an expected effect of the more stable interest rate environment nationally and of our strategic deployment of other funding sources to enable margin management in the retail deposit book.

The average initial term of our fixed rate deposits at 31 March 2026 remained stable at 20 months (30 September 2025: 19 months; 31 March 2025: 22 months). At the same time the proportion of the deposit portfolio represented by these products increased, as a more stable interest rate outlook made them more attractive.

Interim Management Report (Continued)

3 FUNDING REVIEW

The analysis of our savings franchises at 31 March 2026 is set out below.

	31 March 2026	30 September 2025	31 March 2025
	£m	£m	£m
Paragon brand	11,159.7	11,761.3	11,871.5
Spring	1,060.4	429.1	9.6
Third party platforms	3,042.5	4,075.3	3,886.9
	<u>15,262.6</u>	<u>16,265.7</u>	<u>15,768.0</u>

The public launch of Spring in April 2025 was a significant development in the evolution of our savings operation, providing the scope for increased growth, where our funding needs require it. Since the launch of the proposition, a focus within our funding strategy has been to increase the funding it provides, on a carefully managed basis, to get the most benefit from our investment. During the period this has seen the value of Spring deposits more than double as we raise brand awareness and incorporate customer feedback into the app.

The contribution from our Spring franchise to the overall deposit portfolio has continued to grow, increasing the cost-effectiveness of this channel. Coupled with a reduced overall demand for new funding, this has meant that there has been less reliance on our Paragon-branded channel and third-party platforms in the short term.

Our Paragon savings brand continues to provide the largest part of our retail funding, offering a range of fixed and variable rate products to customers and has built strong brand loyalty. Over 55% of deposit balances at 31 March 2026 relate to customers who have been with us for four or more years, despite the ease of switching providers in this market.

The brand also enjoys a significant market position in the cash ISA market, which we have developed over twelve years, and builds on this brand loyalty. This product has contributed strongly to inflows over recent years and the 2026 ISA season, which is concentrated in March and April began very positively, driving our highest ever week of inflows, with momentum continuing strongly into the second half of the financial year.

While the UK Government imposed additional restrictions on cash ISAs in its November 2025 budget, the rules are not set to take effect until April 2027 and so had no negative impact on the current ISA season. The proposed changes do not affect savers over 65 years of age, who represent 60% of our ISA balances, and have a limited impact on younger savers so we expect the cash ISA to remain a core component of our deposit proposition.

Our third-party channels add diversity to our deposit portfolio and give us options to access different saver groups and manage cash inflows and pricing at a more granular level than is possible through our mainstream brands. We currently have nine such relationships (30 September 2025: nine; 31 March 2025: nine), and the level of funding provided by each of them varies from time to time. The mix of third-party provision was undergoing a rebalancing at the period end, with two relationships winding down and others developing to provide future cash inflows.

Interim Management Report (Continued)

3 FUNDING REVIEW

This type of evolution is inherent to the third-party funding model, and we have the necessary systems capacity and control framework to scale these operations, further increasing our reach through existing or additional channels, if appropriate and cost-effective. However, the ongoing development of Spring remains our priority, and it is likely that the proportion of deposits sourced from third-party platforms may decline further.

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 for customers of our Paragon brand are set out below.

Survey timing		Six months to 31 March 2026	Year to 30 September 2025	Six months to 31 March 2025
At account opening	Would 'probably' or 'definitely' take a second product	92%	90%	90%
	NPS	+69	+68	+68
At maturity	Would 'probably' or 'definitely' take a second product	89%	88%	87%
	NPS	+55	+60	+63

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

We have also commenced insight monitoring with our Spring customers. In the period 92% of respondents were satisfied with the service provided by Spring and an NPS of +68 was achieved, a very positive start for a new entrant with new technology.

In addition, Spring was named 'Best New Savings Provider' in the Moneycomms 2026 Top Performer awards, and 'Best 'No Strings' Savings Provider' at the Money.net 2026 awards, demonstrating the impact made in its first year.

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 the growth of Spring is already making a significant difference to our funding profile, this 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.

The strategic development of our savings 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, delivering the Group's funding needs as cost effectively as possible, with increased diversification and optionality helping to safeguard against liquidity issues. 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.

Interim Management Report (Continued)**3 FUNDING REVIEW****3.2 WHOLESALE FUNDING**

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

Despite geopolitical factors towards the end of the period, UK capital markets remained active with demand and pricing relatively unaffected by world events, providing a positive environment for issuers.

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 2026, with a stable outlook, with Paragon Bank, its principal operating subsidiary, retaining its own BBB+ rating. In February 2026, Moody's updated its public ratings on our business, with the Long-Term Issuer rating of PBG upgraded to Baa2. These investment grade ratings allow flexibility in our funding options, while supporting the management of funding costs.

The largest element of our long-term funding remains the AAA-rated covered bonds issued in 2025. These were issued under a programme, renewed in the period, under which we can issue further covered bonds up to a value of £5.0 billion 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.

Long-term funding is also provided by our £150.0 million Tier 2 bond, which reaches its repricing date in September 2026. This is also the point at which it starts to be phased out of capital, five years before its redemption date.

Paragon Mortgages has historically 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 retained internally, providing rapid access to contingent funding, if needed, rather than placed in the market, and no external indebtedness is currently in place.

Two internally held issues, Paragon Mortgages (No. 27) PLC and Paragon Mortgages (No. 28) PLC, were redeemed in the period. Our funding strategy includes new RMBS transactions to support contingent liquidity, with the potential for external issuance being reviewed with each transaction.

For shorter-term requirements we also access the repo market, with £100.0 million of short-term sale and repurchase transactions with financial institutions in place at the period end (30 September 2025: £100.0 million; 31 March 2025: £100.8 million). Over the six months we have continued the policy of broadening our range of repo counterparties, increasing optionality in our liquidity management.

Interim Management Report (Continued)

3 FUNDING REVIEW**3.3 CENTRAL BANK FUNDING**

During the period we have continued to make appropriate use of funding facilities provided to the UK banking sector by the Bank of England, collateralised by retained 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, the majority of our drawings on this scheme were paid down in the period, on their October 2025 due date. The remaining amount at 31 March 2026, which is payable in March 2027, was £5.2 million (31 March 2025: £250.0 million; 30 September 2025: £250.0 million).

We have access to other Bank of England funding channels providing shorter-term funding for liquidity purposes, with such drawings, at £1,775.0 million, now forming the largest part of our central bank exposures (31 March 2025: £450.0 million; 30 September 2025: £700.0 million).

During the period, rates and tenors on offer on central bank funding lines were relatively attractive, and increased use was made of them to provide additional non-retail capacity as part of our overall funding strategy.

We will continue to make use of these 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 additional liquidity or funding at 31 March 2026 of up to £4,203.1 million (30 September 2025: £4,168.3 million; 31 March 2025: £4,208.1 million).

3.4 DERIVATIVES AND HEDGING

We continue to use derivative assets and liabilities to hedge interest rate risk arising from fixed rate loans and deposits. A proportion of our lending pipeline, which can vary from time to time, is pre-hedged, which can result in derivative positions being established before the related loans are completed. This strategy has not materially changed in the period.

Upward movements in interest rate expectations over recent periods have resulted in large derivative asset balances being carried on the balance sheet at fair value. The 31 March 2026 position had increased from the previous year end, with the downward trend as positions unwound offset by impact of movements in swap rates at the period end, which were affected by the geopolitical climate.

The size of these balances and the volatility in rates have 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.

Interim Management Report (Continued)**3 FUNDING REVIEW**

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.

In addition, we maintain a balance sheet hedging position, which is intended to protect net interest margins from the impact of future falls in interest rates on equity, which otherwise would cause a fixed / floating mismatch between the asset and liability sides of the balance sheet.

An amount of fixed rate mortgage lending has been attributed to provide natural equity hedging, forming a net free reserves ('NFR') hedge. At 31 March 2026, £1,366 million had been attributed in this way (30 September 2025: £1,352 million; 31 March 2025: £1,200 million). The hedge at 31 March 2026 broadly represents the Group's present target hedging level, covering the majority of the shareholders' equity balance. This form of hedging, however, has no direct accounting impact.

Interim Management Report (Continued)

4 CAPITAL AND LIQUIDITY REVIEW

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 and optimise capital efficiency. Strong financial foundations form one of the pillars of our strategy and it is a key objective to ensure that our regulatory capital and liquidity positions are sufficient both to safeguard depositors and to provide capacity to address our strategic objectives and other opportunities as they may arise.

The six months ended 31 March 2026 saw a major diversification of our capital position with the issue of our first Additional Tier 1 ('AT1') capital instruments, bringing our capital structure more in line with other well-established comparable institutions.

During the first part of the period, the UK economic environment was fairly stable, with the general direction being mildly positive, though without any great sense of momentum. Towards the end of the period, however, the US intervention in the Middle East caused a generally adverse shift in economic sentiment and some market volatility. Unusually, we have yet to see the kind of capital market impact that might be expected from such a situation.

The UK regulatory environment also continued to develop, with the Basel 3.1 implementation process proceeding in line with the previously announced timetable and further information published by the Prudential Regulation Authority ('PRA'). The regulator also initiated the transfer of the final items of the on-shored capital regime, formally set out in EU law into its own Rulebook.

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 now comprises shareholders' equity, AT1 instruments and a tier-2 bond.

4.1 REGULATORY CAPITAL

Our regulatory capital ratios remained strong during the half year, with our overall capital ratio enhanced by our AT1 issuance. Capital balances have been carefully managed in line with our risk appetite, maintaining a prudent position.

Our business is subject to supervision by the PRA and as part of this supervision the regulator sets a Total Capital Requirement ('TCR'), the minimum amount of regulatory capital which the Group must hold. The TCR is defined under the international Basel 3 rules, which are implemented in the UK through the PRA Rulebook.

Interim Management Report (Continued)

4 CAPITAL AND LIQUIDITY REVIEW

The TCR is held to safeguard depositors in the event of the business incurring severe losses and includes calculated elements based on our Total Risk Exposure ('TRE'), together with fixed elements. The TCR is specific to our business and is set by periodic supervisory reviews carried out by the regulator. This review includes an assessment of our risk strategy and the appropriateness of our systems for the management of capital and risk.

The results of the most recent assessment were received during 2025, since when our TCR has been similar to its 31 March 2026 level, representing 8.1% of TRE (30 September 2025: 8.1%; 31 March 2025: 8.1%). This is only marginally greater than the 8.0% minimum TCR allowed under the Basel 3.1 framework, giving us advantages in capital management.

The principal capital measures, CET1, Tier 1 Capital and Total Regulatory Capital ('TRC') are set out below.

	31 March 2026	31 March 2025	30 September 2025
	£m	£m	£m
Capital			
CET1 capital	1,171.3	1,193.2	1,172.4
Tier 1 capital	1,319.7	1,193.2	1,172.4
TRC	1,469.7	1,343.2	1,322.4
Exposure			
TRE	8,685.7	8,385.2	8,630.7
Requirement			
TCR	705.6	681.5	701.2
Capital buffers	390.9	377.3	388.4

CET1 capital comprises equity shareholders' funds, adjusted as required by the Regulatory Capital Rules of the PRA (note 32), and can be used for all capital purposes. Tier 1 capital includes CET1 and AT1 amounts, while TRC, in addition, includes tier 2 capital in the form of our Tier-2 Bond.

At least 56.25% of a firm's TCR must be satisfied using CET1 capital, while up to a quarter of the TCR requirement can be met using tier 2 capital. AT1 capital may be used to meet any requirement except where the use of CET1 capital is mandated.

CET1 capital remained stable in the period, with positive operational performance continuing to support the capital position, even after allowing for paid and proposed distributions.

The Tier 1 and TRC positions were enhanced by the issuance of £150.0 million of AT1 capital in February 2026, raising £148.4 million, net of costs. AT1 issuance, which is convertible to ordinary shares should a firm's CET1 ratio fall below a 7% trigger level, provides additional loss absorbing capital and can make the overall cost of capital more efficient.

Our issue was competitively priced, bearing a fixed coupon of 7.50% until August 2033, resetting to a rate of 320 basis points over the yield for long-term gilts at that date and on each fifth anniversary of that date, unless redeemed by the Group. This represents some of the tightest pricing achieved on a UK instrument of this kind. The bonds were rated BB by Fitch and Ba2 by Moody's, and the issue was significantly oversubscribed, with orders of £1.85 billion received at final pricing.

Interim Management Report (Continued)

4 CAPITAL AND LIQUIDITY REVIEW

We expect the use of AT1 securities to become a normal part of our capital management strategy going forward, and the authority to issue further such securities, if appropriate, was granted at our Annual General Meeting ('AGM') in March 2026.

The increases in TRE shown above relate principally to growth in loan assets over the period. These, in turn, led to the increases in the TCR and buffer requirements shown.

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

During the period, the CCoB rate remained at 2.5%, its long-term rate (30 September 2025: 2.5%; 31 March 2025: 2.5%), while the UK CCyB rate was 2.0% throughout the period (30 September 2025: 2.0%; 31 March 2025: 2.0%). The Financial Policy Committee of the Bank of England is responsible for setting the CCyB rate applicable to UK assets and has announced that it expects the rate in a standard risk environment to be 2.0%, the current level.

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 at the relevant dates are set out below.

	31 March 2026	31 March 2025	30 September 2025
CET1 ratio	13.5%	14.2%	13.6%
Tier 1 capital ratio	15.2%	14.2%	13.6%
Total capital ratio	16.9%	16.0%	15.3%
Leverage ratio	7.2%	7.0%	6.6%

The CET1 ratios remained stable across the six month period, with the increase in the tier 1 and total capital ratios a result of the AT1 issuance in the period.

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.

The Basel 3.1 regime will affect both firms who apply applying Internal Ratings Based ('IRB') approaches to capital and those who only use the Standardised Approach, and will be phased in over a five-year period commencing in January 2027.

The regulator has continued to progress its implementation plan, with the issue of final rules in January 2026 and the publication of revised policy statements addressing its approach to setting TCR under the new regime. The PRA has also been working to operationalise the Basel 3.1 supervisory approach ahead of implementation, as a Basel 3.1 TCR will be required for each firm. We have responded to the regulator's information requests to support this process as required.

Interim Management Report (Continued)

4 CAPITAL AND LIQUIDITY REVIEW

The principal impacts on our capital requirements from Basel 3.1 relate to risk weights for our buy-to-let and SME lending, and have been evaluated in our capital planning process. We estimate that the changes would reduce our CET1 ratio by around 95 basis points, based on the 31 March 2026 position. However, our forecasts indicate that sufficient capital is being held to meet the proposed scenario.

The PRA is also introducing a distinct approach to the supervision of smaller institutions, departing from the inherited EU framework. It has defined a category of ‘Small Domestic Deposit Taker’ (‘SDDT’) 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, hold less than £20.0 billion of assets, and must not operate an IRB approach to credit risk. Final rules for the SDDT capital framework were published in January 2026. The SDDT regime comes into force in January 2027, at the same time as the Basel 3.1 framework is introduced for larger institutions.

We currently meet the criteria to qualify as an SDDT. However, our longer-term goal remains to adopt 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 largest part of our liquidity holdings comprises deposits at the Bank of England. However, over recent periods we have diversified our position, and the proportion of our liquidity represented by highly-rated UK gilts and AAA-rated covered bonds issued by UK financial institutions has grown over time.

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 stressed outflows, calculated according to a regulatory formula, with a 30-day horizon. Our liquidity management strategy over recent periods has been to strategically reduce average LCR levels, releasing excess amounts, as our liquidity management processes mature, and in the absence of any requirement to build balances ahead of major debt repayments.

Interim Management Report (Continued)**4 CAPITAL AND LIQUIDITY REVIEW**

The rolling twelve-month average of the Bank's LCR at 31 March 2026 was 145.6% (30 September 2025: 154.0%; 31 March 2025: 183.2%), and this level should be seen as more typical of our long-term expectations for this metric.

The NSFR is a longer-term measure of liquidity with a one-year horizon, supporting the management of balance sheet maturities. At 31 March 2026, the Bank's twelve-month average NSFR stood at 134.9%, broadly similar to its 30 September 2025 level (30 September 2025: 138.7%; 31 March 2025: 142.0%).

4.3 DIVIDENDS AND DISTRIBUTION POLICY

A principal objective of our capital strategy is the provision of strong and sustainable returns to shareholders, while ensuring the strength of our capital base. The positive operating result in the period, coupled with the enhancements to our capital position provided by the AT1 issue in the period and the trajectory of 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 interim and final dividends, with the interim dividend, in normal circumstances, being equal to 50% of the preceding final dividend. We 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 2026 of 15.1 pence per share (2025 H1: 13.6 pence). This dividend will absorb £27.9 million of capital and will be paid on 24 July 2026 to shareholders on the register on 3 July 2026.

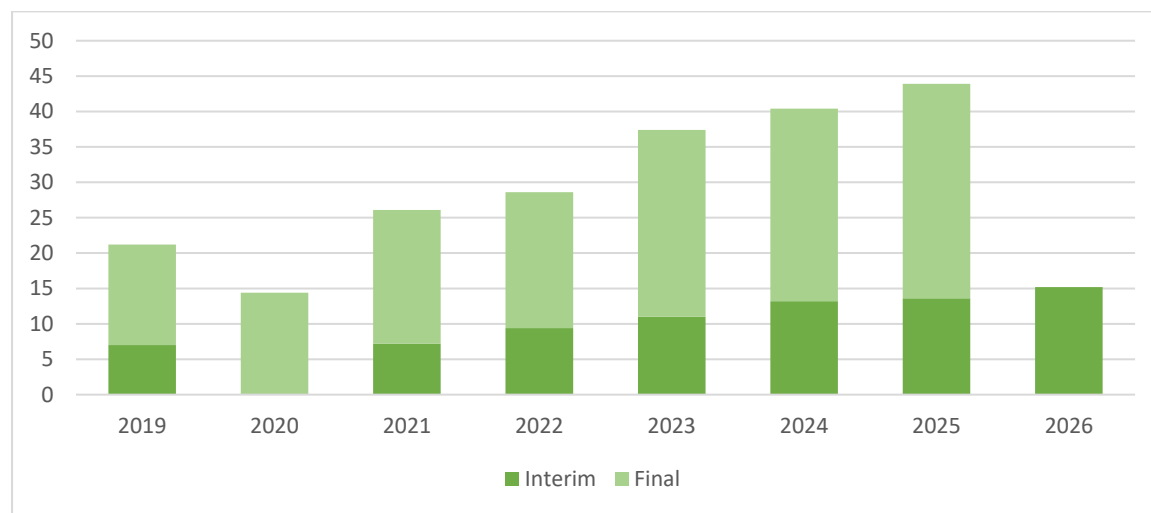
Interim Management Report (Continued)

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 2019–2026



At the time of publication of our 2025 annual results we announced that the Board had authorised a share buy-back for the current financial year of up to £50.0 million of shares. During the six-months ended 31 March 2026 this allocation was completed in full, with £50.3 million (including costs) (note 26) being expended, and 6.0 million shares being acquired.

Given the strength of the capital position at 31 March 2026 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.

The authority to make such purchases was given under a resolution approved by shareholders at the AGM in March 2025 and renewed in March 2026. All purchases made under this programme will be announced through the Regulatory News Service ('RNS') of the London Stock Exchange within seven trading days of 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

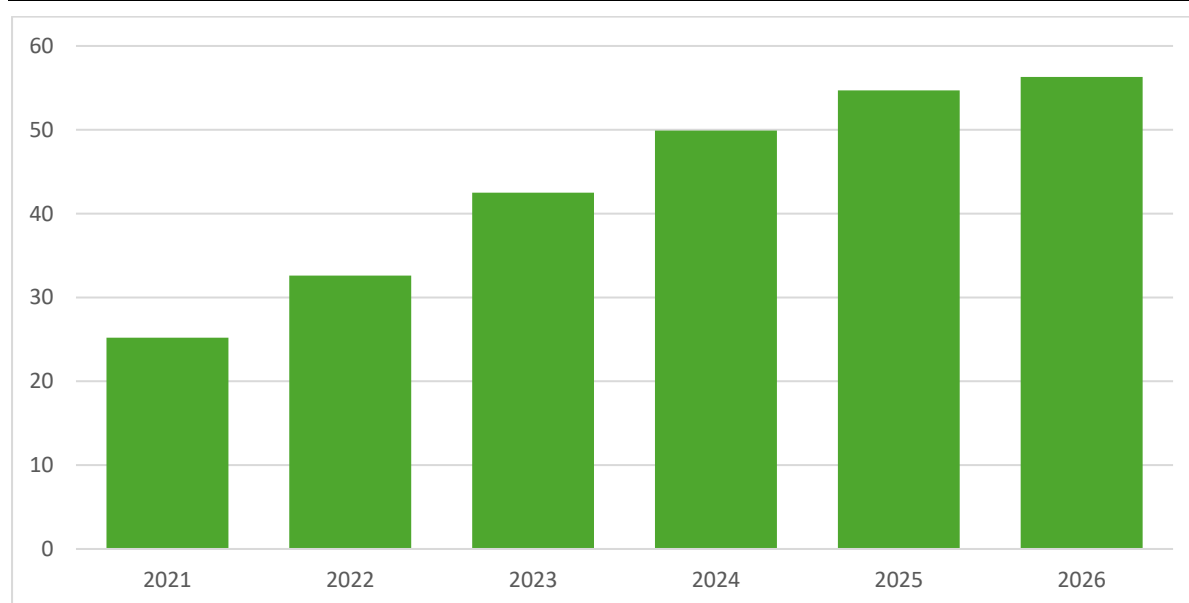
The six months ended 31 March 2026 saw a broadly stable financial performance across our businesses as we continued to deliver on our strategy. Margins remained strong, but tightened a little, although this was offset, to some extent, by the impact of steady loan book growth. This was achieved against the backdrop of a UK economy which, while seeing some recovery in the early part of the period, remained relatively weak, with the potential impacts of the US intervention in the Middle East at the end of February 2026 still to be seen.

Overall, underlying operating profit (excluding provisions and fair value movements related to hedging) reduced by 2.5% to £145.7 million, year-on-year (2025 H1: £149.4 million) (Appendix A). However, increased capital efficiency saw underlying EPS increase by 2.9% to 56.3 pence per share (2025 H1: 54.7 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 2021-2026



We have kept the developing situation with respect to redress for historical motor finance commission issues under review during the period. Having reviewed the latest FCA announcement and related developments we have maintained our redress and underlying costs forecast at the level reported at 30 September 2025 and made no further provision in the period. Any such charges are excluded from our underlying results as they do not relate to current trading activities.

We also continue to exclude fair value items related to hedging from our 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 decreased to £133.2 million (2025 H1: £140.1 million), with basic earnings per share on the same basis 4.0% higher at 52.1 pence per share (2025 H1: 50.1 pence per share).

Interim Management Report (Continued)

5 FINANCIAL REVIEW**5.1 CONSOLIDATED RESULTS****CONSOLIDATED RESULTS**

For the six months ended 31 March 2026

	2026 H1	2025 H1
	£m	£m
Interest receivable	601.3	633.6
Interest payable and similar charges	(347.9)	(385.7)
Net interest income	253.4	247.9
Other operating income	5.8	6.1
Total operating income	259.2	254.0
Operating expenses	(92.0)	(89.3)
Provisions for credit losses	(21.5)	(15.3)
Underlying profit (Appendix A)	145.7	149.4
Provisions for liabilities	-	(6.5)
Fair value net (losses)	(12.5)	(2.8)
Operating profit being profit on ordinary activities before taxation	133.2	140.1
Tax charge on profit on ordinary activities	(34.6)	(39.3)
Profit on ordinary activities after taxation	98.6	100.8

	2026 H1	2025 H1
Basic earnings per share	52.1p	50.1p
Diluted earnings per share	50.3p	48.2p
Dividend – rate per share for the period	15.1p	13.6p

Income

Total operating income increased by 2.0% year-on-year, to £259.2 million (2025 H1: £254.0 million). Income from our lending portfolios continues to represent the largest part of that balance, with net interest income increasing by 2.2% to £253.4 million compared to the first half of 2025 (2025 H1: £247.9 million).

Interim Management Report (Continued)

5 FINANCIAL REVIEW

Our businesses continued to carefully manage their pricing to maintain yields broadly in line with expectations, with the result that net interest margin ('NIM') decreased by only 5 basis points to 308 basis points (Appendix B) compared to the first half of 2025, in the face of tightening market rates and competitive lending and savings markets. Within this overall picture, however, our Mortgage Lending division saw its NIM increased by 6 basis points, while the Commercial Lending division saw NIM reduce, although this is partly attributable to the mix of products in that book.

Despite this focus on yield in a difficult market, our average loan book still grew by 3.9% year-on-year to £16,471.9 million (2025 H1: £15,849.0 million), which partially offset the impact of the NIM reduction.

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

	Total
	Basis points
<i>Six months ended 31 March</i>	
2026	308
2025	313
2024	319
2023	295
2022	257

This strong performance in the face of a difficult market means we are in a position to increase our original NIM guidance for the 2026 financial year from '290 to 300 basis points' to 'around 300 basis points'.

We continue to view the long-term effective management of NIM as fundamental to our business model, and we use careful pricing, a prudent hedging strategy and optionality in our funding to deliver our strategy. We do not focus on short-term lending targets to the detriment of yields, aiming to build a strong loan portfolio to deliver returns in the long term.

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.

Other operating income, which is a combination of operating lease profit and other sundry income reduced to £5.8 million for the six-month period (2025 H1: £6.1 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, although this was offset, in part, by an increased level of operating lease income.

Interim Management Report (Continued)

5 FINANCIAL REVIEW**Costs**

The ongoing elevated level of inflation in the UK continues to put pressure on our cost base. In addition, the increase in the rate of employers' National Insurance ('NI') contributions from April 2025 impacts the year-on-year comparison with the first half of 2025. Despite these pressures, operating expenses, at £92.0 million, were only 3.0% higher than those in the same period the previous year (2025 H1: £89.3 million). Our costs are therefore running at a level below our original guidance for the full year, of 'below £190 million', which we can now, therefore, revise to 'around £185 million'.

Employment related costs continued to form almost two thirds of our operating expenses, representing 63.4% of total operating costs (2025 H1: 62.8%).

Average headcount in the six months was 1,415, only 1.1% higher than in the comparable period in 2025 (2025 H1: 1,400). However, even allowing for the NI increase and the round of salary increases which took effect from October 2025, employment-related costs only increased by 3.7% overall, to £58.3 million (2025 H1: £56.2 million). This included £5.5 million of people costs in our systems and technology functions, an increase of 7.8%, in contrast to the wider cost base (2025 H1: £5.1 million)

Costs not related to employment increased by only 1.8%, to £33.7 million (2025 H1: £33.1 million), with our focus on cost management offsetting the continuing impact of UK inflation, to some degree. Spend on our digitalisation programme continues to represent a significant element of these costs, with our non-employment related technology spend, at £8.7 million, broadly similar to that in the comparable period of 2025 (2025 H1: £8.6 million).

Total spend on technology increased 3.6% to £14.2 million (2025 H1: £13.7 million), as recently launched projects, including Spring, continued to bed in, and further elements of our digital transformation strategy continued to be progressed. In addition, £1.0 million of software costs were capitalised in the period (2025 H1: £1.4 million), a relatively low amount for the sector, with only £8.6 million held on the balance sheet at the period end (31 March 2025: £8.8 million; 30 September 2025: £8.8 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	
2026	35.5
2025	35.2
2024	36.5
2023	38.1
2022	41.2

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

Interim Management Report (Continued)

5 FINANCIAL REVIEW

The maintenance of a cost-effective operating model is fundamental to our strategy. However, costs are managed in the short term with a focus on delivering business priorities, enabling strategic plans, and meeting regulatory expectations as efficiently as possible. While we work towards a sustainably lower cost:income ratio, in the long term, this is not a short-term priority, and we expect our cost:income ratio to fluctuate from period to period, especially where external headwinds continue to be generated.

Impairment provisions

The impairment charge for the six months ended 31 March 2026 was £21.5 million, an increase of £6.2 million from the first half of 2025 (2025 H1: £15.3 million), but a reduction of £5.1 million from the £26.6 million charge recorded in the second half of the 2025 financial year. The majority of the charge arose in our development finance business, which accounted for £15.8 million of the total (2025 H1: £7.6 million; 2025 H2: £26.6 million) and largely drove the movements in the period.

Most of the development finance charge continues to relate to recovery issues on some facilities agreed in 2022 and earlier, which represented £13.4 million of the charge for the period (2025 H1: £7.7 million; 2025 FY: £33.6 million). As reported at the 2025 year end, these loans were underwritten before the sharp increases in building costs, including labour and materials costs, and interest rates which impacted on developers from the latter part of 2022, invalidating the original project assessments and generating losses.

The majority of the charge in the period relates to cases already in default at the start of the period which encountered further complexities as they continued to be worked out, with relatively few new default cases experienced. However, with a remaining exposure of £146.9 million, few accounts of this vintage, other than the identified default cases, remain in the portfolio, and the performance of subsequent lending in the business has not yet generated the same level of concern.

Provision levels in this operation are inflated by the IFRS 9 requirement to discount expected recoveries to the balance sheet date using the EIR. This impact is particularly marked for portfolios where EIRs are relatively high, such as development finance. This discounting of recoveries has added £4.5 million to the charge for the period (2025 FY: £5.4 million), but the IFRS 9 treatment does mean that income will continue to be recognised at the EIR on the net loan balance going forward.

The provision charge excluding development finance, at £5.7 million, had reduced by £2.0 million, compared with that for the comparable period twelve months earlier (2025 H1: £7.7 million). Excluding only the effect of the pre-2022 development finance cases, cost of risk would have been only 10 basis points across the remainder of the loan book (2025 H1: 10 basis points; 2025 FY: 5 basis points). Customer credit performance was generally strong, despite the continuing economic pressures for UK consumers and SMEs, arising from inflation and interest rates.

Interim Management Report (Continued)

5 FINANCIAL REVIEW

While these continued their gently downward trend during the period, the full impact of UK Government actions affecting buy-to-let landlords and SMEs may be yet to be felt, and the US intervention in the Middle East towards the end of the period also has the potential to impact adversely on economic and credit performance in the UK. This means that the mildly positive outlook for credit seen in the year may soon be subject to new pressures.

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	%
<i>Six months ended 31 March</i>		
2026	21.5	0.26
2025	15.3	0.19
2024	10.3	0.14
2023	7.5	0.10
2022	1.3	0.02

While the charges above generally reflect the progression of the UK economy over recent years, with the low 2022 charge being a result of the recalibration of provision as the threat to customers from the Covid-19 pandemic receded, results in recent periods have been dominated by the impact of charges in the development finance business as 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.

Interim Management Report (Continued)**5 FINANCIAL REVIEW**

For much of the period there was a general acceptance that the UK economy was moving in a positive direction, albeit slowly, but that significant headwinds remained. This emerging consensus was, however, ended when the US intervention in the Middle East commenced at the end of February 2026. The uncertainty which this conflict has created for the world economy is clearly demonstrated by the volatility in swap rates during March 2026, with intraday two-month SONIA rates in the month having a range of 124 basis points, before closing the month at 4.20%, up 72 basis points on the month. This ongoing situation will inevitably have a broader impact on UK economic activity, but the scale of this will depend on the duration and outcome of the intervention, and those are far from certain at the date of signing this report.

Nearer to home, the full impact of the policies introduced by the current UK Government on entering office are only starting to be felt, and any inflationary pressures arising from these, together with the geopolitical factors in play, add 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, particularly as the starting position has higher inflation levels and interest rates than the UK has been used to.

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 and, where necessary, adjusted for the potential impact of the Middle Eastern situation, which arose subsequent to the publication of much of this data.

Our central scenario is broadly pessimistic, and more pessimistic than that used at September 2025, with GDP, inflation and house price growth all adversely affected by the international situation, particularly in the early part of the forecast, and unemployment higher throughout. However, we expect the Bank of England to resist pressure to raise base rates for fear of generating further recessionary pressures.

The upside and downside scenarios have been derived from the central scenario. The upside scenario addresses a potential rapid resolution of the Middle East conflict and a return to the economic environment seen in the early part of the period, with lower inflation and higher GDP, enabling base rates to reduce on their originally anticipated trajectory. The downside scenario examines the potential for a longer conflict with increased pressure on CPI forcing the Bank of England to increase base rates and precipitating a recession in the UK economy.

The severe downside scenario continues to be based on the most recent Bank of England stress testing scenario, although the demand shock scenario from the March 2025 Annual Cyclical Scenario forms the basis for our projection, as we consider this to be more appropriate, in the present circumstances, than the supply shock used in previous periods. This includes a pronounced recession, falling base rates as the Bank of England attempts to stimulate the economy, and a significant slump in house prices.

Given the uncertainty in the economic outlook generated by the conflict in the Middle East, we have retained the weightings applied to each scenario at 30 September 2025, including the 10% weighting for the severe stress scenario, to represent the potential for plausible severe outturns for the UK.

Interim Management Report (Continued)

5 FINANCIAL REVIEW

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

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 2026		30 September 2025		31 March 2025	
	Unadjusted Provision £m	Cover ratio	Unadjusted Provision £m	Cover ratio	Unadjusted Provision £m	Cover ratio
Weighted average	91.6	0.55%	84.8	0.52%	71.1	0.44%
Central scenario	89.0	0.53%	80.5	0.49%	61.7	0.38%
Severe scenario	100.4	0.60%	109.1	0.66%	97.6	0.61%

These show slightly increased values and coverage, in the central and weighted scenarios, due to the more pessimistic economic view taken at 31 March 2026. The reduction in impact from the severe scenario relates to the switch from the supply shock ACS scenario to the demand shock ACS scenario, coupled with the impact of the growth in residential property security values in the period.

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 2026	30 September 2025	31 March 2025
Stage 1	93.9%	93.5%	93.2%
Stage 2	4.0%	4.4%	4.5%
Stage 3	2.0%	2.0%	2.2%
POCI	0.1%	0.1%	0.1%
Total	100.0%	100.0%	100.0%

The period has seen the proportion of the book represented by each stage remain broadly stable, with no significant increase in the higher risk stages.

Judgemental adjustments

Where key economic measures are at materially different levels to those which existed when the impairment models were created, or where circumstances exist at the period end which standard provision techniques might not take sufficient account of, management may need to add judgemental overlays to calculated impairment levels.

Interim Management Report (Continued)

5 FINANCIAL REVIEW

Having reviewed the potential for such additional impacts, we determined that no such adjustments were required at 31 March 2026. The overlay in the buy-to-let mortgage business at 30 September 2025 is no longer required, partly because of the resolution of cases which it related to, and partly where issues it previously dealt with have been addressed through amendments to our modelling approach. In development finance, the issues giving rise to the overlay at 30 September 2025 have instead been addressed through more detailed specific provisioning reviews of a larger number of cases, which have been facilitated by the increased seasoning of the cohort most at risk.

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

	31 March 2026	30 September 2025	31 March 2025	30 September 2024
	£m	£m	£m	£m
Mortgage Lending	-	1.5	3.0	3.0
Commercial Lending	-	1.5	2.0	3.5
	-	3.0	5.0	6.5

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 2026	30 September 2025	31 March 2025	30 September 2024
	£m	£m	£m	£m
Calculated provision	91.6	84.8	71.1	70.0
Judgemental adjustments	-	3.0	5.0	6.5
Total	91.6	87.8	76.1	76.5
Cover ratio				
Mortgage Lending	0.19%	0.23%	0.27%	0.26%
Commercial Lending	2.48%	2.23%	1.69%	1.77%
Total	0.55%	0.53%	0.47%	0.48%

The coverage levels at 31 March 2026 remain broadly similar to those seen at 30 September 2025, with the movement in judgemental adjustments rolling into calculated provision. The coverage ratio for Commercial Lending continues to increase as a result of the performance of development finance default cases.

Interim Management Report (Continued)**5 FINANCIAL REVIEW**

Future coverage levels will depend on future performance of the UK economy, particularly the longer-term effects of the current geopolitical uncertainties, and their 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 Financial Ombudsman Service ('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 22 to the accounts.

In October 2025, the FCA concluded its review of these matters, publishing a Consultation Paper ('CP 25/27') setting out a scheme of redress in respect of motor finance cases, based on investigations it carried out into the market.

We have been active in this market, principally since 2014, and some of our lending, primarily cases where commissions were paid on a DCA basis, falls within the scope for the FCA scheme. While we consider that our lending policies complied with regulatory requirements and general market practice at the relevant time, redress payments to customers would be required under the scheme.

The consultation period closed in the period, and the FCA published its final scheme in Policy Statement PS 26/3 on 30 March 2026. The final scheme did not differ significantly from that set out in CP 25/27. However, there were some changes including additional exclusions and new material on the treatment of purchased assets, both of which impact on our position, and the FCA also reduced its estimate of take-up by eligible customers from 85% to 75%.

At 30 September 2025 we calculated our potential exposure to these matters on the basis that the approach set out in CP 25/27 was adopted by the regulator as its final position. This exercise indicated a potential provision of amount of £25.5 million, to cover redress, interest and the costs of running a redress programme as envisaged by the FCA. Following the publication of PS 26/3, we revisited our calculations in light of the changes made by the regulator, including its revised take-up assumption and concluded that there was no need to revise our total provision at 31 March 2026, and consequently no charge has been made to profit.

The FCA has announced that its scheme is subject to several legal challenges, from both lenders and customer representatives, and it is possible that potential beneficiaries might seek redress independently of the FCA scheme. The results of these processes could result in a greater or lesser liability than the scheme would currently represent. However, we believe that our provision represents the most likely outcome at the balance sheet date.

The provisions made have been excluded from the underlying results due to the historical nature of the issue, and because these charges are therefore likely to obscure operating trends.

Interim Management Report (Continued)**5 FINANCIAL REVIEW**

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

Fair value movements

The fair value line in our statement of profit or loss 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 continue to honour offers to customers in the event of significant interest rate movements. We also hedge certain fixed-rate investments and liabilities.

We have a limited appetite for interest rate risk and maintain a cautious attitude to its management. 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, which reverse over the life of the hedging arrangement. Such movements are essentially considered as representing 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, resulting in a gain of £191.9 million being recorded in that year. This impact 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 2026 the unwinding of this large gain, which began in 2023, continued to impact the fair value line. Coupled with the accounting hedge ineffectiveness in the period, the impact of new pipeline hedges and a level of market volatility seen in March 2026, this resulted in a loss on fair value items of £12.5 million (2025 H1: loss of £2.8 million) being recorded in the half year.

Additionally, we have £376.5 million (at notional value) of derivative contracts, which are unmatched for hedge accounting, although forming part of an economic hedging position (30 September 2025: £369.0 million; 31 March 2025: £42.8 million). These must be carried at a fair value based on expected cash flows over their contractual lives. As a substantial proportion of this balance has a lifetime of two to five years, the type of volatility seen in the UK interest rate markets during March 2026 can generate substantial month-to-month fluctuations in this valuation which have to be included in profit.

Interim Management Report (Continued)

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% (2025 H1: 25.0%), with the surcharge applicable to Paragon Bank profits at 3.0% (2025 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 an annual 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 26.0%, a reduction on the comparable period in the previous year (2025 FY: 29.7%; 2025 H1: 28.1%). The decrease partly results from the fact that the 2025 result included a significant provision for motor finance remediation that was not deductible for tax purposes.

The effective underlying tax rate for the period, at 26.9%, is broadly similar to the rate in the previous year, and in the first half of that year (2025 FY: 26.2%; 2025 H1: 26.4%). The rate for the half year is greater than the effective rate on the statutory basis as the fair value losses excluded from the underlying result are mostly incurred in Paragon Bank, generating tax relief at 28% and reducing the rate overall. In the previous period this effect was offset by the impact of the non-deductibility of the motor finance provisions made in that period, also mostly incurred in Paragon Bank.

Result

Our profit before tax on the statutory basis for the six-month period was £133.2 million (2025 H1: £140.1 million) a decrease of 4.9%, with underlying profit reducing 2.5% to £145.7 million (2025 H1: £149.4 million) (Appendix A). Profit after tax decreased by 2.2% to £98.6 million (2025 H1: £100.8 million).

In addition, other comprehensive expense of £1.9 million was recorded (2025 H1: £1.7 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 £1,552.4 million, including the impact of AT1 issuance (31 March 2025: £1,408.8 million). Consolidated tangible equity attributable to shareholders was £1,232.3 million (31 March 2025: £1,236.6 million), representing a tangible net asset value ('NAV') of £6.65 per share (31 March 2025: £6.27 per share) and a NAV on the statutory basis of £7.58 per share (31 March 2025: £7.14 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 31.

Interim Management Report (Continued)

5 FINANCIAL REVIEW**5.2 ASSETS AND LIABILITIES**

Movements in our balance sheet are principally driven by changes in the size and composition of the total loan book over time. These, together with our policies on capital and liquidity, determine funding requirements and hence the level of our liabilities.

Our customer loan portfolio increased by 3.8% year-on-year, with increases in both segments of the business. These movements are discussed in more detail in the business review (Section 2 above).

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

SUMMARY BALANCE SHEET**31 March 2026**

	31 March 2026	31 March 2025	30 September 2025
	£m	£m	£m
Loans to customers			
Mortgage Lending	14,080.3	13,681.9	13,876.4
Commercial Lending	2,522.1	2,310.6	2,464.9
	<u>16,602.4</u>	<u>15,992.5</u>	<u>16,341.3</u>
Hedging adjustment	(58.3)	(74.7)	(5.4)
Derivative financial assets	307.5	373.1	275.4
Cash and investment securities	2,777.2	2,584.8	3,015.7
Pension surplus	22.5	21.5	23.5
Intangible assets and goodwill	171.7	172.2	172.1
Other assets	112.3	96.2	107.4
	<u>19,935.3</u>	<u>19,165.6</u>	<u>19,930.0</u>
Total assets			
Equity	1,552.4	1,408.8	1,420.2
Retail deposits	15,262.6	15,768.0	16,265.7
Hedging adjustment	(12.5)	7.9	5.1
Other borrowings	2,529.9	1,450.1	1,699.8
Derivative financial liabilities	51.1	66.1	68.2
Provisions for liabilities	25.1	6.5	25.5
Other liabilities	526.7	458.2	445.5
	<u>19,935.3</u>	<u>19,165.6</u>	<u>19,930.0</u>
Total equity and liabilities			

Interim Management Report (Continued)

5 FINANCIAL REVIEW**Funding structure and cash resources**

Overall, retail and wholesale debt funding increased by 3.3% year-on-year, marginally lower than the rate of loan book growth, as surplus liquidity continued to be reduced through the period. While this also put downward pressure on cash and investment balances, this effect was counterbalanced by cash received from the AT1 issue in February, with balances increasing 7.4% year-on-year.

Our liquidity assets continue to diversify and at the period end included £1,135.6 million of investments in UK Government securities and covered bonds issued by UK financial institutions (30 September 2025: £626.2 million; 31 March 2025: £453.8 million), in addition to Bank of England deposits. These investment securities represented 40.9% of such assets at 31 March 2026 (30 September 2025: 20.8%; 31 March 2025: 17.6%).

The balance of funding remained broadly consistent between wholesale and retail funding, albeit with an increased use of short-term wholesale funding in the period in response to market interest rate movements. Over the long term around 90% of our funding requirement is met through the retail deposit market, however, at 31 March 2026 this figure had dropped to 85.8% (30 September 2025: 90.5%; 31 March 2025: 91.6%). 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 at some point in the life of the derivatives, large balances will be carried.

During the six-month period, interest rate expectations were somewhat volatile, driven by apparently contradictory economic indicators, while towards the end of the period events in the Middle East generated a level of instability in the markets. As a result, rate expectations were broadly higher at the end of the period than the beginning.

The asset position of £307.5 million at 31 March 2026 had increased by £32.1 million in the period as a result of these factors (30 September 2025: £275.4 million; 31 March 2025: £373.1 million), with derivative liabilities, which decreased by £17.1 million to £51.1 million, also impacted (30 September 2025: £68.2 million; 31 March 2025: £66.1 million).

While these movements do contribute to the fair value accounting adjustments, they are largely offset by movements in the hedging adjustments to loan assets, deposit liabilities and investment securities, with the negative adjustment in assets increasing by £52.9 million in the six months and that in liabilities reducing by £17.6 million, a net £35.3 million movement overall. The negative adjustment in respect of investment securities also increased by £20.7 million in the period (note 17).

Interim Management Report (Continued)

5 FINANCIAL REVIEW**Pension obligations**

The IAS 19 valuation surplus on our defined benefit pension scheme decreased slightly to £22.5 million at 31 March 2026 (30 September 2025: £23.5 million; 31 March 2025: £21.5 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. However, the Plan's investment strategy includes a high level of hedging against interest rate movements, which should mitigate this risk.

The principal inputs to the valuation were largely similar to those used at 30 September 2025. The discount rate used in evaluating scheme liabilities, which is based on long-term corporate bond yields, increased by 15 basis points, from 6.05% to 6.20%, while the assumed rate of RPI inflation, based on gilt yields, increased from 3.00% by 35 basis points to 3.35%. This valuation also incorporates employee data from the most recent statutory valuation of the Plan, carried out as of 31 March 2025 and completed in the period.

These movements reduced the gross scheme liability, although this was broadly offset by a reduction in the value of the scheme's assets, a result of the Plan's hedging strategy, leading to a pre-tax valuation loss of £2.5 million being recognised in other comprehensive income (2025 H1: loss of £2.1 million; 2025 FY: loss of £1.4 million).

Other assets and liabilities

Other assets were £112.3 million (30 September 2025: £107.4 million; 31 March 2025: £96.2 million), broadly similar to the position at previous period ends.

Other liabilities increased by £81.2 million over the half year to £526.7 million (30 September 2025: £445.5 million; 31 March 2025: £458.2 million). The principal movement in the period was an increase of £69.3 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 of £25.1 million (30 September 2025: £25.5 million; 31 March 2025: £6.5 million) is in respect of potential redress liabilities in respect of historical motor finance commission arrangements (see above) and is disclosed separately. The movement in the period relates to costs incurred to date for work preparatory to operationalising the FCA's proposed scheme.

Interim Management Report (Continued)

5 FINANCIAL REVIEW**5.3 SEGMENTAL RESULTS**

The underlying 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 2026	Six months to 31 March 2025	Year to 30 September 2025
	£m	£m	£m
Segmental profit			
Mortgage Lending	138.6	127.3	264.2
Commercial Lending	39.0	46.5	82.6
	<hr/>	<hr/>	<hr/>
	177.6	173.8	346.8
Unallocated central costs	(31.9)	(24.4)	(52.9)
	<hr/>	<hr/>	<hr/>
Underlying profit	145.7	149.4	293.9
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 investment securities. The increase in this balance relates principally to lower amounts of investment interest being generated in the period as liquidity was managed downwards and rates generally reduced.

Mortgage Lending

In the face of a competitive mortgage market, segmental NIM in our Mortgage Lending segment increased to 214 basis points, an increase of 6 basis points from the first half of 2025, and a marginal strengthening from the 213 basis points recorded for the second half of the 2025 financial year (Appendix B). A combination of new lending and strong customer retention delivered a 3.2% year-on-year increase in the segment's average loan book to £13,978.4 million (2025 H1: £13,548.8 million), generating a 6.2% increase in net interest for the half year for the segment, to £149.6 million (2025 H1: £140.9 million).

Credit performance in the book continued strongly, with the arrears position stable over the six months and also year-on-year. Only 1.3% of the gross loan book by value at the period end was considered to be credit impaired, broadly similar to the position six months earlier (31 March 2025: 1.3%; 30 September 2025: 1.3%).

The impairment charge for the six months was £1.9 million, a reduction of 62.7% year-on-year (2025 H1: £5.1 million), with this reduction driven by the strong performance of the loan book and continuing house price growth. The resulting cost of risk for the period was 3 basis points (2025 H1: 8 basis points; 2025 H2: 2 basis points) (Appendix B).

As a result of this performance, the contribution made by the segment to underlying profit increased by 8.9% year-on-year, to £138.6 million (2025 H1: £127.3 million).

Interim Management Report (Continued)

5 FINANCIAL REVIEW**Commercial Lending**

Our Commercial Lending portfolio continued to see growth in its income, with net interest increasing by 5.0% year-on-year to £69.2 million, (2025 H1: £65.9 million). This resulted from a 8.4% year-on-year increase in the average loan book to £2,493.5 million (2025 H1: £2,300.2 million), offset by a decline in NIM. NIM fell by 18 basis points between the two periods to 555 basis points (Appendix B). This compression is a result of both competitive pressures and product mix, with different business lines within the segment operating at very different levels of NIM. As an example, SME lending guaranteed under the UK Government's Growth Guarantee Scheme ('GGs') has a relatively low yield as required by the rules of that scheme.

Operating profit before impairment charges for the six months was £58.6 million, an increase of 3.4%, following the growth trend in income (2025 H1: £56.7 million).

Impairment charges for the period, at £19.6 million, were significantly higher than those reported in the first half of 2025 (2025 H1: £10.2 million), but reduced from the £25.4 million reported for the second half. These charges were concentrated in the development finance business, which represented £15.8 million of the charge for the current period (2025 H1: £7.6 million; 2025 H2: £26.6 million). These provisions largely relate to 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 and stable arrears and relatively few defaulted cases. This resulted in a provision charge outside development finance of £3.8 million (2025 H1: £2.6 million).

At 31 March 2026, 6.2% by gross value of cases in the segment's portfolio were considered to be credit impaired, only marginally higher value than the 6.1% recorded at the previous year end (31 March 2025: 7.4%). 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 all credit impaired cases.

As a result, segmental profit in the Commercial Lending division decreased to £39.0 million from the £46.5 million recorded in the first half of 2025, although this represented an increase from the £36.1 million recorded in the second half of that year.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

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-focused culture and a dedicated team. Sector knowledge, specialist systems and the careful management of risk across all our operations are the foundations of this strategy.

We believe that an experienced, skilled and engaged workforce facilitated by effective systems, detailed use of analytics and focussed use of digitalisation is fundamental to the achievement of our goals, and therefore to how we conduct our operations.

This operations review addresses how our business has been conducted over the last six months, and anticipated developments 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 expansion of our Spring proposition and the new mortgage lending system rolled out last year continuing through this period. The focus of our technology roadmap in the period has moved to the upgrade of our SME lending banking systems, which forms the next targeted deliverable.

We have continued to invest in our people and processes to ensure the effectiveness of our operations across our businesses going forward, and we were pleased by the positive feedback from our employee inclusion survey.

This continuing level of focus and investment ensures that our operations are ready to support our business strategy going forward, serving the interests and aspirations of all our stakeholders.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW**6.1 OPERATIONS****Systems**

A fundamental foundation of our business strategy is the use of technologically advanced efficient systems to support all our business operations. We have a long-term IT Roadmap which has seen many of our principal lending and operating systems upgraded over recent years, together with the introduction of our state-of-the-art Spring savings app. This has been accompanied by migration to the cloud for many of our applications and significantly enhanced functionality across our operations.

During the period, we continued to make progress with this strategy. The long-term IT Roadmap is focused on modernising the technology that supports our products and services, improving service for customers, brokers and employees, and strengthening operational resilience. These developments are supported by continued enhancements to data governance, data quality and a unified analytics and data platform. Investment continued in cloud-native capabilities and in a cloud-based integration platform to improve connectivity between systems and to support workflow automation across all applications, however they are hosted.

The careful management of risk is fundamental to the delivery of our change projects, with activity prioritised and governed to align with regulatory expectations, cost discipline and resilience requirements. Further enhancements in the period were delivered across our mortgage, SME lending and development finance origination platforms and for the Spring app. Many of these reflect feedback from internal and external users, supporting ongoing improvements to digital journeys and the speed of product change across our businesses.

We have also continued to expand our use of secure application programming interfaces (APIs) across our systems. There are currently more than sixty APIs in place, supporting controlled data exchange and straight-through processing between platforms, technology that can be leveraged in future developments.

We continue to take a controlled approach to adopting artificial intelligence ('AI') technologies, embedding activity within our wider digitalisation programme and governance arrangements. Investment in a secure AI development capability has supported the evaluation of use cases and the subsequent development and deployment of solutions designed with the protection of customer data and regulatory compliance as fundamental principles.

Our approach to digital innovation and the responsible use of AI is focused on supporting our people and delivering good customer outcomes. An AI framework is now in place to guide safe and responsible adoption. All employees have been provided with access to Microsoft Copilot, alongside dedicated training to build confidence and capability and guide appropriate use.

Our focus is now on driving sustained adoption across the organisation, embedding AI into day-to-day workflows and creating a culture where responsible AI use is actively encouraged and expected. A structured communications and training plan is being implemented to support this, alongside a clear measurement framework to track adoption, priority use cases and productivity benefits, ensuring delivery of tangible business value aligned to our people and organisational strategy.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

To support the ongoing digitalisation programme, we continued to invest in cyber security and fraud prevention capabilities to help protect customers, colleagues and data. During the period, further investment in AI-enabled security tools enhanced our monitoring and response capability in relation to cyber threats and indicators of potentially fraudulent activity.

In support of our sustainability strategy, one of our two data centres was migrated to a third-party facility designed to operate more energy-efficiently and to support lower-carbon operations. We also continued to invest in more energy-efficient infrastructure and hardware to reduce the environmental impact of technology operations over time.

The implementation of the IT Roadmap will continue into the second half of the year, with work continuing on a new back-office platform for our SME lending operation, which is expected to be the next major upgrade to be delivered, while further enhancements to our mortgage lending administration system are also in development. These form the next stages of our ongoing move toward greater digitalisation which will continue to be a strategic focus as we go forward.

Facilities

Our hybrid working model continues to meet our business requirements effectively and we have no current plans to change this approach. This allows business areas to adopt the most appropriate working methods to suit the needs of their customers, people and operations, supported by our digital technology.

The majority of our people continue to work in one of our offices two or three days a week, dependent on the needs of their role. Office occupancy has remained at broadly similar daily levels to previous periods. Our premises continue to develop in line with the requirements of this model of working.

Our head office, at Homer Road, Solihull, was completed in the early 1990s. It is both the largest and the least up-to-date of our buildings, with our London and Southampton premises relatively modern in comparison, and far more sustainable. During the period we continued with the planning phase for a substantial refurbishment of this building. These works will make the building far more energy-efficient and cheaper to run, aligning with the reduction of our carbon footprint.

Customers

High-quality customer service is fundamental to our business model and has remained a strategic priority throughout the period. Regular surveys are conducted with customers and business introducers to monitor satisfaction and have remained positive in the period (as set out in Section 2.1 and Section 3). The FCA Consumer Duty is fundamentally embedded in our processes, and while not all our business lines are covered by the Duty, its ethos is reflected in our approach throughout our operations, and all employees receive training on its principles and application.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

The specific needs of customers in vulnerable circumstances, whether through financial or other pressures continued to be an important area of focus, with continuing investment in resources and process enhancements to ensure such customers receive good outcomes.

We continue to monitor the progress of the FCA's approach to redress in respect of historical commission arrangements in the motor finance sector and related legal and regulatory developments in this area. With the publication of PS 26/3 on 30 March 2026, the position is somewhat clearer, but legal challenges to the regulator's position have been launched both by lenders and by customer representatives, which may give rise to further revisions and delays in the anticipated timetable.

During the six months we have developed our operational readiness to ensure we can respond to the final redress requirements appropriately. We have enhanced our resourcing model to ensure we remain resilient and able to meet emerging regulatory expectations, including growing data and reporting requirements, while maintaining a robust and compliant process. We submitted our formal implementation plan to the FCA on 12 May 2026, as required by the regulator's timetable.

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 2026 was 16,500, and we have plans in place to ensure that these can be progressed in a timely fashion once the pause comes to an end.

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 2025	30 June 2025	31 December 2024	30 June 2024
Cases reported	63	129	54	79
Uphold rate	23.0%	37.0%	43.0%	16.0%

The volume of cases reported to the FOS in the most recent period has returned to a more normal level. This reduction is driven by a reduced number of motor finance commission cases being escalated as the FCA redress process progresses. Only eight of the cases escalated to the FOS in the period (13% of the total) were motor finance commission related, compared to over 60% of the cases submitted in the preceding June 2025 period.

We are pleased with the reduction in the number of FOS complaints upheld in the most recent period, which is more in line with our long-term experience. Our historical uphold rate has generally been as good or better than industry averages and we are happy to see a return to these levels of performance.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

The overall uphold rate across all companies for the six months ended 30 June 2025, the most recent to be published by FOS, was 32%. FOS data across the financial services industry is published on the ombudsman's website at www.financial-ombudsman.org.uk.

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 2025 remain in place.

For the current year, the Group is subject to all elements of the 2024 UK Corporate Governance Code, except Provision 29, where the corresponding provision of the 2018 UK Corporate Governance Code continues to apply (for convenience these provisions are together referred to as the 'Code').

A governance review was undertaken during the previous financial year to ensure our processes aligned to the new Code, and action was taken to make any required changes before 1 October 2025. We can therefore confirm that we have complied with the applicable principles and provisions of the Code throughout the period.

Provision 29 of the 2024 UK Corporate Governance Code, which relates to reporting on internal control, is the change from the 2018 edition which has the most impact. This provision does not apply to us until our 2027 financial year, and work is currently ongoing to ensure we are able to comply with the new provision and related guidance.

As a financial services firm, our framework of risk and control is already designed to meet the expectations of our regulators, and our approach to Provision 29 of the new Code builds on our existing risk management framework. Some changes are already in place, and more information on our approach is given in Section 6.5. This work will continue during the second half of the year.

Our AGM was held on 4 March 2026. All resolutions were carried comfortably with at least 94% of votes in favour. This included the approval of our revised Directors' Remuneration Policy, following the comprehensive review undertaken in the second half of the previous year, and interactions with shareholders, their representatives and advisers prior to the meeting.

The AGM also approved the appointment of Deloitte LLP as our external auditor, following their success in our tender process carried out during 2024. This half-year report is therefore the first to be reported upon by Deloitte.

The Board welcomes the significant support the resolutions received and extends its thanks to those shareholders who participated in the process, either by making their views known ahead of the meeting, or by voting on the day. Detailed results can be found on our corporate website.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW**Board of directors and senior management**

As we announced previously, Hugo Tudor, a non-independent non-executive director did not seek re-election and therefore stepped down from the Board at the conclusion of the AGM. All other board members were re-elected, and the Board therefore currently comprises two executive directors, six independent non-executive directors, and the Chair, who was considered independent on appointment.

At 31 March 2026, the Board included four female directors, comprising 44% of its membership, with one of the FCA-designated 'senior roles' held by a woman, Alison Morris, the Senior Independent Director. In addition, half of the Board's principal committees were chaired by female directors.

At the previous year end we announced that we would be conducting a search process for non-executive director roles, in light of Barbara Ridpath and Graeme Yorston both reaching their nine year tenure in September 2026. This recruitment process is progressing as planned; the roles have been scoped and the required skills and experience identified are forming the basis of the search. The Board's focus is on appointing individuals who bring the appropriate balance of independence, expertise and cultural alignment to support our strategy. A further update on this process will be provided in our year end reporting, if no appointment is made before that time.

As we reported at the 2025 year end, Anne Barnett stepped down from her role as Chief People Officer, and as a result, from her membership of the Executive Performance Committee and Executive Risk Committee, on 1 November 2025. She was succeeded as Chief People Officer, and as a member of the executive committees by Andrea Knott, our former Head of Human Resources.

In March, we saw a further change within the leadership team as our Chief Operating Officer, Zish Khan, stepped down to pursue new opportunities outside the Group. His remit included both operational and transformational activity, promoting good customer outcomes and operational resilience. Interim arrangements are in place to ensure appropriate focus and oversight of these areas, under the supervision of the Chief Executive Officer, while we consider longer-term options for leadership of those functions.

Zish also stepped down from the executive committees, reducing the membership of both committees to twelve, of which 33.3% are female.

6.3 PEOPLE

At 31 March 2026, we employed 1,413 people (30 September 2025: 1,411), reflecting continued stability in our workforce over the past six months. Our people are fundamental to the achievement of our strategy, and we are both a Platinum level Investors in People employer and an accredited Real Living Wage employer.

We remain focused on ensuring we have the right skills, capabilities and operating model in place to deliver our strategy and technology roadmap, while resourcing appropriately to achieve the best outcomes for our customers.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW**Conditions and culture**

We continue to promote a healthy work-life balance by providing flexibility in how, when and where our people work. Our hybrid working model enhances organisational agility and enables colleagues to manage their professional and personal responsibilities more effectively. This approach supports our ability to attract and retain talent, while fostering a diverse and engaged workforce.

In March we launched an all-employee Inclusion Survey, reinforcing our commitment to building a culture where everyone feels valued, supported and included. The survey forms a key element of our wider Equality, Diversity and Inclusion ('EDI') Strategy and the headline results indicate a generally strong experience of inclusion, with a 50% completion rate and an Inclusion Index score of 75.6.

Our people reported high levels of respect and belonging, with 85% feeling respected and valued and 81% feeling able to be their whole self at work. The survey also produced strong results for psychological safety indicators. 91% of respondents said they felt safe to admit an honest mistake and 86% felt safe to speak up if they observed inappropriate behaviour. The results also highlighted opportunities to strengthen perceived access to progression (65%) and to continue building confidence in reporting concerns. We will use these insights to guide our priorities and action planning over the second half of the year.

The half year saw the implementation of the initial phases of the Employment Rights Act 2025. During the period we have focussed on preparing for the new legislation, where our priorities have been to strengthen operational readiness and ensure that our people policies reflect the significant reforms ahead. We have undertaken a comprehensive review of core employment policies to align with changes introduced by the Act, such as enhanced statutory protections, updates to statutory sick pay, expanded family leave entitlements, and strengthened safeguards relating to dismissal and workplace harassment. In parallel, we have begun implementing updates to our HR and payroll systems to ensure we can effectively operationalise the new entitlements as they take effect, most notably the transition of day-one rights for statutory sick pay and paternity and parental leave from April 2026. Overall, we consider that we are well placed to deal with the new requirements without a significant impact on our operations.

We have also strengthened our conduct and culture framework following the publication of the results of the FCA's survey on non-financial misconduct ('NFM'). This included updating our policies, our internal Code of Conduct and our whistleblowing communications to reinforce the importance of speaking up, to ensure our approach clearly reflects NFM expectations. In addition, we have enhanced our management information and continue to embed clear employee responsibilities through targeted communications and training.

In line with our commitment to providing a safe and respectful workplace, we have recognised sexual harassment as a qualifying disclosure within our Whistleblowing Policy. This provides employees with additional protection and clearer routes to raise concerns, reinforcing our commitment to an environment free from harm, discrimination and misconduct.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

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 2025. We ensure that all employees and eligible apprentices are paid at least the Real Living Wage, currently £13.45 per hour outside London, with our minimum hourly rate set at £13.46.

Our profit related pay ('PRP') scheme continues to provide employees with a benefit linked to our financial performance. In December 2025, eligible employees received their PRP award for the 2025 financial year, providing an additional £2,744 on a full-time equivalent basis.

Holiday entitlement for the vast majority of employees remains at a maximum of 31 days and a minimum of 26 days, in addition to two additional company closure days over the Christmas period and all UK public holidays. This means that most full-time employees will enjoy at least 36 days of paid holiday this year.

Our annual voluntary attrition rate at 31 March 2026 is broadly similar to the prior year at 8.9% (31 March 2025: 8.7%). We continue to retain long-serving employees, with 37% of employees having achieved at least ten years' service, and 14% having been with the Group for over twenty years or more.

The People Forum remains a well-established channel through which employee opinions are communicated to the Board and Executive Committee. Non-executive directors, Robert East and Tanvi Davda, met with the Forum in November 2025. Discussions included board-level EDI, digital innovation and AI, business strategy and future priorities. Meetings between the Forum and executive and non-executive directors continue on a regular basis.

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

Equality and diversity

We continue to drive forward our group-wide EDI initiatives, building on the foundations established through our EDI Strategy. The Strategy includes targets for female representation and has increased awareness and understanding of EDI matters across all our businesses. We have also continued to make progress in capturing data on workforce composition, with 84.2% of employees now having completed diversity monitoring profiles. Diversity monitoring dashboards, demonstrating progress and highlighting any areas for improvement continue to be provided to business areas on a regular basis.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

We continue to focus on three key areas to strengthen our commitment to EDI.

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

These areas aim to foster a more equitable and inclusive workplace.

Our employee-led EDI Network continues to play an integral part in advancing our EDI Strategy by 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 build support for the EDI Strategy across the business at all levels.

In October 2025, the EDI Network led our successful re-accreditation as a Disability Confident Employer. As part of our ongoing commitment, we are incorporating further enhancements to the way we attract, support and retain disabled candidates into our recruitment processes.

We remain committed to supporting employees from under-represented groups through various development initiatives including, 'Ignite' an internal development programme, and the cross-company mentoring programmes, 'Mission Include' and 'Mission Gender Equity', run by Moving Ahead in conjunction with the 30% Club.

We continue to promote socio-economic diversity in the financial sector as a founding member of Progress Together. We continue to engage with sector-wide initiatives and maintain our focus on improving access and progression for employees from all backgrounds.

In March 2026, we published our Gender Pay Gap report with a mean pay gap of 34.7% at 5 April 2025, (2024: 35.8%) and median gap of 33.6% (2024: 31.0%). Whilst these gender pay gap measures remain at a similar level to the previous year, both remain larger than we 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.

During the second phase of our Women in Finance Charter journey, we committed to achieving 40% female representation in Senior Management by 31 December 2025. Having reached this goal ahead of schedule we continued to maintain levels above our target. As at 31 March 2026, 41.2% of senior management roles were held by women, (31 March 2025: 38.6%). This compares favourably to the 37.4% average across 14 UK banks and lenders reported by the 2026 FTSE Women Leaders Review.

We remain committed to HM Treasury's Women in Finance Charter and sustaining at least 40% female representation across our senior management population, which aligns to the target promoted by the FTSE Women Leaders Initiative. We are currently in the process of formalising our commitments for the third phase of the Women in Finance initiative and will provide further details with our year-end reporting.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

In line with the expectations of the Parker Review, we have committed to achieving 5% ethnic minority representation in Senior Management roles by December 2027, with 2.0% recorded at 31 March 2026 (31 March 2025: 3.5%). While the year-on-year reduction is regrettable, it results from a single departure and some reorganisation of reporting lines impacting on the population the calculation is based on. We remain committed to our December 2027 target and confident that our EDI strategy will facilitate the delivery of this result.

Learning and development

We remain committed to developing our talent, with a continued focus on supporting employees from under-represented groups. These initiatives support a high-performing culture by widening access to development, strengthening internal mobility and building a more diverse pipeline for future leadership roles. This year marks our eighth year of partnership with Moving Ahead, with 18 employees currently participating in its mentoring programmes.

We have also completed our initial internal Ignite programme, a development initiative designed to accelerate the progression of under-represented talent. To date, 21% of participants have been promoted, demonstrating the programme's positive impact on career development and supporting a stronger internal pipeline for future vacancies.

We have continued to make use of the UK Government's Apprenticeship Levy to build critical skills, strengthen talent pipelines and support operational resilience. During the half year, six employees successfully completed their apprenticeships, and a further 34 apprentices and interns are developing specialist capabilities aligned to their roles. During the past twelve months, we utilised 33.4% of our available levy pot (31 March 2025: 29.7%), and we continue to pledge 10% of our levy to support apprenticeship opportunities within SMEs.

We are also closely monitoring the roll-out of the Growth and Skills Levy, which is replacing the Apprenticeship Levy during 2026. The introduction of unit-based learning modules, including areas such as 'Leading AI', is expected to provide greater flexibility in how we develop future-focused skills, helping to grow capability at scale and reduce reliance on external hiring in specialist areas over time.

To promote self-led learning, we launched LinkedIn Learning in February 2026, providing employees with access to thousands of expert-led courses and AI-driven personalised learning pathways. Early engagement has been encouraging. The platform supports our focus on building a continuous learning culture, strengthening core and manager capabilities at scale, and widening access to development opportunities in a flexible, personalised way. This will remain a key area of focus as we continue to strengthen our learning and development offering, alongside developing measures of impact over time.

To support customer outcomes, we continue to deliver our Coaching for Success programme, enhancing coaching and people management capability through observation, feedback and practical skills development. This supports a high-performing culture by strengthening the quality and consistency of day-to-day leadership. In addition, we have partnered with external providers to deliver bespoke sales training for our mortgages and motor finance operations.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

We continue to encourage employees to pursue relevant professional qualifications, and we are currently supporting 58 employees with funding to undertake such programmes (31 March 2025: 48). This helps to strengthen specialist capability, deepen succession planning and enable internal mobility into key regulated and technical roles. The majority are studying for the CeMAP mortgage qualification, offered by the London Institute of Banking and Finance, with others working towards accounting and related professional pathways.

6.4 SUSTAINABILITY

Sustainability, including resilience in the face of climate-related 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
- Supporting our customers by delivering sustainable lending through the design of our products and the choices of sectors in which we operate

Sustainability governance

Our overall response to sustainability, including climate-related risk, 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 material risks or opportunities in these areas.

During the six months ended 31 March 2026 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 and agreed this year's focus areas
- Received training from our Business Development Director on our new Energy Finance Team
- Received updates on the latest regulatory change including the PRA supervisory statement SS 5/25 – 'Enhancing Banks' and Insurers' Approaches to Managing Climate-related Risks', the UK Government's Minimum Energy Efficiency Standards ('MEES'), and the FCA's Listing Rules consultation in relation to climate-related reporting

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

- Updated the Terms of Reference of the committee to ensure duties evolve as the sustainability landscape develops
- Reconsidered the climate-related risks and opportunities across the 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.

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. In support of this commitment, the recently published Warm Homes Plan sets out the Government's strategy to make homes more energy-efficient and reduce their carbon emissions.

As members of Bankers for Net Zero ('B4NZ') and the UK Finance Sustainability Committee 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'), but is also considered as a driver of other principal risks. As a result, our response to climate change is considered within the Board's overall strategy. Climate-related 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 any material climate-related risks added to the risk register, 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 period SS 5/25 was published by the PRA and we have prepared a gap analysis against regulatory expectations in response, together with an action plan to address any identified requirements. This was presented to the Board in May. In conjunction with this work, we are assessing the impact of the recent UK Government response on MEES for the PRS, and our strategy to support landlords in meeting the new requirements. We await the final details of the reform of the EPC framework expected in the second half of 2027, which should clarify expectations of future EPC gradings and the potential impacts of the move from the current system.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

We are in the process of updating the analysis of climate-related risks and opportunities relevant to our business, which will support our compliance with SS5/25. The potential impacts of the MEES consultation will form one of the scenarios considered by the Board in the 2026 ICAAP.

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

- Our Energy Finance team supporting £2.0 million of lending in the period primarily funding solar panels / photovoltaic solar installations and heat pumps
- Further lending through the Green Homes Initiative in the development finance operation, with £306.3 million of new lending commitments having been agreed under this initiative to date
- Increasing levels of new business on energy-efficient EPC A to C rated properties within the buy-to-let mortgage operation. Over the last six months over 55% of our new buy-to-let mortgage business, where data was available, had an EPC rating of A to C
- Continuing motor finance lending related to battery electric vehicles ('BEV's) and hybrid vehicles, with £35.4 million of lending for BEV purchases since the 2022 financial year
- Rolling out a group-wide sustainability e-learning module to all employees

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 to 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 2025 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:

- Scope of works nearing finalisation and contractors agreed for our project to decarbonise and refurbish our Solihull head office building. Activity is in progress to ensure the required planning permission is obtained
- Building operations at our second Solihull building streamlined as part of our phased exit, including draining and isolating non-essential pipework and retaining only minimal welfare facilities for the few remaining maintenance and security staff
- Temporary boiler energy efficiency measures implemented at our head office site providing short-term reductions in gas consumption in periods of warmer weather

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

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 2025 Annual Report and Accounts contains disclosures which are consistent with the recommendations of the TCFD, and the expectations set out in the UK 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. The recent FCA consultation proposes aligning the Listing Rules requirements with UK Sustainability Reporting Standards. This will initially increase the reporting of climate-related issues and subsequently of wider sustainability issues. We continue to monitor implementation timing and developments in this area and are responding to the consultation in conjunction with UK Finance.

Social engagement

Our charity for the 2026 financial year, chosen by employees, is Cardiac Risk in the Young ('CRY'), which supports individuals facing life-threatening heart conditions. At the half-way point of the year the amount raised through events organised by our employee-led charity committee had reached £28,200 against a target of £40,000, with further fundraising events planned for the remainder of the year.

During this period, we also donated £12,000 as a business to thirty different charities nominated by employees, as well as supporting charity committee activities.

Employees are each entitled to an annual paid volunteering day. So far this year, our people have already contributed 150 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 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'.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW**6.5 RISK**

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. This is part of a formal Enterprise Risk Management Framework ('ERMF'), which is fundamental to our management of risk.

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

Risk environment

The risk landscape over the last six months has been driven by factors that could not necessarily have been anticipated at the beginning of the period. New and challenging issues have manifested themselves at almost unprecedented speed and have required and continue to require an agile and evolving response. This pace of change is not easy to navigate and poses threats to all areas of the global economy which in turn impact on our businesses and customers. The ability to remain robust and address the evolving situation is fundamental to our strategy with a commitment to remaining resilient and protecting our customers' interests driving our priorities and responses.

At 31 March 2026, the risk agenda was largely focussed on the economic and broader consequences of US foreign and economic policy. However, while this was also true at the beginning of the period, the principal focus at that time was the implications of the US approach to international trade and tariffs, where the current focus has moved to the economic and other consequences of the American intervention in the Middle East which began at the end of February 2026.

At the end of the 2025 reporting period the broader consensus was that UK interest rates had embarked on a downward trend and the forecast pointed to a more stable period and continuing reductions, albeit the pace of this was not clear. However, given the wider geopolitical context, previous expectations have been superseded by global events. These are likely to generate inflationary and interest rate pressures, particularly from the impact of fuel prices, given the potential for disruption of oil supplies from the Gulf.

Events are still unfolding within the Middle East, with the overall aim of US policy somewhat unclear. This has led to heightened volatility in financial markets in the short term and the longer-term impacts on the global and national economy are uncertain. We continue to monitor the ongoing position closely, and consider how this may impact affordability, costs and customer behaviours in the coming months.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

Confidence in the UK's domestic economy is already being affected, with inflationary pressures manifesting themselves. This is likely to affect affordability for our customers, with interest rate cuts now less probable in the short term, and may also impact on the UK residential property market. We are closely monitoring trends to ensure that any impacts on our businesses are effectively and promptly managed, while ensuring any early signs of difficulty amongst our customers are identified and appropriate support offered.

There are also specific domestic challenges which we continue to monitor and respond to. We have been closely following the legal and regulatory developments in respect of historical motor finance commissions over the last few years, with the FCA redress scheme published in March 2026. The final rules have provided some clarity in terms of scope and timeframes but are subject to legal challenges which may affect the ultimate outcomes, and we will keep the position under close review.

Despite these uncertainties, we continue to ensure we are operationally prepared to meet regulatory expectations as currently understood. Considerable work has been undertaken over the last six months to ensure that appropriate systems, processes and resources are in place to address the FCA's requirements.

The regulator's timeframes are challenging; however, our risk and governance processes have ensured that the developments have been closely overseen and monitored through dedicated working and steering groups, with risk issues being escalated through the established risk governance processes. These mechanisms will continue to ensure that appropriate oversight is maintained once the schemes are active and that any risks to delivery are appropriately and promptly addressed.

The impacts of the geopolitical issues are not restricted to direct economic consequences. Heightened global tensions may manifest themselves in threats to infrastructure and operations through cyber-attack. Whilst the UK is not a direct participant in current conflicts, its association with the USA and dependency on US services does provide a potential vulnerability. We remain vigilant to these threats and investment in cyber defence remains core to our strategy. We are committed to our ongoing programme of digitalisation and our approach to continuous product development, with resilience by design being fundamental to our approach. Our cyber monitoring continues to be enhanced and the need for rapid identification and containment remains paramount.

As a business, we look to leverage the opportunities that technological change can also offer. Even over the last six months the use of AI, and the importance of harnessing AI capability productively, have gained in importance to the way we operate. We are committed to identifying the commercial opportunities, process efficiencies and improved data analysis that deploying AI can bring, including benefits to the identification and management of risk.

However, with the speed of evolution in this area, the importance of managing the adoption of AI in a safe and controlled manner is a high priority. The key challenge is ensuring our employees are equipped and knowledgeable as AI technology continues to evolve and that they remain alert to the data and information security risks, enabling them to use AI in a safe and ethical way. We continue to enhance the governance and oversight of AI usage, while supporting the development of centres of AI expertise to ensure the appropriate balance between risk and opportunity in the deployment of AI is maintained.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

The implementation of the Renters' Rights Act 2025, from 1 May 2026, provides the biggest overhaul of the private rental sector in 30 years, bringing greater stability for tenants with the end of 'no fault' Section 21 evictions, reshaping landlord responsibilities and setting a 'Decent Homes Standard' for rented homes. It also imposes new rules on rent increases, possession and tenancy management.

The last six months have brought more clarity as to the potential impacts of the new legislation on our landlord customers, but we will be monitoring in detail how the rules impact the risk profile of our buy-to-let business and the behaviour of existing and new landlords in practice.

Buy-to-let landlord customers will also be affected by the UK Government's Minimum Energy Efficiency Standards ('MEES') announced early in 2026. These will require landlords to upgrade properties to EPC Band C by October 2030, with certain exemptions, and with a spending cap of £10,000.

The revised EPC reform, expected to be announced in the second half of 2027, will be underpinned by a dual metric. Landlords will have to meet a primary fabric performance standard and then for the secondary standard will be able to choose between assessments based on smart or heat metrics.

We have been involved in industry responses to both processes and are closely tracking their development, including the potential interaction between them, to understand the full impact on our risk profile. Whilst these changes offer further opportunities for us to enhance our product offerings, supporting customers through these changes, the potential for adverse risk impacts on both originations and our existing book is kept under review.

Despite the inherent risks these developments bring to our overall operating environment, our businesses have continued to perform positively throughout the six-month period. We remain vigilant and respond to the evolving landscape in an agile and timely way and whilst there have been certain notable risk challenges over the reporting period, we have continued to make good progress against our stated strategy while managing our risks within agreed appetites.

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.

The overall risk landscape across our businesses remains complex and is evolving at a rapid and unprecedented rate. The interplay between the geopolitical environment, government action and regulatory policy, together with the backdrop of challenges posed through rapid technological advance, and the proliferation of third-party dependencies means that we continually need to assess how these factors may impact the Group and influence our risk profile in new or unexpected ways.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW**Risk management**

We have an established risk governance process which provides the infrastructure to facilitate the flow of risk and control issues from day-to-day management, through to executive level and ultimately for board-level oversight in line with limits of authority and our materiality matrix. This approach ensures the ERMF is understood at all levels and well-embedded into the fabric of our operations.

The ability to leverage off our established ERMF is core to our preparation for the introduction of Provision 29 of the 2024 Corporate Governance Code, which comes into effect for the Group for our financial year ending 30 September 2027. The Code will require that the Board provides an attestation that material controls are operating effectively as at the balance sheet date. Such an attestation requires a comprehensive and robust process to underpin it, facilitating the identification, assessment and reporting on those controls that are deemed to be material to the management of our risks.

Our ERMF provides a systematic basis for this exercise, ensuring we have identified those principal risks which we believe pose the biggest threat to our operations. We have established policies supporting the management of each risk type, including prescribed minimum control requirements that are regularly tested and subject to robust assurance across the three lines of defence, with any exceptions subject to scrutiny and prompt remediation. These mechanisms are core to our ability to meet our Code reporting obligations successfully in 2027, and have allowed us to make good progress to date in our preparedness. We will continue to build on our work to date throughout the next period ensuring the approach is fully tested and operational well ahead of the deadline.

Our ERMF promotes a consistency and coherent discipline in consideration of all risk-related matters. As we continue our transformation journey and embrace new technologies, increase our product offering and look to our longer-term strategic planning, the incremental impact on our risk profile remains a core variable that drives the decision making, and any risks to our financial or operational resilience are fully assessed against our risk appetite.

The implementation of our Spring savings proposition and its development over the last twelve months has provided the opportunity to provide further enhancements to risk practices and to ensure lessons learned are promptly addressed both in Spring and more widely across the business, where good practice can be leveraged. The Spring operating model has necessitated robust and timely incident management processes, supporting our commitment to operational resilience, together with ongoing investment in financial crime prevention. The complex ecosystem which underpins Spring touches on many risk categories, and we continue to ensure that, as we scale up and volumes continue to increase, we remain alert to any changes this may pose to the overall risk profile.

The need to remain alert to the threats posed by financial crime is firmly embedded in the control environment developed, not only to support Spring, but all our other operations. We prioritise anti-money laundering, and the wider financial crime control environment, with a commitment to a culture of continuous improvement in our financial crime framework, processes and resources. We have invested heavily over the last few years to support this objective, and our roadmap for the next twelve months remains firmly focussed on enhancement through increased automation and further refinements to data.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

Similarly, there remains an ongoing focus on climate change. The UK Government has confirmed its goal of net zero carbon by 2050, albeit further clarity is still needed on the policy and regulations with which it intends to facilitate this transition. Against the backdrop of evolving global and domestic climate strategies, we are committed to ensuring the impacts of climate change are considered and measured in respect of both our operational footprint and our lending activities, ensuring we are well positioned to respond to any wider changes in policy or legislation.

Recent events in the geopolitical sphere may also increase the threat of related risks, such as cyber risk. The need to ensure effective cyber-security controls and a robust data protection approach are in place across our businesses remains a priority and enhanced monitoring has been introduced in the light of heightened international tensions to complement our existing defence in depth approach.

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 giving us the ability to address the current uncertainties in a way that allows us to make considered risk-based decisions. Inevitably there is a heavy focus on those risk issues that have emerged in recent months, but we maintain close oversight of existing trends and threats as part of our ongoing risk governance and reporting structures.

Given the above context and our assessment of the risk environment we are confident our risk management system provides assurance that current, new and developing risks are promptly identified, assessed and managed, with appropriate escalation and oversight provided. In turn this facilitates our commitment to all our customers ensuring their interests are always safeguarded and that they receive good outcomes across all our products and services.

Significant and emerging risks

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

- **Strategic risks** – The continuing challenges posed by interest rates and inflationary pressures in the UK, coupled with current general political and economic uncertainties, will exert pressure on our wider strategic aspirations. Potential impacts on loan growth opportunities, customer performance or capital availability, coupled with competitive pressures, may impact growth overall. Conversely, changing customer needs and market restructuring may present opportunities for a specialist operator, where we must ensure we are ready to take advantage.
- **Motor finance commissions** – Whilst the final rules detailing the FCA's redress scheme were published on 30 March 2026, these are subject to legal challenges which may result in amendments or delays in implementation.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

- **Interest rates** – There is continuing uncertainty over the future direction of interest rates given macro-economic trends and inflationary pressures caused by the US intervention in the Middle East. The speed and timing of any rate movements remain fundamental to our long-term business planning and this uncertainty heightens strategic risk in respect of competition for deposits and demand for property-backed loans.
- **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. These effects may further be exacerbated by the duration of the conflict in the Middle East and the shortages in fuel and other goods that may directly result from this.
- **Cyber** – The nature of cyber threats continues to evolve and has become increasingly sophisticated, particularly with the proliferation in the use of AI, increasing the surface area for potential attack. Coupled with geopolitical tensions, where cyber attacks may be used as a direct avenue for hostilities, this means that cyber vigilance is a core priority and there is a constant challenge to pre-empt new and innovative modes of attack.
- **Compliance expectations** – Regulatory compliance expectations continue to remain high. Our priority is to ensure that good outcomes and a culture of continuous improvement remain at the forefront of all customer interactions, and we retain a strong focus on providing support to customers in financial difficulties.
- **Financial crime and terrorist financing** – Factors such as more sophisticated technological capabilities and the conflict in the Middle East exacerbate this risk within the UK financial system. This increased inherent risk must be managed within the broader context of sustained regulatory scrutiny around firms' financial crime systems and controls as evidenced through recent FCA enforcement action.
- **Climate change** – As global and UK strategies to address climate-related threats are further refined and more detailed expectations developed, we seek to ensure we are well placed to adapt and advance our businesses.

We 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 particularly 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 the current international challenges develop and their impacts on UK economic and foreign policy become clearer.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW**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 197 to 198. These risks have not changed significantly since those disclosed at the 2025 financial year end.

6.6 REGULATORY CHANGES

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

All potential regulatory changes impacting on our operations are closely monitored through the comprehensive governance and control structures. These mechanisms include regular reporting on key regulatory developments received at both executive and board risk committees, assessing potential implications for our businesses, impacts on their risk profiles and any necessary responses. This ensures we are well placed to respond to any changes in a timely and appropriate manner.

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. Engagement with the FCA has increased in recent months as a result of close engagement with their motor finance consultation and policy statement process. Such engagement is viewed positively as it provides additional opportunities to demonstrate our ongoing commitment to maintaining robust systems and controls and delivering good customer outcomes.

The following recent and ongoing regulatory developments have had, or are expected to have, the greatest potential impacts on our businesses:

- **Historical motor finance commissions** – We have remained close to all developments in this area. Having undertaken significant planning over the last six months to mobilise in line with the draft FCA proposals issued in October 2025, we are well-positioned to deploy a redress programme in accordance with the FCA timetable.
- **Basel 3.1 and the regulatory capital framework** – The majority of these new rules take effect from 1 January 2027. Changes to methodologies, where relevant, have been incorporated into our capital planning. Before implementation, the PRA intends to rebase and adjust all firms' Pillar 2A requirements and PRA buffers. We have submitted all required documentation to the PRA to enable this assessment.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

- **Foundation IRB approach for residential mortgage exposures** – The PRA published a Discussion Paper in July 2025 outlining its initial thoughts on the introduction of a simplified approach to IRB, under which firms would use internal models for probability of default ('PD'), while applying fixed supervisory values for Loss Given Default ('LGD') and Exposure At Default ('EAD'). While still at an early stage in the development of a potential policy, the PRA believes this approach could provide a proportionate and risk sensitive alternative to both the standardised approach and the Advanced IRB approach ('AIRB'). We continue to progress with our AIRB application but are monitoring developments in this area closely.
- **Liquidity risk management** – In March 2026, the PRA published CP 5/26 'Modernising the Liquidity Policy Framework' setting out updated expectations on liquidity risk management, which are, to some extent, developed from the lessons learned during the 2023 banking crisis and failure of Silicon Valley Bank. The proposals are a positive development, helping to clarify regulatory expectations in several areas. Our assessment is that our processes remain well placed against these proposals.
- **Increase in the FSCS covered deposits level** – This limit increased to £120,000 on 1 December 2025, with the limit applicable to temporary high balance claims increasing to £1.4 million. These changes have been reflected in our approach to liquidity risk management.
- **Operational resilience** – As our resilience capability continues to mature, we remain committed to ongoing improvement, particularly where we rely on third parties to provide critical services. The publication of policy statements PS 26/2 by the FCA and PS 7/26 by the PRA on 'Operational Incident and Third-Party Reporting', reinforces the importance of understanding and managing third parties in maintaining overall resilience.

We continue to focus on enhancing our oversight of third and fourth parties and our ability to manage third-party risks forms a core tenet of our comprehensive scenario testing programme. Through the ongoing operational resilience self-assessment process, we monitor our resilience level on a regular basis, ensuring the identification of any vulnerabilities or risks to resilience and the timely rectification of material issues. This maintains our ability to remain consistently within impact tolerances for important business services.

- **Climate change** – We maintain our focus on embedding our approach to managing climate-related risks as understanding of these risks matures, and regulatory and legislative requirements evolve.

In December 2025 the PRA published SS 5/25 - 'Enhancing Banks' and Insurers' Approaches to Managing Climate-related Risks', building on its existing policy. We are embedding these requirements and expectations in our sustainability approach as described in Section 6.4. 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 and to further develop our climate risk management processes.

Interim Management Report (Continued)

6 OPERATIONAL REVIEW

- **Supporting customers and their financial resilience** – This remains a constant area of regulatory focus. Recent ‘Regulatory Priority’ publications reinforce the emphasis on Consumer Duty implementation to ensure firms can evidence positive changes to improve customer outcomes.

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, we continue to monitor and respond to any wider regulatory, legal and political developments which emerge. This ongoing assessment ensures we can promptly identify any specific implications for our businesses and act to address them.

We are particularly mindful that the current global context may impact UK Government policy in unpredictable ways, depending on the events of the next few months. The effect of these may be significant and our regular risk governance committees are structured to ensure such developments receive the necessary debate and assessment, informed by relevant subject matter experts, to agree an appropriate response.

Our engagement with, and proactive approach to, new and emerging issues and change enables us to conclude that we continue to be well placed, overall, to address the regulatory, legislative and wider 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

General Counsel and Company Secretary

2 June 2026

Board of Directors

R D East

(Chair of the Board and Chair of the Nomination Committee)

A C M Morris

(Non-executive director, Chair of the Audit Committee and Senior Independent Director)

G H Yorston

(Non-executive director)

T P Davda

(Non-executive director and Chair of the Remuneration Committee)

N S Terrington

(Chief Executive Officer)

B A Ridpath

(Non-executive director)

P A Hill

(Non-executive director and Chair of the Risk and Compliance Committee)

Z L Howorth

(Non-executive director)

R J Woodman

(Chief Financial Officer)

Independent Review Report to Paragon Banking Group PLC

Conclusion

We have been engaged by Paragon Banking Group PLC and its subsidiaries ('the Group') to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2026 which comprises the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and related notes 1 to 37.

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 2026 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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.

As disclosed in note 34, the annual financial statements of the Group are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion 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 to suggest 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 are not 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 entity to cease to continue as a going concern.

Independent Review Report to Paragon Banking Group PLC

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, 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.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusion Relating to Going Concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Group in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the Group those matters we are required to state to it in an independent review 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 Group, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
Birmingham, UK
2 June 2026

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31 March 2026 (Unaudited)

	Note	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Interest receivable	3	601.3	633.6	1,249.0
Interest payable and similar charges	4	(347.9)	(385.7)	(746.7)
Net interest income		<u>253.4</u>	<u>247.9</u>	<u>502.3</u>
Other leasing income		11.7	10.0	31.7
Related costs		(8.2)	(7.3)	(25.6)
Net operating lease income		3.5	2.7	6.1
Other income	5	2.3	3.4	6.7
Other operating income		<u>5.8</u>	<u>6.1</u>	<u>12.8</u>
Total operating income		259.2	254.0	515.1
Operating expenses		(92.0)	(89.3)	(179.3)
Provisions for credit losses	6	(21.5)	(15.3)	(41.9)
Provisions for liabilities	22	-	(6.5)	(25.5)
Operating profit before fair value items		<u>145.7</u>	<u>142.9</u>	<u>268.4</u>
Fair value net (losses)	7	(12.5)	(2.8)	(11.9)
Operating profit being profit on ordinary activities before taxation		133.2	140.1	256.5
Tax charge on profit on ordinary activities	8	(34.6)	(39.3)	(76.2)
Profit on ordinary activities after taxation		<u>98.6</u>	<u>100.8</u>	<u>180.3</u>
	Note	Six months to 31 March 2026	Six months to 31 March 2025	Year to 30 September 2025
Basic earnings per share	9	52.1p	50.1p	91.2p
Diluted earnings per share	9	50.3p	48.2p	87.9p
Dividend – rate per share for the period	27	15.1p	13.6p	43.9p

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 2026 (Unaudited)

	Note	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Profit for the period		98.6	100.8	180.3
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Actuarial (loss) on pension scheme	23	(2.5)	(2.1)	(1.4)
Tax thereon		0.6	0.4	0.2
Other comprehensive (expense) for the period net of tax		(1.9)	(1.7)	(1.2)
Total comprehensive income for the period		96.7	99.1	179.1

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

31 March 2026 (Unaudited)

	Note	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Assets					
Cash – central banks	10	1,466.0	1,839.0	2,175.7	2,315.5
Cash – retail banks	10	175.6	292.0	213.8	209.9
Investment securities		1,135.6	453.8	626.2	427.4
Loans to customers	11	16,544.1	15,917.8	16,335.9	15,630.3
Derivative financial assets	17	307.5	373.1	275.4	391.8
Sundry assets	18	31.2	23.6	24.2	20.7
Current tax assets		7.7	1.8	6.2	9.7
Retirement benefit obligations	23	22.5	21.5	23.5	22.2
Property, plant and equipment		73.4	70.8	77.0	71.0
Intangible assets		8.9	9.4	9.3	8.7
Goodwill		162.8	162.8	162.8	162.8
Total assets		19,935.3	19,165.6	19,930.0	19,270.0
Liabilities					
Short-term bank borrowings		0.5	0.6	0.5	0.4
Retail deposits	19	15,250.1	15,775.9	16,270.8	16,314.7
Derivative financial liabilities	17	51.1	66.1	68.2	99.7
Covered bonds	20	499.3	499.1	499.2	-
Corporate bond issuance	20	149.9	149.6	150.1	149.9
Central bank facilities	20	1,780.2	700.0	950.0	755.0
Sale and repurchase agreements	20	100.0	100.8	100.0	100.0
Sundry liabilities	21	516.7	442.8	431.6	417.4
Provisions	22	25.1	6.5	25.5	-
Deferred tax liabilities		10.0	15.4	13.9	13.4
Total liabilities		18,382.9	17,756.8	18,509.8	17,850.5
Called-up share capital	24	197.4	204.4	197.4	210.6
Reserves	25	1,457.4	1,270.9	1,276.6	1,274.3
Own shares	26	(102.4)	(66.5)	(53.8)	(65.4)
Total equity		1,552.4	1,408.8	1,420.2	1,419.5
Total liabilities and equity		19,935.3	19,165.6	19,930.0	19,270.0

The condensed financial statements for the half year were approved by the Board of Directors on 2 June 2026.

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 March 2026 (Unaudited)

	Note	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Net cash flow (utilised) by operating activities	28	(1,078.1)	(655.2)	(377.4)
Net cash (utilised) by investing activities	29	(531.1)	(59.8)	(236.9)
Net cash generated by financing activities	30	861.3	320.4	478.3
Net (decrease) in cash and cash equivalents		(747.9)	(394.6)	(136.0)
Opening cash and cash equivalents		2,389.0	2,525.0	2,525.0
Closing cash and cash equivalents		1,641.1	2,130.4	2,389.0
Represented by balances within				
Cash	10	1,641.6	2,131.0	2,389.5
Short-term bank borrowings		(0.5)	(0.6)	(0.5)
		1,641.1	2,130.4	2,389.0

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY For the six months ended 31 March 2026 (Unaudited)

Six months ended 31 March 2026

	Share capital	Share premium	Capital redemption reserve	Other equity instruments	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Transactions arising from								
Profit for the year	-	-	-	-	-	98.6	-	98.6
Other comprehensive income	-	-	-	-	-	(1.9)	-	(1.9)
Total comprehensive income	-	-	-	-	-	96.7	-	96.7
Transactions with owners								
Dividends paid (note 27)	-	-	-	-	-	(57.2)	-	(57.2)
AT1 distributions paid (note 25)	-	-	-	-	-	-	-	-
AT1 issuance (note 25)	-	-	-	148.4	-	-	-	148.4
Shares cancelled	-	-	-	-	-	-	-	-
Own shares purchased	-	-	-	-	-	-	(58.1)	(58.1)
Irrevocable instruction accrual	-	-	-	-	-	-	-	-
Exercise of share awards	-	-	-	-	-	(9.7)	9.5	(0.2)
Charge for share-based remuneration	-	-	-	-	-	3.6	-	3.6
Tax on share-based remuneration	-	-	-	-	-	(1.0)	-	(1.0)
Net movement in equity in the year	-	-	-	148.4	-	32.4	(48.6)	132.2
Opening equity	197.4	71.4	44.2	-	(70.2)	1,231.2	(53.8)	1,420.2
Closing equity	197.4	71.4	44.2	148.4	(70.2)	1,263.6	(102.4)	1,552.4

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 31 March 2026 (Unaudited) (CONTINUED)

Six months ended 31 March 2025

	Share capital	Share premium	Capital redemption reserve	Other equity instruments	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Transactions arising from								
Profit for the year	-	-	-	-	-	100.8	-	100.8
Other comprehensive income	-	-	-	-	-	(1.7)	-	(1.7)
Total comprehensive income	-	-	-	-	-	99.1	-	99.1
Transactions with owners								
Dividends paid (note 27)	-	-	-	-	-	(54.5)	-	(54.5)
AT1 distributions paid (note 25)	-	-	-	-	-	-	-	-
AT1 issuance (note 25)	-	-	-	-	-	-	-	-
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 year	(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 2026 (Unaudited) (CONTINUED)

Year ended 30 September 2025

	Share capital	Share premium	Capital redemption reserve	Other equity instruments	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Transactions arising from								
Profit for the year	-	-	-	-	-	180.3	-	180.3
Other comprehensive income	-	-	-	-	-	(1.2)	-	(1.2)
Total comprehensive income	-	-	-	-	-	179.1	-	179.1
Transactions with owners								
Dividends paid (note 27)	-	-	-	-	-	(81.0)	-	(81.0)
AT1 distributions paid (note 25)	-	-	-	-	-	-	-	-
AT1 issuance (note 25)	-	-	-	-	-	-	-	-
Shares cancelled	(13.2)	-	13.2	-	-	(104.2)	104.2	-
Own shares purchased	-	-	-	-	-	-	(132.4)	(132.4)
Irrevocable instruction accrual	-	-	-	-	-	-	23.8	23.8
Exercise of share awards	-	-	-	-	-	(15.2)	16.0	0.8
Charge for share-based remuneration	-	-	-	-	-	8.1	-	8.1
Tax on share-based remuneration	-	-	-	-	-	2.3	-	2.3
Net movement in equity in the year	(13.2)	-	13.2	-	-	(10.9)	11.6	0.7
Opening equity	210.6	71.4	31.0	-	(70.2)	1,242.1	(65.4)	1,419.5
Closing equity	197.4	71.4	44.2	-	(70.2)	1,231.2	(53.8)	1,420.2

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS

For the six months ended 31 March 2026 (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 2026 and for the six months ended 31 March 2025 have not been audited, as defined in section 434 of the Companies Act 2006.

The figures shown above for the year ended 30 September 2025 and the year ended 30 September 2024 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 into three sections:

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

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (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 2026 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 2025 and 2024 and at 31 March 2025.

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

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

Costs of retail deposit funding are allocated to the segments based on the usage of those deposits. The costs of such deposits raised in advance of lending are not allocated.

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 2026 (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 2026

	Mortgage Lending £m	Commercial Lending £m	Unallocated items £m	Total £m
Interest receivable	421.5	122.7	57.1	601.3
Interest payable	(271.9)	(53.5)	(22.5)	(347.9)
Net interest income	149.6	69.2	34.6	253.4
Other leasing income	-	11.6	0.1	11.7
Related costs	-	(8.2)	-	(8.2)
Net operating lease income	-	3.4	0.1	3.5
Other income	1.5	0.8	-	2.3
Other operating income	1.5	4.2	0.1	5.8
Total operating income	151.1	73.4	34.7	259.2
Operating expenses	(10.6)	(14.8)	(66.6)	(92.0)
Provisions for losses	(1.9)	(19.6)	-	(21.5)
	138.6	39.0	(31.9)	145.7

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****2. SEGMENTAL INFORMATION (CONTINUED)***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 2026 (Unaudited)****2. SEGMENTAL INFORMATION (CONTINUED)***Year ended 30 September 2025*

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

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****2. SEGMENTAL INFORMATION (CONTINUED)**

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

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Results shown above	145.7	149.4	293.9
Provisions for liabilities	-	(6.5)	(25.5)
Fair value items	(12.5)	(2.8)	(11.9)
Operating profit	<u>133.2</u>	<u>140.1</u>	<u>256.5</u>

The assets of the segments were:

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Mortgage Lending	14,144.0	13,853.5	13,996.0	13,523.6
Commercial Lending	2,569.5	2,354.3	2,515.4	2,333.7
Total segment assets	<u>16,713.5</u>	<u>16,207.8</u>	<u>16,511.4</u>	<u>15,857.3</u>
Unallocated assets	3,221.8	2,957.8	3,418.6	3,412.7
Total assets	<u>19,935.3</u>	<u>19,165.6</u>	<u>19,930.0</u>	<u>19,270.0</u>

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 2026 (Unaudited)****3. INTEREST RECEIVABLE**

Interest receivable is analysed as follows:

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
<i>Interest receivable in respect of</i>			
Loans and receivables	458.3	435.1	888.5
Finance leases	44.3	41.6	84.9
Invoice finance income	2.8	2.7	5.5
	<hr/>	<hr/>	<hr/>
Interest on loans to customers	505.4	479.4	978.9
Effect of fair value hedging of loan assets	37.6	85.9	143.6
	<hr/>	<hr/>	<hr/>
Interest on loans to customers after hedging	543.0	565.3	1,122.5
Pension scheme surplus (note 23)	0.7	0.6	1.1
Investment securities	23.1	10.1	22.5
Effect of fair value hedging of securities	(0.6)	1.9	2.4
Other interest receivable	35.1	55.7	100.5
	<hr/>	<hr/>	<hr/>
Total interest receivable	<u>601.3</u>	<u>633.6</u>	<u>1,249.0</u>

The above interest arises from:

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Financial assets held at amortised cost	519.3	503.6	1,017.0
Finance leases	44.3	41.6	84.9
Pension scheme surplus	0.7	0.6	1.1
Derivative instruments held at fair value	37.0	87.8	146.0
	<hr/>	<hr/>	<hr/>
	<u>601.3</u>	<u>633.6</u>	<u>1,249.0</u>

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 2026 (Unaudited)****4. INTEREST PAYABLE AND SIMILAR CHARGES**

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
<i>On financial liabilities</i>			
Retail deposits	304.6	349.4	674.9
Effect of fair value hedging of deposits	(3.4)	2.6	(0.4)
	<hr/>	<hr/>	<hr/>
Interest on retail deposits after hedging	301.2	352.0	674.5
Bank loans and overdrafts	4.2	4.3	6.2
Corporate bonds	3.4	3.4	6.8
Effect of fair value hedging of bonds	(0.1)	0.6	0.7
Covered bonds	11.5	1.5	14.0
Central bank facilities	25.6	20.4	38.4
Sale and repurchase agreements	1.4	2.9	5.3
	<hr/>	<hr/>	<hr/>
Total interest on financial liabilities	347.2	385.1	745.9
Discounting on lease liabilities	0.2	0.1	0.3
Other finance costs	0.5	0.5	0.5
	<hr/>	<hr/>	<hr/>
	347.9	385.7	746.7

The above amounts relate to:

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Financial liabilities held at amortised cost	350.7	381.9	745.6
Derivative financial instruments held at fair value	(3.5)	3.2	0.3
Other items	0.7	0.6	0.8
	<hr/>	<hr/>	<hr/>
	347.9	385.7	746.7

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 2026 (Unaudited)****5. OTHER INCOME**

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Loan account fee income	1.4	2.3	4.1
Broker commissions	0.5	0.7	1.3
Other income	0.4	0.4	1.3
	<u>2.3</u>	<u>3.4</u>	<u>6.7</u>

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 2026			
Provided in period (note 14)	2.0	20.5	22.5
Recovery of written off amounts	(0.1)	(0.9)	(1.0)
	<u>1.9</u>	<u>19.6</u>	<u>21.5</u>
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)
	<u>5.1</u>	<u>10.2</u>	<u>15.3</u>
Year ended 30 September 2025			
Provided in period (note 14)	6.5	35.6	42.1
Recovery of written off amounts	(0.2)	-	(0.2)
	<u>6.3</u>	<u>35.6</u>	<u>41.9</u>

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****7. FAIR VALUE NET (LOSSES)**

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Ineffectiveness of fair value hedges			
Portfolio hedges of interest rate risk			
Deposit hedge	(0.5)	0.8	(0.6)
Loan hedge	6.9	4.9	7.0
	<u>6.4</u>	<u>5.7</u>	<u>6.4</u>
Individual hedges of interest rate risk	-	-	-
	<u>6.4</u>	<u>5.7</u>	<u>6.4</u>
Other hedging movements	(12.4)	(14.5)	(27.3)
Net (losses) / gains on other derivatives	(6.5)	6.0	9.0
	<u>(12.5)</u>	<u>(2.8)</u>	<u>(11.9)</u>

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

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

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

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 24 to the financial statements for the year ended 30 September 2025.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES**

The Group's income tax charge for the six months ended 31 March 2026 represents an effective rate of 26.0% (six months ended 31 March 2025: 28.1%; year ended 30 September 2025: 29.7%). 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 2026, 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 2025: 25.0%; year ended 30 September 2025: 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 an annual threshold.

The surcharge applying to Paragon Bank in the current financial year is 3.0% (six months ended 31 March 2025: 3.0%; year ended 30 September 2025: 3.0%) on earnings over £100.0m per annum (six months ended 31 March 2025: £100.0m per annum; year ended 30 September 2025: £100.0m per annum). 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 2025: 28.0%; year ended 30 September 2025: 28.0%).

9. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	31 March 2026	31 March 2025	30 September 2025
Profit for the period (£m)	98.6	100.8	180.3
Less: AT1 distributions (£m)	-	-	-
Profit attributable to shareholders (£m)	<u>98.6</u>	<u>100.8</u>	<u>180.3</u>
Basic weighted average number of ordinary shares ranking for dividend during the period (m)	189.2	201.1	197.7
Dilutive effect of the weighted average number of share options and incentive plans in issue during the period (m)	6.7	8.0	7.5
Diluted weighted average number of ordinary shares ranking for dividend during the period (m)	<u>195.9</u>	<u>209.1</u>	<u>205.2</u>
Earnings per ordinary share - basic	52.1p	50.1p	91.2p
- diluted	<u>50.3p</u>	<u>48.2p</u>	<u>87.9p</u>

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****10. CASH BALANCES**

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Balances with central banks	1,466.0	1,839.0	2,175.7	2,315.5
Balances with other banks	175.6	292.0	213.8	209.9
	<u>1,641.6</u>	<u>2,131.0</u>	<u>2,389.5</u>	<u>2,525.4</u>

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 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Available cash	1,576.9	1,959.2	2,269.7	2,417.4
Securitisation cash	63.8	171.6	119.6	107.9
ESOP cash	0.9	0.2	0.2	0.1
	<u>1,641.6</u>	<u>2,131.0</u>	<u>2,389.5</u>	<u>2,525.4</u>

Cash balances are classified as Stage 1 exposures (as defined in 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 2026 (Unaudited)****11. LOANS TO CUSTOMERS**

The Group's loans to customers at 31 March 2026, analysed between the segments described in note 2 are as follows:

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
First mortgages	14,006.4	13,583.2	13,791.1	13,299.6
Second charge mortgages	73.9	98.7	85.3	116.1
Total Mortgage Lending	14,080.3	13,681.9	13,876.4	13,415.7
Motor finance	355.4	334.9	360.5	331.4
Asset finance	702.2	687.9	689.4	664.2
Finance lease receivables	1,057.6	1,022.8	1,049.9	995.6
Development finance	921.1	877.5	960.4	884.0
Other secured commercial lending	393.4	313.9	339.9	320.8
Other commercial loans	150.0	96.4	114.7	89.4
Total Commercial Lending	2,522.1	2,310.6	2,464.9	2,289.8
Loans to customers	16,602.4	15,992.5	16,341.3	15,705.5
Fair value adjustments from hedge accounting (note 17)	(58.3)	(74.7)	(5.4)	(75.2)
	16,544.1	15,917.8	16,335.9	15,630.3

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 for its largest portfolios using a model-based approach, overlaid with judgemental adjustments as required. 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 2026 (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 19 to the 2025 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 the Group's overall approach to provisioning since the year end. Minor improvements have been made to impairment models during the six months, which have not had a material impact on provision amounts and the continuing relevance of the judgemental adjustments made at 30 September 2025 has been assessed. The requirement for any further judgemental adjustments in light of the complex economic outlook at the period end date and its potential impact on Group's loan portfolios and the predictive effectiveness of its models was also considered.

The methodologies used to derive the Group's ECL provisions at 31 March 2026 are analysed below.

	Gross £m	Impairment £m	Net £m
31 March 2026			
Modelled portfolios	15,130.9	(37.4)	15,093.5
Judgemental adjustments thereon	-	-	-
	<u>15,130.9</u>	<u>(37.4)</u>	<u>15,093.5</u>
Non-modelled portfolios	1,563.1	(54.2)	1,508.9
Total	<u>16,694.0</u>	<u>(91.6)</u>	<u>16,602.4</u>
31 March 2025			
Modelled portfolios	14,710.5	(42.8)	14,667.7
Judgemental adjustments thereon	-	(5.0)	(5.0)
	<u>14,710.5</u>	<u>(47.8)</u>	<u>14,662.7</u>
Non-modelled portfolios	1,358.1	(28.3)	1,329.8
Total	<u>16,068.6</u>	<u>(76.1)</u>	<u>15,992.5</u>
30 September 2025			
Modelled portfolios	14,920.9	(38.5)	14,882.4
Judgemental adjustments thereon	-	(1.5)	(1.5)
	<u>14,920.9</u>	<u>(40.0)</u>	<u>14,880.9</u>
Non-modelled portfolios	1,508.2	(47.8)	1,460.4
Total	<u>16,429.1</u>	<u>(87.8)</u>	<u>16,341.3</u>

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

In addition to the judgemental adjustments to model outputs shown above, at 30 September 2025 an additional provision of £1.5m was made in the development finance business as a result of focussed stress testing of exposures underwritten in 2022 and earlier. That additional provision was not required at 31 March 2026, as the accounts have progressed further through their life-cycles and a more detailed base provisioning review has been undertaken.

There were therefore no additional provision uplifts in the Group's loan book at 31 March 2026 (30 September 2025: £3.0m; 31 March 2025: £5.0m). The movement in 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 2026, 31 March 2025 or 30 September 2025, 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. No major model changes were made in the period. However, 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 2026 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

During the period a number of minor enhancements were made to the buy-to-let mortgage and motor finance models, addressing issues identified by the Group's ongoing model monitoring. This included some elements of the buy-to-let property valuation approach, which had previously been addressed through judgemental adjustments. These enhancements did not have a material impact on provision levels.

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 its loan portfolios are properly provisioned, the Group considers factors that 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, including the potential for idiosyncratic behaviours in part of any portfolio.

If management identifies a requirement to amend the calculated provision, 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.

Evidence considered by management in order to assess the need for adjustments and the size of any adjustments required includes 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 are combined with the expert knowledge within the business to form a broad estimate of the level of any provision required across the Group.

A similar process is undertaken in respect of non-modelled books to ensure that specific issues and impacts, including the impact of the expected economic environment, are being identified, and that the minimum provision levels set for each portfolio remain 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 2026		31 March 2025		30 September 2025	
	£m	£m	£m	£m	£m	£m
Mortgage Lending – modelled	-			3.0		1.5
Commercial Lending – modelled	-		2.0		-	
Commercial Lending – non-modelled	-		-		1.5	
		-		2.0		1.5
		-		5.0		3.0

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

12. LOAN IMPAIRMENT - BASIS OF PROVISION (CONTINUED)

The judgemental adjustment in the Mortgage Lending book at 30 September 2025 was intended to address situations where the calculated provision amount was considered insufficient to meet management expectations of future loss. These shortfalls related principally to legacy cases. Since the year end, more of these cases have been resolved and, in addition, the valuation assumptions in the buy-to-let provision model have been refined, with higher discounts for legacy cases now embedded in the core model. In light of this, it was concluded that no overlay to the model outcome was required at 31 March 2025 (30 September 2025: £1.5m; 31 March 2025: £3.0m).

At 30 September 2025 an additional provision was made to allow for potential stress in the pre-2022 cohort of development finance lending. Since that date those cases have been seasoned by a further six months, enabling any issues to become more evident. This, in turn, has enabled a more detailed line-by-line approach to individual cases and hence no additional provision was considered necessary at 31 March 2026 (30 September 2025: £1.5m; 31 March 2025: £nil).

The Group will continue to monitor the need for judgemental adjustments on an ongoing basis as the UK economic situation develops, and as any factors specific to individual loan portfolios, or sub-sets thereof, are identified through regular performance monitoring.

Climate change

As part of the Group's consideration of the requirement for judgemental adjustments, described above, the potential for climate-related issues to impact on customer business models or security values over the timescales for ECL calculation required by IFRS 9 was evaluated. This was based on the ongoing internal monitoring of climate change risk exposures and the scenario analysis carried out as part of the Group's ICAAP during the 2024 financial year. Focussing on the Group's mortgage lending and motor finance operations, this analysis leveraged material published by the Network for Greening the Financial System ('NGFS'), and proposed UK Government policy. For the purposes of the 2025 ICAAP, the most recent to be undertaken, this analysis was reconsidered, and it was concluded that the results were still applicable and that there was no need to repeat the exercise. Further detail of this analysis is set out in section A6.4 (b) of the Group's 2025 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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

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 2026 (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 2026					
Gross loan book					
Mortgage Lending	13,449.2	471.9	177.5	9.1	14,107.7
Commercial Lending	2,221.9	203.1	161.3	-	2,586.3
Total	15,671.1	675.0	338.8	9.1	16,694.0
Impairment provision					
Mortgage Lending	(0.2)	(1.0)	(26.2)	-	(27.4)
Commercial Lending	(11.1)	(4.3)	(48.8)	-	(64.2)
Total	(11.3)	(5.3)	(75.0)	-	(91.6)
Net loan book					
Mortgage Lending	13,449.0	470.9	151.3	9.1	14,080.3
Commercial Lending	2,210.8	198.8	112.5	-	2,522.1
Total	15,659.8	669.7	263.8	9.1	16,602.4
Coverage ratio					
Mortgage Lending	-	0.21%	14.76%	-	0.19%
Commercial Lending	0.50%	2.12%	30.25%	-	2.48%
Total	0.07%	0.79%	22.14%	-	0.55%

* 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 2026 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

	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 2026 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

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

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

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.

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.

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.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)***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 Lending segment has continued to reduce over the half-year, with reductions across all categories, including a lower value of arrears accounts and those accounts which have recently been in arrears. The majority of Stage 2 accounts in the segment continue to be those identified through increased PDs. Provision coverage in the stage is similar to that at 30 September 2025, but the reduced balance has resulted in a lower absolute level of provision.

In the Commercial Lending segment the value of Stage 2 accounts has increased, particularly for non-arrears cases. These are particularly concentrated in the development finance business as customers continue to be impacted by economic conditions. Coverage levels remain broadly similar to those six months earlier.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (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 2026				
Gross loan book				
Mortgage Lending	398.0	17.3	56.6	471.9
Commercial Lending	197.7	1.5	3.9	203.1
Total	595.7	18.8	60.5	675.0
Impairment provision				
Mortgage Lending	(0.6)	-	(0.4)	(1.0)
Commercial Lending	(3.6)	(0.1)	(0.6)	(4.3)
Total	(4.2)	(0.1)	(1.0)	(5.3)
Net loan book				
Mortgage Lending	397.4	17.3	56.2	470.9
Commercial Lending	194.1	1.4	3.3	198.8
Total	591.5	18.7	59.5	669.7
Coverage ratio				
Mortgage Lending	0.15%	-	0.71%	0.21%
Commercial Lending	1.82%	6.67%	15.38%	2.12%
Total	0.71%	0.53%	1.65%	0.79%

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (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 2026 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

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

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 arrears-based unlikelihood 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.

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SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

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 is similar to that seen at 30 September 2025. However, the number of arrears accounts has reduced a little, with a corresponding increase in probation accounts. This is consistent with a stable level of impairment working its way through the realisation and recovery process. Provision and coverage levels are a little lower to those seen six months earlier, with the largest reduction seen on RoR cases as some older cases with higher provisions move to realisation.

In the Commercial Lending segment the value of Stage 3 cases has increased a little compared to that at the previous year end. The majority of the increase relates to realisation cases, with the largest part representing development finance cases moving to that status. Provision and coverage levels have also increased, with the increase again concentrated in the development finance book. The largest part of the development finance Stage 3 population relates to accounts already in that state at 30 September 2025.

	Probation £m	> 3 month arrears £m	RoR managed £m	Realisations £m	Total £m
31 March 2026					
Gross loan book					
Mortgage Lending	23.0	49.9	37.7	66.9	177.5
Commercial Lending	0.5	132.9	-	27.9	161.3
Total	23.5	182.8	37.7	94.8	338.8
Impairment provision					
Mortgage Lending	(0.4)	-	(6.7)	(19.1)	(26.2)
Commercial Lending	(0.1)	(44.7)	-	(4.0)	(48.8)
Total	(0.5)	(44.7)	(6.7)	(23.1)	(75.0)
Net loan book					
Mortgage Lending	22.6	49.9	31.0	47.8	151.3
Commercial Lending	0.4	88.2	-	23.9	112.5
Total	23.0	138.1	31.0	71.7	263.8
Coverage ratio					
Mortgage Lending	1.74%	-	17.77%	28.55%	14.76%
Commercial Lending	20.00%	33.63%	-	14.34%	30.25%
Total	2.13%	24.45%	17.77%	24.37%	22.14%

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)**

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£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 2026 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

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

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 2026 £m	31 March 2025 £m	30 September 2025 £m
First mortgages	131.0	125.5	129.1
Second mortgages	5.9	7.2	6.6
Asset finance	3.1	2.6	2.0
Motor finance	1.3	1.3	1.4
Total	141.3	136.6	139.1

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SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)

The RoR accounts are being managed to ensure the optimal resolution for landlords, tenants and lenders. These 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 ('RoR') under the Law of Property Act. The receiver will then manage the property on behalf of the customer, collecting rents and remitting them to make payments on the account. While the receiver has the power to sell the property, in many cases they will operate it as a buy-to-let on at least a short to medium term basis, potentially longer, depending on the individual circumstances of the case. This causes less disruption to tenants and may result in the mortgage account returning to performing status and the property being handed back to the customer.

While legacy cases continued to be resolved in the period, with the number of pre-2020 appointments still in place reducing by 28.2%, additional RoR 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 RoR portfolio has reduced, although the proportion in the process of sale, at 61.8%, is relatively high, illustrating the turnover level in the RoR book.

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 2026		31 March 2025		30 September 2025	
	Number	£m	Number	£m	Number	£m
Managed accounts						
<i>Appointment date</i>						
2010 and earlier	46	7.6	80	12.8	63	10.4
2011 to 2015	5	0.8	13	1.8	8	1.2
2016 to 2020	-	-	2	0.3	-	-
2021 and later	152	29.3	137	25.5	131	26.8
Total managed accounts	203	37.7	232	40.4	202	38.4
Accounts in the process of realisation	329	65.9	397	69.4	370	68.0
	532	103.6	629	109.8	572	106.4

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****13. LOAN IMPAIRMENTS BY STAGE AND DIVISION (CONTINUED)**

RoR accounts in the process of realisation at the period end are included under that heading in the Stage 3 tables above. In addition to the cases analysed above there were two other RoR cases in acquired mortgage books classified as POCI (31 March 2025: three; 30 September 2025: none), meaning that the Group's total number of RoR cases at 31 March 2026 was 534 (31 March 2025: 632; 30 September 2025: 572).

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 2025	31.6	56.2	87.8
Provided in period (note 6)	2.0	20.5	22.5
Amounts written off	(6.2)	(12.5)	(18.7)
At 31 March 2026 (note 13)	27.4	64.2	91.6
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 2024	35.3	41.2	76.5
Provided in period (note 6)	6.5	35.6	42.1
Amounts written off	(10.2)	(20.6)	(30.8)
At 30 September 2025 (note 13)	31.6	56.2	87.8

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 2026, the six months ended 31 March 2025, and the year ended 30 September 2025 are set out below.

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SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

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

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

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

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 2025	12.4	4.5	70.9	-	87.8
New assets originated	4.3	-	-	-	4.3
Changes in loss allowance					
Transfer to Stage 1	1.5	(1.0)	(0.5)	-	-
Transfer to Stage 2	(0.8)	1.1	(0.3)	-	-
Transfer to Stage 3	(0.1)	(0.8)	0.9	-	-
Changes on stage transfer	(1.2)	1.8	6.1	-	6.7
Changes due to credit risk	(4.8)	(0.3)	16.6	-	11.5
Write offs	-	-	(18.7)	-	(18.7)
Loss allowance at 31 March 2026	11.3	5.3	75.0	-	91.6
	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	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

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (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 2024	16.0	7.2	50.8	2.5	76.5
New assets originated	6.3	-	-	-	6.3
Changes in loss allowance					
Transfer to Stage 1	2.0	(1.9)	(0.1)	-	-
Transfer to Stage 2	(0.9)	1.3	(0.4)	-	-
Transfer to Stage 3	(0.3)	(1.5)	1.8	-	-
Changes on stage transfer	(1.7)	1.2	9.6	-	9.1
Changes due to credit risk	(9.0)	(1.8)	39.1	(1.6)	26.7
Write offs	-	-	(29.9)	(0.9)	(30.8)
Loss allowance at 30 September 2025	12.4	4.5	70.9	-	87.8

During the six months ended 31 March 2026, provisions increased only marginally with an increase in Stage 2 and Stage 3 offset by a decrease in Stage 1. This position resulted from a largely stable, if not particularly positive, performance in the UK economy with arrears positions controlled and security values from residential property generally improving.

The increase was concentrated in Stage 3 and was heavily influenced by a small number of development finance cases, most of which were in Stage 3 at the beginning of the period and encountered further issues in their work-out processes. In contrast, the reduction in provision and coverage levels in Stage 1 was led by buy-to-let mortgages which benefitted from house price growth.

Write offs remained dominated by the resolution of legacy buy-to-let cases and some development finance cases, and remain at a broadly similar level to the first half of the 2025 financial year.

Provision levels on secured lending tended to decline during the 2025 financial year, especially for loans secured on property, with house prices continuing to grow in the period, and a number of long-standing cases moving to resolution. However, in the development finance portfolio, the cohort of lending which had been noted as problematic at the previous year end generated additional provision, with cases moving from Stage 2 to Stage 3 and further issues being encountered, causing expected losses to increase, particularly in Stage 3.

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

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For the six months ended 31 March 2026 (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 2025	15,368.9	719.8	330.8	9.6	16,429.1
New assets originated	1,517.3	-	-	-	1,517.3
Changes in staging					
Transfer to Stage 1	242.5	(239.8)	(2.7)	-	-
Transfer to Stage 2	(316.9)	329.5	(12.6)	-	-
Transfer to Stage 3	(22.3)	(67.8)	90.1	-	-
Redemptions and repayments	(1,620.2)	(87.0)	(63.7)	(3.8)	(1,774.7)
Write offs	-	-	(18.7)	-	(18.7)
Other changes	501.8	20.3	15.6	3.3	541.0
Balance at 31 March 2026	15,671.1	675.0	338.8	9.1	16,694.0
Loss allowance	(11.3)	(5.3)	(75.0)	-	(91.6)
Carrying value	15,659.8	669.7	263.8	9.1	16,602.4
	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	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

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (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 2024	14,705.2	776.1	283.6	17.1	15,782.0
New assets originated	2,867.2	-	-	-	2,867.2
Changes in staging					
Transfer to Stage 1	269.9	(267.1)	(2.8)	-	-
Transfer to Stage 2	(385.2)	399.1	(13.9)	-	-
Transfer to Stage 3	(42.2)	(121.5)	163.7	-	-
Redemptions and repayments	(2,914.4)	(114.2)	(94.8)	(12.7)	(3,136.1)
Write offs	-	-	(29.9)	(0.9)	(30.8)
Other changes	868.4	47.4	24.9	6.1	946.8
Balance at 30 September 2025	15,368.9	719.8	330.8	9.6	16,429.1
Loss allowance	(12.4)	(4.5)	(70.9)	-	(87.8)
Carrying value	15,356.5	715.3	259.9	9.6	16,341.3

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 well as providing inputs to the Group's provision models, the scenarios also inform the Group's analysis of non-modelled portfolios, and of the requirement for judgemental overlays on modelled books.

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.

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SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (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 2026 forecasting cycle (the 'April reforecast') the Group has adopted a central economic scenario derived using a broadly equivalent approach to that used in September 2025, with the starting point of the scenario updated to reflect the actual movements of economic variables in the six months.

The Group's central forecast at 31 March 2026 is significantly affected by the potential impacts of the US intervention in the Middle East which commenced shortly before the period end. Up to that point the emerging consensus had been mildly positive for the UK economy, but our forecasts now reflect a more negative picture, while acknowledging that the long-term impact of the conflict, both on the UK and globally, is significantly uncertain.

In this central scenario, the UK sees GDP, inflation and house price growth adversely affected, particularly in the first part of the forecast, with unemployment remaining higher throughout. However, in this scenario the Bank of England resists any rise in base rates in the short term, with the gentle downward trend seen in recent months resuming towards the end of the 2026 calendar year.

Compared to that used at 30 September 2025, this forecast is more pessimistic, with UK GDP lower in the short term, inflation higher, particularly in the early part of the period, and unemployment also generally higher. House price growth is also impacted, and bank rates are only a little lower than in the previous forecast.

The upside and downside scenarios have been derived from the central forecast, as in previous periods, with these three scenarios generally following similar trajectories. However, the upside scenario represents a swift end to the current conflict and a return to the economic patterns anticipated earlier in the year, with lower inflation and more positive GDP allowing a greater easing of bank base rates. Conversely the downside scenario models a more prolonged conflict, with pressure on CPI persuading the Bank of England to raise interest rates, coupled with a more significant rise in unemployment, more sharply falling house prices and an overall recession.

The severe scenario is based on the most recent available Annual Cyclical Scenario ('ACS') published by the Bank of England, as in recent periods. However, rather than the March 2025 supply shock scenario used at 30 September 2025, we have used the demand shock scenario as a basis for our scenario, considering it to be more relevant to the current economic outlook, modelling a severe fall in UK economic confidence impacting on credit markets. The Bank's scenario has been modified to allow for the up-to-date opening position and to ensure appropriate stress on house price levels, with the final severe scenario including a persistent recession and a significant crash in house prices, while bank base rates fall as the Bank of England attempts to stimulate the economy.

The additional levels of uncertainty generated by the situation in the Middle East have led the Group to maintain its scenario weightings at their 30 September 2025 levels. It is still the Group's intention to progress towards a distribution of weightings more in line with sector benchmarks over time.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)**

Sensitivities comparing the effect of these weightings with those adopted at 31 March 2025 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 2026	30 September 2025	31 March 2025
Central Scenario	50%	50%	45%
Upside Scenario	10%	10%	10%
Downside Scenario	30%	30%	30%
Severe Scenario	10%	10%	15%
	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 2026*GDP (year-on-year change)*

	2027	2028	2029	2030	2031
	%	%	%	%	%
Central scenario	0.5	1.6	2.0	1.7	1.6
Upside scenario	1.3	2.2	1.8	1.6	1.6
Downside scenario	0.0	1.2	1.6	1.6	1.6
Severe scenario	(4.2)	(0.2)	1.4	1.4	1.4

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****15. LOAN IMPAIRMENTS - ECONOMIC INPUTS TO CALCULATIONS (CONTINUED)***HPI (year-on-year change)*

	2027	2028	2029	2030	2031
	%	%	%	%	%
Central scenario	1.6	3.1	2.5	2.4	2.4
Upside scenario	3.1	4.9	3.9	2.8	2.4
Downside scenario	(2.5)	1.0	1.5	2.2	2.4
Severe scenario	(3.1)	(12.8)	(12.9)	3.8	6.8

BBR (rate)

	2027	2028	2029	2030	2031
	%	%	%	%	%
Central scenario	3.6	3.3	3.3	3.3	3.3
Upside scenario	3.1	2.8	2.8	2.8	2.8
Downside scenario	4.1	3.4	2.8	2.5	2.5
Severe scenario	1.4	0.1	0.4	1.0	1.0

CPI (rate)

	2027	2028	2029	2030	2031
	%	%	%	%	%
Central scenario	3.3	2.2	2.0	2.1	2.0
Upside scenario	3.0	2.2	2.0	2.1	2.0
Downside scenario	4.0	2.8	2.1	2.1	2.0
Severe scenario	2.8	1.1	0.9	1.5	1.9

Unemployment (rate)

	2027	2028	2029	2030	2031
	%	%	%	%	%
Central scenario	5.4	5.2	5.0	4.4	4.0
Upside scenario	4.9	4.7	4.5	4.0	4.0
Downside scenario	5.9	5.6	5.4	4.8	4.2
Severe scenario	6.4	8.9	9.2	8.5	7.8

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	2027	2028	2029	2030	2031
	%	%	%	%	%
Central scenario	3.1	3.1	3.1	3.0	3.0
Upside scenario	4.4	4.4	4.4	4.3	4.3
Downside scenario	1.6	1.6	1.6	1.5	1.5
Severe scenario	1.1	1.1	1.1	1.0	1.0

Consumer credit (annual change)

	2027	2028	2029	2030	2031
	%	%	%	%	%
Central scenario	7.1	5.8	5.9	6.0	5.5
Upside scenario	8.1	6.8	6.9	7.0	6.5
Downside scenario	5.1	3.8	3.9	4.0	3.5
Severe scenario	0.0	(0.8)	1.2	1.3	1.3

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

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

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For the six months ended 31 March 2026 (Unaudited)

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

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

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

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

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

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

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

HPI (year-on-year change)

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

BBR (rate)

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

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

Unemployment (rate)

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

Secured lending (annual change)

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

Consumer credit (annual change)

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

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.

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SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

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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 2026

	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %
Economic driver								
GDP	2.0	0.3	2.3	0.7	1.6	(0.2)	1.5	(5.6)
HPI	3.5	0.8	5.1	1.3	2.4	(3.6)	7.0	(15.9)
BBR	3.8	3.3	3.5	2.8	4.3	2.5	3.5	0.1
CPI	3.5	1.8	3.2	1.9	4.3	2.0	3.5	0.5
Unemployment	5.4	3.9	4.9	3.9	6.0	4.1	9.4	5.6
Secured lending	3.4	3.0	4.6	4.3	1.8	1.5	1.3	1.0
Consumer credit	8.0	5.5	9.0	6.5	6.0	3.5	4.0	(4.0)

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)

30 September 2025

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

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (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 2026 £m	31 March 2025 £m	30 September 2025 £m
<i>Provision using central scenario 100% weighted</i>			
Mortgage Lending	26.0	32.1	28.6
Commercial Lending	63.0	37.6	54.9
	<u>89.0</u>	<u>69.7</u>	<u>83.5</u>
Calculated impairment provision	91.6	76.1	87.8
Effect of multiple economic scenarios	<u>2.6</u>	<u>6.4</u>	<u>4.3</u>

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.

Scenarios	31 March 2026		30 September 2025	
	Provision £m	Difference £m	Provision £m	Difference £m
Central	89.0	(2.6)	83.5	(4.3)
Upside	85.8	(5.8)	80.6	(7.2)
Downside	95.0	3.4	89.8	2.0
Severe downside	<u>100.4</u>	<u>8.8</u>	<u>112.1</u>	<u>24.3</u>

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 2026 (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 2025, to demonstrate the impact of the new weightings adopted at 30 September 2025 and used at 31 March 2026. Judgemental adjustments, where made, are assumed to remain constant.

The weightings used, and the results of applying this sensitivity to the 31 March 2026 scenarios are set out below.

	Weighting				Impairment £m	Difference £m
	Central	Upside	Downside	Severe		
As reported	50%	10%	30%	10%	91.6	-
Sensitivity A	40%	30%	25%	5%	90.1	(1.5)
Sensitivity B	45%	10%	30%	15%	92.2	0.6

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 £16.2m would transfer from Stage 1 to Stage 2 (30 September 2025: £22.3m), and the total provision would increase by £0.1m 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 2025: £0.2m).

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 £0.6m (30 September 2025: £0.8m).

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 £0.2m (30 September 2025: £0.3m).

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (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 24 to the 2025 Group Accounts.

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Derivative financial assets	307.5	373.1	275.4	391.8
Derivative financial liabilities	(51.1)	(66.1)	(68.2)	(99.7)
	<u>256.4</u>	<u>307.0</u>	<u>207.2</u>	<u>292.1</u>
Of which:				
Interest rate swaps in hedging relationships	249.0	301.3	198.1	291.5
Other interest rate swaps	7.4	5.7	9.1	0.6
Currency futures	-	-	-	-
	<u>256.4</u>	<u>307.0</u>	<u>207.2</u>	<u>292.1</u>

All hedging relationships and strategies at 30 September 2025 described in note 24 to the 2025 Group Accounts have continued in the period.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (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 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
<i>Derivative financial instruments</i>					
Assets		307.5	373.1	275.4	391.8
Liabilities		(51.1)	(66.1)	(68.2)	(99.7)
		<u>256.4</u>	<u>307.0</u>	<u>207.2</u>	<u>292.1</u>
<i>Fair value hedging adjustments</i>					
On loans to customers	11	(58.3)	(74.7)	(5.5)	(75.2)
On investment securities		(47.2)	(23.9)	(26.5)	7.7
On retail deposits	19	12.5	(7.9)	(5.1)	(16.7)
On borrowings		-	0.1	(0.2)	(0.3)
		<u>(93.0)</u>	<u>(106.4)</u>	<u>(37.3)</u>	<u>(84.5)</u>
Net balance sheet position		<u>163.4</u>	<u>200.6</u>	<u>169.9</u>	<u>207.6</u>
<i>Collateral balances</i>					
Posted (in sundry assets)		0.1	-	-	-
Received (in sundry liabilities)	21	(259.1)	(152.7)	(189.8)	(103.6)
		<u>(259.0)</u>	<u>(152.7)</u>	<u>(189.8)</u>	<u>(103.6)</u>

18. SUNDRY ASSETS

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Accrued interest income	17.8	10.5	11.8
Collateral assets	1.4	-	1.5
Other sundry assets	12.0	13.1	10.9
	<u>31.2</u>	<u>23.6</u>	<u>24.2</u>

£0.9m of other sundry assets related to periods more than one year after the balance sheet date (30 September 2025: £1.0m). All other balances set out above relate to the financial year ending 30 September 2026.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

19. 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 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Fixed rate	7,592.3	7,533.3	7,632.6	8,257.2
Variable rates	7,670.3	8,234.7	8,633.1	8,040.8
	<u>15,262.6</u>	<u>15,768.0</u>	<u>16,265.7</u>	<u>16,298.0</u>

The weighted average interest rate on retail deposits at 31 March 2026, analysed by charging method, is set out below.

	31 March 2026 %	31 March 2025 %	30 September 2025 %	30 September 2024 %
Fixed rate	4.16	4.60	4.32	4.77
Variable rates	3.39	3.87	3.61	4.19
All deposits	<u>3.77</u>	<u>4.22</u>	<u>3.95</u>	<u>4.49</u>

The contractual maturity of these deposits is analysed below.

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Amounts repayable				
In less than three months	1,750.8	1,884.4	1,371.1	1,621.4
In more than three months but not more than one year	4,768.1	4,513.3	5,152.0	4,847.1
In more than one year, but not more than two years	852.8	939.4	983.5	1,502.6
In more than two years, but not more than five years	625.1	564.6	516.9	615.0
Total term deposits	<u>7,996.8</u>	<u>7,901.7</u>	<u>8,023.5</u>	<u>8,586.1</u>
Repayable on demand	<u>7,265.8</u>	<u>7,866.3</u>	<u>8,242.2</u>	<u>7,711.9</u>
	<u>15,262.6</u>	<u>15,768.0</u>	<u>16,265.7</u>	<u>16,298.0</u>
Fair value adjustments for portfolio hedging (note 17)	(12.5)	7.9	5.1	16.7
	<u>15,250.1</u>	<u>15,775.9</u>	<u>16,270.8</u>	<u>16,314.7</u>

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****20. BORROWINGS**

On 26 February 2026, Fitch Ratings affirmed the Group's Long-Term Issuer Default Rating at BBB+, with a stable outlook 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 13 February 2026, Moody's Investors Service upgraded its rating for the Group, assigning an issuer rating of Baa2 to the Group (formerly Baa3). It also affirmed its long-term deposit rating of Baa1 for Paragon Bank.

All borrowings described in the Group Accounts for the year ended 30 September 2025 remained in place throughout the period.

Central bank borrowings include £5.2m of drawings under the Term Funding Scheme with additional incentives for SMEs ('TFSME') (30 September 2025: £250.0m; 31 March 2025: £250.0m) and £1,775.0m of drawings under other schemes (30 September 2025: £700.0m; 31 March 2025: £450.0m). These drawings are payable within twelve months of the balance sheet date.

On 15 October 2025, the Group redeemed all the outstanding notes of the Paragon Mortgages (No. 27) PLC securitisation at par. On 15 December 2025, the Group redeemed all the outstanding notes of the Paragon Mortgages (No. 28) PLC securitisation at par. In both cases the underlying assets were subsequently funded by other group companies and all of the notes were held by the Group prior to redemption.

Repayments made in respect of the Group's borrowings are shown in note 30.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****21. SUNDRY LIABILITIES**

Sundry liabilities include:

	Note	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Amounts falling due within one year				
Lease liabilities		2.6	2.9	2.5
Accrued interest		178.7	188.3	160.6
Collateral posted	17	259.1	152.7	189.8
Purchase of own shares	26	-	14.6	-
Other sundry liabilities		46.1	46.2	50.8
		<u>486.5</u>	<u>404.7</u>	<u>403.7</u>
Amounts falling due after more than one year				
Lease liabilities		3.8	4.7	4.3
Accrued interest		21.0	28.4	18.5
Other sundry liabilities		5.4	5.0	5.1
		<u>30.2</u>	<u>38.1</u>	<u>27.9</u>
Total				
Lease liabilities		6.4	7.6	6.8
Other sundry liabilities		510.3	435.2	424.8
		<u>516.7</u>	<u>442.8</u>	<u>431.6</u>

22. PROVISIONS FOR LIABILITIES

Provisions are recognised for present obligations arising as a consequence of past events where it is considered more probable than not that a liability will arise, where the liability can be reliably estimated. Where these conditions are not met, but there is still the potential for a significant liability to arise, this is disclosed as a contingent liability.

The provisions carried in the Group's accounts at 31 March 2026 are set out below.

	Conduct £m	Total £m
At 30 September 2025	25.5	25.5
Provided in the period	-	-
Utilised in the period	(0.4)	(0.4)
	<u>25.1</u>	<u>25.1</u>
At 31 March 2026	<u>25.1</u>	<u>25.1</u>

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

22. PROVISIONS 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 still not complete, and therefore the scope and extent of any exposure remains uncertain.

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

Motor finance commissions

In January 2024 the FCA 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 between 2007 and 2021, following action taken in this specific area by the courts and the Financial Ombudsman Service ('FOS'). This review was subsequently broadened in scope to consider other historical commission practices in the sector as a result of related litigation activity.

At the same time the FCA imposed a pause on the handling of such complaints, which has been subsequently extended to enable the regulator to finalise its work in this area, and remained in place at the period end.

Following the resolution of a number of legal cases in the year ended 30 September 2025, the FCA finalised its review and published proposals for a redress scheme on 7 October 2025. These proposals were published as Consultation Paper CP 25/27 ('CP 25/27'), and were principally concentrated on DCA cases, high-commission transactions and tied broker relationships. The latter two of these have only a limited impact on the Group.

On 30 March 2026, following the completion of the CP 25/27 consultation exercise, the FCA published a final version of its redress scheme as Policy Statement PS 26/3 ('PS 26/3'). The majority of the rules set out in PS 26/3 replicate the original CP 25/27 proposals, with some amendments, mostly affecting outlying cases, and some clarifications on the operationalisation of the scheme. The regulator also reduced its stated expectation for take up from 85% to 75% of eligible customers.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – ANALYSIS

For the six months ended 31 March 2026 (Unaudited)

22. PROVISIONS FOR LIABILITIES (CONTINUED)

The scope of the CP 25/27 proposals included all motor finance loans made since 2007. At this date the Group was active in the motor finance market. However, the Group ceased making new loans in this sector in February 2008, re-entering the market in 2014, on the formation of Paragon Bank. Between 2007 and 31 October 2024, the Group had paid out a total of £51.0m of commissions to support the origination of motor finance loans. Included in this amount was £26.7m of commissions related to DCA cases, all of which were originated prior to 2022.

In addition, PS 26/3 imposed additional liabilities on entities which had purchased motor finance debt and where the originator / vendor of the debt had ceased to exist, even where legal liability in respect of such pre-purchase matters had been retained by the vendor under the contractual terms of sale. The Group identified purchased loans falling within the parameters of PS 26/3 on which less than £13m of commission had been paid. These loans had been purchased from the now liquidated Raphaels Bank in 2018.

At 30 September 2025 the Group made provision for liabilities on the basis that the FCA would finalise its remediation scheme in broadly the form set out in CP 25/27. The provision was estimated based on the Group's detailed data and the calculations set out in the consultation paper, including an allowance for the costs of administering the scheme. These calculations were revisited as at March 2026, applying the calculations set out in PS 26/3 on a line-by-line basis and following the FCA estimate of take-up. Additional liabilities, including those related to loans purchased from Raphaels Bank, were broadly offset by the effect of new exclusions, calculation changes and the FCA's reduced take-up estimate. Accordingly, no additional provision charge or credit was made in the half year accounts.

This provision would be expected to be utilised over the eighteen months following the balance sheet date, on the basis of the FCA timetable set out in PS 26/3. However legal challenges to the scheme might result in consequent delays to its implementation across the industry.

To illustrate the sensitivity of the provision to the principal estimates, additional calculations were performed, in each case holding all other assumptions steady. These demonstrated that:

- If the assumed take-up rate amongst the Group's qualifying customers was 10 percentage points higher, then the required provision would be increased by £3.4m.
- If the assumed take-up rate amongst the Group's qualifying customers was 10 percentage points lower, then the required provision would be reduced by £3.4m.
- If settlements were delayed by six months beyond the dates assumed, then additional interest would increase the required provision by £0.4m.

While the FCA intends that the programme of redress set out in PS 26/3 should be final for all motor finance cases advanced in the period covered by the scheme, some lenders and customer representatives have begun proceedings to challenge the scheme through the courts, potentially leading to a restatement of all or parts of the scheme and further consultations. It is also possible that consumers who do not qualify for redress under the scheme or who feel the redress which it offers is inadequate may attempt to assert their claims through alternative routes.

It should also be noted that there are areas of the scheme where more clarity on the interpretation of the rules may be required, especially in respect of changes made between CP 25/27 and PS 26/3. As such, it is possible that the ultimate liability in respect of these matters is materially different from the amount provided.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****23. RETIREMENT BENEFIT OBLIGATIONS**

The defined benefit obligation at 31 March 2026 has been calculated on a year-to-date basis. Since the last IAS 19 actuarial valuation at 30 September 2025, 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 2025 actuarial valuation, the discount rate has increased by 15 basis points per annum, while expectations of long-term inflation have increased by 35 basis points.

In addition, the valuation also reflects experience losses identified as part of the 2025 triennial valuation carried out for the Trustee.

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 2026 decreasing from the position at 30 September 2025. The impact of allowing for the changes in actuarial assumptions has been recognised as an actuarial loss 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 32).

The movements in the amount recognised in respect of the defined benefit plan during the six-month period ended 31 March 2026 are summarised below.

	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Opening pension surplus	23.5	22.2	22.2
Employer contributions	1.3	1.3	2.6
<i>Amounts posted to profit and loss</i>			
Current service cost	(0.1)	(0.2)	(0.3)
Net funding income (note 3)	0.7	0.6	1.1
Administrative expenses	(0.4)	(0.3)	(0.7)
<i>Amounts posted to other comprehensive income</i>			
Return on plan assets not included in interest	(0.3)	(11.7)	(12.8)
Experience (loss) / gain on liabilities	(2.2)	0.1	(0.1)
Actuarial gain from changes in financial assumptions	-	9.5	11.5
Actuarial gain from changes in demographic assumptions	-	-	-
Closing pension surplus	22.5	21.5	23.5

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 2026 (Unaudited)****24. CALLED-UP SHARE CAPITAL**

Movements in the issued share capital in the period were:

	Six months to 31 March 2026 Number	Six months to 31 March 2025 Number	Year to 30 September 2025 Number
Ordinary shares of £1 each			
Opening share capital	197,404,960	210,604,960	210,604,960
Shares issued	-	-	-
Shares cancelled	-	(6,200,000)	(13,200,000)
Closing share capital	<u>197,404,960</u>	<u>204,404,960</u>	<u>197,404,960</u>

During the period, the Company issued no shares (six months ended 31 March 2025: none; year ended 30 September 2025: none).

On 19 March 2025, 6,200,000 of the shares held in treasury at that date were cancelled, with 7,000,000 further treasury shares cancelled on 3 September 2025.

25. RESERVES

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Share premium account	71.4	71.4	71.4	71.4
Capital redemption reserve	44.2	37.2	44.2	31.0
Other equity instruments	148.4	-	-	-
Merger reserve	(70.2)	(70.2)	(70.2)	(70.2)
Profit and loss account	1,263.6	1,232.5	1,231.2	1,242.1
	<u>1,457.4</u>	<u>1,270.9</u>	<u>1,276.6</u>	<u>1,274.3</u>

The share premium account and capital redemption reserve are non-distributable reserves which are required by, and operate under the provisions of, UK company law.

The merger reserve arose, due to the provisions of UK company law at the time, on a group restructuring on 12 May 1989 when the Company became the parent entity of the Group.

On 5 February 2026, the Group issued £150.0m of Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes. These notes qualify as Additional Tier 1 ('AT1') Securities for capital purposes. The issued notes are treated as equity instruments in accordance with IAS 32 'Financial Instruments: Presentation' with the proceeds included in equity, as 'other equity instruments'. The amount recognised was net of transaction costs of £2.1m less the £0.5m tax effect of those costs. The AT1 instruments pay a fully discretionary, non-cumulative interest coupon, initially at a rate of 7.50% per annum.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****25. RESERVES (CONTINUED)**

Coupon payments are made biannually, in February and August. The coupon rate is fixed until the interest payment date in August 2033, and is reset at that point, and subsequently at five year intervals until the notes are redeemed, to 3.20% over the long-term gilt yield at the relevant time. The notes are redeemable by the Group in the six months before each reset date.

The instruments automatically convert into ordinary shares should the CET1 ratio for the Group fall below 7.00%, with £6.19 of AT1 holding converting into one share.

The first AT1 distribution is due to be made in August 2026. These payments will be recognised in equity as a reduction to retained profit.

26. OWN SHARES

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Treasury shares			
Opening balance	30.6	16.3	16.3
Shares purchased	50.3	59.7	124.7
Options exercised	(2.2)	(0.8)	(6.2)
Shares cancelled	-	(47.1)	(104.2)
Closing balance	<u>78.7</u>	<u>28.1</u>	<u>30.6</u>
ESOP shares			
Opening balance	23.2	25.3	25.3
Shares purchased	7.8	7.7	7.7
Options exercised	(7.3)	(9.2)	(9.8)
Closing balance	<u>23.7</u>	<u>23.8</u>	<u>23.2</u>
Irrevocable authority to purchase			
Opening balance	-	23.8	23.8
Given in period	-	14.6	-
Expiring / utilised in the period	-	(23.8)	(23.8)
Closing balance (note 21)	<u>-</u>	<u>14.6</u>	<u>-</u>
Total closing balance	<u>102.4</u>	<u>66.5</u>	<u>53.8</u>
Total opening balance	<u>53.8</u>	<u>65.4</u>	<u>65.4</u>
Number of shares held			
Treasury	9,176,056	3,667,142	3,418,725
ESOP	3,204,605	3,526,211	3,432,947
Total own shares	<u>12,380,661</u>	<u>7,193,353</u>	<u>6,851,672</u>

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****27. EQUITY DIVIDEND**

Amounts recognised as distributions to equity shareholders in the period:

	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Final dividend for the year ended 30 September 2025 of 30.3p per share	57.2	-	-
Final dividend for the year ended 30 September 2024 of 27.2p per share	-	54.5	54.5
Interim dividend for the year ended 30 September 2025 of 13.6p per share	-	-	26.5
	<u>57.2</u>	<u>54.5</u>	<u>81.0</u>

An interim dividend of 15.1p per share is proposed for the period (2025: 13.6p per share), for the reasons set out in note 32(c). This will be paid on 24 July 2026 with a record date of 3 July 2026. The amount expected to be absorbed by this dividend, based on the number of shares in issue at the balance sheet date is £27.9m (31 March 2025: £26.8m). 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 2026 (Unaudited)****28. NET CASH FLOW FROM OPERATING ACTIVITIES**

	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Profit before tax	133.2	140.1	256.5
Non-cash items included in profit, and other adjustments			
Depreciation of property, plant and equipment	1.6	1.9	3.5
(Profit) on disposal of property, plant and equipment	-	(0.2)	(0.3)
Amortisation of intangible assets	1.4	0.6	2.0
Non-cash movements on investment securities	20.3	31.6	34.4
Non-cash movements on borrowings	(0.1)	(0.2)	0.6
Impairment losses on loans to customers	21.5	15.3	41.9
Charge for share-based remuneration	3.6	3.6	8.1
Net (increase) / decrease in operating assets			
Assets held for leasing	3.3	0.3	(6.2)
Loans to customers	(282.6)	(302.3)	(677.7)
Derivative financial instruments	(32.1)	18.7	116.4
Fair value of portfolio hedges	52.9	(0.5)	(69.8)
Other receivables	(8.5)	(4.3)	(6.2)
Net increase / (decrease) in operating liabilities			
Retail deposits	(1,003.1)	(530.0)	(32.3)
Derivative financial instruments	(17.1)	(33.7)	(31.5)
Fair value of portfolio hedges	(17.6)	(8.8)	(11.6)
Provision for liabilities	(0.4)	-	25.5
Other liabilities	85.5	41.3	39.0
Cash (utilised) by operations	(1,038.2)	(626.6)	(307.7)
Income taxes (paid)	(39.9)	(28.6)	(69.7)
Net cash flow (utilised) by operating activities	(1,078.1)	(655.2)	(377.4)

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 2026 (Unaudited)****29. NET CASH FLOW FROM INVESTING ACTIVITIES**

	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Investment in securities	(529.7)	(58.0)	(233.2)
Proceeds from sales of operating property, plant and equipment	-	0.1	0.2
Purchases of operating property, plant and equipment	(0.4)	(0.6)	(1.3)
Purchases of intangible assets	(1.0)	(1.3)	(2.6)
Net cash (utilised) by investing activities	(531.1)	(59.8)	(236.9)

30. NET CASH FLOW FROM FINANCING ACTIVITIES

	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Dividends paid (note 27)	(57.2)	(54.5)	(81.0)
Issue of covered bonds	-	499.1	498.8
Repayment of long-term central bank facilities	(244.8)	(500.0)	(500.0)
Movement on short-term central bank facilities	1,075.0	445.0	695.0
Movement on sale and repurchase agreements	-	0.8	-
Capital element of lease payments	(1.3)	(1.4)	(2.9)
AT1 issuance (note 25)	147.9	-	-
Purchase of own shares (note 26)	(58.1)	(67.4)	(132.4)
Exercise of share awards	(0.2)	(1.2)	0.8
Net cash generated by financing activities	861.3	320.4	478.3

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – ANALYSIS****For the six months ended 31 March 2026 (Unaudited)****31. RELATED PARTY TRANSACTIONS**

In the six months ended 31 March 2026, the Group has continued the related party relationships described in note 51 on page 288 of the Group's 2025 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 £2,162,000 held by directors were outstanding at the period end (31 March 2025: £855,000; 30 September 2025: £1,785,000) and the maximum outstanding in the period was £3,051,000 (six months ended 31 March 2025: £1,285,000; year ended 30 September 2025: £1,904,000).

For other members of the Group's executive committees, the total amount of retail deposits outstanding at the period end was £1,551,000 (30 September 2025: £1,036,000) and the maximum amount outstanding in the period was £2,006,000.

Except for the transactions referred to above, there have been no related party transactions in the six months ended 31 March 2026.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2026 (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.

32. 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 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's capital base was enhanced in the year by the issue of £150.0m of notes classified as Additional Tier 1 ('AT1') Capital (note 25).

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 2026 (Unaudited)

32. 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.

On 20 January 2026 the PRA issued final rules on the implementation of the Basel 3.1 capital reforms in the UK. This confirmed 1 January 2027 as the implementation date. The Group has taken account of these changes in its capital planning forecasts.

In February 2026 the Group issued its inaugural AT1 capital instrument (note 25). This increased the Group's total regulatory capital, which, as set out in the table below, stood at £1,469.7m at 31 March 2026 (31 March 2025: £1,343.2m; 30 September 2025: £1,322.4m) and was comfortably in excess of the amounts required by the regulator, including £705.6m in respect of its Total Capital Requirement ('TCR') (31 March 2025: £681.5m; 30 September 2025: £701.2m), which is comprised of fixed and variable elements (none of these amounts are covered by the independent review report).

At 31 March 2026 the Group's TCR represented 8.1% of Total Risk Exposure ('TRE') (31 March 2025: 8.1%; 30 September 2025: 8.1%).

The CRR also requires firms to hold additional capital buffers, including a Capital Conservation Buffer ('CCoB') of 2.5% of TRE (at 31 March 2026) and a Counter Cyclical Capital Buffer ('CCyB'), currently 2.0% of TRE (31 March 2025: 2.0%; 30 September 2025: 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 2026 is set out below.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2026 (Unaudited)

32. CAPITAL MANAGEMENT (CONTINUED)

	Note	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Total equity	§	1,552.4	1,408.8	1,420.2	1,419.5
<i>Deductions</i>					
AT1 reserve	25	(148.4)	-	-	-
Foreseeable distributions	α	(43.8)	(26.8)	(57.7)	(55.6)
IFRS 9 transitional relief	*	-	-	-	2.7
Intangible assets		(8.9)	(9.4)	(9.3)	(8.7)
Goodwill		(162.8)	(162.8)	(162.8)	(162.8)
Pension surplus net of deferred tax	23	(16.8)	(16.1)	(17.6)	(16.7)
Prudent valuation adjustments	β	(0.4)	(0.5)	(0.4)	(0.5)
Common Equity Tier 1 (‘CET1’) capital		1,171.3	1,193.2	1,172.4	1,177.9
Other tier 1 capital		148.4	-	-	-
Total Tier 1 capital		1,319.7	1,193.2	1,172.4	1,177.9
Corporate bond Eligibility cap	φ	150.0 -	150.0 -	150.0 -	150.0 -
Total Tier 2 capital		150.0	150.0	150.0	150.0
Total regulatory capital (‘TRC’)		1,469.7	1,343.2	1,322.4	1,327.9

§ Including results for the six months ended 31 March 2026 which have been verified by the Group’s external auditor for regulatory purposes.

α Foreseeable distributions are calculated in accordance with a formula prescribed by the regulator and includes dividend and AT1 distributions.

* 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 57 (a) to the 2025 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.

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 2026 (Unaudited)

32. 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 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Credit risk				
Balance sheet assets	7,641.3	7,397.2	7,573.6	7,303.0
Off balance sheet	103.3	111.9	112.1	95.8
IFRS 9 transitional relief	-	-	-	2.7
Total credit risk	7,744.6	7,509.1	7,685.7	7,401.5
Operational risk	928.3	848.0	928.3	848.0
Market risk	-	-	-	-
Other	12.8	28.1	16.7	29.2
Total risk exposure ('TRE')	8,685.7	8,385.2	8,630.7	8,278.7
Solvency ratios	%	%	%	%
CET1	13.5	14.2	13.6	14.2
Tier 1	15.2	14.2	13.6	14.2
TRC	16.9	16.0	15.3	16.0

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 2026 (Unaudited)

32. CAPITAL MANAGEMENT (CONTINUED)

The fully loaded basis excludes the effects of IFRS 9 transitional relief, which expired at the beginning of the 2025 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 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
CET1 Capital	1,171.3	1,193.2	1,172.4	1,177.9
Add back: IFRS 9 relief	-	-	-	(2.7)
Fully loaded CET1 Capital	1,171.3	1,193.2	1,172.4	1,175.2
Tier 1 Capital	1,319.7	1,193.2	1,172.4	1,177.9
Add back: IFRS 9 relief	-	-	-	(2.7)
Fully loaded Tier 1 Capital	1,319.7	1,193.2	1,172.4	1,175.2
TRC	1,469.7	1,343.2	1,322.4	1,327.9
Add back: IFRS 9 relief	-	-	-	(2.7)
Fully loaded TRC	1,469.7	1,343.2	1,322.4	1,325.2
Total risk exposure	8,685.7	8,385.2	8,630.7	8,278.7
Add back: IFRS 9 relief	-	-	-	(2.7)
Fully loaded TRE	8,685.7	8,385.2	8,630.7	8,276.0
Fully loaded solvency ratios	%	%	%	%
CET1	13.5	14.2	13.6	14.2
Tier 1	15.2	14.2	13.6	14.2
TRC	16.9	16.0	15.3	16.0

This table is not covered by the Independent Review Report

The TRC at 31 March 2026 on the fully loaded basis of £1,469.7m (31 March 2025: £1,343.2m; 30 September 2025: £1,322.4) was in excess of the TCR of £705.6m (31 March 2025: £681.5m; 30 September 2025: £701.2m) on the same basis (amounts 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 2026 (Unaudited)

32. CAPITAL MANAGEMENT (CONTINUED)

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%.

	Note	31 March 2026	31 March 2025 (restated*)	30 September 2025 (restated*)	30 September 2024 (restated*)
		£m	£m	£m	£m
Total balance sheet assets		19,935.3	19,165.6	19,930.0	19,270.0
Less: Derivative assets	17	(307.5)	(373.1)	(275.4)	(391.8)
Central bank deposits	10	(1,466.0)	(1,839.0)	(2,175.7)	(2,315.5)
Accrued interest on sovereign exposures		(2.0)	(3.2)	(3.0)	(3.8)
On-balance sheet items		18,159.8	16,950.3	17,475.9	16,558.9
Less: Intangible assets		(8.9)	(9.4)	(9.3)	(8.7)
Goodwill		(162.8)	(162.8)	(162.8)	(162.8)
Pension surplus	23	(22.5)	(21.5)	(23.5)	(22.2)
Total on balance sheet exposures		17,965.6	16,756.6	17,280.3	16,365.2
Regulatory exposure for derivatives		101.9	131.6	109.5	154.7
Total derivative exposures		101.9	131.6	109.5	154.7
Post offer pipeline at gross notional amount		1,149.1	1,267.5	1,407.6	1,210.2
Adjustment to convert to credit equivalent amounts		(924.2)	(1,038.6)	(1,151.8)	(1,000.1)
Off balance sheet items		224.9	228.9	255.8	210.1
Tier 1 capital		1,319.7	1,193.2	1,172.4	1,177.9
Total leverage exposure before IFRS 9 relief		18,292.4	17,117.1	17,645.6	16,730.0
IFRS 9 relief		-	-	-	2.7
Total leverage exposure		18,292.4	17,117.1	17,645.6	16,732.7
Leverage ratio		7.2%	7.0%	6.6%	7.0%

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 2026 (Unaudited)****32. CAPITAL MANAGEMENT (CONTINUED)**

- * Following a review of definitions set out in the PRA Rulebook, the Group has changed the treatment of its IAS 39 fair value hedging adjustments for leverage purposes in the period. Comparative figures have been restated although the impact on the overall leverage ratio is not significant.

The fully loaded leverage ratio is calculated as follows:

	31 March 2026	31 March 2025 (restated)	30 September 2025 (restated)	30 September 2024 (restated)
	£m	£m	£m	£m
Fully loaded tier 1 capital	1,319.7	1,193.2	1,172.4	1,175.2
Total leverage exposure before IFRS 9 relief	18,292.4	17,117.1	17,645.6	16,730.0
Fully loaded leverage ratio	<u>7.2%</u>	<u>7.0%</u>	<u>6.6%</u>	<u>7.0%</u>

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 and AT1 distributions, to the average of the opening and closing equity positions, excluding intangible assets, goodwill and net amounts contributed by AT1 notes.

It effectively reflects a return on ordinary shareholders 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 2026 (Unaudited)****32. CAPITAL MANAGEMENT (CONTINUED)**

The Group's consolidated annualised RoTE for the six months ended 31 March 2026 is derived as follows:

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
Profit for the period	98.6	100.8	180.3	186.0
Amortisation of intangible assets	1.4	0.6	2.0	1.2
AT1 coupon	-	-	-	-
	<u>100.0</u>	<u>101.4</u>	<u>182.3</u>	<u>187.2</u>
Divided by				
Opening equity	1,420.2	1,419.5	1,419.5	1,410.6
Opening goodwill	(162.8)	(162.8)	(162.8)	(162.8)
Opening intangible assets	(9.3)	(8.7)	(8.7)	(5.4)
Opening AT1 reserve (note 25)	-	-	-	-
	<u>1,248.1</u>	<u>1,248.0</u>	<u>1,248.0</u>	<u>1,242.4</u>
Closing equity	1,552.4	1,408.8	1,420.2	1,419.5
Closing goodwill	(162.8)	(162.8)	(162.8)	(162.8)
Closing intangible assets	(8.9)	(9.4)	(9.3)	(8.7)
Closing AT1 reserve (note 25)	(148.4)	-	-	-
	<u>1,232.3</u>	<u>1,236.6</u>	<u>1,248.1</u>	<u>1,248.0</u>
Average tangible equity	<u>1,240.2</u>	<u>1,242.3</u>	<u>1,248.1</u>	<u>1,245.2</u>
Return on tangible equity	<u>16.1%</u>	<u>16.3%</u>	<u>14.6%</u>	<u>15.0%</u>

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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2026 (Unaudited)

32. 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. It also noted the additional AT1 instruments issued in the period. 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 15.1p per share (31 March 2025: 13.6p per share) (note 27). 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.

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 2025 results announcement. This amount was fully utilised in the period. 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. These distributable reserves comprise the Company's 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 2026 (Unaudited)

33. 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 2026, 31 March 2025 and 30 September 2025 are analysed below.

	31 March 2026		31 March 2025		30 September 2025	
	£m	%	£m	%	£m	%
Buy-to-let mortgages	13,991.9	84.3%	13,564.9	84.8%	13,774.7	84.3%
Owner-occupied mortgages	14.5	0.1%	18.3	0.1%	16.4	0.1%
Total first charge residential mortgages	14,006.4	84.4%	13,583.2	84.9%	13,791.1	84.4%
Second charge mortgage loans	73.9	0.4%	98.7	0.6%	85.3	0.5%
Loans secured on residential property	14,080.3	84.8%	13,681.9	85.5%	13,876.4	84.9%
Development finance	921.1	5.6%	877.5	5.5%	960.4	5.9%
Loans secured on property	15,001.4	90.4%	14,559.4	91.0%	14,836.8	90.8%
Asset finance loans	688.5	4.2%	664.6	4.2%	671.9	4.1%
Motor finance loans	355.4	2.1%	334.9	2.1%	360.5	2.2%
Aircraft mortgages	35.0	0.2%	33.9	0.2%	37.2	0.2%
Secured BBB schemes	13.7	0.1%	23.3	0.1%	17.5	0.1%
Structured lending	319.8	1.9%	245.1	1.5%	267.3	1.7%
Invoice finance	38.6	0.2%	34.9	0.2%	35.4	0.2%
Total secured loans	16,452.4	99.1%	15,896.1	99.3%	16,226.6	99.3%
Professions finance	45.1	0.3%	46.4	0.3%	39.3	0.2%
Unsecured BBB schemes	65.3	0.4%	24.6	0.2%	46.6	0.3%
Other unsecured commercial loans	39.6	0.2%	25.4	0.2%	28.8	0.2%
Total loans to customers	16,602.4	100.0%	15,992.5	100.0%	16,341.3	100.0%

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK****For the six months ended 31 March 2026 (Unaudited)****33. 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 2026 £m	31 March 2025 £m	30 September 2025 £m
Buy-to-let mortgages	149.3	161.9	160.8
Development finance	523.3	403.7	535.9
Structured lending	283.6	238.2	256.3
Asset finance	-	11.1	10.1
	<u>956.2</u>	<u>814.9</u>	<u>963.1</u>

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 2026 (Unaudited)****33. CREDIT RISK (CONTINUED)***Credit grading*

An analysis of the Group's loans to customers by absolute level of credit risk at 31 March 2026 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 2026					
Very low risk	12,608.0	45.3	0.6	3.6	12,657.5
Low risk	2,536.9	274.6	35.4	0.7	2,847.6
Moderate risk	154.0	236.5	21.7	1.2	413.4
High risk	186.0	45.6	8.4	1.8	241.8
Very high risk	65.9	70.3	270.0	1.5	407.7
Not graded	120.3	2.7	2.7	0.3	126.0
Total gross carrying amount	15,671.1	675.0	338.8	9.1	16,694.0
Impairment	(11.3)	(5.3)	(75.0)	-	(91.6)
Total loans to customers	15,659.8	669.7	263.8	9.1	16,602.4
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
30 September 2025					
Very low risk	12,478.6	64.3	1.0	3.4	12,547.3
Low risk	2,427.4	329.6	37.5	0.4	2,794.9
Moderate risk	150.0	188.2	7.6	1.3	347.1
High risk	143.4	70.3	8.1	2.4	224.2
Very high risk	55.2	65.4	274.4	1.5	396.5
Not graded	114.3	2.0	2.2	0.6	119.1
Total gross carrying amount	15,368.9	719.8	330.8	9.6	16,429.1
Impairment	(12.4)	(4.5)	(70.9)	-	(87.8)
Total loans to customers	15,356.5	715.3	259.9	9.6	16,341.3

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK****For the six months ended 31 March 2026 (Unaudited)****33. 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 (0.8%) 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 0.7% classified as ungraded at 30 September 2025.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2026 (Unaudited)

33. 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 2026 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 2026		31 March 2025		30 September 2025	
	First Mortgages	Second Charge Mortgages	First Mortgages	Second Charge Mortgages	First Mortgages	Second Charge Mortgages
	%	%	%	%	%	%
LTV ratio						
Less than 70%	67.3	97.0	71.3	96.4	69.2	96.8
70% to 80%	30.7	1.9	26.9	1.9	28.8	2.0
80% to 90%	1.3	0.5	0.9	0.7	1.2	0.4
90% to 100%	0.1	0.2	0.2	0.4	0.2	0.3
Over 100%	0.6	0.4	0.7	0.6	0.6	0.5
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Average LTV ratio	<u>63.5</u>	<u>48.5</u>	<u>62.7</u>	<u>49.6</u>	<u>63.2</u>	<u>49.0</u>
Buy-to-let	63.5		62.8		63.2	
Owner-occupied	<u>37.8</u>		<u>38.9</u>		<u>38.6</u>	

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an increase of 1.9% during the six months ended 31 March 2026 and an annual increase of 2.2% in the year ended 31 March 2026 compared to an increase of 2.2% in the year ended 30 September 2025.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2026 (Unaudited)

33. 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 2026	31 March 2025	30 September 2025	31 March 2026	31 March 2025	30 September 2025
	%	%	%	%	%	%
East Anglia	3.3	3.3	3.3	3.1	3.2	3.1
East Midlands	6.2	6.0	6.1	6.4	6.3	6.4
Greater London	17.8	17.9	17.8	7.5	7.2	7.3
North	3.5	3.5	3.5	4.5	4.4	4.5
North West	9.9	10.0	9.9	7.2	7.5	7.5
South East	30.6	30.8	30.8	38.2	38.2	37.7
South West	9.2	9.2	9.2	7.8	7.8	8.0
West Midlands	6.6	6.4	6.5	7.1	7.2	7.3
Yorkshire and Humberside	7.0	7.1	7.1	6.1	6.1	6.2
Total England	94.1	94.2	94.2	87.9	87.9	88.0
Northern Ireland	-	-	-	2.8	3.7	2.8
Scotland	2.8	2.7	2.7	5.6	5.7	5.5
Wales	3.1	3.1	3.1	3.7	2.7	3.7
	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 2026		31 March 2025		30 September 2025	
	By value %	By number %	By value %	By number %	By value %	By number %
LTGDV						
50% or less	8.4	7.6	12.8	9.7	14.1	8.6
50% to 60%	15.9	16.1	11.2	16.7	11.5	14.9
60% to 65%	18.3	27.3	23.8	27.9	23.7	29.4
65% to 70%	33.6	33.3	26.0	29.1	28.9	32.2
70% to 75%	5.9	7.2	11.3	10.4	6.4	7.5
Over 75%	17.9	8.5	14.9	6.2	15.4	7.4
	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 2026 (Unaudited)****33. CREDIT RISK (CONTINUED)**

The average LTGDV cover at the period end was 64.1% (31 March 2025: 62.9%; 30 September 2025: 63.8%).

LTGDV is calculated by comparing the current expected end of term exposure with the latest estimate of the value of the completed development based on surveyors' reports. The focus on residential property development within the portfolio means that asset values will generally move in line with the UK residential property market.

An analysis of the number of cases in the Group's development finance portfolio by IFRS 9 impairment stage is set out below.

	31 March 2026	31 March 2025	30 September 2025
Stage 1	208	209	215
Stage 2	17	22	17
Stage 3	24	25	23
Total	<u>249</u>	<u>256</u>	<u>255</u>

The geographical distribution of the Group's development finance loans by gross carrying value is set out below.

	31 March 2026 %	31 March 2025 %	30 September 2025 %
East Anglia	5.6	5.2	5.2
East Midlands	5.8	6.7	7.1
Greater London	10.2	11.7	13.0
North	1.1	0.2	0.2
North West	5.7	1.2	3.4
South East	35.6	35.0	32.5
South West	18.3	19.5	18.0
West Midlands	9.7	9.7	9.3
Yorkshire and Humberside	4.8	6.5	6.6
Total England	<u>96.8</u>	<u>95.7</u>	<u>95.3</u>
Northern Ireland	-	-	-
Scotland	2.7	3.3	3.6
Wales	0.5	1.0	1.1
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK

For the six months ended 31 March 2026 (Unaudited)

33. 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 2026	31 March 2025	30 September 2025
	%	%	%
Commercial vehicles	47.5	46.5	47.0
Construction plant	25.5	26.7	26.4
Manufacturing	6.0	6.2	6.0
Technology	4.5	4.7	4.5
Refuse disposal vehicles	5.0	4.8	5.1
Other vehicles	3.9	4.0	3.9
Agriculture	1.2	1.3	1.3
Print and paper	0.8	0.9	0.8
Other	5.6	4.9	5.0
	100.0	100.0	100.0

Minor adjustments have been made to 31 March 2025 and 30 September 2025 data to ensure consistency with current asset categorisations.

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 2026	31 March 2025	30 September 2025	30 September 2024
Number of transactions	14	11	13	11
Total facilities (£m)	450.1	372.7	403.0	330.0
Carrying value (£m)	319.8	245.1	267.3	256.9

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 2026 (Unaudited)

33. 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 2026 all fourteen facilities were identified as Stage 1 (31 March 2025: eleven; 30 September 2025: thirteen).

BBB supported schemes

These schemes are managed by the British Business Bank ('BBB') and loans made under them have the benefit of guarantees underwritten by the UK Government.

The Coronavirus Business Interruption Loan Scheme ('CBILS') and the Bounce Back Loan Scheme ('BBL') 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 was subsequently 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 2026 (Unaudited)****33. CREDIT RISK (CONTINUED)**

The Group's outstanding RLS / GGS, CBILS and BBLS loans at 31 March 2026 were:

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
RLS / GGS			
Term loans	62.6	17.5	41.8
Asset finance	12.5	18.6	15.2
Total RLS / GGS	<u>75.1</u>	<u>36.1</u>	<u>57.0</u>
CBILS			
Term loans	1.8	5.4	3.5
Asset finance	1.2	4.7	2.3
Total CBILS	<u>3.0</u>	<u>10.1</u>	<u>5.8</u>
BBLS			
Total	<u>0.9</u>	<u>1.7</u>	<u>1.3</u>
	<u>79.0</u>	<u>47.9</u>	<u>64.1</u>
Total term loans	65.3	24.6	46.6
Total asset finance	13.7	23.3	17.5
	<u>79.0</u>	<u>47.9</u>	<u>64.1</u>

At 31 March 2026, £0.1m of this balance was considered to be non-performing (31 March 2025: £0.5m; 30 September 2025: £0.6m).

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK****For the six months ended 31 March 2026 (Unaudited)****33. 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 2026, 31 March 2025 and 30 September 2025, compared to the industry averages at those dates published by UK Finance ('UKF') and the Finance and Leasing Association ('FLA'), was:

	31 March 2026 %	31 March 2025 %	30 September 2025 %
First mortgages			
Accounts more than three months in arrears			
Buy-to-let accounts including receiver of rent cases	0.50	0.51	0.52
Buy-to-let accounts excluding receiver of rent cases	0.32	0.32	0.34
Owner-occupied accounts	7.41	5.16	5.60
UKF data for mortgage accounts more than three months in arrears			
Buy-to-let accounts including receiver of rent cases	0.65	0.85	0.75
Buy-to-let accounts excluding receiver of rent cases	0.55	0.71	0.64
Owner-occupied accounts	0.82	0.93	0.87
All mortgages	0.77	0.89	0.83
Second charge mortgage loans			
Accounts more than 2 months in arrears			
All accounts	25.92	25.05	25.60
Post-2010 originations	5.18	3.60	4.54
Legacy cases	25.44	26.74	25.94
Purchased assets	33.00	31.83	32.61
FLA data for second mortgages	5.40	6.10	5.80
Motor finance loans			
Accounts more than 2 months in arrears	0.98	1.06	0.91
FLA data for consumer point of sale hire purchase	3.60	3.90	3.60
Asset finance loans			
Accounts more than 2 months in arrears	0.12	0.16	0.11
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 2025 or 30 September 2025 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 2026 (Unaudited)

33. 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. These generally include a high proportion of cases which were 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 2026 £m	31 March 2025 £m	30 September 2025 £m	30 September 2024 £m
<i>All purchased consumer assets</i>				
Carrying value	27.3	34.7	31.3	41.1
84 month ERCs	31.6	40.6	36.5	48.6
120 month ERCs	35.5	44.4	40.4	52.9
<i>POCI assets only</i>				
Carrying value	9.1	9.0	9.7	10.6
84 month ERCs	12.2	13.0	13.2	15.6
120 month ERCs	15.3	15.6	16.2	18.7

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 2026 (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.

34. 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 2026 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 set out in the 2025 Annual Report and Accounts of the Group have also been adopted in the current year.

Additionally, the Group’s AT1 notes, issued in the period, are accounted for as equity instruments in accordance with IAS 32 – ‘Financial Instruments: Presentation’, principally because the payment of the coupon is discretionary. Issue costs have been taken directly to equity and coupon payments are accounted for, as equity distributions, at the point at which they become unconditional, rather than on the accruals 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 will apply to the Group with effect from its financial year ending 30 September 2028, now that the standard has been 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 has been initiated. However, it is expected that the impact of the new standard on banking companies will be less than that for companies in general.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2026 (Unaudited)

34. ACCOUNTING POLICIES (CONTINUED)

New and revised reporting standards

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

Other than IFRS 18, described above, there are no new reporting standards and interpretations in issue, but not effective which address matters relevant to the Group's accounting and reporting.

No new or revised reporting standards significantly affecting the Group's accounting have been issued since the approval of the Group's financial statements for the year ended 30 September 2025.

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 replaces the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' with effect from the Group's current financial year. This has not had a significant impact on the Group's reporting.

35. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The critical accounting estimates and judgements affecting the condensed financial information are the same as those described in notes 64 and 65 to the accounts of the Group for the year ended 30 September 2025.

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, effective interest rates and provisions for liabilities relating to historical motor finance commissions 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 than 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 2026 (Unaudited)

35. 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.

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 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 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 2026 have been derived in light of the current economic situation modelling a variety of possible outcomes as described in note 15.

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.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION****For the six months ended 31 March 2026 (Unaudited)****35. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

While economic conditions in the UK for the majority of the period were mildly improving and incidence of credit issues remained at a relatively benign level, the launch by the USA of military action in the Middle East at the end of February 2026 has led to considerable uncertainty as to the future direction of the global economic environment. The impacts on the UK economy are yet to become clear, and much will depend on the duration of the situation and the level of escalation.

Forecasting the likely performance of the UK economy and the Group's loan portfolios in this situation is extremely challenging, and therefore related estimates will be subject to a greater than usual margin of error.

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.

No additional provision requirement was identified as a result of this exercise. However, such analysis is inherently less systematic than a modelled approach and therefore subject to a wider range of outturns. The Group's consideration of judgemental adjustments is discussed further in note 12.

In assessing the recoverable amount of the Group's development finance exposures, it is necessary to make a number of both operational and financial assumptions relating to the underlying project for each loan. These include the projected value of the property on completion, the costs to complete and the time taken to complete the property and to sell it once completed. All of these are subjective and, to a large extent, are based on factors specific to an individual loan. While all of these assumptions are carefully considered in light of the forecast economic conditions discussed above, it is acknowledged that they can be subject to a wide margin of error, particularly in the early stages of a development's life-cycle. Adverse variances in these estimates could result in accounts requiring additional impairment provision.

The impairment position after considering all these matters is set out in notes 12 to 14, together with further information on the Group's approach. More detailed information is provided in the Group accounts for the year ended 30 September 2025. 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.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2026 (Unaudited)

35. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

For loan accounts, such as those in the Group's mortgage portfolios, where borrowers typically repay their balances before the contractual repayment date, the estimated life of the account will be dependent on customer behaviour. The customer may choose to sell their property and redeem the mortgage at any point, but may also choose to refinance their account, if a more attractive alternative is available, based on the interest rate they are being charged at that point in time, or expect to be charged in the future. The behavioural life of the loan may therefore be influenced by levels of activity in the residential property market, or by the nature and pricing of alternative funding sources, at each point in the loan's life and these are likely to vary over time.

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, the length of the fixed rate period and the expected level of the reversionary rate after that period will have a significant impact on the overall EIR. For each portfolio a model is in place to ensure that income is appropriately spread.

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.

The Group keeps these 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 broadly downwards, albeit slowly, a scenario only seen in very recent periods. 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 increase in the carrying value of the Group's loans to customers, including POCI accounts, at 31 March 2026 of £22.4m (30 September 2025: £7.1m).

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2026 (Unaudited)

35. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

To illustrate the potential variability of the estimate, the amortised cost values were recalculated by changing one factor in the EIR calculation and keeping all others at their current levels.

- Currently the average behavioural life used in the buy-to-let modelling for non-legacy assets, which have an average fixed period of 47 months (30 September 2025: 48 months), was 103 months (30 September 2025: 101 months).

A reduction of the assumed average lives of all loans secured on residential property by three months would reduce balance sheet assets by £7.8m (30 September 2025: £6.6m), while an increase of the assumed asset lives of such assets by three months would increase balance sheet assets by £7.7m (30 September 2025: £6.5m). £7.0m of both the increase and decrease related to non-legacy buy-to-let assets (30 September 2025: £5.8m).

A reduction of the assumed average lives of all loans secured on residential property by six months would reduce balance sheet assets by £15.6m (30 September 2025: £13.1m), while an increase of the assumed asset lives of such assets by six months would increase balance sheet assets by £15.3m (30 September 2025: £12.9m). £14.1m of the decrease (30 September 2024: £11.4m) and £13.9m of the increase (30 September 2025: £11.6m) related to non-legacy buy-to-let assets.

- The EIR calculation is based on management estimates of the reversionary rates which would be charged to customers after the end of their fixed rate periods.

If it was assumed that the reversionary rate which could be charged in future was 0.1% lower, then the value of the non-legacy buy-to-let loan book would be decreased by £9.3m (30 September 2025: £11.6m).

If it was assumed that the maximum reversionary rate which could be charged in future was 0.1% higher, then the value of the non-legacy buy-to-let loan book would be increased by £9.3m (30 September 2025: £11.5m).

- 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 £11.3m (30 September 2025: £8.9m).

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

d) Provisions for liabilities

The Group is exposed to potential liabilities relating to historical payments of motor finance commission, as described in note 22. A provision has been made in the accounts for such liabilities, including redress amounts payable and related costs, based on the Group's best estimate of the amount which might be payable if the current FCA redress scheme is implemented unchanged.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION****For the six months ended 31 March 2026 (Unaudited)****35. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

This calculation includes estimates where outcomes are uncertain, including for levels of take up of any scheme, where there is currently insufficient information to calculate a precise figure, such as the levels of costs which might ultimately be incurred in executing a redress programme in line with the regulator's expectations, or where interpretation remains unclear.

The scheme is also subject to legal challenge from some lenders and consumer representatives. It is therefore possible that the final requirements might be wider or narrower in scope, that the final redress calculation might differ from that expected, or that the operational approach may differ from that currently planned. Further, while the FCA has stated its intention that its scheme should be comprehensive, there remains the possibility of related claims being pursued through other channels.

The impact of any of these matters might result in an increase or decrease in the Group's ultimate liability compared to the amount presently provided. Information on the volume and nature of the Group's motor finance commissions is set out in note 22, together with sensitivity calculations, to enable the uncertainties surrounding this estimate to be assessed.

36. 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 the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risks)' published by the Financial Reporting Council in February 2025 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 6 to 88. The principal risks and uncertainties affecting the Group in the forthcoming six months are described on pages 197 to 198.

Note 57 to the 2025 Group Accounts includes an analysis of the Group's regulatory and working capital position and policies, while notes 58 to 61 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 64 and 65 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 20.

CONDENSED FINANCIAL STATEMENTS

SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION

For the six months ended 31 March 2026 (Unaudited)

36. 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 2026.

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 most recent 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 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
- **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 2026 (Unaudited)****36. GOING CONCERN BASIS (CONTINUED)**

These stresses excluded potential management actions which would, in a real-life situation, be taken to mitigate their impact. Their purpose was to demonstrate how such stresses would affect the Group's financing, capital and liquidity positions and highlight any areas which might impact the Group's going concern status. Under each scenario, 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 the application of normal balance sheet management activities.

Potential operational risks are also assessed as part of the Group's ICAAP process, focusing on the impacts of a series of severe but plausible scenarios. This analysis did not create outputs that cast doubt on the ability of the Group to continue as a going concern.

The potential impacts of climate change on the Group were also reviewed. This exercise included a re-assessment of work done in 2024, leveraging the Bank of England Climate Biennial Exploratory Scenario ('CBES').

The opening position for the Group's forecasts and for these reviews includes a strong capital and liquidity base, supporting the management of any significant outflows of deposits and / or reduced inflows from customer receipts. The forecasts, even under reasonable further levels of stress show the Group retaining sufficient equity, capital, cash and liquidity resources to satisfy its regulatory and operational requirements across the forecast period.

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 £15,262.6m (note 19), raised through Paragon Bank, are repayable within five years, with 90.3% (£13,784.7m) 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 2026, Paragon Bank held £2,578.1m of balance sheet assets for liquidity purposes, of which £1,442.5m comprised central bank deposits and £1,135.6m 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 2025 Annual Report and Accounts. This brings the total available to £2,728.1m.

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 £4,203.1m (30 September 2025: £4,168.3m). 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 2026 the Group had £679.5m of such notes available for use (30 September 2025: £1,614.2m), of which £576.9m were rated AAA (30 September 2025: £1,353.2m). The available AAA notes would give access to £450.0m if used to support drawings on Bank of England facilities (30 September 2025: £1,055.5m).

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36. GOING CONCERN BASIS (CONTINUED)

The earliest maturity of any of the Group's long-term wholesale debt is the central bank facility payable in March 2027.

The Group has regularly accessed the capital markets for warehouse funding and corporate and retail bonds over recent years and continues to be able to access these markets. The Group also has access to the short-term repo market which it accesses from time to time.

During the period the Group renewed its covered bond programme master prospectus 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 2026, and its Baa2 corporate issuer rating issued by Moody's Investor Services. 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 32, the Group's capital base is subject to consolidated supervision by the PRA. Its capital at 31 March 2026 was in excess of regulatory requirements and its forecasts indicate that this will continue to be the case, even allowing for the changes in the UK's capital requirements framework currently in the process of implementation.

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 22 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 2026 (Unaudited)

37. 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 2026, 31 March 2025 or 30 September 2025 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 2026 £m	31 March 2025 £m	30 September 2025 £m
Financial assets				
Derivative financial assets	17	307.5	373.1	275.4
		<u> </u>	<u> </u>	<u> </u>
Financial liabilities				
Derivative financial liabilities	17	51.1	66.1	68.2
		<u> </u>	<u> </u>	<u> </u>

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION****For the six months ended 31 March 2026 (Unaudited)****37. 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, valuation adjustments are applied 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 models used are reviewed 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.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION****For the six months ended 31 March 2026 (Unaudited)****37. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)****(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 2026		31 March 2025		30 September 2025	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets						
Cash	1,641.6	1,641.6	2,131.0	2,131.0	2,389.5	2,389.5
Investment securities	1,135.6	1,123.9	453.8	477.7	626.2	611.6
Loans to customers	16,602.4	16,751.0	15,992.5	16,103.7	16,341.3	16,357.5
Sundry financial assets	23.5	23.5	18.0	18.0	16.9	16.9
	<u>19,403.1</u>	<u>19,540.0</u>	<u>18,595.3</u>	<u>18,730.4</u>	<u>19,373.9</u>	<u>19,375.5</u>
Financial liabilities						
Short-term bank borrowings	0.5	0.5	0.6	0.6	0.5	0.5
Covered bonds	499.3	501.0	499.1	500.5	499.2	501.3
Retail deposits	15,262.6	15,242.1	15,768.0	15,760.7	16,265.7	16,260.0
Corporate bonds	149.9	148.6	149.6	147.4	150.1	149.2
Sale and repurchase agreements	100.0	100.0	100.8	100.8	100.0	100.0
Other financial liabilities	496.2	496.2	421.9	421.9	413.4	413.4
	<u>16,508.5</u>	<u>16,488.4</u>	<u>16,940.0</u>	<u>16,931.9</u>	<u>17,428.9</u>	<u>17,424.4</u>

Cash, sale and repurchase agreements, bank borrowings and securitisation borrowings

The fair values of cash and cash equivalents, sale and repurchase agreements and bank borrowings, which are carried at amortised cost, are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets, and the sale and repurchase agreements, mature within three months of the period end and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises.

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.

CONDENSED FINANCIAL STATEMENTS**SELECTED NOTES TO THE ACCOUNTS – BASIS OF PREPARATION****For the six months ended 31 March 2026 (Unaudited)****37. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)***Loans to customers*

To assess the likely fair value of the Group's loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers based on a mixture of market-based inputs, such as rates and pricing and non-market-based inputs such as redemption rates. Given the mixture of observable and non-observable inputs these are considered to be level 3 measurements.

Corporate debt

The Group's 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.

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 (APPENDICES)**For the six months ended 31 March 2026 (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. However, it should be noted that definitions used for these measures differ between firms, and caution should be exercised in making direct comparisons.

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Profit on ordinary activities before tax	133.2	140.1	256.5
Add back: Fair value adjustments	12.5	2.8	11.9
Motor finance provisions	-	6.5	25.5
Underlying profit	<u>145.7</u>	<u>149.4</u>	<u>293.9</u>

Underlying basic earnings per share, calculated on the basis of underlying profit adjusted for tax, is derived as follows:

	31 March 2026 £m	31 March 2025 £m	30 September 2025 £m
Underlying profit	145.7	149.4	293.9
Tax on underlying result	(39.2)	(39.4)	(77.1)
Underlying earnings	<u>106.5</u>	<u>110.0</u>	<u>216.8</u>
Basic weighted average number of shares (note 9)	<u>189.2</u>	<u>201.1</u>	<u>197.7</u>
Underlying earnings per share	<u>56.3p</u>	<u>54.7p</u>	<u>109.7p</u>

ADDITIONAL FINANCIAL INFORMATION (APPENDICES)

For the six months ended 31 March 2026 (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 26.9% for the six months ended 31 March 2026 (31 March 2025: 26.4%; 30 September 2025: 26.2%).

Underlying return on tangible equity ('RoTE') is derived using underlying earnings calculated on the same basis as shown above.

The disclosure of underlying RoTE set out below is calculated on the new basis.

	Note	Six months to 31 March 2026 £m	Six months to 31 March 2025 £m	Year to 30 September 2025 £m
Underlying earnings		106.5	110.0	216.8
Amortisation of intangible assets		1.4	0.6	2.0
AT1 coupon		-	-	-
Adjusted underlying earnings		<u>107.9</u>	<u>110.6</u>	<u>218.8</u>
Average tangible equity	32	1,240.2	1,242.3	1,248.1
Annualised underlying RoTE		<u>17.4%</u>	<u>17.8%</u>	<u>17.5%</u>

ADDITIONAL FINANCIAL INFORMATION (APPENDICES)

For the six months ended 31 March 2026 (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 2026

	Mortgage Lending £m	Commercial Lending £m	Total £m
Opening loans to customers (note 11)	13,876.4	2,464.9	16,341.3
Closing loans to customers (note 11)	14,080.3	2,522.1	16,602.4
Average loans to customers	13,978.4	2,493.5	16,471.9
Net interest (note 2)	149.6	69.2	253.4
NIM (annualised)	2.14%	5.55%	3.08%
Impairment provision charge (note 2)	1.9	19.6	21.5
Cost-of-risk (annualised)	0.03%	1.57%	0.26%

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%

ADDITIONAL FINANCIAL INFORMATION (APPENDICES)

For the six months ended 31 March 2026 (not covered by the Independent Review Report)

B. INCOME STATEMENT RATIOS (CONTINUED)*Year to 30 September 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)	13,876.4	2,464.9	16,341.3
Average loans to customers	13,646.1	2,377.3	16,023.4
Net interest (note 2)	287.7	135.5	502.3
NIM	2.11%	5.70%	3.13%
Impairment provision charge (note 2)	6.3	35.6	41.9
Cost-of-risk	0.05%	1.50%	0.26%

C. COST RATIOS

Cost:income ratio is derived as follows:

	31 March 2026	31 March 2025	30 September 2025
Operating expenses (£m)	92.0	89.3	179.3
Total operating income (£m)	259.2	254.0	515.1
Cost / Income	35.5%	35.2%	34.8%

Cost:average loan asset ratio is derived as follows:

	31 March 2026	31 March 2025	30 September 2025
Operating expenses (£m)	92.0	89.3	179.3
Average loans to customers (Appendix B) (£m)	16,471.9	15,849.0	16,023.4
Cost / Average loans (annualised)	1.12%	1.13%	1.12%

ADDITIONAL FINANCIAL INFORMATION (APPENDICES)

For the six months ended 31 March 2026 (not covered by the Independent Review Report)

D. NET ASSET VALUE

	Note	31 March 2026	31 March 2025	30 September 2025
Total equity (£m)		1,552.4	1,408.8	1,420.2
AT1 principal	25	(150.0)	-	-
Equity attributable to shareholders (£m)		<u>1,402.4</u>	<u>1,408.8</u>	<u>1,420.2</u>
Outstanding issued shares (m)	24	197.4	204.4	197.4
Treasury shares (m)	26	(9.2)	(3.7)	(3.4)
Shares held by ESOP schemes (m)	26	(3.2)	(3.5)	(3.4)
		<u>185.0</u>	<u>197.2</u>	<u>190.6</u>
Net asset value per £1 ordinary share		<u>£7.58</u>	<u>£7.14</u>	<u>£7.45</u>
Equity attributable to shareholders (£m)		1,402.4	1,408.8	1,420.2
Intangible assets (£m)		(8.9)	(9.4)	(9.3)
Goodwill (£m)		(162.8)	(162.8)	(162.8)
Tangible equity attributable to shareholders (£m)		<u>1,230.7</u>	<u>1,236.6</u>	<u>1,248.1</u>
Tangible net asset value per £1 ordinary share		<u>£6.66</u>	<u>£6.27</u>	<u>£6.55</u>

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 2025.

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 that 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, may adversely affect net interest income and profitability
- **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, the risk of realisations from security assets being less than anticipated, concentration risk and outsourcer default risk
- **Model risk** – The risk that the Group may make incorrect decisions based on the output of internal statistically-based 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, whether arising from internal actions or external events
- **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 drives poor behaviours or decision-making in the execution of its business activities leading to a failure to deliver good outcomes for customers, or the inability to 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, which is monitored on an ongoing basis, 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.